

Mayer Brown LLP, Bond Counsel, is of the opinion that under existing law, interest on the Series 2017 Bonds is excludable from the gross income of the owners thereof for federal income tax purposes assuming the accuracy of the certifications of the Authority and continuing compliance by the Authority with the requirements of the Code. In addition, interest on the Series 2017 Bonds is not an item of tax preference for purposes of computing individual or corporate alternative minimum taxable income. Interest on the Series 2017 Bonds is, however, taken into account as earnings and profits of a corporation when computing, for example, corporate alternative minimum taxable income for purposes of the corporate alternative minimum tax. Prospective purchasers of the Series 2017 Bonds should consult their own tax advisors as to the federal, state and local tax consequences of their acquisition, ownership or disposition of, or the accrual or receipt of interest on the Series 2017 Bonds. See "TAX MATTERS" herein.

**\$225,795,000****CHICAGO TRANSIT AUTHORITY****\$90,540,000****CAPITAL GRANT RECEIPTS****REVENUE BONDS,****REFUNDING SERIES 2017**

**(FEDERAL TRANSIT ADMINISTRATION
SECTION 5307 URBANIZED AREA
FORMULA FUNDS)**

\$135,255,000**CAPITAL GRANT RECEIPTS****REVENUE BONDS,****REFUNDING SERIES 2017**

**(FEDERAL TRANSIT ADMINISTRATION
SECTION 5337 STATE OF GOOD REPAIR
FORMULA FUNDS)**

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

The Chicago Transit Authority (the "Authority") Capital Grant Receipts Revenue Bonds, Refunding Series 2017 (Federal Transit Administration Section 5307 Urbanized Area Formula Funds) (the "Series 2017 5307 Bonds"), are being issued pursuant to the Trust Indenture dated as of November 1, 2004, between the Authority and Amalgamated Bank of Chicago, as trustee, as heretofore supplemented and as further supplemented by a Sixth Supplemental Indenture dated as of July 1, 2017, between the Authority and Amalgamated Bank of Chicago, as trustee (the "5307 Indenture").

The Chicago Transit Authority Capital Grant Receipts Revenue Bonds, Refunding Series 2017 (Federal Transit Administration Section 5337 State of Good Repair Formula Funds) (the "Series 2017 5337 Bonds" and, together with the Series 2017 5307 Bonds, the "Series 2017 Bonds"), are being issued pursuant to the Trust Indenture dated as of April 1, 2008, between the Authority and Amalgamated Bank of Chicago, as trustee, as heretofore supplemented and as further supplemented by a Fifth Supplemental Indenture dated as of July 1, 2017, between the Authority and Amalgamated Bank of Chicago, as trustee (the "5337 Indenture" and, together with the 5307 Indenture, the "Indentures").

The Series 2017 Bonds are deliverable in fully registered form and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). Individual purchases of Series 2017 Bonds will be made in principal amounts of \$5,000 and integral multiples thereof and will be in book-entry form only. Purchasers of Series 2017 Bonds will not receive bonds representing their beneficial ownership in the Series 2017 Bonds but will receive a credit balance on the books of their respective DTC Participants or DTC Indirect Participants. The Series 2017 Bonds will not be transferable or exchangeable except for transfer to another nominee of DTC or as otherwise described herein.

Interest on the Series 2017 Bonds, which is payable on June 1 and December 1 of each year, commencing December 1, 2017, and principal of the Series 2017 Bonds, are payable to Cede & Co. Such interest and principal payments are to be disbursed to the beneficial owners of the Series 2017 Bonds through their respective DTC Participants or DTC Indirect Participants.

The maturities, amounts, interest rates and yields of the Series 2017 Bonds are set forth on the inside front cover. The Series 2017 Bonds are not subject to redemption prior to maturity. See "DESCRIPTION OF THE SERIES 2017 BONDS - No Redemption."

The proceeds from the sale of the Series 2017 5307 Bonds will be used to (i) refund a portion of certain Outstanding 5307 Bonds and (ii) pay costs in connection with the issuance of the Series 2017 5307 Bonds. The proceeds from the sale of the Series 2017 5337 Bonds will be used to (i) refund a portion of certain Outstanding 5337 Bonds and (ii) pay costs in connection with the issuance of the Series 2017 5337 Bonds. See "PLAN OF FINANCE."

The Series 2017 Bonds are limited obligations of the Authority. The Series 2017 5307 Bonds are secured under the 5307 Indenture by a pledge of the Authority's share of Federal Transit Administration Section 5307 Urbanized Area Formula funds (the "5307 Grant Receipts") on a parity with the Authority's currently Outstanding 5307 Bonds described herein. The Series 2017 5337 Bonds are secured under the 5337 Indenture by a pledge of the Authority's share of Section 5337 State of Good Repair Formula funds (the "5337 Grant Receipts") on a parity with the Authority's currently Outstanding 5337 Bonds described herein. The Series 2017 Bonds are not a general obligation of the Authority, and the revenues of the Authority (other than the 5307 Grant Receipts and the 5337 Grant Receipts) are not pledged or available for the payment of the Series 2017 Bonds or the interest thereon.

The Series 2017 Bonds are not, and shall not be or become, an indebtedness or obligation of the State, the Regional Transportation Authority or any political subdivision of the State (other than the Authority) or of any municipality within the State, nor shall any Series 2017 Bonds be or become an indebtedness of the Authority within the purview of any constitutional limitation or provision. The Series 2017 Bonds do not have a lien on and are not secured by any physical properties of the Authority. The Authority has no taxing power.

Certain information in the Preliminary Official Statement has been updated in this Official Statement. See "OVERVIEW - Official Statement Supplementary Disclosure Information."

The Series 2017 Bonds are offered when, as and if issued and received by the Underwriters, subject to the approval of validity thereof by Mayer Brown LLP, Chicago, Illinois, Bond Counsel. Certain legal matters will be passed upon for the Underwriters by Chapman and Cutler LLP, Chicago, Illinois, Underwriters' Counsel, and for the Authority by its General Counsel and by Charity & Associates, P.C., Chicago, Illinois, Disclosure Counsel. The Series 2017 Bonds are expected to be delivered through the facilities of DTC in New York, New York on or about August 16, 2017.

Morgan Stanley**Ramirez & Co., Inc.****Siebert Cisneros Shank & Co., L.L.C.****Academy Securities Backstrom McCarley Berry & Co., LLC Blaylock Van, LLC Cabrera Capital Markets, LLC****George K. Baum & Company****J.P. Morgan****Piper Jaffray & Co.**

\$90,540,000
CHICAGO TRANSIT AUTHORITY
CAPITAL GRANT RECEIPTS REVENUE BONDS, REFUNDING SERIES 2017
(FEDERAL TRANSIT ADMINISTRATION SECTION 5307
URBANIZED AREA FORMULA FUNDS)

Maturity Date (June 1)	Principal Amount	Interest Rate	Yield	Price	CUSIP[†]
2022	\$16,385,000	5.00%	2.04%	113.443	167723GK5
2023	17,205,000	5.00	2.22	115.027	167723GL3
2024	18,065,000	5.00	2.44	115.929	167723GM1
2025	18,970,000	5.00	2.58	116.978	167723GN9
2026	19,915,000	5.00	2.73	117.632	167723GP4

\$135,255,000
CHICAGO TRANSIT AUTHORITY
CAPITAL GRANT RECEIPTS REVENUE BONDS, REFUNDING SERIES 2017
(FEDERAL TRANSIT ADMINISTRATION
SECTION 5337 STATE OF GOOD REPAIR FORMULA FUNDS)

Maturity Date (June 1)	Principal Amount	Interest Rate	Yield	Price	CUSIP[†]
2018	\$975,000	2.00%	1.35%	100.509	167723GQ2
2019	18,670,000	4.00	1.50	104.401	167723GR0
2020	19,415,000	5.00	1.69	108.986	167723GS8
2021	20,385,000	5.00	1.83	111.558	167723GT6
2022	21,405,000	5.00	1.97	113.786	167723GU3
2023	22,475,000	5.00	2.15	115.438	167723GV1
2024	10,130,000	5.00	2.37	116.405	167723GW9
2025	10,635,000	5.00	2.52	117.441	167723GX7
2026	11,165,000	5.00	2.68	118.060	167723GY5

[†] Copyright 2017, American Bankers Association. CUSIP data herein is provided by CUSIP Global Services which is managed on behalf of the American Bankers Association by S&P Capital IQ, a part of McGraw-Hill Financial, Inc. The CUSIP numbers listed are being provided solely for the convenience of the bondholders only at the time of sale of the Series 2017 Bonds and the Authority does not make any representation with respect to such numbers or undertake any responsibility for their accuracy now or at any time in the future. The CUSIP number for a specific maturity is subject to change after the sale of the Series 2017 Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Series 2017 Bonds.

Chicago Transit Authority System Map



CHICAGO TRANSIT AUTHORITY

CHICAGO TRANSIT BOARD

Terry Peterson, Chairman
Kevin Irvine
Reverend Johnny L. Miller
Arabel Alva Rosales
Alejandro Silva
Andre Youngblood

OFFICERS

Dorval R. Carter Jr., President
Jeremy V. Fine, Chief Financial Officer and Treasurer
Karen G. Seimetz, General Counsel
Gregory Longhini, Assistant Secretary

BOND COUNSEL

Mayer Brown LLP
Chicago, Illinois

DISCLOSURE COUNSEL

Charity & Associates, P.C.
Chicago, Illinois

FINANCIAL ADVISORS

Acacia Financial Group, Inc.
Chicago, Illinois

Public Alternative Advisors, LLC
Chicago, Illinois

VERIFICATION AGENT

Robert Thomas CPA, LLC
Shawnee Mission, Kansas

In connection with this offering, the Underwriters may overallocate or effect transactions that stabilize or maintain the market prices of the Series 2017 Bonds at levels above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriters may offer and sell the Series 2017 Bonds to certain dealers and others at prices lower than the public offering prices stated on the inside front cover page of this Official Statement, and such public offering prices may be changed from time to time by the Underwriters.

This Official Statement does not constitute an offer to sell the Series 2017 Bonds in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction. No dealer, broker, salesman or other person has been authorized by the Authority or the Underwriters to give any information or to make any representation other than those contained herein and, if given or made, such other information or representation must not be relied upon as having been authorized. Neither the delivery of this Official Statement nor the sale of any of the Series 2017 Bonds implies that the information herein is correct as of any time subsequent to the date hereof. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create the implication that there has been no change in the matters described herein since the date hereof.

This Official Statement is not to be construed as a contract with the purchasers of the Series 2017 Bonds. All summaries of statutes and documents are made subject to the provisions of such statutes and documents, respectively, and do not purport to be complete statements of any or all of such provisions.

The information set forth herein has been obtained from the Authority and other sources that are believed to be reliable, but it is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Authority or the Underwriters. The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information. No representation, warranty or guarantee is made by the Financial Advisor as to the accuracy or completeness of any information in this Official Statement, including, without limitation, the information contained in the appendices hereto, and nothing contained in this Official Statement is or shall be relied upon as a promise or representation by the Authority, the Underwriters or the Financial Advisor.

This Official Statement contains forecasts, projections and estimates that are based on current expectations or assumptions. In light of the important factors that may materially affect the amount of 5307 Grant Receipts and 5337 Grant Receipts received, the inclusion in this Official Statement of such forecasts, projections and estimates should not be regarded as a representation by the Authority that such forecasts, projections and estimates will occur. Such forecasts, projections and estimates are not intended as representations of fact or guarantees of results.

If and when included in this Official Statement, the words “*expects*,” “*forecasts*,” “*projects*,” “*intends*,” “*anticipates*,” “*estimates*,” “*assumes*” and analogous expressions are intended to identify forward-looking statements, and any such statements inherently are subject to a variety of risks and uncertainties that could cause actual results to differ materially from those that have been projected. Such risks and uncertainties which could affect the amount of 5307 Grant Receipts and 5337 Grant Receipts received include, among others, receipt of anticipated amounts under the FTA’s Urbanized Area Formula Program (49 U.S.C. 5307) and FTA’s State of Good Repair Formula Program (49 U.S.C. 5337), periodic reauthorization of such program, changes in political, social and economic conditions, federal, state and local statutory and regulatory initiatives, litigation, natural disasters, and various other events, conditions and circumstances, many of which are beyond the control of the Authority. These forward-looking statements include, but are not limited to, certain statements contained in the information contained under the captions “**SECURITY FOR THE SERIES 2017 BONDS**” and “**FEDERAL TRANSIT PROGRAM**” and such statements speak only as of the date of this Official Statement. The Authority disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any changes in the Authority’s expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

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

The Series 2017 Bonds have not been registered under the Securities Act of 1933, as amended, in reliance upon an exemption contained therein, and have not been registered or qualified under the securities laws of any state.

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OVERVIEW

This Overview does not constitute a part of the Official Statement for the issuance and sale by the Chicago Transit Authority of its \$90,540,000 Capital Grant Receipts Revenue Bonds, Refunding Series 2017 (Federal Transit Administration Section 5307 Urbanized Area Formula Funds) and \$135,255,000 Capital Grant Receipts Revenue Bonds, Refunding Series 2017 (Federal Transit Administration Section 5337 State of Good Repair Formula Funds) (the “Series 2017 Bonds”), and does not purport to be complete. This Overview is for informational purposes only and is subject to more complete discussion contained in the Official Statement. Capitalized terms used and not defined in this Overview are defined in the Official Statement.

The Authority	The Chicago Transit Authority (the “ Authority ”) operates the nation’s second largest public transportation system (the “ Transportation System ”), providing mass transit services within the City of Chicago and 35 surrounding suburbs. The service area of the Authority has a population of approximately 3.5 million. The Authority carries over 81 percent of the public transit riders in the six-county northeastern Illinois region (“ Northeastern Illinois Transit Region ”), which includes the Counties of Cook, DuPage, Kane, Lake, McHenry and Will. Transit services provided by the Authority are part of the regional public mass transportation service system in the Northeastern Illinois Transit Region provided through the independent operations of the Authority, the Commuter Rail Division (“ Metra ”) of the Regional Transportation Authority (the “ RTA ”), and the Suburban Bus Division (“ Pace ”) of the RTA (the Authority, Metra and Pace are collectively referred to as the “ Service Boards ”). For additional information regarding the Authority, see “ CHICAGO TRANSIT AUTHORITY ” herein.
Series 2017 Bonds	\$90,540,000 Capital Grant Receipts Revenue Bonds, Refunding Series 2017 (Federal Transit Administration Section 5307 Urbanized Area Formula Funds) and \$135,255,000 Capital Grant Receipts Revenue Bonds, Refunding Series 2017 (Federal Transit Administration Section 5337 State of Good Repair Formula Funds).
Payment of Interest	Interest on the Series 2017 Bonds will be payable on June 1 and December 1 of each year, commencing December 1, 2017, until maturity. Interest is computed on the basis of a 360-day year consisting of twelve 30-day months at the rates set forth on the inside front cover of the Official Statement.
No Redemption	The Series 2017 Bonds are not subject to redemption prior to maturity as described herein. See “ DESCRIPTION OF THE SERIES 2017 BONDS – No Redemption. ”
Source of Payment and Security for the Series 2017 Bonds	The Series 2017 5307 Bonds are payable solely from and secured solely by (i) 5307 Grant Receipts and (ii) amounts on deposit in the funds and accounts established under the 5307 Indenture (except the Rebate Fund established under the 5307 Indenture), including investment earnings thereon. The Series 2017 5337 Bonds are payable solely from and secured solely by (i) 5337 Grant Receipts and (ii) amounts on deposit in the funds and accounts established under the 5337 Indenture (except the Rebate Fund established under the 5337 Indenture), including investment earnings thereon. See “ SECURITY FOR THE SERIES 2017 BONDS ” in the Official Statement.
Ratings	Standard & Poor’s Global Ratings has assigned its municipal bond rating of “A” (stable outlook) to the Series 2017 5307 Bonds and “A+” (stable outlook) to the Series 2017 5337 Bonds. Fitch Ratings has assigned its municipal bond rating of “BBB” (stable outlook) to the Series 2017 5307 Bonds and “BBB” (stable outlook) to the Series 2017 5337 Bonds. See “ RATINGS ” in the Official Statement.
5307 Grant Receipts	The sole source of 5307 Grant Receipts available to the Authority to pay principal of and interest on the Series 2017 5307 Bonds is the Authority’s annual share of Section 5307 Formula Funds. See “ FEDERAL TRANSIT PROGRAM ” in the Official Statement for descriptions of the Section 5307 Program and the methods by which the amount of

Section 5307 Formula Funds available to the Authority on an annual basis are determined. See **“CERTAIN INVESTMENT CONSIDERATIONS.”**

5337 Grant Receipts The sole source of 5337 Grant Receipts available to the Authority to pay principal of and interest on the Series 2017 5337 Bonds is the Authority’s annual share of Section 5337 Formula Funds. See **“FEDERAL TRANSIT PROGRAM”** in the Official Statement for descriptions of the Section 5337 Program and the methods by which the amount of Section 5337 Formula Funds available to the Authority on an annual basis are determined. See **“CERTAIN INVESTMENT CONSIDERATIONS.”**

Additional Bonds The issuance of one or more Series of Additional Bonds is authorized pursuant to the Indentures for the purpose of funding the cost of construction of one or more Eligible Projects under the Indentures or refunding any Subordinated Indebtedness thereunder issued for such purposes, to pay costs and expenses incident to the issuance of such Additional Bonds and to make deposits to any Fund, Account or Sub-Account established under the Indentures. See **“SECURITY FOR THE SERIES 2017 BONDS — Additional Bonds”** in the Official Statement.

Limited Obligation The Series 2017 5307 Bonds are limited obligations of the Authority payable solely from and secured solely by (i) 5307 Grant Receipts and (ii) amounts on deposit in the funds and accounts established under the 5307 Indenture (except the related Rebate Fund), including investment earnings thereon. The Series 2017 5337 Bonds are limited obligations of the Authority payable solely from and secured solely by (i) 5337 Grant Receipts and (ii) amounts on deposit in the funds and accounts established under the 5337 Indenture (except the related Rebate Fund), including investment earnings thereon. The Series 2017 Bonds are not a general obligation of the Authority and the revenues of the Authority (other than as described above) are not pledged for the payment of the Series 2017 Bonds or the interest thereon. The Indentures create no liens upon any physical properties of the Authority. The Act provides that the Series 2017 Bonds are not, and shall not be or become, an indebtedness or obligation of the State of Illinois or any political subdivision of the State (other than the limited obligation of the Authority) or of any municipality within the State, nor shall any Series 2017 Bond be or become an indebtedness of the Authority within the purview of any constitutional limitation or provision. The Authority has no taxing power.

Regional Transportation Authority The RTA oversees public transportation in northeastern Illinois pursuant to powers and authority granted under the Regional Transportation Authority Act (the **“RTA Act”**) of the State of Illinois (the **“State”**). The RTA provides funding, planning and fiscal oversight for the Service Boards in part through the imposition of sales taxes throughout the Northeastern Illinois Transit Region. The RTA Act vests responsibility for operating budget and financial oversight of the Service Boards in the RTA and responsibility for operations and day-to-day management of rail and bus service in the Service Boards. See **“THE AUTHORITY— RTA Oversight”** herein.

Use of Proceeds The proceeds from the sale of the Series 2017 5307 Bonds will be used to (i) refund a portion of certain Outstanding 5307 Bonds and (ii) pay costs in connection with the issuance of the Series 2017 5307 Bonds. The proceeds from the sale of the Series 2017 5337 Bonds will be used to (i) refund a portion of certain Outstanding 5337 Bonds and (ii) pay costs in connection with the issuance of the Series 2017 5337 Bonds. See **“PLAN OF FINANCE”** in the Official Statement.

Investment Considerations There are a number of factors associated with owning the Series 2017 Bonds that prospective purchasers should consider prior to purchasing the Series 2017 Bonds. For a discussion of certain of these factors, see **“CERTAIN INVESTMENT CONSIDERATIONS.”**

Book-Entry Form and Denominations	The Series 2017 Bonds will be issued in fully registered book-entry form in denominations of \$5,000 or any integral multiple thereof.
Tax Matters	Mayer Brown LLP, Bond Counsel, is of the opinion that under existing law, interest on the Series 2017 Bonds is excludable from the gross income of the owners thereof for federal income tax purposes assuming the accuracy of the certifications of the Authority and the continuing compliance by the Authority with the requirements of the Internal Revenue Code of 1986, as amended (the “Code”). In addition, the interest on the Series 2017 Bonds is not an item of tax preference for purposes of computing individual or corporate alternative minimum taxable income, but is, however, taken into account as earnings and profits of a corporation when computing, for example, corporate alternative minimum taxable income for purposes of the corporate alternative minimum tax. Prospective purchasers of the Series 2017 Bonds should consult their own tax advisors as to the federal, state and local tax consequences of their acquisition, ownership or disposition of, or the accrual or receipt of interest on the Series 2017 Bonds. Interest on the Series 2017 Bonds is not exempt from Illinois income taxes. See “TAX MATTERS” in the Official Statement.
Delivery and Clearance	The Series 2017 Bonds are expected to be available for delivery at DTC in New York, New York, on or about August 16, 2017.
Legal Matters	Certain legal matters will be passed upon for the parties to the financing by their respective counsel as set forth on the cover page to the Official Statement.
Authority Pension Obligations	The Authority maintains a retirement plan that provides pension benefits to participating employees. The annual amounts the Authority contributes to the retirement plan are determined by the Illinois Pension Code. Under the Pension Code, the Authority is required to achieve and maintain statutorily-determined funding levels. If actual funding levels fall below the levels mandated by the Pension Code, the Authority is required to make additional annual contributions set by the Pension Code in order to achieve the funding targets. The Authority has never failed to make its required contributions to the retirement plan. See “THE AUTHORITY—Pension and Other Post-Employment Benefit Obligations” and APPENDIX E—“PENSION PLANS AND POST-EMPLOYMENT HEALTHCARE.”
Official Statement Supplementary Disclosure Information	Prior to the delivery of this Official Statement, the Authority issued a Preliminary Official Statement relating to the issuance of the Series 2017 Bonds dated June 29, 2017, as supplemented on July 12, 2017 (collectively, the “Preliminary Official Statement”). This Official Statement includes the information contained in the Preliminary Official Statement, certain pricing information and certain supplementary information available to the Authority subsequent to the date of the Preliminary Official Statement, which information is contained under the caption “CONTINUING DISCLOSURE UNDERTAKING” and in the tables under the caption “FEDERAL TRANSIT PROGRAM – Authority Participation in Section 5307 and Section 5337 Programs.”
Additional Information	Additional information may be obtained upon request to Jeremy V. Fine, Chief Financial Officer and Treasurer, Chicago Transit Authority, 567 West Lake Street, Chicago, Illinois 60661; phone: (312) 681-3400.

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OFFICIAL STATEMENT

\$225,795,000
CHICAGO TRANSIT AUTHORITY

\$90,540,000	\$135,255,000
CAPITAL GRANT RECEIPTS REVENUE BONDS, REFUNDING SERIES 2017 (FEDERAL TRANSIT ADMINISTRATION SECTION 5307 URBANIZED AREA FORMULA FUNDS)	CAPITAL GRANT RECEIPTS REVENUE BONDS, REFUNDING SERIES 2017 (FEDERAL TRANSIT ADMINISTRATION SECTION 5337 STATE OF GOOD REPAIR FORMULA FUNDS)

INTRODUCTION

General

The purpose of this Official Statement, which includes the cover page and appendices hereto (the “**Official Statement**”), is to set forth certain information concerning the issuance by the Chicago Transit Authority (the “**Authority**”) of \$90,540,000 aggregate principal amount of Capital Grant Receipts Revenue Bonds, Refunding Series 2017 (Federal Transit Administration Section 5307 Urbanized Area Formula Funds) (the “**Series 2017 5307 Bonds**”) and \$135,255,000 aggregate principal amount of Capital Grant Receipts Revenue Bonds, Refunding Series 2017 (Federal Transit Administration Section 5337 State of Good Repair Formula Funds) (the “**Series 2017 5337 Bonds**,” and together with the Series 2017 5307 Bonds, the “**Series 2017 Bonds**”). The Series 2017 5307 Bonds, together with the Outstanding 5307 Bonds (as defined herein), and any Series of Additional Bonds and Refunding Bonds that may be issued in the future under the 5307 Indenture (as such terms are defined herein), are collectively referred to in this Official Statement as the “**5307 Bonds**.” The Series 2017 5337 Bonds, together with the Outstanding 5337 Bonds (as defined herein), and any Series of Additional Bonds and Refunding Bonds that may be issued in the future under the 5337 Indenture (as such terms are defined herein), are collectively referred to in this Official Statement as the “**5337 Bonds**.”

The Series 2017 Bonds are being issued pursuant to the laws of the State of Illinois, including the Metropolitan Transit Authority Act, as amended (70 ILCS 3605/1 *et seq.*) (the “**Act**”) and the Local Government Debt Reform Act, as amended (30 ILCS 350/1 *et seq.*). The Series 2017 Bonds are authorized by an ordinance adopted by the Chicago Transit Board, the Authority’s governing body (the “**Board**”), on June 14, 2017.

Series 2017 5307 Bonds

The Series 2017 5307 Bonds are being issued under and secured by the Trust Indenture dated as of November 1, 2004 (the “**5307 Master Trust Indenture**”), between the Authority and Amalgamated Bank of Chicago, Chicago, Illinois, as trustee (the “**5307 Trustee**”), as heretofore supplemented and as further supplemented by the Sixth Supplemental Indenture dated as of July 1, 2017 (“**Sixth Supplemental Indenture**”), between the Authority and the 5307 Trustee. The 5307 Master Trust Indenture, as heretofore supplemented and as further supplemented by the Sixth Supplemental Indenture, is herein referred to as the “**5307 Indenture**.”

A portion of the funding that the Authority receives for the support of urban mass transportation capital improvement projects that it undertakes is in the form of federal grant funding from the Federal Transit Administration of the United States Department of Transportation (the “FTA”). Under the FTA’s Urbanized Area Formula Program, 49 U.S.C. Section 5307 (“**Section 5307 Program**”), funds are made available to urbanized areas to finance capital, operating and planning assistance for mass transportation (“**Section 5307 Formula Funds**”). See “**FEDERAL TRANSIT PROGRAM.**” The Authority has agreed to deposit all Section 5307 Formula Funds received by the Authority (the “**5307 Grant Receipts**”) in the Grant Receipts Deposit Fund established under the 5307 Indenture. The 5307 Indenture provides for the withdrawal of amounts from the Grant Receipts Deposit Fund for deposit with the 5307 Trustee for the purpose of paying debt service on the 5307 Bonds. See “**SECURITY FOR THE SERIES 2017 BONDS - Flow of Funds - Grant Receipts.**”

The proceeds from the sale of the Series 2017 5307 Bonds will be used to (i) refund a portion of certain Outstanding 5307 Bonds (the “**Refunded 5307 Bonds**”), and (ii) pay costs in connection with the issuance of the Series 2017 5307 Bonds. See “**PLAN OF FINANCE**” and “**SOURCES AND USES OF FUNDS.**”

The Refunded 5307 Bonds were issued to provide funds to finance, or reimburse the Authority for prior expenditures relating to, a portion of the costs of its capital plan in anticipation of the receipt of the 5307 Grant Receipts. See “**THE AUTHORITY - Capital Plan**” for a further explanation of how the Authority’s capital plan is developed.

Series 2017 5337 Bonds

The Series 2017 5337 Bonds are being issued under and secured by the Trust Indenture dated as of April 1, 2008 (the “**5337 Master Trust Indenture**”), between the Authority and Amalgamated Bank of Chicago, Chicago, Illinois, as trustee (the “**5337 Trustee**”), as heretofore supplemented and as further supplemented by the Fifth Supplemental Indenture dated as of July 1, 2017 (“**Fifth Supplemental Indenture**”), between the Authority and the 5337 Trustee. The 5337 Master Trust Indenture, as heretofore supplemented and as further supplemented by the Fifth Supplemental Indenture, is herein referred to as the “**5337 Indenture.**”

A portion of the funding that the Authority receives for the support of urban mass transportation capital improvement projects that it undertakes is in the form of federal grant funding from the FTA’s State of Good Repair Formula Program (“**Section 5337 Program**”), 49 U.S.C. Section 5337 (“**Section 5337**”). Under the Section 5337 program, funds are made available for replacement and rehabilitation of capital projects required to maintain public transportation systems in a state of good repair (“**Section 5337 Formula Funds**”). The Authority previously received funds available under the FTA’s Fixed Guideway Modernization Program (the “**Section 5309 Formula Program**”) 49 U.S.C. Section 5309 (“**Section 5309**”) under which funds were made available to modernize or improve existing rail or fixed guideway systems. MAP-21 (as defined herein) restructured the Federal Transit Program to end the Section 5309 Formula Program and created a broader formula program in Section 5337 that incorporates the rail modernization formula program formerly included in Section 5309. As a

result, the Authority no longer receives fixed guideway modernization program funds under Section 5309. See **“FEDERAL TRANSIT PROGRAM.”** The Authority has agreed to deposit all Section 5337 Formula Funds received by the Authority (the **“5337 Grant Receipts”**) in the Grant Receipts Deposit Fund established under the 5337 Indenture. The 5337 Indenture provides for the withdrawal of amounts from the Grant Receipts Deposit Fund for deposit with the 5337 Trustee for the purpose of paying debt service on the 5337 Bonds. See **“SECURITY FOR THE SERIES 2017 BONDS - Flow of Funds - Grant Receipts.”**

The proceeds from the sale of the Series 2017 5337 Bonds will be used to (i) refund a portion of certain Outstanding 5337 Bonds (the **“Refunded 5337 Bonds,”** and together with the Refunded 5307 Bonds, the **“Refunded Bonds”**), and (ii) pay costs in connection with the issuance of the Series 2017 5337 Bonds. See **“PLAN OF FINANCE”** and **“SOURCES AND USES OF FUNDS.”**

The Refunded 5337 Bonds were issued to provide funds to finance, or reimburse the Authority for prior expenditures relating to, a portion of the costs of its capital plan in anticipation of the receipt of the 5337 Grant Receipts. See **“THE AUTHORITY - Capital Plan”** for a further explanation of how the Authority’s capital plan is developed.

The Authority

The Authority is a political subdivision, body politic and municipal corporation of the State of Illinois (the **“State”**) created by the Act. The Authority began operating in 1947. The Authority operates public transit services within the City of Chicago and 35 surrounding suburbs. Transit services provided by the Authority are part of the regional public mass transportation service system in northeastern Illinois provided through the independent operations of the Authority, the Commuter Rail Division (**“Metra”**) of the Regional Transportation Authority (the **“RTA”**), and the Suburban Bus Division (**“Pace”**) of the RTA (the Authority, Metra and Pace are collectively referred to as the **“Service Boards”**). The RTA oversees public transportation in the six-county northeastern Illinois region (the **“Northeastern Illinois Transit Region”**), which includes the County of Cook (**“Cook County”**) and the Counties of DuPage, Kane, Lake, McHenry and Will (the **“Collar Counties”**), and provides funding for the Service Boards from sales tax revenue collected by the State and distributed to the RTA. See **“THE AUTHORITY—Operations”** and **“—RTA Oversight.”**

The Series 2017 Bonds

The Series 2017 Bonds are being issued pursuant to the Indentures and will be dated the date of their issuance, bear interest at the rates and mature at the times and in the principal amounts set forth on the inside front cover page of this Official Statement.

Interest on the Series 2017 Bonds will be payable on June 1 and December 1 of each year, commencing December 1, 2017.

The Series 2017 Bonds are issuable as fully registered bonds and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York, which will act as securities depository for the Series 2017 Bonds. Purchases of beneficial ownership interests in the Series 2017 Bonds will be made only in book-entry form in denominations of \$5,000 or any integral multiple thereof.

The Series 2017 Bonds are not subject to redemption prior to their maturity. See **“DESCRIPTION OF THE SERIES 2017 BONDS – No Redemption.”**

Security for the Series 2017 5307 Bonds

The 5307 Bonds, including the Series 2017 5307 Bonds, are limited obligations of the Authority payable from and secured solely by (i) the 5307 Grant Receipts, and (ii) amounts on deposit in the funds and accounts established under the 5307 Indenture (except the Rebate Fund), including investment earnings thereon. See **“SECURITY FOR THE SERIES 2017 BONDS.”** The sole source of 5307 Grant Receipts is the Authority’s annual share of Section 5307 Formula Funds. See **“FEDERAL TRANSIT PROGRAM – Section 5307 and Section 5337 Programs”** and **“CERTAIN INVESTMENT CONSIDERATIONS.”**

The Series 2017 5307 Bonds are being issued as Refunding Bonds and Parity Obligations (as such terms are defined in the 5307 Indenture) under the 5307 Indenture on a parity with the Authority’s Capital Grant Receipts Revenue Bonds, Series 2008A (Federal Transit Administration Section 5307 Urbanized Area Formula Funds), currently outstanding in the principal amount of \$100,000,000 (the **“2008 5307 Bonds”**), its Capital Grant Receipts Revenue Bonds, Refunding Series 2010 (Federal Transit Administration Section 5307 Urbanized Area Formula Funds), currently outstanding in the principal amount of \$63,895,000 (the **“2010 5307 Bonds”**), its Capital Grant Receipts Revenue Bonds, Refunding Series 2011 (Federal Transit Administration Section 5307 Urbanized Area Formula Funds), currently outstanding in the principal amount of \$56,525,000 (the **“2011 5307 Bonds”**), and its Capital Grant Receipts Revenue Bonds, Refunding Series 2015 (Federal Transit Administration Section 5307 Urbanized Area Formula Funds), currently outstanding in the principal amount of \$131,270,000 (the **“2015 5307 Bonds”**) which, together with the 2008 5307 Bonds, the 2010 5307 Bonds, and the 2011 5307 Bonds as such bonds may be Outstanding, are referred to in this Official Statement as the **“Outstanding 5307 Bonds”**), and with certain other obligations that may be issued by the Authority as described herein. See **“SECURITY FOR THE SERIES 2017 BONDS – Parity Obligations.”** The Authority anticipates refunding certain Outstanding 5307 Bonds with proceeds of the Series 2017 5307 Bonds.

Security for the Series 2017 5337 Bonds

The 5337 Bonds, including the Series 2017 5337 Bonds, are limited obligations of the Authority payable from and secured solely by (i) the 5337 Grant Receipts, and (ii) amounts on deposit in the funds and accounts established under the 5337 Indenture (except the Rebate Fund), including investment earnings thereon. See **“SECURITY FOR THE SERIES 2017 BONDS.”** The sole source of 5337 Grant Receipts is the Authority’s annual share of Section 5337 Formula

Funds. See **“FEDERAL TRANSIT PROGRAM – Section 5307 and Section 5337 Programs”** and **“CERTAIN INVESTMENT CONSIDERATIONS.”**

The Series 2017 5337 Bonds are being issued as Refunding Bonds and Parity Obligations (as such terms are defined in the 5337 Indenture) under the 5337 Indenture on a parity with the Authority’s Capital Grant Receipts Revenue Bonds, Series 2008 (Federal Transit Administration Section 5309 Fixed Guideway Modernization Formula Funds), currently outstanding in the principal amount of \$94,350,000 (the **“2008 5337 Bonds”**), its Capital Grant Receipts Revenue Bonds, Series 2008A (Federal Transit Administration Section 5309 Fixed Guideway Modernization Formula Funds), currently outstanding in the principal amount of \$68,070,000 (the **“2008A 5337 Bonds”**), its Capital Grant Receipts Revenue Bonds, Refunding Series 2010 (Federal Transit Administration Section 5309 Fixed Guideway Modernization Formula Funds), currently outstanding in the principal amount of \$26,820,000 (the **“2010 5337 Bonds”**), and its Capital Grant Receipts Revenue Bonds, Refunding Series 2015 (Federal Transit Administration Section 5337 State of Good Repair Formula Funds), currently outstanding in the principal amount of \$45,650,000 (the **“2015 5337 Bonds”** which, together with the 2008 5337 Bonds, the 2008A 5337 Bonds, and the 2010 5337 Bonds, as such bonds may be Outstanding, are referred to in this Official Statement as the **“Outstanding 5337 Bonds”**), and with certain other obligations that may be issued by the Authority as described herein. See **“SECURITY FOR THE SERIES 2017 BONDS – Parity Obligations.”** The Authority anticipates refunding certain Outstanding 5337 Bonds with proceeds of the Series 2017 5337 Bonds.

Limited Obligations of the Authority

The Series 2017 Bonds are limited obligations of the Authority. The Series 2017 5307 Bonds are secured under the 5307 Indenture by a pledge of the Authority’s share of 5307 Grant Receipts on a parity with the Authority’s currently outstanding 5307 Bonds described herein. The Series 2017 5337 Bonds are secured under the 5337 Indenture by a pledge of the Authority’s share of 5337 Grant Receipts on a parity with the Authority’s currently outstanding 5337 Bonds described herein. The Series 2017 Bonds are not a general obligation of the Authority, and the revenues of the Authority (other than as described herein) are not pledged for the payment of the Series 2017 Bonds or the interest thereon. The Indentures create no liens upon any physical properties of the Authority. The Act provides that the Series 2017 Bonds are not, and shall not be or become, an indebtedness or obligation of the State of Illinois or any political subdivision of the State (other than the limited obligation of the Authority) or of any municipality within the State, nor shall any Series 2017 Bond be or become an indebtedness of the Authority within the purview of any constitutional or statutory limitation or provision. The Authority has no taxing power.

Recent Developments Regarding Federal Mass Transit Funding

On December 4, 2015, President Obama signed the Fixing America’s Surface Transportation Act (**“FAST Act”**) into law authorizing transit funds for each federal fiscal year (**“Federal Fiscal Year”** or **“FFY”**) 2016 through 2020. The FAST Act includes slight annual funding increases over the levels included in the previous transportation authorization called Moving Ahead for Progress in the 21st Century (**“MAP-21”**). MAP-21 authorized funding for

FFY 2013 and 2014, and it was extended on a short-term basis numerous times until the FAST Act was enacted. The United States Congress (“**Congress**”) approved FFY 2017 appropriations to maintain highway, transit, aviation, rail and waterway programs and provided another \$500 million for the U.S. Department of Transportation’s (“**USDOT**”) Transportation Investment Generating Economic Recovery (“**TIGER**”) infrastructure grants. The bipartisan agreement allows state departments of transportation and transit agencies to access funding hikes Congress previously authorized and paid for in the FAST Act, such increases totaling \$1 billion for highway programs and \$400 million for transit. On March 16, 2017, President Trump’s administration released a preliminary FFY 2018 budget proposal, which details proposed changes to the Federal government’s spending. The proposal covers only discretionary, not mandatory, spending. The Federal Transit Program may be negatively impacted under the President’s proposed FFY 2018 spending plan. As of the date of this Official Statement, the Authority has no assurance that the current authorizations and appropriations will be extended or that new authorizations and appropriations will be approved.

See “**FEDERAL TRANSIT PROGRAM**” and “**CERTAIN INVESTMENT CONSIDERATIONS – Uncertainties in Federal Transit Program and Funding.**”

Certain References

The descriptions and summaries of various documents hereinafter set forth do not purport to be comprehensive or definitive, and reference is made to each document for complete details of all terms and conditions. All statements herein are qualified in their entirety by reference to each document. All capitalized terms used and not otherwise defined herein shall have the meanings assigned to such terms in **APPENDIX A - “DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURES - Definitions of Certain Terms”** or, if not defined therein, in the Indentures for the respective Series of the 2017 Bonds.

The references in this Official Statement to the locations of certain information on various websites are noted as of the date of this Official Statement and are included herein solely for general background purposes and for the convenience of Bondholders and there is no assurance that such information will be maintained or updated at such website locations in the future. None of the information on such websites is incorporated by reference into this Official Statement and neither the Authority nor the Underwriters take responsibility for the information contained therein nor have they attempted to verify the accuracy of such information.

PLAN OF FINANCE

The proceeds from the sale of the Series 2017 5307 Bonds will be used to (i) refund the Refunded 5307 Bonds, as set forth in the tables below, to their respective redemption dates specified below, and (ii) pay costs in connection with the issuance of the Series 2017 5307 Bonds.

Refunded 5307 Bonds

<u>Series Designation</u>	<u>Maturity Date (June 1)</u>	<u>Interest Rate</u>	<u>Principal Amount Refunded</u>	<u>Redemption Date</u>	<u>CUSIP</u>
2008A	2022	5.25%	\$18,005,000	June 1, 2018	167723DC6
2008A	2023	5.25%	18,955,000	June 1, 2018	167723DD4
2008A	2024	5.25%	19,950,000	June 1, 2018	167723DE2
2008A	2025	5.25%	20,995,000	June 1, 2018	167723DF9
2008A	2026	5.25%	22,095,000	June 1, 2018	167723DG7

The proceeds from the sale of the Series 2017 5337 Bonds will be used to (i) refund the Refunded 5337 Bonds, as set forth in the tables below, to their respective redemption dates specified below, and (ii) pay costs in connection with the issuance of the Series 2017 5337 Bonds.

Refunded 5337 Bonds

<u>Series Designation</u>	<u>Maturity Date (June 1)</u>	<u>Interest Rate</u>	<u>Principal Amount Refunded</u>	<u>Redemption Date</u>	<u>CUSIP</u>
2008	2019	5.25%	\$8,910,000	June 1, 2018	167723CS2
2008	2020	5.25%	9,380,000	June 1, 2018	167723CT0
2008	2021	5.25%	9,870,000	June 1, 2018	167723CU7
2008	2022	5.25%	10,390,000	June 1, 2018	167723CV5
2008	2023	5.25%	10,935,000	June 1, 2018	167723CW3
2008	2024	5.25%	11,510,000	June 1, 2018	167723CX1
2008	2025	5.25%	12,115,000	June 1, 2018	167723CY9
2008	2026	5.25%	12,750,000	June 1, 2018	167723CZ6

<u>Series Designation</u>	<u>Maturity Date (June 1)</u>	<u>Interest Rate</u>	<u>Principal Amount Refunded</u>	<u>Redemption Date</u>	<u>CUSIP</u>
2008A	2019	5.50%	\$10,480,000	December 1, 2018	167723EH4
2008A	2020	5.00%	11,055,000	December 1, 2018	167723EJ0
2008A	2021	5.00%	11,610,000	December 1, 2018	167723EK7
2008A	2022	5.00%	12,190,000	December 1, 2018	167723EL5
2008A	2023	5.25%	12,800,000	December 1, 2018	167723EM3

To provide for the refunding of the Refunded Bonds, a portion of the proceeds of the Series 2017 Bonds will be used, together with other available funds, to purchase Government Obligations, the principal of which, together with interest to be earned thereon and any initial cash balance, shall be sufficient to pay all of (i) the interest on each Refunded Bond that will become due and payable to its redemption date, and (ii) the redemption price (being 100% of the principal amount) of each Refunded Bond on its date of redemption (the “**Defeasance Payment Requirements**”). The Government Obligations and initial cash balance for each series of the Refunded Bonds shall be held in a separate escrow account established pursuant to an escrow agreement (individually for each series, an “**Escrow Agreement**,” and collectively, the “**Escrow Agreements**”) with the Trustee, as escrow agent, for each series of the Refunded Bonds. The redemption price of and interest on the Refunded Bonds shall be payable from the separate escrow accounts administered for the benefit of the Authority and the holders of the outstanding Refunded Bonds. Neither the maturing principal of the Government Obligations purchased to refund the Refunded Bonds nor the interest earned thereon will serve as security or be available for the payment of the principal of or interest on the Series 2017 Bonds. Pursuant to the Escrow Agreements, the Trustee certifies that the Government Obligations and the initial cash balances on deposit in each escrow account will be sufficient, without reinvestment, to pay the Defeasance Payment Requirements of the Refunded Bonds as the same shall become due and payable. The mathematical computation of the adequacy of the cash flows from the Government Obligations together with the initial cash deposit to satisfy the Defeasance Payment Requirements of the Refunded Bonds as described above will be verified at the time of the delivery of the Series 2017 Bonds by Robert Thomas CPA, LLC, Shawnee Mission, Kansas, independent certified public accountants. See “**CERTAIN VERIFICATIONS.**”

The Refunded Bonds were issued to provide funds to finance, or reimburse the Authority for prior expenditures relating to, a portion of the costs of its capital plan in anticipation of the receipt of the applicable 5307 Grant Receipts or 5337 Grant Receipts. 5307 Grant Receipts or 5337 Grant Receipts not otherwise used for the payment of the related Refunded Bonds may be used for other purposes. The Authority expects, subject to receipt of all necessary Board approvals and as permitted by the Indentures, to issue Additional Bonds at future dates to finance capital needs as they may be identified in its capital plan from time to time and to the extent that they are also eligible under the FTA’s Section 5307 Program and the Section 5337 Program. See “**THE AUTHORITY — Capital Plan**” for a further explanation of how the Authority’s capital plan is developed.

SOURCES AND USES OF FUNDS

	Series 2017 5307 Bonds	Series 2017 5337 Bonds
<u>Sources of Funds</u>		
Par Amount	\$90,540,000.00	\$135,255,000.00
Original Issue Premium	14,397,744.15	16,881,019.30
Prior Bond Funds	<u>8,026.41</u>	<u>--</u>
Total Sources of Funds	\$104,945,770.56	\$152,136,019.30
<u>Uses of Funds</u>		
Deposit to Escrow Account	\$104,259,745.37	\$151,137,297.33
Costs of Issuance*	<u>686,025.19</u>	<u>998,721.97</u>
Total Uses of Funds	\$104,945,770.56	\$152,136,019.30

* Includes Underwriters' Discount.

DESCRIPTION OF THE SERIES 2017 BONDS

General

The Series 2017 Bonds will be dated the date of their issuance and mature on the dates and in the principal amounts set forth on the inside front cover of this Official Statement. Interest on the Series 2017 Bonds shall be payable on June 1 and December 1 of each year, commencing December 1, 2017. Interest on the Series 2017 Bonds shall be computed on the basis of a 360-day year of twelve 30-day months.

The Series 2017 Bonds will be delivered in fully registered form only and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository for the Series 2017 Bonds. Ownership interests in the Series 2017 Bonds may be purchased by or through a DTC Participant (as described below) in book-entry form only in denominations of \$5,000 or any integral multiple thereof. See **APPENDIX B – “DTC AND THE BOOK-ENTRY ONLY SYSTEM.”**

No Redemption

The Series 2017 Bonds are not subject to optional or mandatory redemption prior to their maturity.

Book-Entry Only System

As noted above, DTC will act as securities depository for the Series 2017 Bonds. See **APPENDIX B – “DTC AND THE BOOK-ENTRY ONLY SYSTEM.”**

Payments of interest on and principal of the Series 2017 Bonds will be made to DTC or its nominee, Cede & Co., as registered owner of the Series 2017 Bonds. Each such payment to DTC or its nominee will be valid and effective to fully discharge all liability of the Authority and the applicable Trustee with respect to interest on and principal of the Series 2017 Bonds to the extent of the sum or sums so paid.

The Authority and each Trustee cannot and do not give any assurances that DTC Participants or DTC Indirect Participants will distribute to the beneficial owners (i) payments of interest and principal with respect to the Series 2017 Bonds, (ii) confirmation of ownership interests in the Series 2017 Bonds, or (iii) any notices sent to DTC or Cede & Co., its nominee, as Owner of the Series 2017 Bonds, or that they will do so on a timely basis.

Transfers and Exchanges of Series 2017 Bonds Upon Abandonment of Book-Entry-Only System

The Owners of the Series 2017 Bonds have no right to the appointment or retention of a securities depository for the Series 2017 Bonds. DTC may resign as securities depository under the conditions provided in the Letter of Representations from the Authority to DTC. In the event of any such resignation, the Authority shall (i) appoint a successor securities depository qualified to act as such under Section 17(a) of the Securities Exchange Act of 1934, as amended, notify DTC of the appointment of such successor securities depository, and transfer or cause the transfer of one or more separate Series 2017 Bond certificates to such successor securities depository or (ii) notify DTC of the availability through DTC of Series 2017 Bond certificates and transfer or cause the transfer of one or more Series 2017 Bond certificates to DTC Participants having Series 2017 Bonds credited to their DTC accounts. In such event, the Series 2017 Bonds will no longer be restricted to being registered in the name of Cede & Co., as nominee of DTC, but may be registered in the name of the successor securities depository, or its nominee, or in whatever name or names the DTC Participants receiving Series 2017 Bonds shall designate, in accordance with the provisions of the Indentures.

SECURITY FOR THE SERIES 2017 BONDS

The Series 2017 Bonds (and all other Parity Obligations) issued under each Indenture are limited obligations of the Authority issued pursuant to the Act and the Local Government Debt Reform Act.

The Series 2017 5307 Bonds are payable solely from and secured solely by (i) the 5307 Grant Receipts and (ii) amounts on deposit in the funds and accounts established under the 5307 Indenture (except the Rebate Fund established under the 5307 Indenture), including investment earnings thereon.

The Series 2017 5337 Bonds are payable solely from and secured solely by (i) the 5337 Grant Receipts and (ii) amounts on deposit in the funds and accounts established under the 5337 Indenture (except the Rebate Fund established under the 5337 Indenture), including investment earnings thereon.

The Series 2017 Bonds are not general obligations of the Authority and the revenues of the Authority (other than as described above) are not pledged for the payment of the Series 2017 Bonds or the interest thereon. The Indentures create no liens upon any physical properties of the Authority. The Act provides that the Series 2017 Bonds are not, and shall not be or become, an indebtedness or obligation of the State of Illinois or any political subdivision of the State (other than the limited obligation of the Authority) or of any municipality within the State, nor shall any Series 2017 Bond be or become an indebtedness of the Authority within the purview of any constitutional or statutory limitation or provision. The Authority has no taxing power.

See the discussion herein under the heading **“CERTAIN INVESTMENT CONSIDERATIONS.”**

Grant Receipts

The 5307 Grant Receipts and 5337 Grant Receipts are collectively referred to herein as the **“Grant Receipts.”** The sole source of 5307 Grant Receipts available to the Authority to pay principal of and interest on the 5307 Bonds is its annual share of Section 5307 Formula Funds. The sole source of 5337 Grant Receipts available to the Authority to pay principal of and interest on the 5337 Bonds is its annual share of Section 5337 Formula Funds.

See **“FEDERAL TRANSIT PROGRAM”** for descriptions of the Section 5307 Program and the Section 5337 Program and the methods by which the amount of Section 5307 Formula Funds and Section 5337 Formula Funds available to the Authority on an annual basis are determined.

Pledge of Security

Certain defined terms referenced in this section shall apply to the 5307 Indenture and Section 5337 Indenture. See APPENDIX A – “DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURES.” Reference is hereby made to the Indentures for a complete statement of the provisions thereof.

5307 Bonds. The 5307 Indenture pledges for the payment of the principal and Redemption Price of, and interest on, the 5307 Bonds and the payment of permitted obligations meeting the definition of Parity Obligations under the 5307 Indenture, in accordance with their terms and the provisions of the 5307 Indenture, and a lien is thereby granted for such purpose, subject only to the provisions of the 5307 Indenture permitting or requiring the application thereof for the purposes and on the terms and conditions set forth in the 5307 Indenture, (i) the 5307 Grant Receipts, (ii) amounts on deposit in all Funds, Accounts and Sub-Accounts established under the 5307 Indenture (except the Rebate Fund), including investment earnings

thereon, subject however to the right of the Authority to make periodic withdrawals from the Grant Receipts Deposit Fund and the General Fund established under the 5307 Indenture as permitted under the 5307 Indenture (see “- **Funds and Accounts**” and “- **Flow of Funds – Grant Receipts**” below), and (iii) any and all other moneys and securities furnished from time to time to the 5307 Trustee by the Authority or on behalf of the Authority or by any other persons to be held by the 5307 Trustee under the terms of the 5307 Indenture; *provided* that the application of moneys to the payments due to a Swap Provider under a Qualified Swap Agreement is expressly limited to the extent provided in the 5307 Indenture. See **APPENDIX A – “DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURES – SUMMARY OF CERTAIN PROVISIONS OF THE 5307 INDENTURE - Hedging Transactions.”** The 5307 Grant Receipts become pledged and therefore subject to the lien of the 5307 Indenture upon the receipt of such 5307 Grant Receipts by the Authority. Pursuant to Section 13 of the Local Government Debt Reform Act, the 5307 Grant Receipts and the other moneys and securities pledged by the 5307 Indenture shall immediately be subject to the lien and pledge thereof without any physical delivery or further act, and the lien and pledge thereof shall be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the Authority, irrespective of whether such parties have notice thereof.

5337 Bonds. The 5337 Indenture pledges for the payment of the principal and Redemption Price of, and interest on, the 5337 Bonds and the payment of permitted obligations meeting the definition of Parity Obligations under the 5337 Indenture, in accordance with their terms and the provisions of the 5337 Indenture, and a lien is thereby granted for such purpose, subject only to the provisions of the 5337 Indenture permitting or requiring the application thereof for the purposes and on the terms and conditions set forth in the 5337 Indenture, (i) the 5337 Grant Receipts, (ii) amounts on deposit in all Funds, Accounts and Sub-Accounts established under the 5337 Indenture (except the Rebate Fund), including investment earnings thereon, subject however to the right of the Authority to make periodic withdrawals from the Grant Receipts Deposit Fund and the General Fund established under the 5337 Indenture as permitted under the 5337 Indenture (see “- **Funds and Accounts**” and “- **Flow of Funds – Grant Receipts**” below), and (iii) any and all other moneys and securities furnished from time to time to the 5337 Trustee by the Authority or on behalf of the Authority or by any other persons to be held by the 5337 Trustee under the terms of the 5337 Indenture; *provided* that the application of moneys to the payments due to a Swap Provider under a Qualified Swap Agreement is expressly limited to the extent provided in the 5337 Indenture. See **APPENDIX A – “DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURES – SUMMARY OF CERTAIN PROVISIONS OF THE 5337 INDENTURE - Hedging Transactions.”** The 5337 Grant Receipts become pledged and therefore subject to the lien of the 5337 Indenture upon the receipt of such 5337 Grant Receipts by the Authority. Pursuant to Section 13 of the Local Government Debt Reform Act, the 5337 Grant Receipts and the other moneys and securities pledged by the 5337 Indenture shall immediately be subject to the lien and pledge thereof without any physical delivery or further act, and the lien and pledge thereof shall be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the Authority, irrespective of whether such parties have notice thereof.

Parity Obligations

The Series 2017 5307 Bonds are secured, as described under this caption, on a parity with the Outstanding 5307 Bonds. The Series 2017 5337 Bonds are secured, as described under this caption, on a parity with the Outstanding 5337 Bonds. Furthermore, each Indenture permits one or more Series of Bonds (“**Additional Bonds**”) to be issued on a parity with the Series 2017 Bonds issued thereunder and any other Outstanding Bonds and Parity Obligations under such Indenture, for the purpose of paying the costs of construction of Eligible Projects or refunding any Subordinated Indebtedness issued under such Indenture for such purposes, to pay costs and expenses incident to the issuance of such Additional Bonds, and to make deposits to any Fund, Account or Sub-Account under such Indenture. Each Indenture also permits the issuance of one or more Series of Bonds (“**Refunding Bonds**”) on a parity with the Series 2017 Bonds issued thereunder and any other Outstanding Bonds and Parity Obligations under such Indenture, to refund or advance refund any or all Outstanding Bonds of one or more Series or any Outstanding Section 207 Obligations under such Indenture (as described in the next paragraph), to pay costs and expenses incident to the issuance of such Refunding Bonds, and to make deposits to any Fund, Account or Sub-Account under such Indenture. See “- **Additional Bonds**” and “- **Refunding Bonds**” below.

Each Indenture permits the issuance of obligations, on a parity with the Series 2017 Bonds issued thereunder and any other Outstanding Bonds and Parity Obligations under such Indenture, incurred by the Authority for the making of periodic payments (but not termination payments, which can only be secured on a subordinate basis) to any one or more Swap Providers (a “**Section 206 Obligation**”). Pursuant to each Indenture, the Authority may also incur obligations, that may be secured on a parity with the Series 2017 Bonds issued thereunder and any other Outstanding Bonds and Parity Obligations under such Indenture, to reimburse amounts payable under reimbursement agreements or other evidences of indebtedness between the Authority and a Credit Bank (a “**Section 207 Obligation**”). Section 206 Obligations and Section 207 Obligations under each Indenture are referred to in this Official Statement, together with the respective 5307 Bonds or 5337 Bonds issued under such Indenture, as “**Parity Obligations.**”

Funds and Accounts

Establishment of Funds and Accounts. Pursuant to each Indenture, the Authority establishes (i) the Grant Receipts Deposit Fund, which is held by the Authority; and (ii) the Debt Service Fund, the Construction Fund and the General Fund, each of which is held in trust by the applicable Trustee. Subject to use and application in accordance with each Indenture, moneys and investments held in the Grant Receipts Deposit Fund, the Debt Service Fund, the Construction Fund and the General Fund are pledged as security for the payment of debt service on the respective 5307 Bonds or 5337 Bonds and other Parity Obligations issued thereunder. Each Indenture also establishes a Rebate Fund which is not pledged to the payment of the bonds or other Parity Obligations issued thereunder. Each Indenture establishes three separate accounts in the Debt Service Fund, known as the “**Interest Account,**” the “**Principal Account**” and the “**Variable Rate Stabilization Account.**” See the subheadings “**Variable Rate Stabilization Account**” and “**General Fund**” below for additional information regarding these funds and

accounts. For a description of the priority of payments made from the Debt Service Fund, see **APPENDIX A – “DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURES – SUMMARY OF CERTAIN PROVISIONS OF THE 5307 INDENTURE - Debt Service Fund”** and **“- SUMMARY OF CERTAIN PROVISIONS OF THE 5337 INDENTURE – Debt Service Fund.”** Each Indenture establishes a **“2017 Project Account”** in the Construction Fund.

Variable Rate Stabilization Account. Currently, there are no Variable Rate Bonds Outstanding under either Indenture, and no Qualified Swap Agreements relating to Bonds that are not Variable Rate Bonds that, as of the date of computation, require the Authority to pay interest based upon a variable interest rate or to make swap payments based upon a variable rate index, as calculated under such Indenture. The Variable Rate Stabilization Account established under each Indenture is required to be funded in an amount equal to the Variable Rate Stabilization Account Requirement, which is calculated as 3.5 percent of the sum of (a) the principal amount of certain Outstanding Variable Rate Bonds, if any, and (b) the notional amount of all Qualified Swap Agreements, if any, relating to Bonds that are not Variable Rate Bonds that, as of the date of computation, require the Authority to pay interest based upon a variable interest rate or to make swap payments based upon a variable rate index, as calculated under such Indenture. In the future, if the Authority issues Variable Rate Bonds or enters into Qualified Swap Agreements of the types described above pursuant to either Indenture, Grant Receipts pledged under the same Indenture may be applied to meet the requirement. See **“- Flow of Funds – Grant Receipts”** below, **APPENDIX A – “DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURES – SUMMARY OF CERTAIN PROVISIONS OF THE 5307 INDENTURE - Deposit and Application of Grant Receipts”** and **“- SUMMARY OF CERTAIN PROVISIONS OF THE 5337 INDENTURE – Deposit and Application of Grant Receipts.”** For a description of the application of amounts on deposit in the Variable Rate Stabilization Account, see **APPENDIX A – “DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURES – SUMMARY OF CERTAIN PROVISIONS OF THE 5307 INDENTURE - Debt Service Fund”** and **“- SUMMARY OF CERTAIN PROVISIONS OF THE 5337 INDENTURE – Debt Service Fund.”**

General Fund. A General Fund is established under each Indenture. Moneys in each General Fund shall be promptly withdrawn by the applicable Trustee and paid over to the Authority free from the lien of the Indenture under which it is established; *provided* that no such withdrawal from the General Fund may occur unless, at the time of such withdrawal, (i) no deficiency shall exist with respect to the required deposits to the Interest Account and the Principal Account of the Debt Service Fund established under the same Indenture; (ii) the sum then held in the Variable Rate Stabilization Account established under the same Indenture shall be not less than the Variable Rate Stabilization Account Requirement and (iii) no Event of Default shall have occurred under the same Indenture and remain unremedied. The Authority may establish (i) one or more Debt Service Reserve Accounts within each General Fund for the purpose of providing additional security for the payment of one or more Series of Bonds and (ii) one or more Subordinated Indebtedness Accounts within each General Fund for the purpose of securing the payment of Subordinated Indebtedness. See **APPENDIX A – “DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURES – SUMMARY**

OF CERTAIN PROVISIONS OF THE 5307 INDENTURE - General Fund” and “-SUMMARY OF CERTAIN PROVISIONS OF THE 5337 INDENTURE – General Fund.”

Flow of Funds – Grant Receipts

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

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

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

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

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

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

See **APPENDIX A – “DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURES – SUMMARY OF CERTAIN PROVISIONS OF THE 5307 INDENTURE - Deposit and Application of Grant Receipts” and “-SUMMARY OF CERTAIN PROVISIONS OF THE 5337 INDENTURE – Deposit and Application of Grant Receipts.”**

Moneys held in the Grant Receipts Deposit Fund established under each Indenture may be withdrawn from time to time by the Authority for the payment or reimbursement of the costs of Eligible Projects (as defined under such Indenture). If, however, after the first Business Day of any Bond Year a deficiency then exists in the payments required to be made by the Trustee as described above, no withdrawals may be made unless the Authority has obligated a sum sufficient for the payment to the applicable Trustee of the amounts required by such Indenture as set forth above from appropriations applicable from the current or prior Federal Fiscal Years.

Each Indenture also requires that if, as of the last Business Day of any Federal Fiscal Year, the grant approvals required to make the payments to the applicable Trustee as described above from current Federal Fiscal Year appropriations have not been obtained, then the Authority must take all necessary actions to reprogram available Formula Funds pledged under such Indenture appropriated in prior Federal Fiscal Years to the extent required to make such payments. See **“FEDERAL TRANSIT PROGRAM – Indenture Covenants with Respect to Section 5307 and Section 5337 Formula Program,”** and **APPENDIX A – “DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURES – SUMMARY OF CERTAIN PROVISIONS OF THE 5307 INDENTURE - Covenants of the Authority”** and **“- SUMMARY OF CERTAIN PROVISIONS OF THE 5337 INDENTURE – Covenants of the Authority.”**

Additional Bonds

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

In applying the foregoing test, if any of the Bonds Outstanding under such Indenture immediately following the issuance of such Additional Bonds constitute Optional Tender Bonds or Variable Rate Bonds, certain provisions in such Indenture shall be applied in determining the Annual Debt Service Requirements of such Bonds. See **APPENDIX A – “DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURES – SUMMARY OF CERTAIN PROVISIONS OF THE 5307 INDENTURE - Additional Bonds for Construction Purposes”** and **“- SUMMARY OF CERTAIN PROVISIONS OF THE 5337 INDENTURE – Additional Bonds for Construction Purposes.”**

The Authority may, subject to receipt of all necessary Board approvals and as permitted by the applicable Indenture, issue Additional Bonds at future dates to finance capital needs as they may be identified in its capital plan from time to time and to the extent that they are also eligible under the applicable Section 5307 Program or Section 5337 Program. See **“THE AUTHORITY – Capital Plan”** for a further explanation of how the Authority’s capital plan is developed.

Refunding Bonds

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

In applying the foregoing tests, if any of the Bonds Outstanding under such Indenture immediately prior to or after the issuance of the Refunding Bonds constitute Optional Tender Bonds or Variable Rate Bonds, certain provisions in such Indenture shall be applied in determining the Annual Debt Service Requirements of such Bonds and of any Outstanding Section 207 Obligations. See **APPENDIX A – “DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURES – SUMMARY OF CERTAIN PROVISIONS OF THE 5307 INDENTURE - Refunding Bonds”** and “- **SUMMARY OF CERTAIN PROVISIONS OF THE 5337 INDENTURE – Refunding Bonds.**”

Subordinated Indebtedness

No provision of either Indenture limits the ability of the Authority to issue bonds or other obligations payable from the Grant Receipts pledged to secure Bonds issued under such Indenture on a basis junior and subordinate to the payment of principal of, premium, if any, and interest on the Bonds issued thereunder. See **APPENDIX A – “DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURES – SUMMARY OF CERTAIN PROVISIONS OF THE 5307 INDENTURE - Subordinated Indebtedness”** and “- **SUMMARY OF CERTAIN PROVISIONS OF THE 5337 INDENTURE – Subordinated Indebtedness.**”

RTA Ordinance Regarding Limit on Debt Secured by Section 5307/5337 Formula Funds

The RTA, by ordinance, has imposed a stricter limit than the Indentures on the incurrence of additional Parity Obligations (including any Additional Bonds or Refunding Bonds) and any Subordinated Indebtedness. The RTA ordinance provides that no additional Parity Obligations or Subordinated Indebtedness may be incurred to the extent that the incurrence of such Parity Obligation or Subordinated Indebtedness would cause the total annual debt service for all

outstanding Parity Obligations and Subordinated Indebtedness (inclusive of such additional Parity Obligations or Subordinated Indebtedness) to exceed 50% of the amount of the Authority's allocation of Section 5307 and 5337 Formula Funds for the applicable year as stated in the current RTA five-year capital plan. The 50% limit was temporarily increased to 60% in 2010, but is currently set at 50%. The Authority cannot provide any assurances regarding further modifications or adjustments to such limitations that the RTA may adopt by ordinance in the future.

Investments

All amounts held under either Indenture are invested at the direction of the Authority in Investment Securities, as defined in **APPENDIX A**, subject to certain limitations contained therein. See **APPENDIX A – “DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURES – SUMMARY OF CERTAIN PROVISIONS OF THE 5307 INDENTURE - Investment of Certain Moneys”** and **“- SUMMARY OF CERTAIN PROVISIONS OF THE 5337 INDENTURE – Investment of Certain Moneys.”**

FEDERAL TRANSIT PROGRAM

THE TERMS AND CONDITIONS OF PARTICIPATION IN THE FEDERAL TRANSIT PROGRAM AS DESCRIBED HEREIN ARE SUBJECT TO CHANGE AT THE DISCRETION OF CONGRESS, AND THERE CAN BE NO ASSURANCE THAT THE LAWS AND REGULATIONS NOW GOVERNING THE PROGRAM WILL NOT BE CHANGED IN THE FUTURE IN A MANNER THAT MAY ADVERSELY AFFECT THE ABILITY OF THE AUTHORITY TO RECEIVE ADEQUATE SECTION 5307 FORMULA FUNDS TO MAKE DEBT SERVICE PAYMENTS ON THE OUTSTANDING 5307 BONDS (INCLUDING THE SERIES 2017 5307 BONDS) AND ADEQUATE SECTION 5337 FORMULA FUNDS TO MAKE DEBT SERVICE PAYMENTS ON THE OUTSTANDING 5337 BONDS (INCLUDING THE SERIES 2017 5337 BONDS).

IN ADDITION, VARIOUS FACTORS BEYOND THE CONTROL OF THE AUTHORITY MAY AFFECT SUCH RECEIPTS, INCLUDING, WITHOUT LIMITATION NON-REAUTHORIZATION OF FEDERAL TRANSPORTATION LEGISLATIVE PROGRAMS, FEDERAL BUDGETARY LIMITATIONS AND OTHER POSSIBLE CHANGES IN THE FEDERAL TRANSIT PROGRAM, THE AUTHORITY'S CONTINUED ELIGIBILITY AND APPLICATION FOR SUCH FUNDING AND CHANGES IN THE ALLOCATION BY THE RTA OF ITS FORMULA FUNDS AMONG THE SERVICE BOARDS. IN ADDITION, THE CALCULATION OF THE ANNUAL APPORTIONMENT UNDER THE FEDERAL TRANSIT PROGRAM FROM WHICH THE GRANT RECEIPTS ARE PAID IS BASED ON A FORMULA THAT TAKES INTO ACCOUNT, AMONG OTHER FACTORS, TRANSIT PROPERTIES, THE TRANSIT SERVICES PROVIDED AND THE DEGREE SUCH SERVICES ARE UTILIZED. ACTIONS THAT THE AUTHORITY MAY TAKE AS A RESULT OF ITS BUDGETARY DECISIONS, SUCH AS DECREASES IN THE AMOUNTS DEVOTED TO CAPITAL PURPOSES, SERVICE CUTS OR FARE INCREASES, MAY HAVE A NEGATIVE IMPACT ON THESE COMPONENTS OF THE FORMULA USED TO CALCULATE THE ANNUAL APPORTIONMENT RESULTING IN A

DECREASE IN THE AMOUNT OF FEDERAL TRANSIT FUNDS AVAILABLE TO THE AUTHORITY FOR GRANT RECEIPTS.

See “**CERTAIN INVESTMENT CONSIDERATIONS.**”

General

The Section 5307 Program, under which Section 5307 Formula Funds are disbursed to qualified recipients, and the Section 5337 Program, under which Section 5337 Formula Funds are disbursed to qualified recipients, are part of the Federal Transit Program (the “**Federal Transit Program**”) created by Congress in support of public transit in the United States. As codified under Title 49 of the U.S. Code, one of the purposes of the Federal Transit Program is to provide funds for, and assist in financing, urban mass transportation capital improvement projects such as the Authority’s Capital Improvement Plan.

History and Overview of the Federal Transit Program

The various purposes and administrative authority of the Federal Transit Program have been periodically modified and reauthorized by Congress. The Federal Transit Program had its origin in 1955 when Congress authorized the Administrator of the Housing and Home Finance Agency to make loans to public bodies to assist in financing urban mass transportation capital improvement projects. This authority was later transferred to the United States Department of Housing and Urban Development and then expanded in 1964 with the passage of the Urban Mass Transportation Act (the “**UMT Act**”). In 1968, the Secretary of the Department of Transportation (the “**Secretary of Transportation**”) was given the authority to administer the UMT Act and the Urban Mass Transportation Administration (the “**UMTA**”) was created within the United States Department of Transportation. The UMT Act was reauthorized in 1970, 1974, 1978, 1982, 1987, 1991, 1998, 2005, 2012 and, most recently, in 2015. On December 4, 2015, President Obama signed the FAST Act into law authorizing transit funds for Federal Fiscal Years 2016 through 2020. The FAST Act includes slight annual funding increases over the levels included in MAP-21, the previous transportation authorization. MAP-21 authorized funding for Federal Fiscal Years 2013 and 2014, and it was extended on a short-term basis numerous times until the FAST Act was enacted.

Authorization. The first step in the implementation of the Federal Transit Program is the adoption by Congress of multi-year (or, under interim authorizations, multi-month) authorizing federal legislation which has: (i) established or extended the funding sources for the Federal Transit Program; (ii) established the specific programs and procedures through which federal financial assistance for the Federal Transit Program is apportioned and made available to public entities, including the Authority; and (iii) set upper limits on funding for specific programs and for the overall Federal Transit Program. An “*authorization*” is the process by which Congress approves the parameters for the expenditure of federal revenues on federal programs. For the Federal Transit Program, authorization historically has been, and continues to be, provided on a multi-year basis. This permits grant recipients more certainty in planning long-term transit projects. Transit agencies receive funds under the provisions of Title 49, Chapter 53, of the United States Code, as amended by the FAST Act. Transit funds for Federal Fiscal Years 2016

through 2020 are authorized by the FAST Act. Each year, new appropriation legislation must be passed to appropriate general federal revenues that will fund transit programs and set an obligation limitation that allows expenditure of funds from the federal Mass Transit Account (the “MTA”) of the Highway Trust Fund (“HTF”) for transit programs to fund grants under the federal transit programs, including the Section 5307 Program and the Section 5337 Program. As of the date of this Official Statement, the Authority has no assurance that the current authorizations will be extended, that new authorizations will be approved, or that additional fund transfers to the HTF and MTA will be authorized in the near term. See “**CERTAIN INVESTMENT CONSIDERATIONS – Uncertainties in Federal Transit Program and Funding.**”

Annual Appropriations. An “*appropriation*” is the result of the annual federal budget process through which federal revenues are allocated to specific federal programs. Unlike an authorization, which only sets the upper limits on future funding for specific programs, an appropriation provides funds or permission to exercise contract authority to spend funds. All federal programs require congressional budget and/or contract authority before revenues may be committed and spent. Thus, the Federal Transit Program is subject to a two-step authorizing and appropriations process, with authorizing legislation describing the purposes for a specific program and setting a proposed level of spending, and appropriations legislation providing the budget authority or legal ability to spend federal revenues. Congress approved FFY 2017 appropriations to maintain highway, transit, aviation, rail and waterway programs and provided another \$500 million for the USDOT’s TIGER infrastructure grants. The bipartisan agreement allows state departments of transportation and transit agencies to access funding hikes Congress previously authorized and paid for in the FAST Act, such increases totaling \$1 billion for highway programs and \$400 million for transit. On March 16, 2017, President Trump’s administration released a preliminary FFY 2018 budget proposal, which details proposed changes to the Federal government’s spending. The proposal covers only discretionary, not mandatory, spending. The Federal Transit Program may be negatively impacted under the President’s proposed FFY 2018 spending plan. As of the date of this Official Statement, the Authority has no assurance that the current authorizations and appropriations will be extended or that new authorizations and appropriations will be approved.

Funding the Federal Transit Program. Section 5338(a) of title 49 of the U.S. Code provides for the formula grant programs of the Federal Transit Program to be funded from the MTA of the HTF. The HTF is a federal fund established to fund public transit and highway projects that is financed primarily by motor fuel taxes with dedicated revenues held in trust for reimbursement of expenditures for costs of eligible transportation projects. The MTA is an account within the HTF reserved for funding public transit projects.

The HTF is funded by collection of federally-imposed motor vehicle excise taxes on gasoline and diesel fuels and user fees. The 18.4 cents per gallon federal gasoline excise tax is the largest revenue source for the HTF and, of this amount, 2.86 cents per gallon go to the MTA. The MTA receives approximately 16 percent of federal gasoline tax revenues and 12 percent of federal diesel fuel tax revenues collected nationwide. The imposition of the taxes that are dedicated to the HTF, as well as the authority to place the taxes in the HTF and to expend moneys from the HTF, all have expiration dates which must be extended periodically. The life

of the HTF has been extended several times since its inception, most recently on a multi-year basis by the FAST Act, which generally authorized HTF collections through FFY 2020. See **“CERTAIN INVESTMENT CONSIDERATIONS – Uncertainties in Federal Transit Program and Funding.”** The HTF is required under current federal law to maintain a positive balance to ensure that prior commitments for distribution of federal revenues can be met.

Since 2008, the actual amounts collected from dedicated motor fuel taxes and deposited in the HTF have not been sufficient to support the level of funding Congress authorized for the programs funded from the HTF, including those funded from the MTA. To make up shortfalls of dedicated motor fuel tax revenues to satisfy project grant commitments and in response to future shortfalls predicted by the Congressional Budget Office (“CBO”) as well as other governmental entities, Congress has transferred funds into the HTF from the General Fund of the United States Treasury. To supplement the dedicated motor fuel tax revenues deposited in the HTF, the FAST Act authorizes additional transfers to the HTF.

The table below sets forth the history of maximum authorized spending levels of federal funding for the Federal Transit Program from the MTA:

**Federal Transit Program Authorized Funding Levels
(in millions of dollars)**

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
MTA of HTF	\$8,343	\$8,361	\$8,361	\$8,478	\$8,595	\$8,595	\$9,347

The following table shows historical annual HTF receipts deposited into the MTA for the period FFY 2010 to FFY 2016.

Total Actual Annual Receipts - Mass Transit Account (\$ Millions)

<u>FFY</u>	<u>Receipts</u>
2010	\$4,816
2011	\$4,927
2012	\$5,006
2013	\$4,649
2014	\$4,966
2015	\$5,049
2016	\$5,194

Source: Federal Highway Administration, Table FE-1

General Fund Transfers. As described above in **“-Funding the Federal Transit Program,”** Congress has transferred funds from the General Fund of the United States Treasury to the HTF.

Recently, MAP-21 provided for additional transfers from the General Fund of the United States Treasury to the HTF of \$6.2 billion in FFY 2013 all of which was transferred to the Highway Account of the HTF, and \$12.8 billion in FFY 2014, of which \$2.2 billion was intended for the MTA (not accounting for Sequestration, as described under “-Sequestration” below.) In addition, MAP-21 transferred \$2.4 billion from the Leaking Underground Storage Tank Trust Fund to the Highway Account of the HTF. The 2014 Transportation Funding Act provided for additional transfers from the General Fund of the United States Treasury to the HTF of \$9.7 billion, of which \$2 billion was provided to the MTA. The 2014 Transportation Funding Act also transferred \$1 billion from the Leaking Underground Storage Tank Trust Fund to the Highway Account of the HTF. The FAST Act authorizes the following additional transfers to the HTF from the General Fund of the Treasury (i) \$51.9 billion to be deposited in the Highway Account of the HTF, effective upon enactment of the FAST Act; (ii) \$18.1 billion to be deposited in the MTA, effective upon enactment of the FAST Act; (iii) from the Leaking Underground Storage Tank Trust Fund, to be deposited in the Highway Account of the HTF (a) \$100 million, effective upon enactment of the FAST Act; (b) \$100 million on October 1, 2016; and (c) \$100 million on October 1, 2017. In addition, the FAST Act dedicates the proceeds of certain motor vehicle safety penalties to the Highway Account of the HTF.

General Revenues have provided a portion of Formula Program funding since 1976. The MTA (created in 1983) provided 24% of such funding in FFY 1986 and has provided an average of 80% of such funding since 1998. The table below shows the MTA revenues and Formula Program authorized funding levels for the years shown.

Federal Fiscal Year	Tax Rate (¢ per gallon)	MTA Tax Revenues (\$ millions)	Transit Funding Authorization by Source (\$ millions)		
			MTA	General Revenues	Total
1986	1.00	\$1,113	\$1,100	\$3,540	\$4,640
1990	1.00	1,395	1,300	2,350	3,650
1995	1.50	2,192	2,875	2,250	5,125
2000	2.86	4,673	4,644	1,159	5,803
2005	2.86	4,984	6,690	955	7,646
2010	2.86	4,816	8,343	2,169	10,512
2014	2.86	4,965	8,595	2,100	10,695
2015	2.86	5,049	8,595	2,263	10,858
2016	2.86	5,193	9,347	2,442	11,789

Source: Federal Highway Administration, Table FE-1

Sequestration. The Federal Office of Management and Budget issues annual reports pursuant to the Sequestration Transparency Act of 2012 (P.L. 112-155) on the consequences of sequestration for governmental operations or partial government shutdown. The mandate from the Budget Control Act of 2011 (P. L. 112-25) requires, among other things, a reduction for certain nonexempt defense discretionary programs, which began in 2013. While the HTF is not included in sequestration, and is therefore exempt from reduction, General Fund transfers into HTF resulting from MAP-21 and the FAST Act are subject to reductions, if any, for sequestration. Although no sequestration reductions occurred for FFY 2015, sequestration reductions of General Fund transfers into the HTF in the amount of approximately \$748.8 million occurred in FFY 2014, and \$6.9 million in October 2016 from the Leaking Underground Storage Tank Trust Fund to the Highway Account, and could occur in the future.

Section 5307 Formula Funds and Section 5337 Formula Funds are funded by the gallonage taxes on highway motor fuel and are not subject to sequestration or the effects of a partial government shut down. These protections are in effect through FFY 2022. There can be no assurance, however, that Congress will continue any such budgetary protections in the future.

See **“CERTAIN INVESTMENT CONSIDERATIONS – Uncertainties in Federal Transit Program and Funding.”**

Section 5307 and Section 5337 Programs

Section 5307 Program. The Section 5307 Program is a grant program for urbanized areas with populations greater than 50,000 (each an “*urbanized area*”) and provides capital, operating or planning assistance for public transportation. The Authority does not qualify for operating assistance grants under the Section 5307 Program (which are generally available only to urbanized areas with populations below 200,000), but is eligible for grants related to capital and planning assistance. Funds are apportioned to urbanized areas utilizing a formula based on population, population density, and other factors associated with transit service and ridership. The transit service-related data used to determine the allocation of Section 5307 Formula Funds is compiled in strict adherence with requirements set forth in the legislatively-mandated National Transit Database (the “**NTD**”). FTA compiles this summary of nationwide data annually from transit operator-supplied, FTA-validated, individual reports containing extensive information about each transit property and the service it provides. Except when significant new transit service is added or significant existing service dropped during a year, the yearly data submitted by transit properties remains relatively constant as does the annual apportionments as a consequence.

Section 5337 Program. The Section 5337 Program is a grant program for urbanized areas with populations greater than 50,000 and provides funding for capital projects to maintain fixed guideway public transportation systems and high intensity motorbus public transportation systems (*i.e.*, motorbus transportation provided on facilities with access for other high-occupancy vehicles). To the extent that the Section 5337 Program provides federal funding to maintain fixed guideway public transportation systems, the program replaces the rail modernization program previously authorized under Section 5309 of the Federal Transit Acts. Section 5337 Program fixed guideway public transportation systems funds are apportioned to recipients in

urbanized areas taking into account the fixed guideway vehicle revenue miles and directional route miles, weighted by the amount of rail modernization program funds the recipient would have received for FFY 2011. As is the case for the transit service-related factors used for the Section 5307 Program, the vehicle revenue miles and directional route miles data for the Section 5337 Program is compiled in strict adherence with requirements set forth in the legislatively-mandated NTD. The weighting of the Section 5337 Program formula to transit systems that received rail modernization funds in FFY 2011 results in relatively constant annual apportionments.

Funding of the Section 5307 and Section 5337 Programs. The federal portion of the Section 5307 and Section 5337 Programs is funded from the MTA. Once appropriated by Congress, Section 5307 and Section 5337 Formula Funds are allocated in accordance with the specifications of the authorizing legislation. Within ten days of the President's signing of appropriation legislation, FTA publishes a notice in the Federal Register (the "**Apportionment Notice**") listing the amount of Section 5307 and Section 5337 Formula Funds apportioned for each urbanized area. The Authority receives a portion of the funds that are apportioned to the Chicago, Illinois/Northwestern Indiana Urbanized Area (the "**Local Urbanized Area**"). For urbanized areas that cross state boundaries, such as the Local Urbanized Area, funding is allocated among the transit agencies based on agreement among the recipients on the final split of federal funds, as the FTA has not promulgated rules for further redistribution. Agreements are typically documented via the transmittal of identical letters from transit agencies within the urbanized areas to the FTA Regional Office of jurisdiction and the agreements to which the Authority is a party have been largely standardized over the years so that usually only very minor differences require negotiation.

Designated Recipient. For grant purposes and to assure coordination of funds in each urbanized area, Section 5307 and Section 5337 require that the Governor of each state designate a recipient or recipients (each a "**Designated Recipient**") to receive and dispense Section 5307 Formula Funds in urbanized areas with populations of greater than 200,000. For an urbanized area with more than one Designated Recipient, such as the Local Urbanized Area, the amounts available under both the Section 5307 and Section 5337 Programs, as published in the Apportionment Notice, must be further allocated among the region's Designated Recipients by the Metropolitan Planning Organization or Organizations (each an "**MPO**") for the urbanized area. For the Local Urbanized Area, this process is completed by the Chicago Metropolitan Agency for Planning ("**CMA**P") and the RTA. The Governor of Illinois has designated the Authority as the Designated Recipient of Section 5307 and Section 5337 Formula Funds for the Authority's allocation. As a Designated Recipient, the Authority is directly responsible for administering its allocation of the program, including applying for the appropriated funds.

Project Development and Selection. Before a grant recipient of Section 5307 or Section 5337 Formula Funds may apply for a grant, the recipient is required to develop a program of projects (the "**Program of Projects**") for which the recipient proposes to use the respective Section 5307 or Section 5337 Formula Funds. The Program of Projects consists of a list of individual projects (e.g., lease/purchase of buses, construction of a maintenance facility, overhaul of locomotives, etc.) with brief descriptions of the work to be accomplished for each of the individual projects for which money is requested. Complying with a planning process is among

the requirements grant recipients must satisfy in the development of the Program of Projects. Federal law requires that individual Transportation Improvement Programs (“TIPs”) be developed by each MPO. The TIP provides a detailed outline of projects that are proposed for implementation in the urbanized area covered by the MPO with a five-year timeframe. In addition, a statewide TIP (“STIP”), combining the TIPs for all of a state’s urbanized areas, is submitted to the FTA for approval and projects must be included in the STIP to be eligible for funding. The grant recipient applies to FTA to fund a Program of Projects composed of projects as included in the TIP. Although not required by federal law, non-federal funds are also included in Illinois’ STIP/TIPs in order to give a complete picture of transportation initiatives for the five year period. Processes are in place to make interim changes between STIP approvals. The Federal Highway Administration and FTA must approve the STIP.

Grant Application and Obligation of Funds. Once the Apportionment Notice is published listing actual amounts of Section 5307 or Section 5337 Formula Funds available to the Authority, the relevant MPO has made its allocations through the TIP, the grant recipient may electronically submit grant applications for a Program of Projects to the FTA. A typical grant application includes line item budget and project implementation information. During the application review process, the FTA confirms that required planning, environmental, and other necessary legal requirements have been satisfactorily fulfilled. Since 1995, the FTA has allowed grant applicants to self-certify compliance with many of the statutory requirements. Following successful review of an application for funds by a transit agency, FTA approves the application, obligates federal funds for specific Section 5307 or Section 5337 Program eligible projects, and reserves the approved level of federal funding for those projects. Once obligated and reserved for the approved projects, such funds are available to the Designated Recipient until expended or until those funds are de-obligated if they will not be expended for the obligated purposes.

Program Implementation. Upon electronic acceptance of a Section 5307 or Section 5337 Program grant by a transit agency such as the Authority, federal funds are “set up” in the FTA’s Capital Project Accounting System (“CPAS”). The project description and budget line items in CPAS indicate those activities and amounts for which the Authority can seek federal reimbursement. Recipients of FTA funds are required to have financial systems sufficient to adequately account for, report on and bill for federal funds. The Authority’s financial systems, including the CPAS, and methods of accounting, are reviewed by the FTA periodically, and no less than tri-annually, in accordance with the FTA’s financial management oversight review process. Program implementation includes a wide range of activities which occur after the federal grant approval, largely on the part of the grant recipient, to undertake the project for which grant funds were made available and to seek drawdowns from such grant funds for eligible costs.

Grant Payments. Section 5307 and Section 5337 Programs grant payments flow directly from the U.S. Treasury to a designated bank account of a transit agency such as the Authority via electronic transfer. Grant recipients may requisition funds for reimbursement of budgeted amounts in the CPAS for payment of invoices for eligible expenses. For the Authority those eligible expenses include payment of debt service on the respective Series 2017 5307 Bonds and Series 2017 5337 Bonds and the FTA has acknowledged the eligibility of the use of such grant receipts for such purposes by issuing a “Letter of No Prejudice” to the Authority. The Federal

Transit Program requires that grant funds drawn for payment of debt service be disbursed by the grant recipient within three business days of receipt.

Grant recipients are required to make purchases and perform construction in accordance with all applicable federal and state statutes, rules and regulations. Quarterly written reports and periodic on-site review meetings are designed to keep the FTA informed of progress and any problems occurring as work proceeds.

Reprogramming. Once projects are in the implementation phase, where the FTA has approved project budgets and plans, but before actual expenditure, projects and their corresponding sources of funding may be reprogrammed. Reprogramming involves the amendment of previously approved capital project plans and budgets to allow for the expenditure of apportioned and allocated Federal Transit Program formula funds on other eligible and approved projects. The Authority has agreed in each Indenture to take all the necessary steps to reprogram available Section 5307 or Section 5337 Formula Funds appropriated in prior Federal Fiscal Years to the extent there are insufficient Grant Receipts to pay debt service on the respective 5307 Bonds or 5337 Bonds. See **“SECURITY FOR THE SERIES 2017 BONDS - Flow of Funds - Grant Receipts.”**

Lapsing of Apportioned Section 5307 and Section 5337 Formula Funds. Section 5307 and Section 5337 Formula Funds apportioned to an urbanized area must be requested by the Designated Recipient in the area and obligated by FTA within five years following the year of apportionment. If such funds are not obligated within this timeframe, the unobligated funds apportioned to the urbanized area lapses and revert to FTA. FTA, in turn, reapportions those lapsed funds in the following FFY nationally on the basis of the applicable federal formulas. Once Section 5307 or Section 5337 Formula Funds are obligated by FTA to a Designated Recipient such as the Authority, the funds remain available until spent by the Designated Recipient or de-obligated by FTA. Historically, the Authority has taken all steps necessary to apply for all apportioned and available funds in a FFY and to retain those funds for expenditure in accordance with grant purposes.

Authority Participation in Section 5307 and Section 5337 Programs

General. The financing of, or the reimbursement for prior expenditures related to, the Authority’s capital plan is eligible for payment from the Grant Receipts made available to the Authority under the Section 5307 Program and the Section 5337 Program. The Authority may finance additional projects, not currently approved by the Authority and RTA Boards and included in the list of projects comprising the Authority’s capital plan, with the proceeds of the respective 5307 Bonds and 5337 Bonds to the extent that such additional projects are approved by the Authority and RTA Boards for inclusion in the Authority’s capital plan and meet the eligibility requirements of the Indentures and the applicable Section 5307 Program and the Section 5337 Program. In addition, the Authority may pay for the costs of projects meeting the eligibility requirements of the Section 5307 Program and the Section 5337 Program directly from Grant Receipts available and released from the lien of the Indentures after all required deposits have been made for each Bond Year. The Authority has covenanted in each Indenture to comply with all applicable laws of the United States of America and regulations of the FTA relating to

the administration and disbursement of federal funds under the Section 5307 Program and the Section 5337 Program in order to be eligible to receive Grant Receipts for the payment of the respective 5307 Bonds and 5337 Bonds and to facilitate the prompt receipt by the Authority of Grant Receipts. See **APPENDIX A — “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURES — SUMMARY OF CERTAIN PROVISIONS OF THE 5307 INDENTURE - Covenants of the Authority”** and **“- SUMMARY OF CERTAIN PROVISIONS OF THE 5337 INDENTURE – Covenants of the Authority”** and **“CERTAIN INVESTMENT CONSIDERATIONS – Uncertainties Regarding the Authority’s Participation in Section 5307 and Section 5337 Programs.”**

Authority Satisfaction of Local Share Requirement. The Federal Transit Program, of which the Section 5307 Program and the Section 5337 Program are a part, requires grant recipients such as the Authority to provide a matching non-federal share for a portion of the total costs of projects eligible for reimbursement. The Section 5307 Program and the Section 5337 Program provide for funding of up to 80 percent of the net project cost for eligible capital projects. The remainder of the net project costs are required to be funded from non-federal sources and, with certain exceptions, sources other than revenues derived from providing mass transit. Federal legislation permits states to apply amounts equal to toll revenue that has been used for the construction or improvement of public highway facilities as a credit toward the non-federal matching requirement for transit projects. The Federal Highway Administration has allocated \$696 million in transportation development credits (formerly referred to as toll revenue credits) to the State that can be used to meet the non-federal matching requirements of Federal Transit Program funds available to transit providers in the State. If fully leveraged, this allocation represents the non-federal matching requirement for approximately \$3 billion in Federal Transit Program funds.

The Illinois Department of Transportation (“**IDOT**”), as administrator of the transportation development credits allocated to the State, approves the use of such credits for the purpose of fulfilling the non-federal matching requirement at the time grant applications are made to the FTA. The Authority requests transportation development credits through IDOT annually. The State approves the request and officially forwards the approval notice to FTA and the Authority for each grant. This allows the grants to be approved using transportation development credits as the local match.

Historically, IDOT and the FTA have approved the use of transportation development credits to meet the non-federal matching requirements with respect to the projects for Outstanding Bonds. Use of transportation development credits to meet the federal matching requirement under the Section 5307 Program and the Section 5337 Program will enable the Authority to use Grant Receipts for 100 percent of the debt service on the Series 2017 Bonds. The use of transportation development credits does not constitute a pledge of funds by the State. No assurance can be given that the State will approve the use of transportation development credits for the purpose of meeting the non-federal matching requirement; that credits for toll revenue expended on public highway facilities will continue to be recognized for this purpose under the Federal Transit Program; or whether the matching requirements will continue to be at the levels of the current Section 5307 Program and Section 5337 Program.

CMAP/RTA Allocation. Section 5307 Formula Funds and Section 5337 Formula Funds are apportioned by the FTA to the Local Urbanized Area. Funds apportioned to the Local Urbanized Area are currently allocated between Indiana and the State by CMAP, the MPO with jurisdiction over the Local Urbanized Area, and the RTA. The Chicago, Illinois share of the Section 5307 Formula Funds and the Section 5337 Formula Funds are further divided, as determined by the RTA, between the Service Boards. Historically, the allocation policy has resulted in allocation to each Service Board of total grant funds received for all formula grant programs as follows: 58 percent to the Authority, 34 percent to Metra and 8 percent to Pace. See **“THE AUTHORITY — The RTA”** and **“CERTAIN INVESTMENT CONSIDERATIONS – RTA Allocation to the Authority.”**

Beginning in FFY 2013 with the Federal MAP-21 transit authorization, two new formula programs were implemented, and this resulted in a larger apportionment of total federal formula funds to the Local Urbanized Area. In addition to the Section 5307 Program, the Federal formula funds now included one new larger program, the Section 5337 Program which incorporated the former Section 5309 Fixed Guideway formula program, and a smaller Section 5339 Bus & Bus Facilities program. These programmatic changes resulted in a significant increase in the total of federal formula receipts for the Local Urbanized Area. As a result, the share that those Section 5307 Program allocations represent of the Authority’s total federal formula program receipts has decreased.

The table on the following page sets forth, for the FFYs 1989 through 2017, the allocation of Section 5307 Formula Funds to the Local Urbanized Area (such allocation referred to in the tables as the **“Apportionment”**), and the portion of the Apportionment designated for reallocation by the RTA. The table also shows the Section 5307 Formula Funds allocated by the RTA to the Authority in these years. Prior to FFY 1998, a portion of the total Apportionment of Section 5307 Formula Funds was allocated to operating assistance rather than to capital purposes. Operating assistance, as a use of Section 5307 Formula Funds, was phased out gradually over several years, which had the effect of increasing the amount and percentage of the total apportionment that went to capital purposes (second column of the Section 5307 table).

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

FFY	Chicago, Illinois - Northwestern Indiana Urbanized Area Apportionment	Illinois Share of Apportionment for Capital Purposes	Percent of Apportionment Representing Illinois Share of Apportionment for Capital Purposes	Additional Apportionment Allocated from Small Urbanized Areas to the Illinois Share	Amount of Apportionment Available for Allocation by RTA	Authority's Share of RTA's Allocation of Apportionment	Percent of Apportionment Allocated by RTA to Service Boards that RTA Allocates to Authority
1989	\$127,216,030	\$71,608,448	56.3%	\$3,076,379	\$74,684,827	\$39,779,442	53.3%
1990	129,537,325	74,565,100	57.6%	3,123,179	77,688,279	42,359,009	54.5%
1991	137,406,291	78,809,952	57.4%	3,332,947	82,142,899	50,734,241	61.8%
1992	135,294,920	79,838,897	59.0%	4,366,737	84,205,634	45,416,143	53.9%
1993	114,384,364	60,731,370	53.1%	3,737,520	64,468,890	39,943,872	62.0%
1994	158,569,976	102,756,433	64.8%	5,346,931	108,103,364	62,391,453	57.7%
1995	157,922,848	107,365,991	68.0%	5,517,481	112,883,472	66,595,890	59.0%
1996	127,782,235	97,425,146	76.2%	4,522,303	101,947,449	53,949,288	52.9%
1997	131,887,681	102,321,493	77.6%	4,736,797	107,058,290	61,918,213	57.8%
1998	152,230,242	138,704,840	91.1%	5,509,622	144,214,462	79,916,844	55.4%
1999	167,113,625	157,966,749	94.5%	6,089,511	164,056,260	95,448,016	58.2%
2000	178,741,915	169,753,163	95.0%	6,624,296	176,377,459	102,610,363	58.2%
2001	184,873,615	175,625,150	95.0%	7,013,911	182,639,061	106,201,321	58.1%
2002	202,416,015	191,012,720	94.4%	7,687,200	198,699,920	115,798,354	58.3%
2003	207,630,956	197,895,728	95.3%	1,055,341	198,951,069	115,633,961	58.1%
2004	206,199,235	196,777,085	95.4%	3,577,960	200,355,045	116,345,988	58.1%
2005	219,681,170	207,598,706	94.5%	2,349,956	209,948,662	122,314,262	58.3%
2006	206,185,774	196,964,492	95.5%	3,478,895	200,443,387	103,368,905 ⁽¹⁾	51.6%
2007	217,980,206	208,231,440	95.5%	3,677,898	211,909,338	122,545,497	57.8%
2008	236,394,434	225,822,125	95.5%	4,027,448	229,849,573	133,087,409	57.9%
2009	247,951,415	237,073,826	95.6%	4,191,428	241,265,254	139,760,381	57.9%
2010	246,458,013	235,907,242	95.7%	4,094,711	240,001,953	139,100,007	58.0%
2011	242,185,715	231,847,604	95.7%	4,033,774	235,881,378	136,490,604	57.9%
2012	237,681,626	227,355,080	95.7%	4,022,882	231,377,962	133,737,028	57.8%
2013	243,898,183	232,300,100	95.2%	4,740,323	237,040,423	123,453,366	52.1%
2014	248,726,641	237,212,881	95.4%	4,151,173	241,364,054	125,579,498	52.0%
2015	247,919,073	236,560,769	95.4%	4,193,919	240,754,688	125,120,682	52.0%
2016	250,145,697	238,643,230	95.4%	5,229,593	243,872,823	125,717,205	51.6%
2017	253,254,283	241,435,216	95.3%	5,227,381	246,662,597	127,116,178	51.5%

Source: FFYs 1989-2017: Authority

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

The table on the following page sets forth the allocation of Section 5309 Rail Modernization Funds for the FFYs 1989 through 2012 and the Section 5337 Formula Funds allocation for FFY 2013 through 2017 to the Local Urbanized Area. The Section 5337 Program was created by MAP-21 to replace the Section 5309 Fixed Guideway Modernization Program and became effective as of FFY 2013.

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**Section 5309/5337 Formula Funds Apportioned to
Chicago, Illinois - Northwestern Indiana Urbanized Area
Allocated to Illinois for Further Allocation by RTA**

FFY	Chicago, Illinois - Northwestern Indiana Urbanized Area Apportionment	Illinois Share of Apportionment for Capital Purposes	Percent of Apportionment Representing Illinois Share of Apportionment for Capital Purposes	Additional Apportionment Allocated from Small Urbanized Areas to the Illinois Share⁽¹⁾	Amount of Apportionment Available for Allocation by RTA	Authority's Share of RTA's Allocation of Apportionment	Percent of Apportionment Allocated by RTA to Service Boards that RTA Allocates to Authority
1989	\$ 85,805,763	\$ 80,400,000	93.7%	\$ -	\$ 80,400,000	\$ 49,500,000	61.6%
1990	59,498,399	55,750,000	93.7%	-	55,750,000	30,700,000	55.1%
1991	89,765,208	84,110,000	93.7%	-	84,110,000	35,435,000	42.1%
1992	83,263,607	78,018,000	93.7%	-	78,018,000	46,370,000	59.4%
1993	95,910,090	89,867,754	93.7%	-	89,867,754	52,695,000	58.6%
1994	106,448,328	99,742,083	93.7%	-	99,742,083	55,979,000	56.1%
1995	104,160,523	97,598,410	93.7%	-	97,598,410	55,819,000	57.2%
1996	93,740,449	87,834,801	93.7%	-	87,834,801	53,514,000	60.9%
1997	103,913,474	97,366,925	93.7%	-	97,366,925	57,727,067	59.3%
1998	107,434,390	100,666,023	93.7%	-	100,666,023	59,682,475	59.3%
1999	113,008,639	105,900,396	93.7%	-	105,900,396	61,126,843	57.7%
2000	121,618,120	113,968,340	93.7%	-	113,968,340	65,790,201	57.7%
2001	126,992,048	119,004,246	93.7%	-	119,004,246	68,752,957	57.8%
2002	132,997,580	124,632,032	93.7%	-	124,632,032	71,734,178	57.6%
2003	139,131,661	130,380,280	93.7%	-	130,380,280	75,368,893	57.8%
2004	139,271,688	130,511,499	93.7%	3,504,312	134,015,811	76,726,355	57.3%
2005	139,260,042	130,506,540	93.7%	1,943,575	132,450,115	76,278,262	57.6%
2006	148,635,642	139,286,460	93.7%	2,321,756	141,608,216	83,212,490	58.8%
2007	158,124,928	148,178,870	93.7%	2,661,899	150,840,769	87,868,470	58.3%
2008	166,374,638	155,909,420	93.7%	3,156,546	159,065,966	92,465,034	58.1%
2009	173,603,836	162,684,155	93.7%	3,334,878	166,019,033	96,410,964	58.1%
2010	172,867,327	161,993,972	93.7%	3,164,656	165,158,628	95,911,716	58.1%
2011	172,891,401	162,016,532	93.7%	3,089,615	165,106,147	96,028,538	58.2%
2012	172,466,436	161,618,297	93.7%	3,069,133	164,687,430	95,927,170	58.2%
2013	208,170,422	195,792,484	94.1%	4,960,979	200,753,463	126,561,966	63.0%
2014	213,971,735	201,211,811	94.0%	4,328,770	205,540,581	129,579,932	63.0%
2015	214,408,152	201,734,841	94.1%	4,317,607	206,052,448	129,902,630	63.0%
2016	245,801,477	231,318,393	94.1%	6,008,646	237,327,039	149,619,220	63.0%
2017	248,481,390	233,675,386	94.0%	6,060,576	239,735,962	151,137,889	63.0%

Source: FFYs 1989-2017: Authority

⁽¹⁾ Prior to 2004, RTA did not provide a separate breakout for funds from Small Urbanized Areas.

The table below sets forth, for the FFYs 2017 through 2021, the RTA’s estimate of its apportionment of Section 5307 and Section 5337 Formula Funds and its allocation to the Authority.

**The RTA’s Estimates of the Allocation of
Section 5307 and Section 5337 Apportionments to the Authority
FFY 2017- FFY 2021**

	2017*	2018	2019	2020	2021
5307 Grant Apportionment					
Total RTA 5307	\$246,662,597	\$253,719,814	\$258,957,501	\$264,306,629	\$269,677,221
Authority	\$127,116,178	\$130,793,360	\$133,493,404	\$136,250,897	\$139,019,454
Authority% 5307	51.53%	51.55%	51.55%	51.55%	51.55%
5337 Grant Apportionment					
Total RTA 5337	\$239,735,962	\$245,534,560	\$249,763,278	\$254,063,944	\$258,429,443
Authority	\$151,137,889	\$154,793,527	\$157,459,458	\$160,170,747	\$162,922,910
Authority% 5337	63.04%	63.04%	63.04%	63.04%	63.04%

Source: RTA 2017-2021 Capital Federal Funding Estimates

*For FFY 2017, the RTA’s actual 5307 and 5337 grant apportionment amounts are shown.

The Authority does not receive Section 5307 Formula Funds or Section 5337 Formula Funds from the FTA until moneys are expended for costs permitted by the underlying grants. Historically, the Authority does not expend the full amount of its Annual Apportionment Amount in the year the grants are awarded and the Section 5307 Formula Funds and the Section 5337 Formula Funds are obligated. The amount of Annual Apportionment Amounts from prior Federal Fiscal Years not expended varies throughout the year and from year to year. See “SECURITY FOR THE SERIES 2017 BONDS — Flow of Funds — Grant Receipts,” APPENDIX A — “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURES — SUMMARY OF CERTAIN PROVISIONS OF THE 5307 INDENTURE - Covenants of the Authority” and “- SUMMARY OF CERTAIN PROVISIONS OF THE 5337 INDENTURE – Covenants of the Authority” for a description of covenants of the Authority regarding the use of such unexpended Annual Apportionment Amounts in the event that grant approvals required to provide sufficient Grant Receipts to pay debt service on the Bonds have not been obtained.

Indenture Covenants with Respect to Section 5307 and Section 5337 Programs

Failure to maintain general eligibility for the receipt of federal funds under the Section 5307 and Section 5337 Programs could prevent the Authority from receiving Grant Receipts sufficient to pay debt service on the applicable Series 2017 5307 Bonds or Series 2017 5337 Bonds when due. The Authority has covenanted in each Indenture to comply with all applicable laws of the United States of America and regulations of the FTA relating to the administration and disbursement of federal funds under the respective Section 5307 and Section 5337 Formula Program in order to be eligible to receive Grant Receipts for the payment of the respective Series 2017 5307 Bonds and Series 2017 5337 Bonds and to facilitate the prompt receipt of such Grant

Receipts. The Authority has further covenanted to: (i) to take all reasonable actions necessary or desirable to facilitate prompt payment of Section 5307 and Section 5337 Formula Funds to the Authority, (ii) apply for the appropriation of Section 5307 and Section 5337 Formula Funds on a priority basis for the payment of a sum sufficient to fund all of the payments to the Trustee described above under the caption **“SOURCES OF PAYMENT AND SECURITY FOR THE BONDS - Flow of Funds - Grant Receipts”** to the end of the next Bond Year and cause such Section 5307 and Section 5337 Formula Funds to be obligated for such purposes as to the earliest possible date in such FFY, and (iii) if, as of the last Business Day of any FFY, the grant approvals required to make the payments to the Trustee described in (ii) above have not been obtained, take all necessary actions to reprogram available Section 5307 and / or Section 5337 Formula Funds appropriated in prior FFYs to the extent required to make such payments. See **APPENDIX A – “DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURES – SUMMARY OF CERTAIN PROVISIONS OF THE 5307 INDENTURE – Covenants of the Authority”** and **“- SUMMARY OF CERTAIN PROVISIONS OF THE 5337 INDENTURE – Covenants of the Authority.”**

Flow of Grant Receipts

The following is an overview of the requisition and application of Grant Receipts to provide for the security and payment of the Authority’s Outstanding 5307 Bonds and Outstanding 5337 Bonds (including the Series 2017 Bonds).

The Authority requisitions Grant Receipts for payment of debt service on the Outstanding Bonds (including the Series 2017 Bonds) through the FTA’s Capital Project Accounting System. The payment of principal of and interest on the Series 2017 5307 Bonds or Series 2017 5337 Bonds is eligible for payment from the Formula Funds pledged to secure such Series of Bonds made available to the Authority under the applicable Formula Program.

Pursuant to the Federal Transit Program, payments of Grant Receipts flow directly from the U.S. Treasury to the Authority via electronic transfer. The Grant Receipts become pledged and subject to the lien of the Indenture securing such Bonds upon the receipt of such Grant Receipts by the Authority and prior to the deposit of such funds in the Grant Receipts Deposit Fund under the Indenture. Pursuant to Section 13 of the Local Government Debt Reform Act, Grant Receipts are immediately subject to the lien and pledge of such Indenture without any physical delivery or further act, and the lien and pledge thereof shall be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the Authority, irrespective of whether such parties have notice thereof.

Each Indenture requires that all Grant Receipts pledged under such Indenture that are received by the Authority shall be promptly deposited into the Grant Receipts Deposit Fund established under such Indenture. The Federal Transit Program requires that all Grant Receipts of the Authority for payment of debt service on Outstanding Bonds (including the Series 2017 Bonds) be disbursed by the Authority within three business days of receipt and be applied solely to the purposes for which they were requisitioned (payment of debt service on the Outstanding Bonds).

The flow of funds under each Indenture provides for the transfer of funds on the first Business Day of each Bond Year which generally corresponds to the beginning of the FFY (the 12-month period commencing on October 2 of a year, and (if required) on any subsequent Business Day during the Bond Year, ending on October 1 of the next succeeding year) from the Grant Receipts Deposit Fund to the Debt Service Fund under such Indenture in amounts sufficient to pay the principal of and interest on the Outstanding Bonds (including the Series 2017 Bonds) due and payable for the current Bond Year under such Indenture.

The Authority has covenanted in each Indenture to comply with all applicable laws of the United States of America and regulations of the FTA relating to the administration and disbursement of federal funds under the applicable Formula Program in order to be eligible to receive Grant Receipts for the payment of the Series 2017 Bonds secured by such Indenture and to facilitate the prompt receipt of such Grant Receipts. Failure to comply with such laws could result in the Authority becoming ineligible to receive federal grant funds, including Formula Funds.

The Authority has covenanted in the Indenture: (i) to take all reasonable actions necessary or desirable to facilitate prompt payment of Formula Funds to the Authority, (ii) apply for the appropriation of Section 5307 Formula Funds and Section 5337 Formula Funds on a priority basis for the payment of a sum sufficient to fund all of the payments to the applicable Trustee described under the caption **“SECURITY FOR THE SERIES 2017 BONDS - Flow of Funds – Grant Receipts”** to the end of the next Bond Year and cause such Section 5307 Formula Funds or Section 5337 Formula Funds to be obligated for such purposes as of the earliest possible date in such FFY, and (iii) if, as of the last Business Day of any FFY, the grant approvals required to make the payments to the Trustee described in (ii) above have not been obtained, take all necessary actions to reprogram available Section 5307 Formula Funds and Section 5337 Formula Funds appropriated in prior FFYs to the extent required to make such payments.

The Authority’s covenants under each Indenture are enforceable by the Trustee as provided in such Indenture. See **APPENDIX A – “DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURES – SUMMARY OF CERTAIN PROVISIONS OF THE 5307 INDENTURE - Events of Defaults and Remedies”** and **“-SUMMARY OF CERTAIN PROVISIONS OF THE 5337 INDENTURE – Events of Defaults and Remedies.”**

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**5307 BONDS HISTORICAL DEBT SERVICE COVERAGE
AND DEBT SERVICE REQUIREMENTS**

5307 Bonds Historical Coverage of Debt Service by 5307 Formula Fund Allocations

The following table sets forth the historical coverage of debt service on the 5307 Bonds by the 5307 Formula Funds allocated to the Authority and available to be requisitioned by the Authority for the payment of debt service on the 5307 Bonds for the periods shown:

PERIOD ENDING JUNE 1	AUTHORITY'S 5307		DEBT SERVICE COVERAGE
	FORMULA FUNDS ALLOCATED*	MAXIMUM ANNUAL DEBT SERVICE**	
2005	\$122,314,262	\$30,339,225	4.03x
2006	103,368,905	51,699,863	2.00
2007	122,545,497	51,699,863	2.37
2008	133,087,409	56,949,238	2.34
2009	139,760,381	56,949,238	2.45
2010	139,100,007	60,143,988	2.31
2011	136,490,604	60,659,125	2.25
2012	133,737,028	60,659,125	2.20
2013	123,453,366	60,659,125	2.04
2014	125,579,498	60,659,125	2.07
2015	125,120,682	60,655,913	2.06
2016	125,717,205	54,789,775	2.29
2017	127,116,178	54,789,775	2.32

* See "FEDERAL TRANSIT PROGRAM – CMAP/RTA Allocation – Table entitled *Section 5307 Formula Funds Apportioned to Chicago, Illinois - Northwestern Indiana Urbanized Area Allocated to Illinois for Further Allocation by RTA.*" Note that for any period the 5307 Formula Funds allocated to the Authority may be more or less than the actual 5307 Grant Receipts for the same period, due to the fact that Grant Receipts reflect amounts requisitioned by the Authority from funds allocated to the Authority for the same period or unused allocations carried over from a prior period.

**See "SECURITY FOR THE SERIES 2017 BONDS – RTA Ordinance Regarding Limit on Debt Secured by Section 5307/5337 Formula Funds."

5307 Bonds Debt Service Requirements

The following table sets forth the debt service requirements for the 5307 Bonds following the issuance of the Series 2017 5307 Bonds and the refunding of the Refunded 5307 Bonds:

ENDING JUNE 1	OUTSTANDING 5307 BONDS	SERIES 2017 5307 BONDS PRINCIPAL	SERIES 2017 5307 BONDS INTEREST	TOTAL DEBT SERVICE
2018	\$39,622,775.00	-	\$3,583,875.00	\$43,206,650.00
2019	42,547,775.00	-	4,527,000.00	47,074,775.00
2020	41,294,025.00	-	4,527,000.00	45,821,025.00
2021	49,539,775.00	-	4,527,000.00	54,066,775.00
2022	12,654,275.00	\$16,385,000.00	4,527,000.00	33,566,275.00
2023	12,649,525.00	17,205,000.00	3,707,750.00	33,562,275.00
2024	12,651,225.00	18,065,000.00	2,847,500.00	33,563,725.00
2025	12,648,762.50	18,970,000.00	1,944,250.00	33,563,012.50
2026	12,652,900.00	19,915,000.00	995,750.00	33,563,650.00
2027	35,339,750.00	-	-	35,339,750.00
2028	35,336,250.00	-	-	35,336,250.00
2029	20,975,000.00	-	-	20,975,000.00
Total	\$327,912,037.50	\$90,540,000.00	\$31,187,125.00	\$449,639,162.50

**5337 BONDS HISTORICAL DEBT SERVICE COVERAGE
AND DEBT SERVICE REQUIREMENTS**

5337 Bonds Historical Coverage of Debt Service by 5337 Formula Fund Allocations

The following table sets forth the historical coverage of debt service on the 5337 Bonds by the 5337 Formula Funds allocated to the Authority and available to be requisitioned by the Authority for the payment of debt service on the 5337 Bonds for the periods shown:

PERIOD ENDING JUNE 1	AUTHORITY'S 5337 GRANT RECEIPTS*	MAXIMUM ANNUAL DEBT SERVICE**	DEBT SERVICE COVERAGE
2008	\$92,465,034	\$29,467,825	3.14x
2009	96,410,964	29,467,825	3.27
2010	95,911,716	30,808,825	3.11
2011	96,028,538	30,808,825	3.12
2012	95,927,170	30,808,825	3.11
2013	126,561,966	30,808,825	4.11
2014	129,579,932	30,808,825	4.21
2015	129,902,630	30,808,825	4.22
2016	149,619,220	30,808,225	4.86
2017	151,137,889	30,808,225	4.91

*See "FEDERAL TRANSIT PROGRAM – CMAP/RTA Allocation – Table entitled *Section 5337 Formula Funds Apportioned to Chicago, Illinois - Northwestern Indiana Urbanized Area Allocated to Illinois for Further Allocation by RTA.*" Note that for any period the 5337 Formula Funds allocated to the Authority may be more or less than the actual 5337 Grant Receipts for the same period, due to the fact that Grant Receipts reflect amounts requisitioned by the Authority from funds allocated to the Authority for the same period or unused allocations carried over from a prior period.

**See "SECURITY FOR THE SERIES 2017 BONDS – RTA Ordinance Regarding Limit on Debt Secured by Section 5307/5337 Formula Funds."

5337 Bonds Debt Service Requirements

The following table sets forth the debt service requirements for the 5337 Bonds following the issuance of the Series 2017 5337 Bonds and the refunding of the Refunded 5337 Bonds:

ENDING JUNE 1	OUTSTANDING 5337 BONDS	SERIES 2017 5337 BONDS PRINCIPAL	SERIES 2017 5337 BONDS INTEREST	TOTAL DEBT SERVICE
2018	\$23,309,425.00	\$ 975,000.00	\$5,182,883.33	\$29,467,308.33
2019	3,914,000.00	18,670,000.00	6,527,300.00	29,111,300.00
2020	3,913,750.00	19,415,000.00	5,780,500.00	29,109,250.00
2021	3,912,750.00	20,385,000.00	4,809,750.00	29,107,500.00
2022	3,911,000.00	21,405,000.00	3,790,500.00	29,106,500.00
2023	3,913,500.00	22,475,000.00	2,720,250.00	29,108,750.00
2024	17,380,000.00	10,130,000.00	1,596,500.00	29,106,500.00
2025	17,382,250.00	10,635,000.00	1,090,000.00	29,107,250.00
2026	17,379,750.00	11,165,000.00	558,250.00	29,103,000.00
2027	14,426,000.00	-	-	14,426,000.00
2028	14,421,750.00	-	-	14,421,750.00
Total	\$123,864,175.00	\$135,255,000.00	\$32,055,933.33	\$291,175,108.33

THE AUTHORITY

General

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

Operations

The Authority operates the nation's second largest public transit system, providing bus and rail service in the City of Chicago and 35 surrounding suburbs. The service area of the Authority has a population of approximately 3.5 million. The Authority carries 81% percent of the public transit riders in the Northeastern Illinois Transit Region and Authority buses and trains combined provide approximately 1.6 million rides on an average weekday and approximately a half billion rides each year. See “—**Ridership Trends**” below. The Authority is one of two public transit systems in the United States that provides 24 hour service seven days a week with one of those rail lines terminating at the City of Chicago's O'Hare International Airport. The Authority also provides regular service to Midway International Airport. For economic and demographic statistics concerning the service area of the Authority, See **APPENDIX C—“SELECTED ECONOMIC AND DEMOGRAPHIC INFORMATION.”**

The Authority has 1,881 buses that operate 129 routes and 1,301 route miles and serve 10,830 bus stops. On the rapid transit system, the Authority's 1,499 rail cars operate eight routes and 224.1 miles of track. The Authority's trains serve 145 stations. Set forth below are the name designations and round-trip route descriptions for the Authority's rapid transit rail lines.

Authority Rail Lines

<u>Name</u>	<u>Route</u>
Blue Line	Chicago-O'Hare International Airport to the Forest Park terminal, via downtown Chicago.
Brown Line	Kimball to downtown Chicago (with certain late night trips between Kimball and Belmont only).
Green Line	Harlem in Forest Park, IL and Oak Park, IL to 63rd Street on Chicago's South Side, via Loop 'L'.
Orange Line	Midway Airport to downtown Chicago, providing service to Chicago's Southwest Side.
Pink Line	54th/Cermak (serves Cicero, IL and Berwyn, IL) to downtown Chicago.
Purple Line	Linden (in Wilmette, IL) to Howard (in Chicago) via Evanston, IL. During weekday rush-periods, express service continues to downtown Chicago.

Name	Route
Red Line	Howard on the North Side to 95th/Dan Ryan on the South Side via downtown Chicago.
Yellow Line	Dempster (in Skokie, IL) to Howard (in Chicago), with connecting service to downtown Chicago via Purple Line Express or Red Line.

See “**CHICAGO TRANSIT AUTHORITY SYSTEM MAP**” included in the forepart of this Official Statement.

RTA Oversight

The RTA was created by the RTA Act in 1974. The RTA provides funding, planning and fiscal oversight for regional bus and rail systems in the Northeastern Illinois Transit Region, which are operated by the Service Boards.

The governing body of the RTA is its Board of Directors (the “**RTA Board**”) which consists of sixteen persons. Five directors are appointed by the Mayor of the City of Chicago with the advice and consent of the City Council. Four directors are appointed by the commissioners of the Cook County Board of Commissioners (the “**Cook County Board**”) elected from districts in which a majority of the electors reside outside the City of Chicago. One director is appointed by the President of the Cook County Board, with the advice and consent of the commissioners of the Cook County Board, selected from districts in which a majority of electors reside outside the City of Chicago. One director each is appointed by the Chairman or Chief Executive of the county boards of the Collar Counties, with the advice and consent of the respective county boards. The Chairman of the RTA Board is appointed by eleven members of the RTA Board with at least two votes from each sub-region of Chicago, Cook County and the Collar Counties. The Chairman and each director serve five-year terms and until his or her successor has been appointed and qualified.

The RTA Act vests responsibility for operating budget financial oversight for each Service Board in the RTA. Responsibility for operations and day-to-day management of rail and bus service rests with the Service Boards. The RTA’s financial oversight responsibility is implemented principally through the operating budget process, in which each Service Board submits an annual budget and two-year financial plan for approval by the RTA. The RTA Act sets criteria which proposed budgets and financial plans must meet in order for the RTA Board to adopt a consolidated budget and financial plan.

The RTA Board, by the affirmative vote of twelve of its directors, determines whether a Service Board’s budget and financial plan meet the RTA’s criteria and certifies such to the Governor, the Mayor of the City of Chicago and the Auditor General of the State. If a Service Board’s budget and financial plan are found not to be substantially in compliance with its criteria, the RTA may direct that Service Board to submit a revised budget and financial plan meeting the mandated criteria. Even if a Service Board’s revised budget does not meet the criteria, the RTA must still release 75 percent of a Service Board’s statutory share of Sales Taxes and Public Transportation Funds to the Service Board, and must release the remaining 25 percent

upon approval of the Service Board's budget and financial plan. The RTA has never withheld funds from the Authority as the result of a non-compliant budget submission.

The RTA Act also requires the RTA to prepare and adopt each year a five-year capital program. The Authority submits its five-year capital plan to the RTA for inclusion as a component of the RTA's five-year capital program. The Service Boards are prohibited from undertaking any capital project in excess of \$250,000 unless the project has been incorporated in the RTA's five-year capital program.

Administration

The governing and administrative body of the Authority is the seven-member Chicago Transit Board. Three Chicago Transit Board members are appointed by the Governor of the State, with the advice and consent of the Illinois Senate, subject to approval by the Mayor of the City. One of the members appointed by the Governor must be a resident of the metropolitan area outside the City. Four members are appointed by the Mayor with the advice and consent of the City Council, subject to approval by the Governor. The Chicago Transit Board elects one of its members as chairman for a maximum term of three years. Each member serves for a seven-year term and until his or her successor has been appointed and qualified; provided that, in the case of an appointment to fill a vacancy, the appointed member serves during the remainder of the vacated term and until his or her successor has been appointed and qualified. However, for any member appointed by the Governor after August 26, 2011, whose appointment required the advice and consent of the Illinois Senate, that member shall not continue in office longer than 60 calendar days after the expiration of that term of office. After that 60th day, each such office is considered vacant and shall be filled only pursuant to the law applicable to making appointments to that office.

There is currently one vacancy on the Chicago Transit Board which is a Governor appointee. The current members of the Chicago Transit Board are as follows:

Terry Peterson, Chairman of the Chicago Transit Board, was reappointed to the Chicago Transit Board by Mayor Emanuel in September 2013. His current term as a member runs through September 1, 2020, and he was elected Chair by the Chicago Transit Board effective September 1, 2013. He has been a member since October 2009. Mr. Peterson is currently Vice President of Governmental Affairs at Rush University Medical Center in which he leads and implements federal, state and local government relations initiatives. Formerly, he was CEO of the Chicago Housing Authority and prior to that he was Alderman of the City of Chicago's 17th Ward.

Kevin Irvine was appointed to the Chicago Transit Board in December 2011 by Mayor Emanuel. His current term runs through September 2021. He is currently an advisor on the Chicago Transit Authority Infrastructure Accessibility Task Force and was formerly Chair of the ADA Advisory Committee. He also served as senior and transportation advocate for Equip for Equality, Inc. (EFE), an Illinois designated protection agency for people with disabilities.

Reverend Johnny L. Miller was appointed by Mayor Emanuel as a member of the Chicago Transit Board in April 2016. Mr. Miller is a minister and has dedicated much of his life to community service. He oversaw construction of the Mt. Vernon Manor, a 65-unit senior facility, and the JLM Abundant Life Community Center, an evangelistic center for the community. He currently serves as Chairman of the Board of the International Affairs Ministry for the National Baptist Convention USA, Inc., Moderator of the Sunlight District Association, Commissioner of the Westside Baptist Ministers Fellowship of Chicago and Vicinity, and is a member of various public outreach organizations. In the past, Reverend Miller has served as Chairman of the Board of the United Baptists State Convention of Illinois Inc.

Arabel Alva Rosales was appointed to the Chicago Transit Board in March 2015 by Governor Bruce Rauner for a term expiring in September 2021. She is President of AAR & Associates, Ltd in Chicago and is very active in numerous business and civic organizations including the City of Chicago Affirmative Action Advisory Board, IHCC Foundation, Women's Business Development Center and the Better Government Association Advisory Council.

Alejandro Silva, Chairman of the Committee on Finance, Audit and Budget, was appointed to the Chicago Transit Board by Mayor Richard M. Daley in March 2004 and reappointed by Mayor Emanuel in November 2015 for a term expiring on September 1, 2022. Mr. Silva is the Chairman of the Evans Food Group, Ltd., an international food production company with facilities in North America and Europe. A native of Mexico, Mr. Silva is active in numerous business and civic organizations, such as the Mexican American Chamber of Commerce and the Chicago Council on Foreign Relations.

Andre Youngblood was appointed to the Chicago Transit Board in March 2015 by Governor Bruce Rauner for a term expiring in September 2018. He is currently an Underwriting Director at the Allianz Insurance Corporation with over twenty years of experience in the insurance industry.

The current officers of the Authority are as follows:

Dorval R. Carter Jr. became President of the Authority in May 2015. Before that he was the USDOT Acting Chief of Staff. In addition he previously held positions at the Federal Transit Administration (“FTA”) including Assistant Chief Counsel and Regional Counsel; he was sworn in as the FTA’s 14th Chief Counsel in 2009 and later served as the Acting Deputy Administrator for the FTA. He began his legal career with the Authority, where he held various positions including staff attorney, legal assistant to the General Attorney, Acting General Attorney, and Deputy General Attorney for Corporate Law and later served as the Executive Vice President and Chief Administrative Officer of the Authority, including serving as its Acting President. Mr. Carter is a member of the Transportation Research Board’s National Research Council and Chair of the TRB’s Committee on Transit and Intermodal Transportation Law. He is a Senior Fellow from the Council for Excellence in Government Fellows Program and Vice Chairman of the Board of Directors for Saint Anthony Hospital. A graduate of Carroll University in Waukesha, Wisconsin, where he is a member of the Board of Trustees, he also holds a Juris Doctor degree from Howard University School of Law and is a member of the Illinois and Federal Bars.

Jeremy V. Fine was named the Chief Financial Officer and Treasurer of the Authority in February 2016. Prior to joining the Authority, Mr. Fine served as the Deputy Comptroller for the City of Chicago, overseeing the debt and credit portfolios. He previously worked as a Public Finance Officer at ABN AMRO / LaSalle Bank Capital Markets, where he was involved in underwriting bonds for various municipal issuers throughout the Midwest. Mr. Fine received a B.S. in International Relations/Systems Engineering from the United States Military Academy at West Point and a MBA from the University of Notre Dame.

Karen G. Seimetz has been the General Counsel of the Authority since December 2010 and oversees and manages the day-to-day operations of its Law Department involving litigation, transactions, procurement, real estate, ethics and labor and employment-related disputes. Prior to joining the Authority, she spent 14 years in the Law Department at the City of Chicago and, before coming to the Authority, was the Department's First Assistant Corporation Counsel. She began her legal career at the law firm of Phelan, Pope and John, a firm specializing in complex litigation, where she became a partner.

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

Employees and Labor Relations

The Authority has approximately 11,000 employees and has entered into labor agreements with seventeen different unions representing approximately 10,000 employees.

The Amalgamated Transit Union Locals 241 and 308 (the “**ATU Locals**”) represent approximately 8,600 of the Authority's unionized employees. The Authority and the ATU Locals are currently negotiating the successor contract to the collective bargaining agreement for the term January 1, 2012 through December 31, 2015. In early June 2017, the Authority formally requested that the matters in negotiation be submitted to interest arbitration. The parties are in the process of selecting a neutral arbitrator.

The Craft Coalition of Trades Unions (the “**Craft Unions**”) consists of thirteen unions that represent approximately 1,300 of the Authority's craft employees. The Authority and Crafts Unions are parties to a collective bargaining agreement for the term January 1, 2012 through December 31, 2016. The Authority and Craft Unions are currently negotiating the successor contracts.

I.A.M.-Dist. No. 8 (“**I.A.M.-8**”) represents approximately forty of the Authority's civil, structural and track engineers. The Authority and I.A.M.-8 are parties to a collective bargaining agreement in regards to those employees for the term January 1, 2012 through December 31, 2016. The Authority and I.A.M.-8's tentative agreement on the terms of a first collective bargaining agreement with respect to certain architects, engineers and quality improvement technicians now represented by the union was approved by the Chicago Transit Board in August

2016 and is in effect through December 31, 2016. Negotiations over a successor contract are pending.

The Authority has three separate contracts with IBEW Local 134, which represents certain of the Authority's electricians along with the controllers, yardmasters and road masters. The Authority has collective bargaining agreements for each of these units for the term January 1, 2012 through December 31, 2015. The local and Authority are negotiating over successor contracts.

Ironworkers Local 1 represents approximately 80 employees. The Authority and Local 1 are parties to a collective bargaining agreement with a term from June 1, 2016 to May 31, 2019.

Annual Budget Process

The RTA Act requires the RTA Board to adopt a consolidated annual operating budget, two-year financial plan and five-year capital program. The budgetary process contains three phases: budget development, budget adoption, and budget execution and administration. The general budget calendar of the Authority is presented in the following table.

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Annual Budget Calendar

Month	Action
July	RTA releases the requirements that the Service Boards must follow for the development of their annual budget, two-year financial plan, and five- year capital program.
September	<p>RTA announces marks. The RTA Board is required by the RTA Act to set operating and capital funding marks for the three Service Boards by September 15. The operating marks include estimates of available 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 revenues) for the budget. Upon issuance of the budget marks, the Authority revises its expenses and revenues to conform to the marks.</p> <p>The capital marks provide estimates of available grant receipts from federal, State, and local sources for the proposed fiscal year and the remaining years of the five year capital plan.</p>
October	Authority Budget released to the public. The RTA Act requires that documents be available for public inspection 21 days prior to a public hearing.
November	<p>Public Hearing to be scheduled to receive comments from the public.</p> <p>Budget presentation to Cook County Board. The Authority presents the budget to the Cook County Board after the Public Hearing but prior to the Authority adoption of the budget, as required by the RTA Act.</p> <p>Chicago Transit Board vote. The Chicago Transit Board incorporates any changes and adopts the operating and capital fiscal year budget and financial plans.</p> <p>Budget submission to the RTA. The RTA Act requires that the Authority, by November 15, submit its detailed budget and financial plan to the RTA. The budget must conform to the marks set by the RTA by the statutory deadline of September 15.</p>
December	RTA Board vote on consolidated regional budget. The RTA Board adopts the proposed fiscal year operating and capital budget and the two year and five year financial plan upon the approval of 12 of the RTA's 16 directors.

If the budget meets the RTA's criteria, which are identified in the RTA Act, then the RTA is required to adopt the budget. If the RTA Board does not approve the budget, the RTA Board cannot release any funds for the periods covered by the budget and two-year financial plan, except the proceeds of Sales Taxes due by the statutory formula to the Authority, until the budget conforms to the criteria specified in the Act.

After the proposed budget and financial plan are adopted, the budget execution and administration phase begins. Detailed budgets of operating revenues and expenses calendarized for the 12 months of the budget year are forwarded to the RTA. The Authority's actual monthly financial performance is measured against the monthly budget and reported to the RTA Board. Detailed capital grant applications are prepared and submitted to funding agencies. Quarterly

capital program progress reports are provided to the RTA Board to monitor expenditures and obligations for capital program items.

As the Authority monitors actual performance, changes may be required to the budget. The RTA might revise its Sales Tax forecast and in its judgment may thereafter require a Service Board to submit a revised budget incorporating such revised estimate and, if in the RTA Board's judgment the revised estimate requires it do so, the RTA Board may revise the Service Board's recovery ratio. A revised Sales Tax forecast could result in less public funding for the Authority. This in turn would require reduced spending to meet the RTA's revised funding commitment and previously established recovery ratio.

When the RTA amends a revenue estimate because of changes in economic conditions, governmental funding, a new program, or other reasons, the Authority has 30 days to revise its budget to reflect these changes. The RTA's Finance Committee must approve all amendments before they are recommended to the RTA Board for approval. The budget may also be amended based upon financial condition and results of operations if the Authority is significantly out of compliance with its budget for a particular quarter. The RTA Board, by a vote of 12 members, may require the Authority 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, 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 must continue to release funds.

As capital projects proceed, changes may be required to project budgets. Capital funding marks may be revised based on actual federal or state appropriations actions. When revisions are necessary, the Authority will amend its five-year capital program and submit the changes to the RTA for RTA Board action.

On October 24, 2016, the Authority publicly released its 2017 operating and capital budgets in *CTA: Building a 21st Century Transit System, President's 2017 Budget Recommendations* (the "**2017 Budget Recommendations**"). The RTA approved the 2017 Budget Recommendations on December 15, 2016.

Ridership Trends

The Authority's operating revenues from the Transportation System mostly come from the Transportation System's ridership, which is influenced by, among other factors, demographic and economic conditions, gas prices and competitive alternatives. See **APPENDIX C—“SELECTED ECONOMIC AND DEMOGRAPHIC INFORMATION.”**

Total ridership has remained stable over the past ten years comprised of a growth in rail ridership alongside a decline in bus ridership. The recent annual declines in bus ridership are consistent with the experience of other transit agencies across the country.

Total revenue from ridership has grown because the average fare is higher for a rail trip than for a bus trip. The Authority’s base fare structure has been in place since 2009. Based on performance measures for service effectiveness, operating expense per unlinked passenger trip was approximately 24% less for trips taken on rail than trips taken on bus in 2016.

Set forth below are the unlinked passenger trips per year for the Transportation System on a historical basis for the years 2011 through 2016, and as budgeted for 2017.

Yearly Ridership—Unlinked Passenger Trips⁽¹⁾
2011-2016
(in millions)

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	Budget 2017⁽²⁾
Bus	310.3	314.4	300.1	276.1	274.3	259.1	248.8
Rail	221.6	231.1	229.1	238.1	241.7	238.6	247.5
Total	<u>531.9</u>	<u>545.5</u>	<u>529.2</u>	<u>514.2</u>	<u>516.0</u>	<u>497.7</u>	<u>496.3</u>

Source: Chicago Transit Authority.

⁽¹⁾ Each boarding of a transit vehicle by a passenger is counted as an unlinked passenger trip.

⁽²⁾ The 2017 budget information is taken from the 2017 Budget Recommendations.

Rail ridership has grown at a rate of 1.4 percent per year over the last three years and hit an all-time high in 2015. Rail ridership was 238.6 million trips in 2016, a 1.3 percent decrease from 2015, reflecting a loss in off-peak trips. The Authority’s 2017 Budget expects overall rail ridership to increase 3.7 percent to 247.5 million trips in 2017. Bus ridership has fallen at a rate of 4.8 percent per year over the last three years and was 259.1 million in 2016, a 5.6 percent decrease compared to 2015. The Authority’s 2017 Budget expects bus ridership to fall 4.0 percent to 248.8 million in 2017.

Total ridership in 2016 was 497.7 million passenger trips, a 3.5 percent decrease from the 516.0 million rides in 2015. The Authority’s 2017 Budget estimates that system-wide total ridership will decrease to 496.3 million trips in 2017, 0.3 percent below 2016. Lower gas prices and ridesharing have contributed to the decrease in total ridership, alongside increased local traffic congestion which has slowed bus speeds.

In 2015, the Authority launched the Ventra mobile application which allows customers greater flexibility and access to loan value or check balances on their Ventra accounts. The Authority will continue to leverage technology for customers, from expansion of transit tracker to new features on the Ventra fare payment app.

The Authority is also developing a number of strategies to attract and retain riders, including the Authority’s marketing campaign to aggressively promote the Transportation System’s transit benefit program. Customers can buy unlimited ride passes or load transit value as part of the transit benefit program through their employer at a tax-advantaged rate. The Authority’s 2017 Budget expects the additional participation in this program to add more than one percent rides to the system over 2017, mostly on rail.

Operations

As noted above, the Authority accounts for its activities on both an operating and capital basis. See “—**Annual Budget Process**” above. Operations reflect revenues generated from user fees (in the form of farebox revenues) or other activities and costs associated with the day-to-day operations of the delivery of service for a transit agency. Capital activities are directly related to the construction, replacement or maintenance of rolling stock (buses and railcars), track and structure, support facilities and equipment, and stations and passenger equipment. For information regarding the Authority’s capital activities, see “—**Capital Improvement Plan**” below.

The following table sets forth the operating expenses, system-generated revenues and public funding for the Authority on an historical basis for the years 2011 through 2016, and as budgeted for 2017. The 2017 budget information is taken from the 2017 Budget Recommendations.

The financial information included in the table is presented on a budgetary basis. The historical financial information presented is prepared on a basis consistent with generally accepted accounting principles (GAAP), except for the exclusion of certain income and expenses. 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, expense from sale/leaseback transactions, and capital contributions.

The following information should be read in conjunction with **APPENDIX D—“CHICAGO TRANSIT AUTHORITY FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION YEARS ENDED DECEMBER 31, 2016 AND 2015.”**

The Series 2017 Bonds are not general obligations of the Authority and the assets and revenues of the Authority (other than the Grant Receipts) are not pledged for the payment of the Series 2017 Bonds or the interest thereon.

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Chicago Transit Authority
Operating Information – Budgetary Basis
2011-2017
(\$ in thousands)

	Actual						Budget
	2011	2012	2013	2014	2015	2016	2017⁽¹⁾
<u>Operating Expenses</u>							
Labor.....	\$ 893,834	\$ 921,884	\$ 948,272	\$ 965,868	\$1,002,486	\$1,027,047	\$1,050,436
Material.....	67,919	85,437	60,353	80,963	83,507	82,921	89,176
Fuel.....	57,273	62,908	61,836	59,476	49,830	32,738	33,946
Power.....	28,099	25,020	26,174	33,568	28,818	29,283	31,365
Provisions for Injuries and Damages .	15,000	24,000	–	3,500	13,000	10,500	9,500
Purchase of Security Services.....	36,815	37,468	24,160	13,628	14,431	14,095	16,838
Other Expenses.....	193,394	134,789	245,329	242,910	252,054	267,558	292,978
Total Operating Expenses.....	\$1,292,334	\$1,291,506	\$1,366,124	\$1,399,913	\$1,444,126	1,464,142	\$1,524,239
<u>System-Generated Revenues</u>							
Fares and Passes.....	\$ 527,853	\$ 548,799	\$ 574,029	\$ 583,299	\$ 587,108	\$ 577,006	\$ 581,250
Reduced Fare Subsidy.....	26,026	27,780	21,948	28,321	14,606	14,385	28,322
Advertising, Charter & Concessions.	21,459	25,675	25,677	27,561	31,241	35,019	35,165
Investment Income.....	578	674	370	422	1,123	1,608	1,121
Statutory Required Contributions.....	5,000	5,000	5,000	5,000	5,000	5,000	5,000
Other Revenue.....	31,401	38,054	41,939	36,072	36,440	43,550	35,489
Total System-Generated Revenues ..	\$ 612,317	\$ 645,982	\$ 668,963	\$ 680,675	\$ 675,518	\$676,569	\$686,347
<u>Public Funding</u>							
Total Public Funding.....	\$701,920 ⁽²⁾	\$ 645,524	\$ 697,161	\$ 739,238	\$ 793,008	\$ 809,748	\$ 837,892
Total Operating Revenue.....	\$1,314,237	\$1,291,506	\$1,366,124	\$1,419,913	\$1,468,525	\$1,486,317	\$1,524,239
Change in Net Assets							
Budgeting Basis.....	\$ 21,903	\$ 0	\$ 0	\$ 20,000	\$ 24,400	\$ 22,175	\$ 0
Actual Recovery Ratio ⁽³⁾	57.3%	60.8%	59.2%	58.5%	56.0%	55.21%	54.92%
RTA Required Recovery Ratio ⁽⁴⁾	52.0%	52.0%	52.0%	54.0%	54.5%	54.5%	54.75%

Source: Chicago Transit Authority Financial Statements and Supplemental Information, Schedule of Expenses and Revenues, Budget and Actual–Budgetary Basis, for the years 2011 to 2016, and the 2017 Budget Recommendations.

(1) Based upon the budget for 2017 included in the 2017 Budget Recommendations.

(2) Includes \$118.0 million of federal capital project funds for preventive maintenance. The Authority stopped receiving these funds in 2012.

(3) Actual recovery ratio is calculated by dividing the system-generated revenues over operating expenses. The calculation includes in-kind revenues and expenses for security provided by the City of Chicago and some grant revenues, and excludes security expenses and Pension Bonds debt service.

(4) The RTA required recovery ratio is one of the operating marks set for the Authority by the RTA during the annual budget process. See “—Annual Budget Process” above.

Operating Expenses. The Authority's annual operating expenses consist of labor, material, fuel, power, provisions for injuries and damage, purchase of security services and other expenses. Set forth below is a review of the Authority's operating expenses on an historical basis for 2011 through 2016, and as budgeted for 2017.

Labor. Labor is the largest expense of the Authority, representing between 69.0 percent and 71.4 percent of costs annually over the period 2011 to 2015 and 70.1 percent of costs for 2016. Labor expense consists of wages, salaries, employer pension contributions, and fringe benefits such as healthcare. Labor expense increased from 2011 through 2013 due to negotiated wage increases, increases in overtime and higher fringe benefit costs, which was offset by management efficiencies and personnel reductions. In 2013, the Authority and Amalgamated Transit Union (ATU) Local 241 and 308 reached a four-year labor agreement, ratified by ATU, that benefited the Authority's customers, lowered agency health care costs by strengthening the approach to health and wellness, and improved worker conditions and preserved jobs. In 2014, the Authority was able to save on additional vacant positions and group benefits, including the restructuring of employee health care plans included as part of the 2013 labor agreement. The increase in 2015 was due to contractual wage increases and increased service levels. The increase in 2016 was due to negotiated wage increases and the related increase in fringe benefit cost. The 2017 budget shows labor increasing 2.3 percent over 2016 mainly due to a pension contribution increase of \$24.0 million.

Material. Material primarily consists of parts replacement and supplies. Material tends to track the age of the Authority's fleet, changes in fleet mileage and the occurrence of severe weather. Material constituted between 5.3 percent and 6.6 percent of operating costs annually from 2011 through 2015, and were 5.7 percent of total costs for 2016.

Material increased 25.8 percent in 2012 from 2011 levels due to an increase in the reserve for obsolescence, but dropped 29.4 percent in 2013 from a combination of cost offsets to capital projects, more favorable per-unit price costs, a reduction in the reserve for obsolescence and savings from a full inventory review conducted as part of a supply chain modernization effort. Material spending for 2014 jumped 34.1 percent from 2013 due to increased ridership, an increase in service miles to support construction projects, and the severe weather experienced in the first quarter of 2014. The 2015 results and 2016 results reflect similar material usage patterns as in prior years, benefits of a younger fleet, and slight increases in fleet mileage due to planned service levels. The 2017 budget assumes material will increase 7.5 percent over the 2016 results due to increased service levels generating additional mileage as well as additional vehicle repairs and maintenance because the 5000-series rail cars came out of warranty at the end of 2016.

Fuel. Fuel represents the costs of diesel and gasoline for revenue equipment. Fuel fluctuated between 3.5 percent and 4.9 percent of operating costs from 2011 to 2015. Fuel costs correlate to overall fuel consumption, fuel price levels and service mileage. The steady drop in fuel cost beginning in 2012 was due to lower prices, lower consumption and better fuel efficiency over the period. Fuel ended 2016 34 percent less than 2015. The savings is mainly due to better fuel pricing. A mild winter and mild summer also helped lower fuel consumption because of the reduced need for heating and air conditioning on buses. The 2017 budget shows fuel costs to be only 3.7 percent more than 2016 reflecting continued lower average prices.

From 2011 through 2014, the Authority managed its fuel price risk through financial hedging contracts with various counterparties. In 2015 and 2016, to take advantage of falling fuel prices, the Authority negotiated a fixed price for diesel eliminating the need for a financial hedge. The Authority pre-purchased 80 percent of its fuel needed for 2017 in advance of finalizing its budget and expects to purchase more in the near future to increase budget certainty. Fuel prices in 2017 are budgeted at an average \$2.03 per gallon, representing the average price the Authority has locked in for 2017 at the time of budgeting. This includes the price of supply and delivery combined and represents significant savings compared to the \$2.15 per gallon in 2016.

Power. Electric power expenses reflect the cost of electric power for the rail system and other Authority facilities. For the six year period ending 2016, electric power ranged from 1.9 percent to 2.2 percent of total operating expenses. The 2016 electric power costs increased 1.6 percent over 2015. Variances in electric power costs year-to-year are generally due to changes in power consumption, market pricing and weather severity. The 2017 budget assumes that electric power costs will increase 7.1 percent from 2016 due to service level improvements on both bus and rail as well as regulatory fee increases.

The Authority's strategy for purchasing electric power changed for 2017. In previous years, the Authority purchased a fixed portion of the forecasted consumption and carried the risk if consumption was higher than forecasted. For 2017, the Authority switched to a "load following" strategy, in which the price of a percentage of consumption is fixed, no matter what the consumption ultimately is. This protects against extreme weather that can cause spikes in consumption. The Authority has purchased 100 percent of its anticipated power usage in advance.

Provisions for Injuries and Damages. Provision for injuries and damages represents expenses for claims and litigation for incidents that occur on the Authority property, as well as incidents involving the Authority vehicles. As required by the Act, the Authority sets aside amounts in a damage reserve fund to meet anticipated costs. Recommended levels are determined by the Authority's actuaries based on actual claims history and future projections. It has been determined that the current value of the reserve fund is sufficient.

Purchase of Security Services. Security expenses are the costs the Authority incurs to provide police and security for the Transportation System. In 2013, the Authority shifted much of its rail station security services responsibilities from private contractors to in-house customer service assistants as a result of collective bargaining. These expenses are now included in the labor expense category. The Authority has also entered into inter-governmental agreements with the police departments of Chicago, Oak Park, Forest Park and Evanston, pursuant to which the Authority pays off-duty police officers to provide security for the Transportation System. The public transportation section of the Chicago Police Department also provides services to Authority customers during the course of its regular patrols. These costs are paid for by the City of Chicago as in-kind services rendered to the Authority.

The 2016 expense for security services was 2.3 percent lower than 2015. The 2017 budget shows security services increasing 19.5 percent from 2016. The 2016 expense and 2017 budgeted expense include additional security services deployed to address continuous riders and to mitigate fraudulent fare practices and evasion of fares.

Other Expenses. Other expenses includes interest on pension obligation bonds, maintenance and repair contracts, utilities, advertising, commissions, consulting, insurance, leases and rentals, and other general expenses. Set forth below are the historical results of other expenses for the years 2013 through 2016, and as budgeted for 2017. The Authority first began accounting for the components of other expenses in the manner presented in the table in 2013. Comparable information for years prior to 2013 is not available.

Other Expenses
2013-2017
(in millions)

	Actual				Budget
	2013	2014	2015	2016	2017⁽¹⁾
Pension Bonds (Net) ⁽²⁾	\$114,832	\$115,746	\$112,281	\$111,779	\$111,943
Contractual Services	81,063	94,334	104,278	105,003	109,349
Utilities.....	19,657	23,059	24,562	23,234	24,152
Non-Capital Grant, Travel, Leases, Other.....	29,783	9,771	10,933	13,243	18,938
Other Debt Service ⁽³⁾	0	0	0	14,298	28,597
Total	<u>\$245,336</u>	<u>\$242,910</u>	<u>\$252,054</u>	<u>\$267,558</u>	<u>\$292,979</u>

Note: Columns may not add due to rounding.

Source: Chicago Transit Authority.

⁽¹⁾ Based upon the budget for 2017 included in the 2017 Budget Recommendations.

⁽²⁾ Amounts shown represent debt service on the Pension Bonds less the yearly reductions in Retirement Plan contributions of the Authority permitted under the Pension Code. See “—**Pension and Other Post-Employment Benefit Obligations—Retirement Plan**” below.

⁽³⁾ Other Debt Service for 2016 and 2017 represent interest on the Series 2014 Bonds. Debt service for the Series 2010 Bonds and the Series 2011 Bonds are paid out of the Authority’s capital budget.

Other expenses fluctuated between 10.4 percent and 17.5 percent of total operating expenses from 2011 to 2015, and were 18.3 percent of total operating expenses in 2016. The 30.3 percent drop in other expenses in 2012 compared to 2011 was due to the substitution of a Qualified Reserve Credit Instrument for Investment Securities held in a bond debt service reserve fund. Other expenses in 2013 increased 82.0 percent above 2012 levels due primarily to the debt service reserve substitution in 2012. The increase in total operating expenses from 2014 to 2015 is attributed to initial debt service from the Series 2014 Bonds, additional bus operator training, normal escalation of contractual expenses and additional maintenance support for the Authority’s camera systems and support technology. Other expenses were 6.2 percent higher in 2016 than 2015 mainly due to new debt service and higher than planned non-capital grant expenses offset by non-capital grant revenue. Other expenses are budgeted in 2017 to be 9.5 percent higher than 2016 primarily due to \$14.3 million in additional debt service and normal escalation of contractual expenses, including maintenance for the Authority’s security camera systems, technology efforts and system and safety training programs.

The Authority has entered into an agreement with Cubic Transportations Systems Chicago, Inc. (“Cubic”) for the financing, installation and operation of a fare collection system. Under the agreement with Cubic for the fare collection system, the Authority is obligated to make payments to Cubic in the amount of \$30,000,000 per year over the remaining 7 years of the agreement. Approximately one-half of the annual payment is included in other expenses and the balance is paid out of the Authority’s capital budget.

System-Generated Revenues. The Authority’s system-generated revenue consists of fares and passes, reduced-fare subsidies, advertising and concessions, investment income, contributions from local governments, and other revenue. Overall, system-generated revenues have increased 2.1 percent on an average annual basis over the period 2011 to 2016. Set forth below is a discussion of the Authority’s operating revenues on an historical basis for 2011 through 2016, and as budgeted for 2017.

Fares and Passes. Regular fares and passes make up the majority of system-generated revenues. Farebox revenue from 2011 to 2016 represents between 85.0 percent and 86.9 percent of system-generated revenues.

Farebox revenue is affected primarily by ridership levels and increases in the price of passes and fares. The Authority’s base fares have not increased since 2009, and pass prices and other fare categories have not changed since January 2013. Fare and pass revenue for 2016 is 1.2 percent lower than 2015 due to the drop in ridership in 2016 as gas prices have trended near historic lows, car usage increased and new entrants to the market have increased competition. Revenues from fares and passes are budgeted to increase 0.2 percent from 2016. The increase is anticipated based on management initiatives to increase transit benefits participation and marketing of 30-day passes to residents and employers. The average fare paid, including cross-platform transfers, increased from \$1.00 in 2011 to \$1.14 in 2015 and was \$1.16 in 2016.

Reduced-fare Subsidies. The reduced-fare subsidy is the State’s reimbursement to the Authority for discounted and free fares given to seniors and people with disabilities. The Authority provided approximately 51 million in discounted and free rides in 2011, growing to an estimated 95 million rides in 2015.

The reduced fare subsidy for 2016 was \$14.6 million, reflecting almost 50 percent reduction in the historic funding for this program. The stopgap budget approved by State in summer of 2016 maintained this funding at half the anticipated and historic level. Consistent with guidance from the RTA, the Authority’s 2017 budget assumes the reduced fare subsidy will return to historic levels for the entirety of the 2017 State fiscal year, resulting in a total of \$28.3 million for 2017.

Reduced-fare subsidy reimbursements are not a continuous appropriation of State funds and therefore must be approved annually by the Illinois General Assembly.

Advertising and Concessions. Advertising and concessions comprise revenues from systemwide advertising sales, rentals and concession fees. Advertising and concessions revenue is subject to regional economic conditions. The Authority has used a combination of concession rental improvements, alcohol advertisements, single vendor station sponsorship, specialty media (such as wraps on elevators, in tunnels and on stairs) and increased digital platform and street-

level advertisements to augment advertising and concessions revenues. From 2011 to 2015, advertising and concessions revenue constituted between 2.2 percent to 4.0 percent of total system-generated revenue and was 5.0 percent in 2016. The 2016 advertising and concessions revenue is 7.8 percent above 2015 due to increased advertising sales and concession fees. Vehicle and platform advertisements are expected to increase as demand for digital advertising continues to grow. The Authority's stations now have more than 100 urban panels for digital advertisement (street-level video displays at rapid transit station entrances). The 2017 budget assumes a 4.4 percent increase in advertising and concessions revenues over 2016.

Investment Income. Investment income is the interest earned on funds on hand and yields on short-term investments. Investment income has generally represented 1.0 percent or less of total system-generated revenues. The level of investment income has been low in recent years because of historically low interest rates. Income is also low because the State has been late in payments of Public Transportation Funds. The delayed payments require the Authority to keep more cash on hand, leaving less available for short-term investments.

Statutory Required Contributions. The RTA Act requires total contributions to the Authority of \$5.0 million annually from the City of Chicago and Cook County. Historically, the City of Chicago and Cook County have satisfied the requirement with annual contributions of \$3.0 million and \$2.0 million, respectively.

Other Revenue. Other revenue includes safety and security grants, parking fees, rental revenue, third-party contractor reimbursements and filming fees. From 2011 to 2015, other revenue ranged from 5.1 percent to 6.3 percent of system-generated revenues. The increases in other revenue in 2012 and 2013 were due to the receipt of additional non-capital grant revenue and an increase in rental and parking revenue. The decreases in other revenue in 2014 and 2015 were mainly due to reductions in non-capital grant revenue. In 2016, there was a 14.2 percent increase in other revenue as a result of an expected increase in non-capital grant revenue, offset by related grant expenditures. The 2017 budget projects a 14.7 decrease due to a reduction in non-capital grant revenue offset by an increase in park and ride revenue.

Public Funding. Public funding is the largest source of the Authority's revenue. Public Funding consists of sales tax receipts, real estate transfer tax and, in certain years, RTA innovation, coordination and enhancement ("ICE") funds. The amount of public funding available for Authority operations is established by the RTA, and is based on the RTA's revenue projections and the approved funding marks set by the RTA Board. Funding "marks" are the amounts RTA commits to provide to each of the Service Boards.

For financial statement reporting purposes, public funding is separated into RTA Sales Tax (Illinois state sales tax allocation), RTA Discretionary Funds (RTA discretionary funding and other), State Sales Tax and Formula PTF (Illinois state sale tax allocation and PTF), Real Estate Transfer Tax (Real estate transfer tax) and ICE funds. See **APPENDIX D—"CHICAGO TRANSIT AUTHORITY FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION YEARS ENDED DECEMBER 31, 2016 AND 2015, Note 4—Budgeted Public Funding from the Regional Transportation Authority and the State of Illinois."**

Set forth in the following table are the components of public funding as reported by the Authority in its financial statements for the years 2012 to 2016.

Public Funding
2012-2016
(in thousands)

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
RTA Sales Tax.....	\$311,746	\$327,537	\$343,087	\$360,575	\$365,622
RTA Discretionary Funds (including Discretionary PTF).....	168,700	181,009	196,254	214,471	218,922
State Sales Tax and Formula PTF	125,795	131,706	136,747	143,239	145,141
Real Estate Transfer Tax	39,283	56,909	63,150	74,723	79,063
Total Budgeted Public Funding	<u>645,524</u>	<u>697,161</u>	<u>73,238</u>	<u>793,008</u>	<u>808,748</u>
ICE Funding	0	0	0	0	1,000
Final Public Funding	<u>\$645,524</u>	<u>\$697,161</u>	<u>\$739,238</u>	<u>\$793,008</u>	<u>\$809,748</u>

Source: Chicago Transit Authority.

Public funding as a whole increased on average 9.0 percent per year from 2011 to 2015, reflecting an improving economy. RTA Sales Tax increased an average of 5.5 percent per year from 2011 to 2015. RTA Discretionary Funds and State Sales Tax and Formula PTF increased an average of 16.7 percent and 3.7 percent, respectively, over the same period. On a relative basis, RTA Discretionary Funds have grown as a percent of total public funding from 2011 to 2015, while RTA Sales Tax and State Sales Tax and Formula PTF both have decreased.

The Real Estate Transfer Tax constitutes a supplemental tax on real property title transfers in the City of Chicago, imposed by the City of Chicago at a rate of \$3.00 per \$1,000 of the purchase price of real property for the purpose of providing financial instance to the Authority. The Real Estate Transfer Tax is collected by the City of Chicago and paid directly to the Authority. The Real Estate Transfer Tax increased at an average annual rate of 28.8 percent per annum from 2011 to 2015 and increased from 5.9 percent to 9.4 percent of total public funding over the period. The increases in Real Estate Transfer Tax are the result of increased real estate transactions in the City of Chicago. The Real Estate Transfer Tax is not pledged as security for the Series 2017 Bonds. The Authority applies all receipts from the Real Estate Transfer Tax to the payment of debt service on the Pension Bonds. See **“DEBT SERVICE COVERAGE.”**

The 2016 public funding of \$809.7 million is an increase of 2.1 percent. The increase is due to higher than expected Sales Tax revenues and a rise in the Real Estate Transfer Tax from a higher volume of real estate transactions in Chicago. The 2016 public funding includes \$1.0 million from ICE funds which are now distributed to the Service Boards by formula by the RTA and can be used in the operating or capital budget.

Public funding is budgeted to be \$837.9 million in 2017. The total public funding level is a 3.5 percent increase over 2016. The increase represents continued improvement in Sales Tax receipts anticipated over the next year. The 2017 budget also includes \$6.0 million in ICE funds.

On July 6, 2017, the Illinois General Assembly approved a budget and spending plan for the State for its fiscal year ending June 30, 2018 (the “Approved State Budget”). Based on a preliminary analysis, the Approved State Budget reduces State funding of certain sources of revenue for the Authority, including reduced-fare subsidy reimbursements, sales tax receipts revenues and Public Transportation Fund revenues (collectively, the “State Funding Reductions”), in an aggregate amount expected to total less than two and one-half percent (2.50%) of the Authority’s approved budget for its Fiscal Year ending December 31, 2017. The Approved State Budget will also impact the Authority’s budget for its Fiscal Year 2018 and the Authority will take into account the State Funding Reductions in establishing its budget recommendations for its Fiscal Year 2018. While the above analysis of the Approved State Budget is preliminary and no assurances can be given, the Authority does not currently anticipate a material adverse effect on its financial condition or operations during the period covered by the Approved State Budget as a result of the State Funding Reductions. No assurances can be given with respect to the impact on Authority revenues and operations of any State budget that is enacted for fiscal periods following that covered by the Approved State Budget. The Series 2017 5307 Bonds are secured by a pledge of the 5307 Grant Receipts and the Series 2017 5337 Bonds are secured by a pledge of the 5337 Grant Receipts. See “SECURITY FOR THE SERIES 2017 BONDS.” The timing and amount of the 5307 Grant Receipts and the 5337 Grant Receipts are not in any way affected by the Approved State Budget or the State Funding Reductions.

2018-2019 Proposed Two-Year Financial Plan

On October 24, 2016, the Authority released its 2018-2019 Two-Year Financial Plan. The 2018-2019 financial plan was approved by the RTA Board on December 15, 2016. The 2018-2019 financial plan continues the Authority’s mission to deliver quality, affordable transit service and ongoing efforts to enhance the Authority’s safety culture. Priorities reflected in the plan include business initiatives to achieve the Authority’s strategic goals, to improve service delivery, to protect transit riders and employees and continue its investments in bus and rail fleets, stations, track structures and technology. The plan includes no fare increase and no service reductions.

Set forth in the following table are the projected operating expenses, system-generated revenues and public funding (presented on a budgetary basis) included in the 2018-2019 financial plan.

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Chicago Transit Authority
2018-2019 Proposed Operating Plan – Budgeting Basis
(\$ in thousands)

	Projected 2018	Projected 2019
<u>Operating Expenses</u>		
Labor	\$1,071,445	\$1,092,873
Material	92,705	95,522
Fuel	35,934	37,012
Power	32,592	33,244
Provisions for Injuries and Damages	20,000	20,000
Purchase of Security Services	17,090	17,432
Other Expenses		
Pension Obligation Bonds (Net)	115,301	118,760
Contractual Services	113,108	116,502
Utilities	24,876	25,622
Non-Capital Grant, Travel, Leases, Other ..	19,506	20,091
Other Debt Service.....	28,597	53,600
Total Operating Expenses	\$1,571,154	\$1,630,659
<u>System-Generated Revenues</u>		
Fares and Passes.....	\$ 95,928	\$ 617,740
Reduced-fare Subsidy	28,322	28,322
Advertising, Charter & and Concessions	39,000	43,070
Investment Income	1,433	1,656
Statutory Required Contributions	5,000	5,000
Other Revenue	42,587	48,058
Total System-Generated Revenues	\$712,270	\$743,846
<u>Public Funding from the RTA</u>		
Total Public Funding.....	\$ 858,884	\$ 886,813
Total Operating Revenue	\$1,571,154	\$1,630,659
Projected Recovery Ratio ⁽¹⁾	54.75%	54.75%
RTA Required Recovery Ratio ⁽²⁾	54.75%	54.75%

Source: Chicago Transit Authority.

⁽¹⁾ Projected recovery ratio is calculated by dividing the system-generated revenues over operating expenses. The calculation includes in-kind revenues and expenses for security provided by the City of Chicago and some grant revenues, and excludes security expenses and Pension Bonds debt service.

⁽²⁾ The RTA required recovery ratio is one of the operating marks set for the Authority by the RTA during the annual budget process. See “—Annual Budget Process” above.

Overview of the 2018-2019 Financial Plan. The 2018-2019 financial plan assumes public funding as reported by the RTA and the full level of reduced fare reimbursements from the State. Any reduction in State funding to the Authority would negatively impact the two-year plan. The plan shows slight ridership and revenue growth, offset by increased debt service, a standard increase in contractual services and conservative contributions to injuries and damages reserves.

The collective bargaining agreement that affects the majority of the Authority employees expired at the end of 2015. At the time of the Authority budget development, there was no executed agreement in place. The labor cost trajectory for the 2018-2019 plan years will be determined, in large part, by the outcome of collective bargaining negotiations and continued efficiency gains.

Operating Expenses. Labor is projected to increase based on expected increases in the cost of benefits, such as healthcare. Material reflects continued controls over capital investments to keep the fleet in a state of good repair. The materials projection assumes weather patterns consistent with prior years and an improved cost per mile as newer fleets are deployed.

Fuel costs assumes the continuation of the Authority's strategic fixed price purchasing policy. The Authority has pre-purchased 40 percent of its forecasted fuel consumption for 2018 at favorable prices to increase budget certainty. The plan includes a contingency to protect against an increase in the market price of the floating volume. The Authority expects to make further purchases in advance of 2018-2019 to reduce price volatility risk. The Authority has entered into forward purchase agreements with its electric power supplier for 50 percent and 60 percent of the estimated consumption in 2018 and 2019, respectively. The amounts reflected in the financial plan are based on the pre-purchase cost and the market price for the remaining volume. The plan also includes a contingency to cover an increase in market prices for the floating volume.

The Authority plans to continue contributions to provisions for injuries and damages with reserve payments of \$20.0 million planned in both 2018 and 2019. The amount of actual deposits to the reserve may be adjusted based on the annual actuarial valuation of the fund's liabilities. Purchase of security services are expected to increase due to annual contractual increases built into the contracts with private security firms and police departments. The inter-governmental agreement with the Chicago Police Department caps spending at \$10.0 million per year, limiting the overall growth rate for security expenses. Other expenses include additional debt service in 2019 for estimated debt service on the Authority's Second Lien Sales Tax Receipts Revenue Bonds, Series 2017.

System-generated Revenues. Fare revenue is projected to increase 2.5 percent and 3.7 percent in 2018 and 2019, respectively, based on stabilization of ridership as gas prices increase and the City of Chicago's transit-oriented population and employment continue to grow. Management's initiative to increase transit benefit participation should also contribute to fare revenue increases in 2018 and 2019. The two-year plan assumes the reduced-fare subsidy will be continued by the State when the State's fiscal year budget is passed. The plan projects funding will be \$28.3 million in 2018 and 2019. This amount represents less than one-third of the nearly \$100 million in costs of actual free and reduced rides provided by the Authority.

The two-year financial plan projects revenue from advertising, charters, and concessions to grow at over 11.0 percent in 2018 and 10.0 percent in 2019. Advertising revenue continues at a strong pace, with increased digital advertising and growth of concession revenue. Investment income in 2018 and 2019 is projected to grow based on current trends. Statutorily required contribution revenues are forecast to continue to be \$5.0 million per year. Other revenue is expected to grow by 20.0 percent in 2018 and 12.8 percent in 2019 due to management initiatives planned to be executed in 2017. The plan projects increased miscellaneous revenues, parking and rental fees, slight growth in rental properties, third-party contractor reimbursements, fees from filming, non-capital grants from the federal government and other sources.

Public Funding. The RTA provides public funding marks for the 2018-2019 financial plan. The RTA funding plus Real Estate Transfer Tax revenue from the City of Chicago provides the total public funding projections. The RTA marks increase by 2.5 percent in 2018 and 3.3 percent in 2019.

Debt Obligations

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

Long-Term Debt Obligations. The Authority does not use long-term debt to fund operations. However, long-term bonds are deemed appropriate to finance essential capital activities and certain management initiatives. The Authority may also use long-term lease obligations to finance or refinance capital equipment. Prior to entering into any lease financing, the Authority evaluates the useful life of assets financed, the terms and conditions of the lease, and the budgetary, debt capacity and tax implications.

Debt Limitations. The Authority is not subject to statutory debt limitations for capital investment.

Outstanding Long-Term Debt. The Authority's current long-term debt includes bonds issued by the Authority and capital lease obligations. The following table describes the current long-term debt of the Authority. In addition to the obligations set forth in the table, the Authority has obtained three loans from the USDOT under the Transportation Infrastructure Finance and Innovation Act ("TIFIA") and has long-term obligations under an agreement for a farebox collection system.

**Long Term Debt
As of July 18, 2017***

<u>Type of Obligation</u>	<u>Designation</u>	<u>Current Par Amount Outstanding as of July 18, 2017</u>	<u>Security Pledge</u>	
Sales Tax and Transfer Tax Receipts Revenue Bonds.....	2008A, 2008B	\$1,814,785,000	Sales Taxes and Real Estate Transfer Tax Sales Taxes Sales Taxes Sales Taxes	
	2010A, 2010B	536,610,000		
	2011	476,905,000		
	2014	555,000,000		
	2017	296,220,000		
Capital Grant Receipts Revenue Bonds FTA 5307 Program.....	2010	63,895,000	Grant Receipts	
	2011	56,525,000	Grant Receipts	
	2015	131,270,000	Grant Receipts	
	2017	90,540,000	Grant Receipts	
	FTA 5309/5337 Program.....	2008A	9,395,000	Grant Receipts
		2008	8,490,000	Grant Receipts
		2010	26,820,000	Grant Receipts
		2015	45,650,000	Grant Receipts
		2017	135,255,000	Grant Receipts
	PBC Lease.....	2006	64,310,000	Lease Payments
Bus Lease.....	2013	31,670,455	Lease Payments	
Bus Lease (Certificates of Participation).....	2008	26,228,462	Lease Payments	
Total.....		<u>\$4,370,108,917</u>		

*Assumes the issuance of the Series 2017 Bonds and the refunding of the Refunded Bonds.

The Authority’s outstanding long term debt obligations are described below.

Sales Tax and Transfer Tax Receipts Revenue Bonds. The Authority has outstanding bonds secured by Sales Tax receipts and the Real Estate Transfer Tax (the “**Sales Tax Bonds**”). In 2008, the Authority issued pension bonds to fund the Authority’s employee retirement plan and create a retiree health care trust (the “**Pension Bonds**”). The Pension Bonds are secured by a senior pledge of sales tax receipts and the real estate transfer tax. The Authority has also issued the Sales Tax Bonds to fund new rail cars, refurbish existing rail cars, upgrade rail system components and fund capital projects contemplated by the Authority’s capital plan. The Sales Tax Bonds are secured by a senior pledge of Sales Tax Receipts. See **APPENDIX D—“CHICAGO TRANSIT AUTHORITY FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015, Note 9—Bonds Payable.”**

Capital Grant Receipts Revenue Bonds. The Authority has outstanding capital grant receipts revenue bonds secured by funds provided by the FTA under the Section 5307 Program see “**INTRODUCTION - Security for the Series 2017 5307 Bonds**”, and the Section 5337 Program see “**INTRODUCTION - Security for the Series 2017 5337 Bonds**”.

The proceeds of bonds backed by grants under the Section 5307 Program have been used to pay or reimburse the Authority for prior expenditures relating to facility rehabilitation, rail station reconstruction, replacing and upgrading track, structure and signal systems, communication infrastructure improvements, and replacing the bus and rail fleets. See **APPENDIX D—“CHICAGO TRANSIT AUTHORITY FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015, Note 9—Bonds Payable.”**

The proceeds of bonds backed by grants under the Section 5337 Program were used to refund a prior issue of bonds, the proceeds of which funded costs of the Authority’s capital plan in anticipation of the receipts under the Section 5337 Program. See **APPENDIX D—“CHICAGO TRANSIT AUTHORITY FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015, Note 9—Bonds Payable.”**

Capitalized Lease Obligations. The outstanding capitalized lease obligations consist of (i) the lease of the Authority’s headquarters from the Public Building Commission, (ii) lease obligations incurred in connection with the financing of a portion of the Authority’s bus fleet, and (iii) a lease/leaseback transaction in 1998 relating to certain property, railway tracks and train stations on the Green Line. See **APPENDIX D—“CHICAGO TRANSIT AUTHORITY FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015, Note 8—Capital Lease Obligations.”**

Certificates of Participation. In 2008, the Authority entered into an installment purchase agreement with a financial institution for the purchase of 200 (40 ft.) New Flyer low floor buses and certain related parts and equipment. The financial institution issued certificates of participation (“COPs”) on behalf of the Authority, which represent the Authority’s unconditional obligation to make installment payments from legally available funds. The Authority’s installment payments are remitted to the financial institution, which in turn remits payments to the holders of the COPs. See **APPENDIX D—“CHICAGO TRANSIT AUTHORITY FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015, Note 10—Certificates of Participation.”**

TIFIA Loans. The Authority has outstanding loans (“**TIFIA Loans**”) from the USDOT pursuant to the credit program established under TIFIA. In 2014, the Authority received a TIFIA loan for \$79.2 million as part of funding package to renovate the Red Line’s 95th Street Terminal. In 2015, a second TIFIA loan was approved for \$120.0 million to support the YNB program. On March 16, 2016, the Authority entered into a third TIFIA loan for \$254.9 million to fund certain projects that are part of the Authority’s rail car purchase program. See “—**Capital Improvement Plan—Sources of Funds—Federal Funding—TIFIA Loan Program**” below. The TIFIA Loans are secured by farebox revenues. As evidence of the Authority’s obligation to repay the TIFIA loans, the Authority issues to the lenders a registered farebox receipts revenue bond in the respective amounts of the loans. As of the date of this Official Statement, no funds have been drawn under the TIFIA Loans.

Capital Improvement Plan

General. As part of the Authority's annual budgeting process, the Authority prepares a five-year capital improvement plan. Each project within the Authority's capital improvement plan is initially evaluated in an annual review process, and followed by monthly planning meetings where issues and needs are addressed. Evaluation criteria include: customer and employee safety, reductions to travel time, increased customer comfort and convenience, system security, impact on system reliability, compliance with regulations, and community impact. With the exception of the system miscellaneous category, rail system projects receive a significantly larger portion of the proposed capital program funding than bus projects, due partly to the need to maintain an exclusive right-of-way while buses operate on streets maintained by other units of government.

The status of the State's prior promised and future capital funding of the Authority projects remains uncertain. The Authority has not yet received \$220.9 million of promised State funds from the prior capital program, which were expected in 2015. A new State capital transportation program is anticipated at some point. In the meantime, delays in funding have put planned-for-projects at risk of delay.

2017-2021 Capital Plan. The Capital Improvement Plan for 2017-2021 totals \$3.5 billion in project funds and includes eighteen project categories. The capital projects address the Authority's most critical needs for the bus and rail system, customer facilities, and systemwide support. Major projects planned or underway during this period include the modernization of the north Red Line and Purple Line, the O'Hare Blue Line improvements, the Garfield rail station, the purchase of up to 846 new railcars, and the purchase of new buses, including a select number of electric buses.

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The following table sets forth the 2017-2021 Capital Improvement Plan by general category of asset improved or replaced.

Capital Improvement Plan by Category 2017-2021
(\$ in thousands)

<u>Category</u>	<u>5-Year Funding Amount</u>
Bus Rolling Stock	\$ 167,349
Rail Line Improvements	1,822,282
Rail Power & Way Electrical Signals & Communication	36,666
Rail Power & Way Track & Structure	79,085
Rail Rolling Stock	343,448
Systemwide Miscellaneous	
Information Technology	11,172
Equipment and Non-Revenue Vehicle Replacement	33,775
Rehabilitate Rail Stations	73,092
Implement Security & Communication Projects	37,592
Program Management.....	32,850
Bond Repayment, Interest Cost, & Finance Cost.....	732,486
ICE / UWP Projects.....	21,813
Systemwide Facilities	144,807
Total	<u>\$3,536,417</u>

Sources of Funds. The following table details the funding sources supporting the 2017-2021 Capital Improvement Plan. The funding levels used in preparing the 2017-2021 Capital Improvement Plan reflect the capital resources available to the Authority from the federal government, including the FTA, USDOT, Department of Homeland Security, and U.S. Environmental Protection Agency, and from State and local sources, including the RTA, the newly created Red and Purple Modernization Phase One Transit Facility Improvement Area (“Red and Purple Modernization Phase One TFIA”) and the Authority.

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Capital Improvement Program Preliminary Marks⁽¹⁾ 2017 – 2021
Sources of Funds
(in thousands)

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>5-Year Total</u>
<u>FTA Formula Funds</u>						
5307 Urbanized Formula	\$ 128,172	\$130,793	\$133,493	\$136,251	\$139,019	\$ 667,729
5337 State of Good Repair.....	11,279	11,515	11,759	12,009	12,259	58,821
5339 Bus and Bus Facilities Formula	152,166	154,794	157,459	160,171	162,923	787,512
	<u>291,616</u>	<u>297,102</u>	<u>302,712</u>	<u>308,430</u>	<u>314,202</u>	<u>1,514,062</u>
<u>Other Federal</u>						
5339c Dis. Low or No-Emission Bus Program	3,620	-	-	-	-	8,959
Sec. 5307 CMAQ.....	-	25,000	8,891	100,000	-	133,891
5309 Core Capacity	256,000	100,000	100,000	100,000	100,000	661,309
Department Homeland Security	5,592	3,000	3,000	3,000	3,000	17,592
2016 TIGER	25,000	-	-	-	-	27,016
Clean Diesel Funding Assistant Program (EPA)	1,800	-	-	-	-	1,800
	<u>292,012</u>	<u>128,000</u>	<u>111,891</u>	<u>203,000</u>	<u>103,000</u>	<u>837,903</u>
Subtotal.....	<u>583,628</u>	<u>425,102</u>	<u>414,603</u>	<u>511,430</u>	<u>417,202</u>	<u>2,351,965</u>
<u>State and Local</u>						
RTA Bonds.....	75,000	-	-	79,000	-	154,000
RTA ICE	-	6,350	6,572	-	-	12,922
Transit TIF.....	622,000	-	-	-	-	622,000
Authority Funds.....	1,875	1,875	15,000	-	-	18,750
Authority Bonds for RPM	-	287,249	-	-	-	287,249
Subtotal.....	<u>698,875</u>	<u>295,474</u>	<u>21,572</u>	<u>79,000</u>	<u>-</u>	<u>1,094,921</u>
New Funding Available	<u>1,282,503</u>	<u>720,576</u>	<u>436,175</u>	<u>590,430</u>	<u>417,202</u>	<u>3,446,886</u>
Authority Share for Competitive Grants	27,780	-	-	-	-	27,780
RPM Operating Funds	61,749	-	-	-	-	61,749
Total.....	<u>\$1,372,033</u>	<u>\$720,576</u>	<u>\$436,175</u>	<u>\$590,430</u>	<u>\$417,202</u>	<u>\$3,536,416</u>

Note: Totals may not add due to rounding.

Source: Chicago Transit Authority.

⁽¹⁾ "Marks" represent estimates of available grant receipts from federal, State, and local sources.

Federal Funding. Sources of federal funds for capital projects included in the 2017-2021 Capital Improvement Plan are described below.

FTA Programs. Transit agencies receive funds under the provisions of Title 49, Chapter 53, of the United States Code, as amended by the FAST Act. Transit funds for Federal Fiscal Years 2016 through 2020 are authorized by the FAST Act. Each year, new appropriation legislation must be passed to appropriate general federal revenues that will fund transit programs and set an obligation limitation that allows expenditure of funds from the MTA of the HTF for transit programs.

Transit funds are distributed through both formula and discretionary programs. Discretionary program funds that are not earmarked or distributed by Congress are made available to the FTA. The three federal formula programs that the Authority traditionally receives are Section 5307 Program funds, which provide for public transportation capital and planning projects; Section 5337 Program funds, dedicated to repairing and upgrading rail transit systems along with bus rapid transit systems; and 5339 Bus & Bus Facility funds, which provide funding to replace, rehabilitate and purchase buses and related equipment and to construct bus-related facilities. The RTA is the designated recipient of the federal formula funds distributed to the Chicago region, which is a part of the Local Urbanized Area. The Chicago region's share of the annual apportionment is distributed to the each of the Service Boards on the following basis: the Authority 58%, Metra 34% and Pace 8%.

In order to obtain federal transit grant funds each transit agency must submit a grant application to the FTA. When the grant is approved the funds are "granted" or "obligated" to that agency and the agency proceeds with its procurement process or receives reimbursement for expenditures that have already been made. Federal funds pay for a portion, termed the "federal share," of a project's costs. State or local funds, termed "matching funds," must also be expended on a project. The three traditional federal formula programs that the Authority receives annually require a 20 percent local contribution match to the project budget.

Grant programs under which the Authority expects to receive funds for the 2017-2021 Capital Improvement Plan include: FTA's 5339 sub-program for low and zero-emission vehicles; FTA's 5307 Congestion Mitigation and Air Quality program for projects that address air quality or congestion; FTA's 5309 Core Capacity program for major transit capital investment, including heavy rail, light rail, streetcars, and bus rapid transit; the Department of Homeland Security's program for mass transit security infrastructure; USDOT's TIGER program for infrastructure projects that generate economic development and improve access to reliable, safe and affordable transportation to communities; and the U.S. Environmental Protection Agency's National Clean Diesel Funding Assistance program for projects that protect human health and improve air quality by reducing harmful emissions from diesel engines.

On January 9, 2017, the FTA announced a federal grant of approximately \$1.07 billion to the Authority for the first phase of the RPM Phase One Project. The grant funds include a core capacity construction grant agreement for \$956.6 million through the FTA's Capital Investment Grant ("CIG") program, and approximately \$116.0 million through the USDOT's Congestion Mitigation and Air Quality program. The CIG funds will be provided over the course of nine years on an annual payment schedule, subject to Congressional approval during the annual appropriations process. The federal grant is included in the 2017-2021 Capital Improvement Plan.

TIFIA Loan Program. TIFIA established a federal credit program for eligible transportation projects under which the USDOT may provide three forms of credit assistance, i.e., secured (direct) loans, loan guarantees, and standby lines of credit. TIFIA was created because state and local governments that sought to finance large-scale transportation projects with tolls and other forms of user-backed revenue often had difficulty obtaining financing at reasonable rates due to the uncertainties associated with these revenue streams. The savings to the Authority from TIFIA financing come from two primary sources: (1) the Authority draws TIFIA funds on an "as needed" basis during the project, similar to a line of credit, rather than

accruing interest on funds before they are used, and (2) the interest rate on this borrowing is set at the federal government's rate, which, for Authority loans, have been 1.0 to 1.5 percent lower than traditional financing. TIFIA financing enhances the affordability of the debt and maximizes borrowing capacity.

The Authority has entered into federal TIFIA financing agreements for three major capital projects. In 2014, the Authority received a federal TIFIA loan for \$79.2 million as part of an overall \$280.0 million funding package to renovate the Red Line's 95th Street Terminal. In 2015, the Authority entered into a \$120.0 million TIFIA financing agreement to support the \$411.0 million "Your New Blue" program. The Authority's most recent agreement in 2016 provided \$254.9 million in funding to contribute to the contract budget totaling \$632.0 million to purchase four hundred new 7000-Series railcars. By adding TIFIA financing as a source for capital projects, the Authority can leverage existing federal, state, and local source funds with TIFIA financing to advance identified major projects, while also freeing up funds to be directed to other projects in the capital plan.

The Authority intends to apply for and obtain additional debt financing in the form of a TIFIA loan in the amount of up to \$622.0 million. However, in the event that a TIFIA loan is ultimately not available, it may be necessary to secure alternative debt financing which may include the issuance of sales tax revenue bonds. Should such alternative debt financing become necessary, the Chicago Transit Board has authorized the issuance of sales tax revenue bonds in lieu of a TIFIA loan.

Incremental property tax revenues generated within the Red and Purple Modernization Phase One TFIA will be used by the Authority to fund a portion of the RPM Phase One Project costs, including repayment of debt financing. Excess incremental property taxes from the Red and Purple Modernization Phase One TFIA are expected to be used to prepay debt obligations prior to maturity. Upon full retirement of debt obligations incurred to fund the RPM Phase One Project, the Red and Purple Modernization Phase One TFIA will be terminated.

State and Local Funding. Sources of State and local funding for capital projects included in the 2017-2021 Capital Improvement Plan and described below.

State Funding. Within the State, a number of grants are available through IDOT. Money is available to IDOT through federal funds in order to reduce motor vehicle, pedestrian, and bicycle crashes, fatalities, and injuries, and to increase safety for all users of the State's roadways. Transportation projects have traditionally been paid for out of user fees such as gas taxes and vehicle fees, those who use the transportation system pay for its construction and upkeep. The State transportation program includes funding from State transportation user fees, the federal gas tax proceeds and the state gas tax of 19 cents per gallon.

The traditional avenue for the State transit funding is through a legislative mandated bond program, generally for a five-year period. The current State Transportation Series "B" Bond fund was appropriated under two legislative programs: Illinois Jump Start, which was appropriated in fiscal year 2009 and has been authorized in part, and Illinois Jobs Now, which was appropriated and authorized in fiscal year 2010. The Authority's share from both legislative programs totals \$1.4 billion. The State of Illinois Jobs Now includes funding for mass transit agencies to replace, upgrade and enhance infrastructure system wide, and provided state funding

over a five-year period, which began in fiscal year 2010 and ended in fiscal year 2014. Through 2016, the Authority has been granted \$1.17 billion of funds in total from these programs. The remaining funds of \$220.9 million have not been authorized and funding has been delayed for two years due to the State's fiscal budget constraints and the lack of a dedicated source of revenue. The delay in the receipt of granted and programmed (promised) State funds has caused the Authority to delay a number of construction projects until receipt of funds are obtained. The Authority, over the last several years, provided its own source of funds by issuing bonds; allowing key projects to advance. The Authority needs a substantial contribution from the State of Illinois to effectively move forward with various new project initiatives and without a State source of funds, the Authority will be severely limited in addressing system Section 5337 Program needs. A new five-year State transit bond authorization will be required to provide the match for federal funds anticipated from FAST Act transit authorization from years 2017 through 2020. See "THE AUTHORITY – Operations – Public Funding."

RTA Bonds. The RTA proposes to issue bonds in fiscal years 2017 and 2020 for \$150.0 million and \$158.0 million, respectively. Proceeds will be made available for the three Service Boards to program for projects. The Authority's share of the bond proceeds will total \$75.0 million in fiscal year 2017 and \$79.0 million in 2020. As bonding capacity is made available from retirement of existing capital debt obligations, the RTA policy is to issue new long term capital debt of which the proceeds are meant to fund capital projects for each of the three Service Boards. Bond funds will be allocated as follows: 50 percent will go to the Authority, 45 percent to Metra, and 5 percent to Pace. Funding of the debt service for these bonds will be sourced from RTA Discretionary Funds.

RTA ICE. The RTA's ICE program is a competitive funding program which provides operating and capital assistance to enhance the coordination and integration of public transportation and to develop and implement innovations to improve the quality and delivery of public transportation. The Authority expects to receive ICE program funds in 2018 and 2019.

Transit TIF. The Illinois Tax Increment Allocation Redevelopment Act, 65 ILCS 5/11-74.4-1 et seq. (the "**TIF Act**") was amended, effective August 12, 2016, to allow a municipality to (i) establish a transit facility improvement area (a "**TFIA**") and (ii) establish, within a TFIA, a redevelopment project area (a "**Transit TIF District**" or "**RPA**") for purposes of financing rehabilitation or expansion of existing and/or development of new public transit passenger stations; public transit maintenance, storage or service facilities; and public rights of way for use in providing transit (collectively, "**Transit Facilities**") through the use of incremental property tax revenues generated within the Transit TIF District.

A Transit TIF District has some important differences from other TIF districts established under the TIF Act. Most notably, in a Transit TIF District, the incremental property tax revenues that would otherwise be paid to the local school district absent the establishment of a Transit TIF District are still paid to the school district. Further, of the remaining incremental property tax revenues, 80% is available to finance Transit Facilities, and 20% is distributed to the various local taxing districts other than the school district. Finally, a Transit TIF District can be established without the need to satisfy the various "blighted area" criteria that otherwise must be satisfied in connection with the establishment of TIF districts.

Pursuant to authority granted by the amended TIF Act, on November 30, 2016, the City of Chicago (i) established the Red and Purple Modernization Phase One TFIA, (ii) approved the Red and Purple Modernization Phase One Project Redevelopment Plan (“**Redevelopment Plan**”), and (iii) created the Red and Purple Modernization Phase One Project Redevelopment Project Area (the “**RPM Phase One RPA**”) to finance, in part, the Red and Purple Modernization Phase One Project (“**RPM Phase One Project**”). On the same date, the City of Chicago and the Authority entered into a Redevelopment and Intergovernmental Agreement whereunder available incremental property tax revenues will be used (a) to pay principal and interest on up to \$622.0 million of debt financing or pay-as-you-go costs incurred by the Authority with respect to the RPM Phase One Project, and (b) to reimburse the Authority up to \$3.0 million for certain transaction costs. The \$622.0 million in RPM Phase One Project costs represents a portion of the local match required to obtain an approximately \$957.0 million full funding grant agreement from the FTA for the RPM Phase One Project under the FTA’s 5309 Core Capacity program. See “—**FEDERAL FUNDING—FTA Programs**” above.

The Authority intends to apply for and obtain additional debt financing in the form of a TIFIA loan in the amount of up to \$622.0 million. However, in the event that a TIFIA loan is ultimately not available, it may be necessary to secure alternative debt financing which may include the issuance of sales tax revenue bonds. Should such alternative debt financing become necessary, the Chicago Transit Board has authorized the issuance of sales tax revenue bonds in lieu of a TIFIA loan.

Incremental property tax revenues generated within the Red and Purple Modernization Phase One TFIA will be used by the Authority to fund a portion of the RPM Phase One Project costs, including repayment of debt financing. Excess incremental property taxes from the Red and Purple Modernization Phase One TFIA are expected to be used to prepay debt obligations prior to maturity. Upon full retirement of debt obligations incurred to fund the RPM Phase One Project, the Red and Purple Modernization Phase One TFIA will be terminated.

Authority Funds. Authority funds available for capital projects generally consist of proceeds from positive budget variance, insurance settlement agreements, and/or sale of assets. The 2017-2021 Capital Improvement Plan assumes the use of Authority funds for capital projects in 2017, 2018 and 2019.

Authority Bonds for RPM. Since fiscal year 2004, when the Authority issued its first series of capital bonds, Authority bonds have provided an internally generated source of capital funds for Section 5337 Program projects. The Authority bond financing program continues to be a strategically important supplement to the federal program. Through the issuance of bonds, supported by Sales Tax Receipts, RTA formula funds, federal grants or other State and local sources, the Authority can advance critically important projects which otherwise would need to be deferred for years and significantly increase system maintenance costs with continual degradation of assets. The Capital Improvement Plan for 2017-2021 includes \$287.3 million in bonds backed by Sales Tax Receipts. A bond issue is currently planned in 2018 to fund a portion of the Authority’s RPM Phase One Project, but the actual timing of such bond issue will be determined by the RPM Phase One Project need and schedule.

Unfunded Capital Needs. The RTA’s asset condition assessment originally prepared in 2010 and last updated at the end of 2014 defines the Northeastern Illinois Transit Region’s total capital reinvestment needs over a 10-year period estimated at \$36.1 billion, which includes investment needs for the Authority, Metra, and Pace. According to the RTA’s analysis, the Authority’s share of this total 10-year reinvestment need is \$22.2 billion or 58.3 percent of the total regional amount. This includes \$12.9 billion to address existing backlog and an additional \$9.2 billion to address normal reinvestment needs expected over the 10-year period. Approximately 58.0 percent of the Authority’s reinvestment needs are to address assets that are past their useful life. The Authority’s total 10-year reinvestment need of \$22.2 billion is split between approximately 82.0 percent for rail and 18 percent for bus assets. The shortage of capital funds needed to support the region’s systems will continue to present significant challenges for the region and specifically for the Authority to reduce the number of assets beyond their useful life benchmarks. The Authority continues investing in upgrading or replacing system assets, yet the unfunded capital need continues to grow with each year. Even if the entire capital backlog was funded, the Authority estimates a need of \$950.0 million annually just to keep the system in a state of good repair. The average capital funding level over the period 2017 to 2021 is \$689.3 million.

Pension and Other Post-Employment Benefit Obligations

Retirement Plan. The Authority contributes to the Retirement Plan for Chicago Transit Authority Employees, a single-employer defined benefit pension plan covering substantially all full-time permanent union and non-union employees (the “**Retirement Plan**”). The Retirement Plan was first established by an agreement between the Authority and its collective bargaining units in 1949 (“**Plan Agreement**”), which has since been amended and is currently governed by Section 22-101 of the Illinois Pension Code (40 ILCS 5/22-101) (the “**Pension Code**”). The Authority’s contributions to the Retirement Plan and benefits for participants in the Retirement Plan are governed by the Plan Agreement and the Pension Code. Information relating to the Retirement Plan is set forth in **APPENDIX D—“CHICAGO TRANSIT AUTHORITY FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION YEARS ENDED DECEMBER 31, 2016 AND 2015, Note 13—Employees’ Retirement Plan Pension Disclosures”** and **APPENDIX E—“PENSION PLANS AND POST-EMPLOYMENT HEALTHCARE.”**

The Retirement Plan is governed by an 11-member Board of Trustees (the “**Retirement Board**”) established under the Pension Code, which is separate and distinct from the Chicago Transit Board and the RTA Board. The Retirement Plan’s primary sources of funding come from the Authority’s contributions, the employees’ contributions, and investment income on the Retirement Plan’s assets. The amount of benefits payable to participating employees under the Retirement Plan and the calculation of the Authority and employee contribution amounts, and certain other provisions of the Retirement Plan are established under and governed by the Plan Agreement and the Pension Code.

Under amendments to the Pension Code adopted by the Illinois General Assembly in 2008, the funding of the Retirement Plan is subject to the following requirements:

- For each year through 2039, the estimated “funded ratio” of the Retirement Plan, which is the actuarial value of assets divided by the actuarial accrued liability,

expressed as a percentage, must be at least 60%. If the funded ratio is projected to decline below 60% in any year before 2040, increased contributions will be required each year as a level percentage of payroll over the years remaining until 2040 so that the funded ratio does not decline below 60%.

- If the funded ratio actually declines below 60% in any year prior to 2040, increased contributions will be required each year as a level percentage of payroll during the years after the then current year so that the funded ratio is projected to reach at least 60% no later than 10 years after the then current year.
- Beginning in 2040, the minimum annual contribution to the Retirement Plan must be sufficient to bring the funded ratio to 90% by the end of 2059.
- Beginning in 2060, the minimum contribution must be an amount necessary to maintain the funded ratio at 90%.
- Two-thirds of any increase in required contributions is to be paid by the Authority and one-third by participating employees.

The funded ratio for the Retirement Plan remained below 60% for 2015 as a result of lower than expected investment returns. The Retirement Board has budgeted for an additional Authority contribution of \$24.3 million for 2017, and the Authority's contribution will increase by an additional \$4.0 million to \$6.0 million per year through 2025, when the funded ratio is projected to meet the 60% funding requirement under the Pension Code.

The Authority's minimum contributions and the employee contributions, determined pursuant to the statutorily prescribed formulas under the Pension Code, do not equal the annual required contribution, or ARC, as determined by the independent actuary engaged by the Retirement Plan. The Pension Code's contribution requirements are at a level below the ARC and have resulted in an unfunded actuarial accrued liability of \$1,523.9 million as of January 1, 2016. See **APPENDIX E—“PENSION PLANS AND POST-EMPLOYMENT HEALTHCARE—Background Information Regarding the Retirement Plan—*Determination of Authority's Contributions.*”**

In 2008, the Authority issued Pension Bonds in two series in an aggregate amount of \$1,936.9 million. Proceeds of the Pension Bonds in the amount of approximately \$1,110.5 million were deposited in the Retirement Plan, and proceeds in the amount of approximately \$529.0 million were deposited into the RHCT (defined below). See **“THE AUTHORITY—Debt Obligations—Outstanding Long-Term Debt Obligations—Sales Tax and Transfer Tax Receipts Revenue Bonds.”** The Pension Bonds were issued in part to fund a contribution to the Retirement Plan in order to increase the funded ratio of the Retirement Plan and to fully fund the Retiree Health Care Trust (“RHCT”). The Authority is obligated to make level annual debt service payments of \$156.6 million through 2040 on the Pension Bonds. The Pension Code provides that the Authority's required annual contributions to the Retirement Plan are reduced by the amount of yearly debt service paid on the Pension Bonds up to a maximum of 6% of total employee compensation paid by the Authority for the year.

The funding mechanisms for the Retirement Plan can be distinguished in a number of respects from the retirement plans of other area governmental units, including plans currently in place for employees of the City of Chicago, Cook County and the Chicago Public Schools. First, the Pension Code requires the Authority to make contributions in amounts necessary to maintain target funded ratios that align with benefits earned under the Retirement Plan. The plans of certain other area governmental units base employer contributions on a multiple of employee contributions which has resulted in significant underfunding of the plans on an actuarial basis. Second, by making a large contribution to the Retirement Plan in 2008 with a portion of the proceeds of the Pension Bonds, the Authority was in effect able to convert uncertain or variable future contributions to level debt service payments on the Pension Bonds through 2040. Third, the Pension Code eliminates any discretionary action on the part of the Authority with respect to plan contributions by requiring the RTA to withhold funds otherwise distributable to the Authority if the Authority fails to meet its full payment obligations. Lastly, the funding formula for the Retirement Plan, in place since 2008, has not been challenged in the Illinois courts as have the more recent legislative pension reforms undertaken on behalf of other area governmental units.

Supplemental Pension Plans. In addition to the Retirement Plan, the Authority maintains three non-statutory, single-employer defined benefit pension plans for a limited number of selected employees (collectively, the “**Supplemental Pension Plans**”). The Supplemental Pension Plans are operated separately from the Retirement Plan and closed to new participants. Descriptions of the Supplemental Pension Plans can found in **APPENDIX D—“CHICAGO TRANSIT AUTHORITY FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION YEARS ENDED DECEMBER 31, 2016 AND 2015,” Note 14—Supplemental Plans Pension Disclosures.**”

Health Care Benefits. Prior to 2008, retiree health care benefits were administered by the Retirement Plan pursuant to collective bargaining agreements (“**CBAs**”) between the Authority and the labor unions representing Authority employees (“**Unions**”). In 2007, the Authority and its Unions agreed as part of an interest arbitration award (the “**2007 CBA**”) that the responsibility for retiree health care benefits would be transferred to a separate and newly-created RHCT. This agreement was codified in 2008 amendments to the Pension Code. As required by the parties’ agreement, the Authority contributed \$529.0 million in seed money to the RHCT from proceeds of the Pension Bonds, and the parties to the 2007 CBA confirmed that the obligation of the Authority and the Retirement Plan to provide or fund retiree health care benefits was terminated. Thereafter, the RHCT required subsidy of healthcare premiums from retirees. In *Matthews et al. v. Chicago Transit Authority et al.*, 11 CH 15446 (2014), a group of retirees and Authority employees claimed that, due to changes in retiree healthcare arising under the 2007 CBA, the Authority, the Retirement Plan and the RHCT breached certain contractual and constitutional obligations to provide retiree healthcare benefits. In May 2015, the parties argued all issues in the case before the Illinois Supreme Court, which issued its opinion on May 5, 2016. The Court held that Class I retirees (hired before September 5, 2001 and retired before January 1, 2007) have standing to challenge the enforceability of the 2007 CBA as it relates to retiree healthcare benefits but that Class II Authority employees who were hired before September 5, 2001 and retired after January 1, 2007 (or remain as current employees of the Authority) lacked standing to challenge the enforceability of those provisions of the 2007 CBA. The Court dismissed any remaining claims against the Authority, while the claims against the Retirement Plan and RHCT were remanded to the Circuit Court for further proceedings. Any

judgment against the RHCT would have no impact against the Authority. A judgment against the Retirement Plan could have an impact on the Authority if the judgment causes the Retirement Plan's assets to fall below the statutorily required funded ratio because the Authority and its employees could be required under the Pension Code to increase their contributions to the Retirement Plan to address such a shortfall. See **APPENDIX E—“PENSION PLANS AND POST-EMPLOYMENT HEALTHCARE—Background Information Regarding the Retirement Plan- Determination of Authority’s Contribution.”**

CERTAIN INVESTMENT CONSIDERATIONS

Attention should be given to the investment considerations described below, which, among others, could affect the ability of the Authority to pay principal of and interest on the Series 2017 Bonds, and which could also affect the marketability of, or the market price for, the Series 2017 Bonds to an extent that cannot be determined.

The purchase of the Series 2017 Bonds involves certain investment considerations that are discussed throughout this Official Statement. Certain of these investment considerations are set forth in this section for convenience and are not intended to be a comprehensive compilation of all possible investment considerations nor a substitute for an independent evaluation of the information presented in the Official Statement. **Each prospective purchaser of any Series 2017 Bonds should read this Official Statement in its entirety and consult such prospective purchaser’s own investment and/or legal advisor for a more complete explanation of the matters that should be considered when purchasing investments such as the Series 2017 Bonds.**

Limited Obligations

The Series 2017 Bonds are limited obligations of the Authority issued pursuant to the Act and the Local Government Debt Reform Act. The Series 2017 5307 Bonds are payable solely from and secured solely by (i) 5307 Grant Receipts, and (ii) amounts on deposit in the funds and accounts established under the 5307 Indenture (except the Rebate Fund established under the 5307 Indenture), including investment earnings thereon. The Series 2017 5337 Bonds are payable solely from and secured solely by (i) 5337 Grant Receipts, and (ii) amounts on deposit in the funds and accounts established under the 5337 Indenture (except the Rebate Fund established under the 5337 Indenture), including investment earnings thereon.

The Series 2017 Bonds are not general obligations of the Authority and the revenues of the Authority (other than as described above) are not pledged for the payment of the Series 2017 Bonds or the interest thereon. The Indentures create no liens upon any physical properties of the Authority. The Act provides that the Series 2017 Bonds are not, and shall not be or become, an indebtedness or obligation of the State of Illinois or any political subdivision of the State (other than the limited obligation of the Authority) or of any municipality within the State, nor shall any Series 2017 Bond be or become an indebtedness of the Authority within the purview of any constitutional limitation or provision. The Authority has no taxing power.

Uncertainties in Receipt of Sufficient Grant Receipts

There can be no assurance that sufficient 5307 Grant Receipts will be received by the Authority to pay the debt service on the 5307 Bonds, including the Series 2017 5307 Bonds, when due. There can be no assurance that sufficient 5337 Grant Receipts will be received by the Authority to pay the debt service on the 5337 Bonds, including the Series 2017 5337 Bonds, when due.

While the Authority believes that sufficient 5307 Grant Receipts and 5337 Grant Receipts will be received to pay debt service on the respective series of the 5307 Bonds and 5337 Bonds, including the Series 2017 Bonds, to their maturity, various factors beyond the control of the Authority may affect such receipts, including, without limitation non-reauthorization of future federal transportation legislative programs, federal budgetary limitations and other possible changes in the Federal Transit Program, the Authority's continued eligibility and application for such funding and changes in the allocation by the RTA of its Formula Funds among the Service Boards. In addition, the calculation of the annual apportionment under the Federal Transit Program from which the Grant Receipts are paid is based on a formula that takes into account, among other factors, transit properties, the transit services provided and the degree such services are utilized. Actions that the Authority may take as a result of its budgetary decisions, such as decreases in the amounts devoted to capital purposes, service cuts or fare increases, may have a negative impact on these components of the formula used to calculate the annual apportionment resulting in a decrease in the amount of federal transit funds available to the Authority for Grant Receipts. See **"FEDERAL TRANSIT PROGRAM."**

Uncertainties in Federal Transit Program and Funding

Legislative Authorization. Congressional authorization of the Federal Transit Program, historically has been provided on a multi-year basis to permit grant recipients more certainty in planning long-term transit projects. On December 4, 2015, President Obama signed the FAST Act, authorizing transit funds for federal fiscal years 2016 through fiscal year 2020. Each year, new appropriation legislation must be passed to appropriate general federal revenues that will fund transit programs and set an obligation limitation that allows expenditure of funds from the MTA of the HTF for transit programs to fund grants under the federal transit programs, including the Section 5307 Program and the Section 5337 Program. Congress approved FFY 2017 appropriations to maintain highway, transit, aviation, rail and waterway programs and provided another \$500 million for the USDOT's TIGER infrastructure grants. The bipartisan agreement allows state departments of transportation and transit agencies to access funding hikes Congress previously authorized and paid for in the FAST Act, such increases totaling \$1 billion for highway programs and \$400 million for transit. On March 16, 2017, President Trump's administration released a preliminary FFY 2018 budget proposal, which details proposed changes to the Federal government's spending. The proposal covers only discretionary, not mandatory, spending. The Federal Transit Program may be negatively impacted under President Trump's proposed FFY 2018 spending plan. As of the date of this Official Statement, the Authority has no assurance that the current authorizations and appropriations will be extended, that new authorizations and appropriations will be approved, or that additional fund transfers to the HTF and MTA will be authorized in the near term.

Dedicated Motor Fuel Tax Funding of Federal Transit Program. Historically, funding of the Federal Transit Program was provided by dedicated Motor Fuel Tax Revenues that are deposited in the MTA of the HTF in the federal treasury. Since 2008, dedicated Motor Fuel Tax Revenues have declined and have not been sufficient to fund the level of federal appropriations for the Federal Transit Program.

One significant factor affecting the availability of Motor Fuel Tax Revenues in the HTF is the decline in vehicle miles traveled (“VMT”) since 2007, which impacts revenue from gasoline and diesel fuel sales. Decline in VMT and increases in vehicle fuel economy will have an adverse impact on the HTF. On August 28, 2012 the USDOT and the U.S. Environmental Protection Agency implemented new corporate average fuel economy standards that increased the standard from the 2016 standard of 35.5 mpg to a standard of 54.5 mpg in 2025. The availability of Motor Fuel Tax Revenues in the HTF can also be affected by the rate of expenditure of moneys in the HTF as well as a number of other revenue-impacting factors.

General Fund Appropriations to HTF. In recent years total federal allocations for transportation projects has exceeded funding available from dedicated Motor Fuel Tax Revenues and other sources. Shortfalls have been made up from transfers from the federal General Fund. In response to shortfalls predicted by the Congressional Budget Office as well as other governmental entities, Congress transferred from the General Fund of the United States Treasury to the HTF in FFYs 2008, 2009 and 2010 an aggregate total of approximately \$34.5 billion, of which approximately \$5 billion was provided to the MTA within the HTF. These actions allowed state departments of transportation to continue to meet their financial obligations and sustain hundreds of millions of dollars of construction projects that had been put on hold after U.S. Secretary of Transportation Mary Peters announced on September 5, 2008 that federal-aid payments to the states would be partially withheld because of a shortage of funds. MAP-21 provided for additional transfers from the General Fund of the United States Treasury to the HTF of \$6.2 billion in FFY 2013 and \$12.8 billion in FFY 2014, of which \$2.2 billion was provided to the MTA. In addition, MAP-21 transferred \$2.4 billion from the Leaking Underground Storage Tank Trust Fund to the HTF. The FAST Act also transfers into the HTF additional funds to keep the Fund solvent through the end of FY 2020. These include transfers from the General Fund and from the Leaking Underground Storage Tank Trust Fund. The FAST Act includes other provisions and revenue raisers to offset the cost of the transfers made to the HTF. However, reform of the way highway programs are funded remains a challenge for the future. There is no assurance that subsequent transfers will continue.

Federal Budget Issues; Sequestration. The Budget Control Act of 2011 (the “BCA”) mandates significant reductions and spending caps on the federal budget for the federal fiscal years 2012-2021. The BCA also created a Joint Select Committee on Deficit Reduction (the “**Super Committee**”) to develop a plan by November 23, 2011 to further reduce the federal deficit in the amount of \$1.5 trillion. As the Super Committee failed to act, the BCA mandated that a 2% reduction in certain governmental spending was triggered to take effect on January 2, 2013. Certain prior transfers from the General Fund of the United States Treasury to the HTF were subject to such reduction. See “**FEDERAL TRANSIT PROGRAM — Funding of Federal Transit Program - Sequestration**” herein.

Absent further Congressional action, these automatic spending cuts will become permanent. Because Congress may make changes to the budget in the future, it is impossible to predict the impact any spending cuts may have upon the Authority and its receipt of Grant Receipts, and its ability to pay debt service on the Series 2017 Bonds and Parity Obligations.

Terms of the Federal Transit Program. The terms and conditions of the Authority's participation in the Federal Transit Program are subject to change at the discretion of Congress. There can be no assurance that the laws and regulations now governing the program will not be changed in the future in a manner than could adversely affect the ability of the Authority to timely receive sufficient Grant Receipts in amounts sufficient to make payments of scheduled debt service on the 5307 Bonds and the 5337 Bonds, including the Series 2017 Bonds, when due.

Uncertainties Regarding the Authority's Participation in the Federal Formula Programs

Authority Actions Impacting Formula Funds. The annual apportionment under the Federal Transit Program of Section 5307 Formula Funds and Section 5337 Formula Funds to transit agencies, including the Authority, is based on a formula that takes into account, among other factors, transit properties, the transit services provided and the degree such services are utilized. Actions that the Authority may take as a result of its budgetary decisions, such as decreases in the amounts devoted to capital purposes, service cuts or fare increases, may have a negative impact on these components of the formula used to calculate the annual apportionment resulting in a decrease in the amount of federal transit funds available to the Authority for Grant Receipts. In addition, the receipt of Formula Funds is dependent on the funding of required matching funds for the Project by the Authority. The Authority expects to continue to receive transportation development credits to use as a "soft-match." See **"FEDERAL TRANSIT PROGRAM - Authority Participation in Section 5307 and Section 5337 Formula Programs**

Failure to Maintain Eligibility for Formula Funds. Failure to maintain general eligibility for the receipt of federal funds under the Section 5307 Program and the Section 5337 Program could prevent the Authority from receiving Grant Receipts sufficient to pay debt service on the 5307 Bonds and the 5337 Bonds, including the Series 2017 Bonds, when due. The Authority has covenanted in each Indenture to comply with all applicable laws of the United States of America and regulations of the FTA relating to the administration and disbursement of federal funds under the Section 5307 Program and the Section 5337 Program in order to be eligible to receive Grant Receipts for the payment of the Series 2017 Bonds and to facilitate the prompt receipt of such Grant Receipts.

RTA Allocation to the Authority

The RTA determines the allocation between the three Service Boards of the Section 5307 Formula Funds and Section 5337 Formula Funds annually available to Illinois from the Local Urbanized Area. While this allocation has been performed in accordance with a policy put in place by the RTA, no assurance can be given that this policy (i) will not be deviated from on an exception basis, (ii) will not change in the future, or (iii) would maintain, if changed, the proportionate share the Authority receives under the current policy.

Lockbox Amendment

On November 8, 2016, the voters of Illinois approved a ballot measure amending the Illinois Constitution (the “**Lockbox Amendment**”) that added a new section to the Revenue Article of the Illinois Constitution. The Lockbox Amendment provides that no moneys derived from taxes, fees, excises, or license taxes, relating to registration, titles, operation, or use of vehicles or public highways, roads, streets, bridges, mass transit, intercity passenger rail, ports, or airports, or motor fuels, including bond proceeds, shall be expended for other than costs of administering laws related to vehicles and transportation, costs for construction, reconstruction, maintenance, repair, and betterment of public highways, roads, streets, bridges, mass transit, intercity passenger rail, ports, airports, or other forms of transportation, and other statutory highway purposes, including the State or local share to match federal aid highway funds. At the present time, the Authority has no information upon which the Authority can assess whether the Lockbox Amendment will have any impact, positive or negative, on the Authority.

Bankruptcy

Municipalities cannot file for protection under the U.S. Bankruptcy Code unless specifically authorized to be a debtor by state law or by a governmental officer or organization empowered by state law to authorize such entity to be a debtor in a bankruptcy proceeding. Illinois law does not currently permit municipalities in Illinois to file for bankruptcy; however, legislation has been introduced in the Illinois General Assembly which, if enacted, would permit Illinois municipalities to file for bankruptcy under the U.S. Bankruptcy Code. No assurance can be provided as to whether any such legislation that would permit municipalities such as the Authority to file for bankruptcy will be enacted into law.

No Secondary Market

There can be no assurance that a secondary market for the Series 2017 Bonds will be established, maintained or functioning. Accordingly, each purchaser should expect to bear the risk of the investment represented by the Series 2017 Bonds to maturity.

Limitations on Remedies of Bondholders

The remedies available upon an event of default under either Indenture are in many respects dependent upon judicial actions which are often subject to discretion and delay. The various legal opinions to be delivered concurrently with the delivery of the Series 2017 Bonds will be qualified as to the enforceability of the various documents by bankruptcy, insolvency or other similar laws affecting the rights of creditors generally.

No Acceleration Provision

Neither Indenture contains a provision allowing for the acceleration of the series of the Series 2017 Bonds issued thereunder in the event of a default in the payment of principal of and interest on such series of the Series 2017 Bonds when due. In the event of a default under an Indenture, each Bondholder under such Indenture will have the right to exercise the remedies provided in such Indenture. See **APPENDIX A -- “DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURES – SUMMARY OF CERTAIN**

**PROVISIONS OF THE 5307 INDENTURE - Events of Default and Remedies” and “-
SUMMARY OF CERTAIN PROVISIONS OF THE 5337 INDENTURE – Events of
Default and Remedies.”**

Loss of Tax Exemption

Interest on the Series 2017 Bonds could become includable in federal gross income, possibly from the date of issuance of the Series 2017 Bonds, as a result of acts or omissions of the Authority subsequent to the issuance of the Series 2017 Bonds. Interest on the Series 2017 Bonds also could become subject to federal and/or State income tax as a result of changes of law. See “**TAX MATTERS**” herein. Should interest become includable in federal gross income, the Series 2017 Bonds are not subject to mandatory redemption by reason thereof and may remain outstanding until maturity.

LEGAL MATTERS

Legal matters incident to the issuance of the Series 2017 Bonds are subject to the approving opinions of Mayer Brown LLP, Chicago, Illinois, Bond Counsel. The proposed forms of the opinions to be delivered by Bond Counsel are attached hereto as **APPENDIX F**. Approval of certain other legal matters will be passed upon for the Authority by its General Counsel, and by Charity & Associates, P.C., Chicago, Illinois, Disclosure Counsel, and for the Underwriters by Chapman and Cutler LLP, Chicago, Illinois, Underwriters’ Counsel.

TAX MATTERS

Interest Not Exempt From State of Illinois Income Taxes

Interest on the Series 2017 Bonds is not exempt from present State of Illinois income taxes. Ownership of the Series 2017 Bonds may result in other state and local tax consequences to certain taxpayers. Bond Counsel expresses no opinion regarding any such collateral consequences arising with respect to the Series 2017 Bonds. Prospective purchasers of the Series 2017 Bonds should consult their own tax advisors regarding the application of any such state and local taxes.

Certain United States Federal Income Tax Consequences

The following is a summary of the principal United States federal income tax consequences of ownership of the Series 2017 Bonds. It deals only with the Series 2017 Bonds held as capital assets by initial purchasers, and not with special classes of holders, such as dealers in securities or currencies, banks, tax-exempt organizations, life insurance companies, persons that hold the Series 2017 Bonds that are a hedge or that are hedged against currency risks or that are part of a straddle or conversion transaction, persons that are not citizens or residents of the United States or persons whose functional currency is not the U.S. dollar. The summary is based on Bond Counsel’s review of the Code, its legislative history, existing and proposed regulations thereunder, published rulings and court decisions, all as currently in effect and all subject to change at any time, perhaps with retroactive effect.

The Code contains a number of provisions relating to the taxation of securities such as the Series 2017 Bonds (including but not limited to the tax treatment of and accounting for interest, premium, original issue discount and market discount thereon, gain from the sale, exchange or other disposition thereof and withholding and backup withholding tax on income therefrom) that may affect the taxation of certain owners, depending on their particular tax situations. Prospective purchasers of the Series 2017 Bonds should consult their own tax advisors concerning the consequences, in their particular circumstances, under the Code and the laws of any other taxing jurisdiction, of ownership of the Series 2017 Bonds.

Summary of Bond Counsel Opinions

Mayer Brown LLP, Bond Counsel, is of the opinion that under existing law, interest on the Series 2017 Bonds is excludable from the gross income of the owners thereof for federal income tax purposes assuming the accuracy of the certifications of the Authority and continuing compliance by the Authority with the requirements of the Code. In addition, interest on the Series 2017 Bonds is not an item of tax preference for purposes of computing individual or corporate alternative minimum taxable income. Interest on the Series 2017 Bonds is, however, taken into account as earnings and profits of a corporation when computing, for example, corporate alternative minimum taxable income for purposes of the corporate alternative minimum tax. Prospective purchasers of the Series 2017 Bonds should consult their own tax advisors as to the federal, state and local tax consequences of their acquisition, ownership or disposition of, or the accrual or receipt of interest on the Series 2017 Bonds.

In rendering the foregoing opinions, Bond Counsel will rely on, and will assume the accuracy of, certain representations and certifications and compliance with certain covenants of the Authority and the Trustee contained in various documents included in the transcript of proceedings, which are intended to evidence and assure that the Series 2017 Bonds are and will remain obligations the interest on which is excluded from gross income for federal income tax purposes. Bond Counsel will not independently verify the accuracy of such certifications and representations and will not monitor compliance with such covenants.

The Code prescribes a number of qualifications and conditions for the interest on state and local government obligations to be and remain excluded from gross income for federal income tax purposes. Some of these require continued compliance after the issuance of the Series 2017 Bonds in order for the interest to be and continue to be so excluded from the date of issuance. Noncompliance with such requirements could cause the interest on the Series 2017 Bonds to be included in gross income for federal income tax purposes, in some cases, effective from the date such Series 2017 Bonds are initially issued. The Authority has covenanted in each Indenture to not take any action or knowingly permit any action on its part to be taken which would cause the interest on the Series 2017 Bonds to be included in the gross income of the owners of the Series 2017 Bonds for federal income tax purposes.

Under the Code, interest on the Series 2017 Bonds earned by certain foreign corporations doing business in the United States could be subject to the branch profits tax imposed by Section 884 of the Code, and interest on the Series 2017 Bonds could be subject to the tax imposed by Section 1375 of the Code on excess net passive income of certain S corporations. Under the Code, the receipt of interest excluded from gross income for federal income tax purposes can have certain collateral federal income tax consequences, adversely affecting items of income,

deductions or credits for certain taxpayers, including financial institutions, property and casualty insurance companies, recipients of Social Security and Railroad Retirement benefits, individuals otherwise eligible for the earned income credit and taxpayers who are deemed to incur or continue indebtedness to acquire or carry tax-exempt obligations. Bond Counsel expresses no opinion regarding any such collateral consequences arising with respect to the Series 2017 Bonds. Prospective purchasers of the Series 2017 Bonds should consult their own tax advisors on the application of such collateral consequences.

Further, from time to time, legislative proposals are pending in Congress which, if enacted, would alter or amend one or more of the federal tax consequences referred to above in certain respects or would adversely affect the market value of the Series 2017 Bonds. It cannot be predicted whether or in what form any such proposal may be enacted, and there can be no assurance that such proposal would not apply to obligations (such as the Series 2017 Bonds) issued prior to enactment of such proposal. Prospective purchasers of the Series 2017 Bonds should consult their own tax advisors regarding any pending or proposed federal tax legislation.

Bond Counsel's opinions are based on existing law, which is subject to change. Such opinions are further based on factual representations made to Bond Counsel as of the date thereof. Bond Counsel assumes no duty to update or supplement its opinions to reflect any facts or circumstances that may thereafter come to Bond Counsel's attention or to reflect any changes in law that may thereafter occur or become effective. The opinions of Bond Counsel express the professional judgment of Bond Counsel regarding the legal issues expressly addressed therein. By rendering its legal opinion, Bond Counsel does not become an insurer or guarantor of the result indicated by that expression of professional judgment, of the transaction on which the opinion is rendered or of the future performance of the parties to the transaction nor does the rendering of the opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

Original Issue Discount

An amount equal to the excess of the stated redemption price at maturity of any Series 2017 Bonds (the "**Discount Bonds**") over the issue price (the "**Offering Price**") of such Discount Bonds, will be treated as "*original issue discount.*" A bond's stated redemption price at maturity is the aggregate of all payments required to be made on the bond except "*qualified stated interest.*" Qualified stated interest is generally interest that is unconditionally payable in cash or property, other than debt instruments of the issuing entity, at fixed intervals of one year or less during the entire term of the instrument at an interest rate or rates that satisfy requirements under the Treasury Regulations. The Offering Price will be the first price at which a substantial amount of the bonds are sold to the public, excluding sales to bond houses, brokers or similar persons acting as underwriters, placement agents or wholesalers. With respect to a taxpayer who purchases a Discount Bond in the initial public offering at the Offering Price and who holds such Discount Bond to maturity, the full amount of original issue discount will constitute interest which is not includible in the gross income of the owner of such Discount Bond for Federal income tax purposes to the same extent as current interest and will not be treated as taxable capital gain upon payment of such Discount Bond upon maturity. The Offering Price of the Series 2017 Bonds was not at a discount.

Market Discount

If a Series 2017 Bond is purchased at any time for a price that is less than the Series 2017 Bond's Offering Price plus accrued original issue discount, if any, the purchaser may be treated as having purchased the Series 2017 Bond with market discount subject to the market discount rules of the Code (unless a statutory de minimis rule applies). Accrued market discount is treated as taxable ordinary income and is recognized when a Series 2017 Bond is disposed of (to the extent such accrued discount does not exceed gain realized) or, at the purchaser's election, as it accrues. The applicability of the market discount rules may adversely affect the liquidity or secondary market price of such Series 2017 Bond. Purchasers should consult their own tax advisors regarding the potential implications of the market discount rules with respect to the Series 2017 Bonds.

Bond Premium

An amount equal to the excess of the purchase price of a Series 2017 Bond over the stated redemption price payable at maturity of such Series 2017 Bond constitutes amortizable bond premium that may not be deducted for Federal income tax purposes. For purposes of determining gain or loss on the sale or other disposition of such Series 2017 Bond, the tax basis of each Series 2017 Bond is decreased by the amount of the bond premium that has been amortized. Bond premium is amortized by offsetting the interest on the Series 2017 Bond allocable to an accrual period with the bond premium allocable to the accrual period. The bond premium allocable to an accrual period is the excess of the interest on the Series 2017 Bond allocable to the accrual period over the product of the owner's adjusted acquisition price at the beginning of the accrual period and the owner's yield (determined on the basis of a constant yield over the term of the Series 2017 Bond). If the bond premium allocable to an accrual period exceeds the interest on the Series 2017 Bond allocable to the accrual period, the excess is a nondeductible loss for Federal income tax purposes that reduces the owner's basis in such Series 2017 Bond.

Sale and Retirement of the Series 2017 Bonds

Holdings of the Series 2017 Bonds will recognize gain or loss on the sale, redemption, retirement or other disposition of such Series 2017 Bonds. The gain or loss is measured by the difference between the amount realized on the disposition of the Series 2017 Bond and the holder's adjusted tax basis in the Series 2017 Bond. Such gain or loss will be capital gain or loss, except to the extent of accrued market discount not previously included in income, and will be long term capital gain or loss if at the time of disposition such Series 2017 Bond has been held for more than one year.

Backup Withholding and Information Reporting

Information reporting will apply to payments of the proceeds of the sale or other disposition of the Series 2017 Bond with respect to certain non-corporate holders, and backup withholding may apply unless the recipient of such payment supplies a taxpayer identification number, certified under penalties of perjury, as well as certain other information or otherwise establishes an exemption from backup withholding. Any amounts withheld under the backup withholding rules may be allowed as a refund or a credit against that holder's U.S. federal income tax liability provided the required information is furnished to the IRS.

LITIGATION

There is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, regulatory agency, public board or body, pending or, to the knowledge of the Authority, threatened against the Authority in any way affecting the existence of the Authority or the titles of its officers to their respective offices or seeking to restrain or to enjoin the issuance, sale or delivery of the Series 2017 Bonds, the application of the proceeds thereof in accordance with the Indentures, or the collection or application of Grant Receipts or other moneys to be pledged to pay the principal of and interest on the Series 2017 Bonds, or the pledge thereof, or in any way contesting or affecting the validity or enforceability of the Series 2017 Bonds, the Indentures or any other agreement entered into in connection therewith, or in any way contesting the completeness or accuracy of this Official Statement or the powers of the Authority or its authority with respect to the Series 2017 Bonds, or the Indentures or any other agreement entered into in connection therewith.

RATINGS

The Series 2017 5307 Bonds have been assigned the ratings of "A" (stable outlook) by Standard & Poor's Global Ratings, and "BBB" (stable outlook) by Fitch Ratings. The Series 2017 5337 Bonds have been assigned the ratings of "A+" (stable outlook) by Standard & Poor's Global Ratings, and "BBB" (stable outlook) by Fitch Ratings. Previously, the Authority received ratings on capital grant bonds from a third rating agency. No other ratings other than those described in this paragraph have been sought in connection with the issuance of the Series 2017 Bonds. There is no assurance that any credit ratings given to the Series 2017 Bonds will be maintained for any period of time or that the ratings may not be lowered or withdrawn entirely by such rating agencies, if, in their judgment, circumstances so warrant. The Authority does not undertake any responsibility to oppose any downward revision or withdrawal of rating. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Series 2017 Bonds. Such ratings reflect only the views of such organizations and an explanation of the significance of such ratings may be obtained from such rating agencies.

FINANCIAL ADVISORS AND INDEPENDENT REGISTERED MUNICIPAL ADVISORS

Acacia Financial Group, Inc., Chicago, Illinois, and Public Alternative Advisors, LLC, Chicago, Illinois, serve as Financial Advisors to the Authority with respect to the sale of the Series 2017 Bonds. The Financial Advisors have not conducted a detailed investigation of the affairs of the Authority to determine the completeness or accuracy of this Official Statement. Because of their limited participation, the Financial Advisors have not independently verified any of the data contained herein and have no responsibility for the accuracy or completeness thereof. The Financial Advisors are “municipal advisor” as defined in Rule 15Ba1-1 of the Securities Exchange Commission.

The Authority has retained Martin J. Luby LLC and TKG & Associates LLC as its independent registered municipal advisors (the “**IRMAs**”) pursuant to Rule 15Ba1-1-(d)(3)(vi) of the Securities Exchange Commission to evaluate financing proposals and recommendations in connection with the Authority’s various bond issuance programs and other financing ideas being considered by the Authority; however, the IRMAs will not advise on the investment of Authority funds held by the Office of the Authority Treasurer. The IRMAs’ compensation is not dependent on the offering of the Series 2017 Bonds.

CONTINUING DISCLOSURE UNDERTAKING

In order to assist the Underwriters in complying with the requirements of Rule 15c2-12 promulgated by the Securities Exchange Commission (the “**Rule**”), the Authority will enter into a Continuing Disclosure Undertaking for the benefit of the Bondholders (as defined in such agreement) from time to time of the Series 2017 Bonds. The form of the Continuing Disclosure Undertaking, including the nature of the information that the Authority has agreed to supply on an annual basis, is attached to this Official Statement as **APPENDIX G**. See “**APPENDIX G – FORM OF CONTINUING DISCLOSURE UNDERTAKING.**”

In August of 2013, the Authority made certain filings with the Electronic Municipal Market Access system (“**EMMA**”) of the Municipal Securities Rulemaking Board to address previous incomplete filings and to fulfill previous continuing disclosure undertaking filing obligations for certain of the Authority’s outstanding debt obligations, including 2012 operating data for Sales Taxes and 2012 operating data for Section 5307 Program grants and Section 5337 Formula Funds that were respectively filed sixteen and eleven days after the due date. In addition, the rating agencies took certain rating actions with respect to the ratings of Ambac Assurance Corporation, Assured Guaranty Corp., and Assured Guaranty Municipal Corp., which provided municipal bond insurance policies relating to certain series of the Authority’s capital grant receipts revenue bonds, Public Building Commission of Chicago bonds and the Pension Bonds. Event notices with respect to such rating changes were not filed with EMMA as required by the Rule. The Authority made such required filings on May 29, 2014, June 4, 2014, June 10, 2014, June 22, 2017 and June 28, 2017. On June 19, 2014, Moody’s Investor Service downgraded the rating of the Authority’s capital grants receipts revenue bonds. The Authority filed the event notice on October 9, 2014. On September 12, 2012, Fitch Ratings downgraded the rating of the Authority’s capital grants receipts revenue bonds. The Authority filed the event notice on October 4, 2012 and filed a notice of late filing on June 28, 2017. On June 27, 2017,

Standard and Poor's Global Ratings upgraded the rating of the Authority's Outstanding 5337 Bonds. The Authority filed the event notice and a notice of late filing on July 13, 2017.

As of the date hereof, the Authority is in compliance with the continuing disclosure obligations related to its outstanding bonds. In order to ensure future compliance, the Authority has established certain procedures, including its development of a checklist and a tickler system, to ensure timely and complete filings.

UNDERWRITING

The Series 2017 Bonds are being purchased by the Underwriters listed on the cover hereof (the "**Underwriters**"), subject to certain conditions set forth in a bond purchase agreement relating to the Series 2017 Bonds (the "**Bond Purchase Agreement**").

Pursuant to the Bond Purchase Agreement, the Underwriters have agreed to purchase the Series 2017 Bonds at a purchase price of \$255,916,943.57 (representing the principal amount of the Series 2017 Bonds, less the Underwriters' discount of \$1,156,819.88, plus original issue premium of \$31,278,763.45). The initial public offering prices of the Series 2017 Bonds may be changed from time to time by the Underwriters after the Series 2017 Bonds have been released for sale. The Bond Purchase Agreement provides that the Underwriters will purchase all of the Series 2017 Bonds if any are purchased and that the obligation to make such purchase is subject to certain terms and conditions set forth in the Bond Purchase Agreement, including, among others, the approval of certain legal matters by the Underwriters' counsel.

The Underwriters and their respective affiliates are full-service financial institutions engaged in various activities that may include securities trading, commercial and investment banking, municipal advisory, brokerage, and asset management. In the ordinary course of business, the Underwriter and its respective affiliates may actively trade debt and, if applicable, equity securities (or related derivative securities) and provide financial instruments (which may include bank loans, credit support or interest rate swaps). The Underwriters and their respective affiliates may engage in transactions for their own accounts involving the securities and instruments made the subject of this securities offering or other offering of the Authority. The Underwriters and their respective affiliates may make a market in credit default swaps with respect to municipal securities in the future. The Underwriters and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and publish independent research views in respect of this securities offering or other offerings of the Authority.

Morgan Stanley, parent company of Morgan Stanley & Co. LLC, one of the Underwriters of the Series 2017 Bonds, has entered into a retail distribution arrangement with Morgan Stanley Smith Barney LLC. As part of the distribution arrangement, Morgan Stanley & Co. LLC may distribute municipal securities to retail investors through the financial advisor network of Morgan Stanley Smith Barney LLC. As part of this arrangement, Morgan Stanley & Co. LLC may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Series 2017 Bonds.

J.P. Morgan Securities LLC (“JPMS”), one of the Underwriters of the Series 2017 Bonds, has entered into negotiated dealer agreements (each, a “Dealer Agreement”) with each of Charles Schwab & Co., Inc. (“CS&Co.”) and LPL Financial LLC (“LPL”) for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Dealer Agreement, each of CS&Co. and LPL may purchase Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Bonds that such firm sells.

Academy Securities, Inc., one of the Underwriters of the Series 2017 Bonds, has entered into Distribution Agreements with UBS Financial Services Inc., TD Ameritrade Inc., Stoeber, Glass & Company Inc., BNY Mellon Capital Markets LLC, Commonwealth Financial Network, R. Seelaus & Co., Douglas & Co. Municipals, Inc., Ross, Sinclair & Associates, Inc., W.H. Mell Associates, Inc., Intercoastal Capital Markets, Inc., and Janney Montgomery Scott LLC for the retail distribution of certain municipal securities at the original issue prices. Pursuant to these Distribution Agreements (if applicable to this transaction), Academy Securities may share a portion of its underwriting compensation with these firms.

CERTAIN VERIFICATIONS

Robert Thomas CPA, LLC of Shawnee Mission, Kansas (the “**Verifier**”), independent certified public accountants, upon delivery of the Series 2017 Bonds, will deliver a report stating that the firm has reviewed the mathematical accuracy of certain computations based on certain assumptions relating to (i) the sufficiency of the principal and interest received from the investment in the Governmental Obligations, together with any initial cash balance, to meet the timely payment of the applicable principal or redemption price of, and interest on the Refunded Bonds, as described under “**PLAN OF FINANCE**,” and (ii) the actuarial yields on the Series 2017 Bonds and the Government Obligations; such computations with respect to such yields to be used to support the conclusion of Bond Counsel that the Series 2017 Bonds are not “*arbitrage bonds*” under Section 148 of the Code. The Verifier will express no opinion on the attainability of any assumptions or the tax-exempt status of the Series 2017 Bonds.

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MISCELLANEOUS

This Official Statement is not to be construed as a contract or agreement between the Authority and the purchasers, holders or beneficial owners of any of the Series 2017 Bonds. All of the summaries of the Series 2017 Bonds, each Indenture, applicable legislation, and other agreements and documents in this Official Statement are made subject to the provisions of the Series 2017 Bonds and such documents, respectively, and do not purport to be complete statements of any or all of such provisions. Reference is hereby made to such documents on file with the Authority for further information in connection therewith.

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

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

CHICAGO TRANSIT AUTHORITY

By: /s/ Jeremy V. Fine
Its: Chief Financial Officer and Treasurer

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APPENDIX A

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

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

DEFINITIONS OF CERTAIN TERMS

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

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

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

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

“*Additional Bonds*” means Bonds authenticated and delivered pursuant to the provisions of the Indentures summarized under the heading “**Summary of Certain Provisions of the 5307 Indenture - Additional Bonds for Construction Purposes**” and “**Summary of Certain Provisions of the 5337 Indenture – Additional Bonds for Construction Purposes**” in this Appendix A.

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

“*Annual Apportionment Amount*” means, (i) in reference to the 5307 Program, with respect to any Federal Fiscal Year, the amount of FTA Section 5307 (49 United States Code Section 5307) Urbanized Area Formula funds that the Authority is entitled to receive from the FTA pursuant to appropriations designated for that Federal Fiscal Year, and, (ii) in reference to the 5337 Program, with respect to any Federal Fiscal Year, the amount of FTA Section 5337 (49 United States Code Section 5337) State of Good Repair Formula funds that the Authority is entitled to receive from the FTA pursuant to appropriations designated for that Federal Fiscal Year.

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

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

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

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

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

“*Board*” means the Chicago Transit Board.

“*Bond*” or “*Bonds*” means, with respect to each Indenture, any bond or bonds, including the Series 2017 Bonds issued thereunder (presently, in the case of the 5307 Indenture, the 2008 5307 Bonds, the 2010 5307 Bonds, the 2011 5307 Bonds and the 2015 5307 Bonds and in the case of the 5337 Indenture, the 2008 5309 Bonds, the 2008A 5309 Bonds, the 2010 5309 Bonds, and the 2015 5337 Bonds), Additional Bonds and Refunding Bonds, authenticated and delivered thereunder, other than Subordinated Indebtedness.

“*Bond Financed Projects*” means capital improvements to the Transportation System, each constituting an Eligible Project, financed with the proceeds of the Refunded Bonds.

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

“*Bond Insurer*” means any person authorized under law to issue a Bond Insurance Policy, which in the case of the 5307 Indenture includes the issuers of the Bond Insurance Policies for the Outstanding 5307 Bonds and in the case of the 5337 Indenture includes the issuer of the Bond Insurance Policies for the Outstanding 5337 Bonds.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

“*Fifth Supplemental Indenture*” means with respect to the 5307 Indenture, the Fifth Supplemental Indenture dated as of August 1, 2015, between the Authority and the 5307 Trustee, supplementing the 5307 Master Indenture and, with respect to the 5337 Indenture, the Fifth Supplemental Indenture dated as of July 1, 2017, between the Authority and the 5337 Trustee, supplementing the 5337 Master Indenture.

“*First Supplemental Indenture*” means with respect to the 5307 Indenture, the First Supplemental Indenture dated as of November 1, 2006, between the Authority and the 5307 Trustee, supplementing the 5307 Master Indenture and, with respect to the 5337 Indenture, the First Supplemental Indenture dated as of November 26, 2008, between the Authority and the 5337 Trustee, supplementing the 5337 Master Indenture.

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

“*Fourth Supplemental Indenture*” means with respect to the 5307 Indenture, the Fourth Supplemental Indenture, dated as of November 4, 2011, between the Authority and the 5307 Trustee, supplementing the 5307 Master Indenture and, with respect to the 5337 Indenture, the Fourth Supplemental Indenture dated as of August 1, 2015, between the Authority and the 5337 Trustee, supplementing the 5337 Master Indenture.

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

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

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

“*Grant Receipts*” means with respect to the 5307 Indenture, the 5307 Grant Receipts and with respect to the 5337 Indenture the 5337 Grant Receipts and, when referring to both Indentures, the 5307 Grant Receipts and the 5337 Grant Receipts, collectively.

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

“*Indenture*” or “*Indentures*” means, individually, the 5307 Indenture or the 5337 Indenture, as applicable, and, collectively, the 5307 Indenture and the 5337 Indenture, in each case as from time to time amended and supplemented. References to the “*Indenture*” under “*Summary of Certain Provisions of the 5307 Indenture*” means the 5307 Indenture and references to the “*Indenture*” under “*Summary of Certain Provisions of the 5337 Indenture*” means the 5337 Indenture.

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

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

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

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

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

“*Interest Requirement*” for any Bond Year or any Interest Period, as the context may require, as applied to Bonds of any Series then Outstanding and each Section 207 Obligation then Outstanding, means the total of the sums that would be deemed to accrue on such Bonds or Section 207 Obligations during such Bond Year or Interest Period if the interest on the Bonds or Section 207 Obligations were deemed to accrue daily during such Bond Year or Interest Period in equal amounts, and employing the methods of calculation set forth (i) in the Indenture as described in this Appendix A under the headings “**Summary of Certain Provisions of the 5307 Indenture - Variable Interest Rates**” and “**Summary of Certain Provisions of the 5337 Indenture – Variable Interest Rates**” and “**Summary of Certain Provisions of the 5307 Indenture - Hedging Transactions**” and “**Summary of Certain Provisions of the 5337 Indenture – Hedging Transactions**” in the case of a Qualified Swap Agreement and (ii) as described in this Appendix A under the headings “**Summary of Certain Provisions of the 5307 Indenture - Variable Interest Rates**” and “**Summary of Certain Provisions of the 5337 Indenture – Variable Interest Rates**” and “**Summary of Certain Provisions of the 5307 Indenture - Optional Tender Bonds and Variable Rate Bonds**” and “**Summary of Certain Provisions of the 5337 Indenture – Optional Tender Bonds and Variable Rate Bonds**” in the cases of Optional Tender Bonds and Variable Rate Bonds; *provided, however*, that interest expense shall be excluded from the determination of Interest Requirement to the extent that such interest is to be paid from the proceeds of Bonds allocable to the payment of such interest as

provided in the Indenture or a Supplemental Indenture or other available moneys or from investment (but not reinvestment) earnings thereon if such proceeds shall have been invested in Investment Securities and to the extent such earnings may be determined precisely. Unless the Authority shall otherwise provide in a Supplemental Indenture, interest expense on Credit Facilities drawn upon to purchase but not to retire Bonds, except to the extent such interest exceeds the interest otherwise payable on such Bonds, shall not be included in the determination of Interest Requirement.

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

- (i) Government Obligations;
- (ii) obligations of any of the following federal agencies, which obligations are fully guaranteed by the full faith and credit of the United States of America:
 - Export-Import Bank
 - Rural Economic Community Development Administration
 - U.S. Maritime Administration
 - Small Business Administration
 - U.S. Department of Housing & Urban Development (PHAs)
 - Federal Housing Administration
 - Federal Financing Bank
- (iii) direct obligations of any of the following federal agencies, which obligations are not fully guaranteed by the full faith and credit of the United States of America:
 - senior debt obligations issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC)
 - obligations of the Resolution Funding Corporation (REFCORP)
 - senior debt obligations of the Federal Home Loan Bank System (FHLB)
 - senior debt obligations of other government sponsored agencies approved by each Bond Insurer
- (iv) U.S. dollar denominated deposit accounts, federal funds and bankers’ acceptances with domestic commercial banks which have a rating on their short term certificates of deposit on the date of purchase of “P-1” by Moody’s Investors Service and “A-1” by Standard & Poor’s Global Ratings and maturing not more than 360 calendar days after the date of purchase. (Ratings on holding companies are not considered as the rating of the bank);
- (v) commercial paper which is rated at the time of purchase in the single highest classification, “P-1” by Moody’s Investors Service and “A-1+” by Standard & Poor’s Global Ratings and which matures not more than 270 calendar days after the date of purchase;

(vi) investments in a money market fund rated “AAAm” or “AAAm-G” or better by Standard & Poor’s Global Ratings and rated “Aaa” by Moody’s Investors Service;

(vii) pre-refunded municipal obligations defined as follows: any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and (A) which are rated, based on an irrevocable escrow account or fund (the “escrow”), in the highest rating category of Moody’s Investors Service and Standard & Poor’s Global Ratings or any successors thereto; or (B) (i) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or Defeasance Obligations, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (ii) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this clause (vii) on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate;

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

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

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

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

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

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

(i) Any Parity Obligations canceled by the Trustee or the Person entitled to payment of any Section 206 Obligation or Section 207 Obligation, as the case may be, at

or prior to such date or theretofore delivered to the Trustee or the Authority, as the case may be, for cancellation;

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

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

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

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

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

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

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

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

“*Person*” means and includes an association, unincorporated organization, a corporation, a partnership, a limited liability corporation, a joint venture, a business trust, or a

government or an agency or a political subdivision thereof, or any other public or private entity, or a natural person.

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

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

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

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

- (i) on the preceding Principal Payment Date, if any, that occurs one year or less before each Applicable Principal Payment Date, or
- (ii) one year prior to each Applicable Principal Payment Date if there is no prior Principal Payment Date or if the preceding Principal Payment Date is more than one year prior to the Applicable Principal Payment Date;

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

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

determined by employing the methods of calculation set forth in the Indenture and summarized in this Appendix A under the heading “**Summary of Certain Provisions of the 5307 Indenture - Optional Tender Bonds and Variable Rate Bonds**” and “**Summary of Certain Provisions of the 5337 Indenture – Optional Tender Bonds and Variable Rate Bonds**” in the cases of Optional Tender Bonds and Variable Rate Bonds, were each deemed to accrue daily during such year in equal amounts to but not including the Applicable Principal Payment Date; *provided, however*, that an amount of principal shall be excluded from the determination of Principal Requirement to the extent that such amount is to be paid from the proceeds of Bonds allocable to the payment of such principal as provided in the Supplemental Indenture authorizing the issuance of such Bonds or other available moneys or from the investment (but not reinvestment) earnings thereon if such proceeds or other moneys shall have been invested in Investment Securities and to the extent such earnings may be determined precisely.

“*Project Account*” means any project account within the Construction Fund established under each of the Indentures, including the accounts established in connection with the issuance of the Series 2017 Bonds to pay costs of issuance, and any additional project account established in connection with the issuance of a Series of Additional Bonds.

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

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

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

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

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

“*Refunded Bonds*” means, for each Series, the portion of the Outstanding Bonds identified under “PLAN OF FINANCE” in this Official Statement.

“*Refunding Bonds*” means Bonds issued pursuant to the provisions of the Indenture summarized under the heading “**Summary of Certain Provisions of the 5307 Indenture - Refunding Bonds**” and “**Summary of Certain Provisions of the 5337 Indenture – Refunding Bonds**” in this Appendix A.

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

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

“*Second Supplemental Indenture*” means with respect to the 5307 Indenture, the Second Supplemental Indenture dated as of April 1, 2008, between the Authority and the 5307 Trustee, supplementing the 5307 Master Indenture and, with respect to the 5337 Indenture, the Second Supplemental Indenture dated as of May 1, 2010, between the Authority and the 5337 Trustee, supplementing the 5337 Master Indenture.

“*Section 206 Obligations*” means any payment obligations incurred by the Authority to any one or more Swap Providers pursuant to the provisions of the Indenture summarized in the first paragraph under the heading “**Summary of Certain Provisions of the 5307 Indenture – Hedging Transactions**” and “**Summary of Certain Provisions of the 5337 Indenture – Hedging Transactions**” in this Appendix A.

“*Section 207 Obligations*” means any obligations incurred by the Authority to reimburse the issuer or issuers of one or more Credit Facilities securing one or more Series of Bonds as described in the provisions of Section 207 of each Indenture summarized under the heading “**Summary of Certain Provisions of the 5307 Indenture – Credit Facilities to Secure Bonds; Section 207 Obligations**” and “**Summary of Certain Provisions of the 5337 Indenture – Credit Facilities to Secure Bonds; Section 207 Obligations**” in this Appendix A, including any fees or other amounts payable to the issuer of any such Credit Facilities, whether such obligations are set forth in one or more reimbursement agreements entered into between the Authority and the Credit Bank, or in one or more notes or other evidences of indebtedness executed and delivered by the Authority pursuant thereto, or any combination thereof.

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

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

“*Series 2017 5307 Bonds*” means the \$90,540,000 original principal amount of Capital Grant Receipts Revenue Bonds, Refunding Series 2017 (Federal Transit Administration Section 5307 Urbanized Area Formula Funds), of the Authority authorized by the 2017 Bond Ordinance and the 5307 Indenture.

“*Series 2017 5337 Bonds*” means the \$135,255,000 original principal amount of Capital Grant Receipts Revenue Bonds, Refunding Series 2017 (Federal Transit Administration Section 5337 State of Good Repair Formula Funds), of the Authority authorized by the 2017 Bond Ordinance and the 5337 Indenture.

“*Series 2017 Bonds*” means, collectively, the Series 2017 5307 Bonds and the Series 2017 5337 Bonds.

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

“*Sixth Supplemental Indenture*” means the Sixth Supplemental Indenture dated as of July 1, 2017, between the Authority and the 5307 Trustee, supplementing the 5307 Master Indenture.

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

“*Subordinated Indebtedness*” means indebtedness permitted to be issued or incurred pursuant to the Indenture. See “**Summary of Certain Provisions of the 5307 Indenture – Subordinated Indebtedness**” and “**Summary of Certain Provisions of the 5337 Indenture – Subordinated Indebtedness**”.

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

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

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

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

“*Third Supplemental Indenture*” means with respect to the 5307 Indenture, the Third Supplemental Indenture dated as of May 1, 2010, between the Authority and the 5307 Trustee, supplementing the 5307 Master Indenture and, with respect to the 5337 Indenture, the Third Supplemental Indenture dated as of January 1, 2013, between the Authority and the 5337 Trustee, supplementing the 5337 Master Indenture.

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

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

“*Trustee*” means, with respect to the 5307 Indenture, the 5307 Trustee and with respect to the 5337 Indenture, the 5337 Trustee, as applicable.

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

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

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

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

“*2008 5309 Bonds*” means the \$150,000,000 original principal amount of the Capital Grant Receipts Revenue Bonds, Series 2008 (Federal Transit Administration Section 5309 Fixed Guideway Modernization Formula Funds), of the Authority authorized by the 5337 Indenture.

“*2008A 5309 Bonds*” means the \$175,000,000 original principal amount of the Capital Grant Receipts Revenue Bonds, Series 2008A (Federal Transit Administration Section 5309 Fixed Guideway Modernization Formula Funds), of the Authority authorized by the 5337 Indenture.

“*2010 5307 Bonds*” means the \$63,895,000 original principal amount of the Capital Grant Receipts Revenue Bonds, Refunding Series 2015 (Federal Transit Administration Series 5307 Formula Funds), of the Authority authorized by the 5307 Indenture.

“*2010 5309 Bonds*” means the \$26,820,000 original principal amount of the Capital Grant Receipts Revenue Bonds, Series 2010 (Federal Transit Administration Section 5309 Fixed Guideway Modernization Formula Funds), of the Authority authorized by the 5337 Indenture.

“*2011 5307 Bonds*” means the \$56,525,000 original principal amount of Capital Grant Receipts Revenue Bonds, Refunding Series 2011 (Federal Transit Administration Section 5307 Formula Funds), of the Authority authorized by the 5307 Indenture.

“*2015 5307 Bonds*” means the \$131,270,000 original principal amount of Capital Grant Receipts Revenue Bonds, Refunding Series 2015 (Federal Transit Administration Section 5307 Urbanized Area Formula Funds), of the Authority authorized by the 5307 Indenture.

“*2015 5337 Bonds*” means the \$45,650,000 original principal amount of Capital Grant Receipts Revenue Bonds, Refunding Series 2015 (Federal Transit Administration Section 5337 State of Good Repair Formula Funds), of the Authority authorized by the 5337 Indenture.

“*2017 Bond Ordinance*” means the ordinance adopted by the Board on June 14, 2017.

“*2017 Project Account*” means the account by that name in the Construction Fund established under the Indentures.

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

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

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

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

“*5337 Grant Receipts*” means all amounts received by the Authority from its share of FTA Section 5337 (49 United States Code Section 5337) State of Good Repair Formula funds.

“*5337 Indenture*” means the 5337 Master Indenture, as supplemented by the First Supplemental Indenture, the Second Supplemental Indenture, the Third Supplemental Indenture, the Fourth Supplemental Indenture and the Fifth Supplemental Indenture, and as from time to time supplemented and amended.

“*5337 Master Indenture*” means the Trust Indenture dated as of April 1, 2008, between the Authority and Amalgamated Bank of Chicago, Chicago, Illinois, as trustee.

“*5337 Trustee*” means Amalgamated Bank of Chicago, Chicago, Illinois, and any successor or successors appointed under the 5337 Indenture.

SUMMARY OF CERTAIN PROVISIONS OF THE 5307 INDENTURE

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

Pledge Effected by the Indenture; Limited Obligations

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

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

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

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

Variable Interest Rates

In determining the Interest Requirement for the purpose of determining Annual Debt Service Requirements and the Maximum Annual Debt Service Requirement under the

provisions of the Indenture as summarized under the headings “**Summary of Certain Provisions of the 5307 Indenture - Additional Bonds for Construction Purposes**” and “**Summary of Certain Provisions of the 5307 Indenture - Refunding Bonds**” below and for the purpose of determining the amount to be deposited into the Interest Account pursuant to the Indenture, as summarized under the heading “**Summary of Certain Provisions of the 5307 Indenture - Deposit and Application of 5307 Grant Receipts**” below, interest on variable rate indebtedness, including Variable Rate Bonds and variable rate interest payments for Section 207 Obligations or under Qualified Swap Agreements, shall be calculated at the lower of (1) the maximum rate of interest permitted for such variable rate indebtedness under the terms of the Variable Rate Bonds, Section 207 Obligations or the Qualified Swap Agreement and (2) the highest rate of (a) the actual rate on the date of calculation or if the indebtedness is not yet outstanding, the initial rate (if established and binding), (b) if the indebtedness has been outstanding for at least 12 months, the average rate over the 12 months immediately preceding the date of calculation, (c) if interest on the indebtedness is excludable from gross income under the applicable provisions of the Code, the average rate over the 12 months immediately preceding the date of calculation of the Bond Market Association Municipal Swap Index¹, (d) if interest is not so excludable, the interest rate on Government Obligations with comparable maturities plus fifty basis points, and (e) the interest rate set forth in a certificate of an Authorized Officer filed with the Trustee.

Optional Tender Bonds and Variable Rate Bonds

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

¹ Now known as the Securities Industry and Financial Markets Association (“SIFMA”) Municipal Swap Index.

Funds and Accounts

The Authority under the Indenture establishes the Grant Receipts Deposit Fund, which shall be a special fund of the Authority held by the Authority as part of the Trust Estate, and the Construction Fund, the General Fund and the Debt Service Fund, each of which is a special fund of the Authority held in trust by the Trustee as part of the Trust Estate. Subject to use and application in accordance with the Indenture, all of the moneys and securities held in the Grant Receipts Deposit Fund, the Construction Fund, the Debt Service Fund and the General Fund are pledged as security for the payment of the principal of, redemption premium, if any, and interest on, the Parity Obligations and is subject to the lien of the Indenture. The Authority also establishes under the Indenture a Rebate Fund, which is not pledged to payment of the Bonds. The Interest Account, the Principal Account and the Variable Rate Stabilization Account are established as special accounts within the Debt Service Fund and the 2017 Project Account is established as a special account within the Construction Fund.

The Trustee shall withdraw from the appropriate Project Account in the Construction Fund and deposit into the Rebate Fund the amount specified by the Authority. The Trustee shall also withdraw moneys from the appropriate Project Account in the Construction Fund to pay costs of issuance of the Bonds in accordance with the directions of the Authority. All other payments from the Construction Fund shall be subject to the provisions and restrictions set forth in the Indenture.

Deposit and Application of 5307 Grant Receipts

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

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

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

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

Stabilization Account to the Variable Rate Stabilization Account Requirement.

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

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

Debt Service Fund

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

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

(1) Amounts deposited to the credit of the Principal Account to be used in satisfaction of any Sinking Fund Installment may, and if so directed by the Authority shall, be applied by the Trustee, on or prior to the forty-fifth day next preceding the next Principal Payment Date on which a Sinking Fund Installment is due, to the purchase of Outstanding Bonds of the Series and maturity for which such Sinking Fund Installment was established. That portion of the purchase price attributable to accrued interest shall be paid from the Interest Account (or from the Variable Rate Stabilization Account to the extent that the amount then held in the Interest Account is not sufficient to make such

payment). All such purchases of Outstanding Bonds shall be made at prices not exceeding the applicable sinking fund Redemption Price of such Bonds plus accrued interest, and such purchases shall be made in such manner as the Authority shall determine. The principal amount of any Bonds so purchased shall be deemed to constitute part of the Principal Account until the Principal Payment Date on which such Sinking Fund Installment is due, for the purpose of calculating the amount on deposit in such Account.

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

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

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

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

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

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

General Fund

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

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

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

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

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

Any withdrawal of amounts held in a Debt Service Reserve Account or a Subordinated Indebtedness Account pursuant to the above paragraph shall be limited by the terms of administration of such Account. No withdrawal from the General Fund pursuant to the above paragraph shall be made unless, at the time of such withdrawal, (i) no deficiency exists with respect to the required deposits to the Interest Account and the Principal Account pursuant

to the provisions of the Indenture summarized under the heading “**Summary of Certain Provisions of the 5307 Indenture - Deposit and Application of 5307 Grant Receipts**” above; (ii) the sum then held in the Variable Rate Stabilization Account shall be not less than the Variable Rate Stabilization Account Requirement and (iii) no Event of Default shall have occurred and remain unremedied.

Investment of Certain Moneys

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

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

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

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

Additional Bonds for Construction Purposes

One or more Series of Additional Bonds may be authorized and delivered upon original issuance for the purpose of paying the Cost of Construction of one or more Eligible Projects or refunding any Subordinated Indebtedness issued for such purposes, to pay costs and

expenses incident to the issuance of such Additional Bonds and to make deposits to any Fund, Account or Sub-Account under the Indenture. The Additional Bonds of any such Series shall be authenticated and delivered by the Trustee only upon receipt by it of a certificate of an Authorized Officer:

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

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

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

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

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

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

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

Refunding Bonds

One or more Series of Refunding Bonds may be authenticated and delivered upon original issuance to refund or advance refund any or all Outstanding Bonds of one or more Series, and any or all Outstanding Section 207 Obligations, to pay costs and expenses incident to the issuance of such Refunding Bonds and to make deposits in any Fund, Account or Sub-Account under the Indenture.

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

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

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

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

In applying the foregoing tests set forth in the previous paragraph, if any of the Bonds Outstanding immediately prior to or after the issuance of the Refunding Bonds to be issued constitute Optional Tender Bonds or Variable Rate Bonds, the provisions of the Indenture summarized under the headings “**Summary of Certain Provisions of the 5307 Indenture - Variable Interest Rates**” and “**Summary of Certain Provisions of the 5307 Indenture - Optional Tender Bonds and Variable Rate Bonds**” shall be applied in determining the Annual Debt Service Requirements of such Bonds and of any Outstanding Section 207 Obligations.

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

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

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

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

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

Hedging Transactions

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

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

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

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

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

- (1) the interest rate adjustments or assumptions referred to in subparagraph (1) of the preceding paragraph shall not be made;
- (2) any net payments required to be made by the Authority to the Swap Provider pursuant to such swap agreement shall be made either (i) from sources other than 5307 Grant Receipts or (ii) if made from 5307 Grant Receipts, such payments, and any lien on 5307 Grant Receipts securing such payments, shall be junior and subordinate to the pledge of and lien on 5307 Grant Receipts created by the Indenture as security for the payment of Parity Obligations; and
- (3) any net payments received by the Authority from the Swap Provider pursuant to such swap agreement may be treated as 5307 Grant Receipts at the option of the Authority, and if so treated shall be deposited in the same manner as 5307 Grant Receipts are to be deposited. See **“Summary of Certain Provisions of the 5307 Indenture - Deposit and Application of 5307 Grant Receipts.”**

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

Credit Facilities to Secure Bonds; Section 207 Obligations

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

At the election of the Authority expressed in a certificate of an Authorized Officer filed with the Trustee, any such obligation of the Authority to reimburse or otherwise make payments to the Credit Bank shall constitute a Parity Obligation under the Indenture (a “Section 207 Obligation”) to the same extent as any Series of Bonds, and any and all amounts payable by the Authority to reimburse such Credit Bank, together with interest thereon, shall for purposes of

the Indenture be deemed to constitute the payment of principal of, premium, if any, and interest on Parity Obligations.

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

Subordinated Indebtedness

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

Covenants of the Authority

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

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

Construction of Project. To the extent that construction of the Bond Financed Projects is not complete as of the date of the Sixth Supplemental Indenture, the Authority shall forthwith proceed to complete the construction of the Bond Financed Projects as Eligible Projects in conformity with all requirements of all governmental authorities having jurisdiction thereover, and in accordance with and as more fully shown on the plans therefor, and the specifications relative thereto, subject to such modifications of such plans and specifications as may be approved from time to time by the Authority.

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

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

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

Tax Covenants. The Authority shall not take, or omit to take, any action lawful and within its power to take, which action or omission would cause interest on any Bond to become subject to federal income taxes in addition to federal income taxes to which interest on such Bond is subject on the date of original issuance thereof. The Authority shall not permit any of the proceeds of the Series 2017 5307 Bonds, or any facilities financed with such proceeds, to be used in any manner that would cause any Series 2017 5307 Bond to constitute a “private activity bond” within the meaning of Section 141 of the Code. The Authority shall not permit any of the proceeds of the Series 2017 5307 Bonds or other moneys to be invested in any manner that would cause any Series 2017 5307 Bond to constitute an “arbitrage bond” within the meaning of Section 148 of the Code or a “hedge bond” within the meaning of Section 149(g) of the Code. The Authority shall comply with the provisions of Section 148(f) of the Code relating to the rebate of certain investment earnings at periodic intervals to the United States of America.

FTA Funds. (a) The Authority shall comply with all applicable laws of the United States of America and regulations of the FTA relating to the administration and disbursement of federal funds under 49 United States Code Section 5307 in order to be eligible to receive 5307

Grant Receipts for the payment of Parity Obligations and to facilitate the prompt receipt by the Authority of 5307 Grant Receipts.

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

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

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

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

Events of Default and Remedies

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

(1) if a default shall occur in the due and punctual payment of the principal or Redemption Price of any Parity Obligation when and as the same shall become due and payable, whether at maturity or by call for redemption or otherwise;

(2) if a default shall occur in the due and punctual payment of interest on any Parity Obligation, when and as such interest shall become due and payable;

(3) if a default shall occur in the performance or observance by the Authority of any other of the covenants, agreements or conditions in the Indenture or in the Parity Obligations contained, and such default shall continue for a period of 60 days after written notice thereof to the Authority by the Trustee or after written notice thereof to the Authority and to the Trustee by (a) the Owners of not less than a majority in principal amount of the Outstanding Bonds or (b) the Person entitled to payment under any other Outstanding Parity Obligation; or

(4) if the Authority shall file a petition seeking a composition of indebtedness under the federal bankruptcy laws or under any other applicable law or statute of the United States of America or of the State of Illinois.

The Authority covenants that if an Event of Default shall happen and shall not have been remedied, the Authority, upon demand of the Trustee, shall pay over or cause to be paid over to the Trustee (i) forthwith, all moneys, securities and funds then held by the Authority in any Fund, Account or Sub-Account pursuant to the terms of the Indenture, and (ii) all 5307 Grant Receipts as promptly as practicable after receipt thereof.

During the continuance of an Event of Default, the Trustee shall apply such moneys, securities, funds and 5307 Grant Receipts and the income therefrom as follows and in the following order:

(1) to the payment of the reasonable and proper charges and expenses of the Trustee, including the reasonable fees and expenses of counsel employed by it pursuant to the provisions summarized under this heading;

(2) to the payment of the principal of, Redemption Price of and interest on the Parity Obligations then due, as follows:

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

SECOND: to the payment to the persons entitled thereto of the unpaid principal or Redemption Price of any Parity Obligations which shall have become due, whether at maturity or by call for redemption in the order of their due dates, and, if the amount available shall not be sufficient to pay in full all the Parity Obligations due on any date, then to the payment thereof ratably,

according to the amounts of principal or Redemption Price due on such date, to the persons entitled thereto, without any discrimination or preference.

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

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

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

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

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

not lawfully be taken, or if the Trustee in good faith shall determine that the action or proceeding so directed would involve the Trustee in personal liability or be unjustly prejudicial to the Owners not parties to such direction.

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

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

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

Restriction on Owners' Action

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

Nothing in the Indenture or in the Bonds contained shall affect or impair the obligation of the Authority, which is absolute and unconditional, to pay at the respective dates of maturity and places therein expressed the principal of and interest on the Bonds to the respective

Owners thereof, or affect or impair the right of action, which is also absolute and unconditional, of any Owner to enforce such payment of its Bond from the sources provided in the Indenture.

Rights of Credit Bank or Bond Insurer

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

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

Supplemental Indentures Not Requiring Consent of Owners

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

- (1) to authorize Additional Bonds and Refunding Bonds and to specify, determine or authorize any matters and things concerning any such Bonds which are not contrary to or inconsistent with the Indenture;
- (2) to close the Indenture against, or impose additional limitations or restrictions on, the issuance of Parity Obligations, or of other notes, bonds, obligations or evidences of indebtedness;
- (3) to impose additional covenants or agreements to be observed by the Authority;
- (4) to impose other limitations or restrictions upon the Authority;

- (5) to surrender any right, power or privilege reserved to or conferred upon the Authority by the Indenture;
- (6) to confirm, as further assurance, any pledge of or lien upon the 5307 Grant Receipts or any other moneys, securities or funds;
- (7) authorize the issuance of Subordinated Indebtedness and in connection therewith, specify and determine any matters and things relative thereto which are not contrary to or inconsistent with the Indenture as then in effect;
- (8) to cure any ambiguity, omission or defect in the Indenture;
- (9) to provide for the appointment of a successor securities depository in the event any Series of Bonds is held in book-entry only form;
- (10) to provide for the appointment of any successor Fiduciary; and
- (11) to make any other change which, in the judgment of the Trustee, is not to the prejudice of the Trustee or the Owners.

Supplemental Indentures Effective upon Consent of Owners

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

or any Section 207 Obligation or the security provided by the Indenture with respect to the payment of any Section 206 Obligation or Section 207 Obligation shall not take effect unless such amendment or modification is consented to by such Credit Bank or Swap Provider (or in the event of an assignment of such Section 206 Obligation or Section 207 Obligation, the Person entitled to payment of such Section 206 Obligation or Section 207 Obligation).

Subject to the provisions of the Indenture summarized below under “**Summary of Certain Provisions of the 5307 Indenture - Termination of Rights of Bond Insurers,**” the rights of the Owner of an Insured Bond to consent to any amendment or modification of the Indenture are abrogated and the Bond Insurer may exercise the rights of the Owner of any Insured Bond that is entitled to the benefits of the Bond Insurance Policy issued by the Bond Insurer for the purpose of any approval, request, demand, consent, waiver or other instrument of similar purpose. Upon the authorization of a Supplemental Indenture making an amendment or modification to the Indenture, a copy thereof shall be delivered to and held by the Trustee for the inspection of the Owners. A copy of such Supplemental Indenture (or summary thereof or reference thereto in form approved by the Trustee) together with a request to Owners for their consent thereto in form satisfactory to the Trustee, shall be mailed to the Owners, but failure to mail such copy and request shall not affect the validity of such Supplemental Indenture when consented to as in the Indenture provided. Such Supplemental Indenture shall not be effective unless and until, and shall take effect in accordance with its terms when (a) there shall have been filed with the Trustee (i) the written consents of the Owners of the required principal amount of Outstanding Bonds, and (ii) a Counsel’s Opinion stating that the execution and delivery of such Supplemental Indenture has been duly authorized by the Authority in accordance with the provisions of the Indenture, is authorized or permitted by the Indenture and, when effective, will be valid and binding upon the Authority, the Owners and the Trustee, and (b) a notice shall have been mailed as hereinafter provided under this heading. A certificate or certificates by the Trustee delivered to the Authority that consents have been given by the Owners of the Bonds described in such certificate or certificates of the Trustee shall be conclusive. Any such consent shall be binding upon the Owner of the Bonds giving such consent and upon any subsequent Owner of such Bonds and of any Bonds issued in exchange therefor whether or not such subsequent Owner has notice thereof; *provided, however,* that any consent may be revoked by any Owner of such Bonds by filing with the Trustee, prior to the time when the Trustee’s written statement hereafter described is filed, a written revocation, with proof that such Bonds are held by the signer of such revocation. The fact that a consent has not been revoked may be proved by a certificate of the Trustee to the effect that no revocation thereof is on file with it. Any consent, or revocation thereof, may be delivered or filed prior to any mailing or publication required by the provisions described under this heading and shall not be deemed ineffective by reason of such prior delivery or filing. Within 30 days of any date on which the consents on file with the Trustee and not theretofore revoked shall be sufficient, the Trustee shall make and deliver to the Authority a written statement that the consents of the Owners of the required principal amount of Outstanding Bonds have been filed with the Trustee. Such written statement shall be conclusive that such consents have been so filed.

The Indenture and the rights and obligations of the Authority and of the Owners of the Bonds thereunder may be modified or amended in any respect by a Supplemental Indenture effecting such modification or amendment and with the consents of the Owners of all

the Bonds then Outstanding, each such consent to be accompanied by proof of the holding at the date of such consent of the Bonds with respect to which such consent is given.

Required Consent of Bond Insurer

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

The consent of the Bond Insurer shall be required in addition to the consent of the Owners of the Bonds insured by such Bond Insurer, when required.

Defeasance

If the Authority shall pay or cause to be paid or there shall otherwise be paid (i) to the Owners of all Bonds the principal or Redemption Price, if applicable, and interest due or to become due thereon, at the times and in the manner stipulated therein and in the Indenture, then the pledge of any 5307 Grant Receipts and other moneys and securities pledged under the Indenture and all covenants, agreements and other obligations of the Authority to the Owners shall thereupon be discharged and satisfied and (ii) to the applicable Credit Banks and Swap Providers (or their assignees) all payments due upon the instruments creating Section 206 Obligations and Section 207 Obligations, then the pledge of any 5307 Grant Receipts and other moneys and securities pledged under the Indenture and all covenants, agreements and obligations of the Authority to the Credit Banks, the Swap Providers and any of their assignees with respect to payment of Section 206 Obligations and Section 207 Obligations shall thereupon be discharged and satisfied. In such event, the Trustee, upon request of the Authority, shall provide an accounting of the assets managed by the Trustee to be prepared and filed with the Authority for any year or part thereof requested, and shall execute and deliver to the Authority all such instruments as may be desirable to evidence such discharge and satisfaction, and the Fiduciaries shall pay over or deliver to the Authority all moneys and securities held by them pursuant to the Indenture which are not required for the payment of Bonds not previously surrendered for such payment or redemption or for the payment of Section 206 Obligations and Section 207 Obligations. If the Authority shall pay or cause to be paid, or there shall otherwise be paid, to the Owners of all Outstanding Bonds of a particular Series, maturity within a Series or portion of any maturity within a Series (which portion shall be selected by lot by the Trustee in the manner provided in the Indenture for the selection of Bonds to be redeemed in part), the principal or Redemption Price, if applicable, thereof and interest due or to become due thereon, at the times and in the manner stipulated therein and in the Indenture, such Bonds shall cease to be entitled to any lien, benefit or security under the Indenture, and all covenants, agreements and obligations of the Authority to the Owners of such Bonds and to the Trustee shall thereupon be discharged and satisfied.

Bonds or interest installments for the payment or redemption of which moneys shall have been set aside and held in trust by the Trustee at or prior to their maturity or redemption date shall be deemed to have been paid within the meaning of and with the effect expressed in the Indenture if the Authority shall have delivered to or deposited with the Trustee (i) irrevocable instructions to pay or redeem all of said Bonds in specified amounts no less than

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

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

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

Termination of Rights of Bond Insurers

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

SUMMARY OF CERTAIN PROVISIONS OF THE 5337 INDENTURE

The following summary sets forth certain provisions of the 5337 Indenture. The defined terms contained herein are to be read solely in reference to the 5337 Indenture. This summary is provided for the convenience of the reader and does not purport to be comprehensive or definitive. Reference is made to the 5337 Indenture for a complete statement of the provisions thereof.

Pledge Effected by the Indenture; Limited Obligations

Pursuant to the Indenture, (i) the 5337 Grant Receipts, (ii) amounts on deposit in all Funds, Accounts and Sub-Accounts established under the Indenture (except the Rebate Fund), subject, however, to the right of the Authority to make periodic withdrawals from the Grant Receipts Deposit Fund as permitted under the provisions of the Indenture summarized in this APPENDIX A under the heading “**Summary of Certain Provisions of the 5337 Indenture – Covenants of the Authority - FTA Funds**” below and from the General Fund as permitted under the provisions of the Indenture summarized in this APPENDIX A under the heading “**Summary of Certain Provisions of the 5337 Indenture - General Fund**” below, and (iii) any and all other moneys and securities furnished from time to time to the Trustee by the Authority or on behalf of the Authority or by any other persons to be held by the Trustee under the terms of the Indenture are pledged for the payment of the principal and Redemption Price of, and interest on, the Bonds and the payment of Section 206 Obligations and Section 207 Obligations and a lien is granted for such purpose, subject only to the provisions of the Indenture permitting or requiring the application thereof for the purposes and on the terms and conditions set forth in the Indenture, *provided*, that the application of moneys to the payments due to a Swap Provider under a Qualified Swap Agreement is expressly limited to the extent provided in the Indenture.

Pursuant to Section 13 of the Local Government Debt Reform Act, 30 Illinois Compiled Statutes 350/13, the 5337 Grant Receipts and the other moneys and securities pledged by the Indenture shall immediately be subject to the lien and pledge thereof without any physical

delivery or further act, and the lien and pledge thereof shall be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the Authority, irrespective of whether such parties have notice thereof.

The Parity Obligations are limited obligations of the Authority payable solely from the 5337 Grant Receipts pledged for their payment in accordance with the Indenture. The Parity Obligations are not, and shall not be or become, an indebtedness or obligation of the State of Illinois, the Regional Transportation Authority or any political subdivision of the State (other than the Authority) or of any municipality within the State nor shall any Parity Obligation be or become an indebtedness of the Authority within the purview of any constitutional limitation or provision.

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

Variable Interest Rates

In determining the Interest Requirement for the purpose of determining Annual Debt Service Requirements and the Maximum Annual Debt Service Requirement under the provisions of the Indenture as summarized under the headings “**Summary of Certain Provisions of the 5337 Indenture - Additional Bonds for Construction Purposes**” and “**Summary of Certain Provisions of the 5337 Indenture - Refunding Bonds**” below and for the purpose of determining the amount to be deposited into the Interest Account pursuant to the Indenture, as summarized under the heading “**Summary of Certain Provisions of the 5337 Indenture - Deposit and Application of 5337 Grant Receipts**” below, interest on variable rate indebtedness, including Variable Rate Bonds and variable rate interest payments for Section 207 Obligations or under Qualified Swap Agreements, shall be calculated at the lower of (1) the maximum rate of interest permitted for such variable rate indebtedness under the terms of the Variable Rate Bonds, Section 207 Obligations or the Qualified Swap Agreement and (2) the highest rate of (a) the actual rate on the date of calculation or if the indebtedness is not yet outstanding, the initial rate (if established and binding), (b) if the indebtedness has been outstanding for at least 12 months, the average rate over the 12 months immediately preceding the date of calculation, (c) if interest on the indebtedness is excludable from gross income under the applicable provisions of the Code, the average rate over the 12 months immediately preceding the date of calculation of the SIFMA Municipal Swap Index, (d) if interest is not so excludable, the interest rate on Government Obligations with comparable maturities plus fifty basis points, and (e) the interest rate set forth in a certificate of an Authorized Officer filed with the Trustee.

Optional Tender Bonds and Variable Rate Bonds

If any of the Outstanding Bonds constitute Optional Tender Bonds, then in determining the Interest Requirement and the Principal Requirement of a Series of Bonds, the options of the Owners of such Bonds to tender the same for payment prior to their stated Principal Payment Date shall be ignored. If any of the Bonds constitute Variable Rate Bonds, the interest rate used in determining the Interest Requirement for such Variable Rate Bonds shall be the interest rate determined pursuant to the provisions of the Indenture, as summarized under the heading “**Summary of Certain Provisions of the 5337 Indenture - Variable Interest**

Rates” above, or, if and so long as a Qualified Swap Agreement is in effect that provides for a fixed interest rate, the interest rate determined pursuant to the provisions of the Indenture, as summarized under the heading “**Summary of Certain Provisions of the 5337 Indenture - Hedging Transactions.**” The conversion of Variable Rate Bonds to bear interest at a different variable rate or a fixed rate or rates, in accordance with their terms, shall not constitute a new issuance of Bonds under the provisions of the Indenture, as summarized under the headings “**Summary of Certain Provisions of the 5337 Indenture - Additional Bonds for Construction Purposes**” and “**Summary of Certain Provisions of the 5337 Indenture - Refunding Bonds.**” In determining the Interest Requirement or the Principal Requirement of any Section 207 Obligation, such Section 207 Obligation shall be deemed to be Outstanding only to the extent that, on the date of computation, there are unpaid drawings or advances under the terms of the Credit Facility that created the Section 207 Obligation.

Funds and Accounts

The Authority under the Indenture establishes the Grant Receipts Deposit Fund, which shall be a special fund of the Authority held by the Authority as part of the Trust Estate, and the Construction Fund, the General Fund and the Debt Service Fund, each of which is a special fund of the Authority held in trust by the Trustee as part of the Trust Estate. Subject to use and application in accordance with the Indenture, all of the moneys and securities held in the Grant Receipts Deposit Fund, the Construction Fund, the Debt Service Fund and the General Fund are pledged as security for the payment of the principal of, redemption premium, if any, and interest on, the Parity Obligations and is subject to the lien of the Indenture. The Authority also establishes under the Indenture a Rebate Fund, which is not pledged to payment of the Bonds. The Interest Account, the Principal Account and the Variable Rate Stabilization Account are established as special accounts within the Debt Service Fund and the 2017 Project Account is established as a special account within the Construction Fund.

The Trustee shall withdraw from the appropriate Project Account in the Construction Fund and deposit into the Rebate Fund the amount specified by the Authority. The Trustee shall also withdraw moneys from the appropriate Project Account in the Construction Fund to pay costs of issuance of the Bonds in accordance with the directions of the Authority. All other payments from the Construction Fund shall be subject to the provisions and restrictions set forth in the Indenture.

Deposit and Application of 5337 Grant Receipts

All 5337 Grant Receipts received by the Authority shall be deposited promptly into the Grant Receipts Deposit Fund. On the first Business Day of each Bond Year, and (if required) on any subsequent Business Day during the Bond Year the Authority shall withdraw from the Grant Receipts Deposit Fund and pay over to the Trustee an amount sufficient to enable the Trustee to make payments into the following several Funds and Accounts, but as to each such Fund or Account only within the limitation indicated below with respect thereto and only after maximum payment within such limitation into every such Fund or Account previously mentioned in the following tabulation:

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

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

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

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

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

Debt Service Fund

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

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

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

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

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

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

Moneys held in the Accounts of the Debt Service Fund shall be invested as provided in the Indenture. See “**Summary of Certain Provisions of the 5337 Indenture - Investment of Certain Moneys**” below in this APPENDIX A. Investment income earned as a result of such investment shall be retained in said Accounts.

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

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

General Fund

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

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

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

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

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

Any withdrawal of amounts held in a Debt Service Reserve Account or a Subordinated Indebtedness Account pursuant to the above paragraph shall be limited by the terms of administration of such Account. No withdrawal from the General Fund pursuant to the above paragraph shall be made unless, at the time of such withdrawal, (i) no deficiency exists with respect to the required deposits to the Interest Account and the Principal Account pursuant to the provisions of the Indenture summarized under the heading “**Summary of Certain Provisions of the 5337 Indenture - Deposit and Application of 5337 Grant Receipts**” above; (ii) the sum then held in the Variable Rate Stabilization Account shall be not less than the Variable Rate Stabilization Account Requirement and (iii) no Event of Default shall have occurred and remain unremedied.

Investment of Certain Moneys

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

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

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

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

Additional Bonds for Construction Purposes

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

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

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

In applying the foregoing test, if any of the Bonds Outstanding immediately following the issuance of the Additional Bonds to be issued constitute Optional Tender Bonds or Variable Rate Bonds, the provisions set forth and summarized under the headings “**Summary of Certain Provisions of the 5337 Indenture - Variable Interest Rates**” and “**Summary of Certain Provisions of the 5337 Indenture - Optional Tender Bonds and Variable Rate Bonds**” shall be applied in determining the Annual Debt Service Requirements of such Bonds.

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

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

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

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

Refunding Bonds

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

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

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

(1) Such instructions to the Trustee as necessary to comply with all requirements set forth in the Indenture and summarized under the heading “**Summary of Certain Provisions of the 5337 Indenture - Defeasance**” so that the Bonds and Section 207 Obligations to be refunded or advance refunded will be paid or deemed to be paid pursuant to the provisions of the Indenture summarized under the heading “**Summary of Certain Provisions of the 5337 Indenture - Defeasance.**”

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

(3) Either (i) the certificate of an Authorized Officer required under the Indenture in connection with the issuance of Additional Bonds as described under “**Summary of Certain Provisions of the 5337 Indenture - Additional Bonds for Construction Purposes,**” as applied to the Refunding Bonds to be issued pursuant to the provisions of the Indenture summarized under this heading, or (ii) a certificate of an Authorized Officer evidencing that for each Bond Year ending on or prior to the latest maturity date of any Bond Outstanding as of the time immediately prior to the issuance of such Series of Refunding Bonds, the Annual Debt Service Requirements for any such Bond Year on account of all Bonds and Section 207 Obligations Outstanding, after the issuance of such Refunding Bonds and the redemption of provision for payment of the Bonds and Section 207 Obligations to be refunded, shall not exceed the Annual Debt Service Requirements for the corresponding Bond Years on account of all the Bonds and Section 207 Obligations Outstanding, including the Bonds and Section 207 Obligations to be refunded, immediately prior to the issuance of such Refunding Bonds.

In applying the foregoing tests set forth in the previous paragraph, if any of the Bonds Outstanding immediately prior to or after the issuance of the Refunding Bonds to be issued constitute Optional Tender Bonds or Variable Rate Bonds, the provisions of the Indenture summarized under the headings “**Summary of Certain Provisions of the 5337 Indenture - Variable Interest Rates**” and “**Summary of Certain Provisions of the 5337 Indenture - Optional Tender Bonds and Variable Rate Bonds**” shall be applied in determining the Annual Debt Service Requirements of such Bonds and of any Outstanding Section 207 Obligations.

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

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

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

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

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

Hedging Transactions

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

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

(2) any net payments required to be made by the Authority to the Swap Provider pursuant to such Qualified Swap Agreement from 5337 Grant Receipts shall be made from amounts on deposit to the credit of the Interest Account (or from the Variable Rate Stabilization Account to the extent that the amount then held in the Interest Account is not sufficient to make such payment); and

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

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

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

(2) any net payments required to be made by the Authority to the Swap Provider pursuant to such swap agreement shall be made either (i) from sources other than 5337 Grant Receipts or (ii) if made from 5337 Grant Receipts, such payments, and any lien on 5337 Grant Receipts securing such payments, shall be junior and subordinate to the pledge of and lien on 5337 Grant Receipts created by the Indenture as security for the payment of Parity Obligations; and

(3) any net payments received by the Authority from the Swap Provider pursuant to such swap agreement may be treated as 5337 Grant Receipts at the option of the Authority, and if so treated shall be deposited in the same manner as 5337 Grant Receipts are to be deposited. See **“Summary of Certain Provisions of the 5337 Indenture - Deposit and Application of 5337 Grant Receipts.”**

With respect to a Qualified Swap Agreement described in the first paragraph under this heading or a swap agreement described in the preceding paragraph, any termination payment required to be made by the Authority to the Swap Provider shall be made either (i) from sources other than 5337 Grant Receipts, or (ii) if made from 5337 Grant Receipts, such termination payment and any lien on 5337 Grant Receipts securing such termination payment, shall be junior and subordinate to the pledge of and lien on 5337 Grant Receipts created by the Indenture as security for the payment of Parity Obligations.

Credit Facilities to Secure Bonds; Section 207 Obligations

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

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

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

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

Subordinated Indebtedness

Nothing in the Indenture shall prohibit or prevent, or be deemed or construed to prohibit or prevent, the Authority (to the extent now or hereafter permitted by law) from (i) issuing bonds, certificates or other evidences of indebtedness or contractual obligations payable as to principal and interest from 5337 Grant Receipts, or (ii) incurring contractual obligations that are payable from 5337 Grant Receipts, but only if such indebtedness or contractual obligation is junior and subordinate in all respects to any and all Parity Obligations issued and Outstanding under the Indenture.

Covenants of the Authority

Pledge of 5337 Grant Receipts. The Authority covenants that the 5337 Grant Receipts and other moneys, securities and funds so pledged, and subject to the lien of the Indenture, are and will be free and clear of any other pledge, lien, charge or encumbrance thereon or with respect thereto prior to, or of equal rank with, the pledge and lien created by the Indenture, and all action on the part of the Authority to that end has been and will be duly and validly taken. The Authority shall at all times, to the extent permitted by law, defend, preserve and protect the pledge of and lien on the 5337 Grant Receipts and other moneys, securities and funds pledged under the Indenture and all the rights of the Owners under the Indenture against all claims and demands.

Indebtedness and Liens. The Authority shall not issue any bonds or other evidences of indebtedness or incur any indebtedness, other than the Parity Obligations, Qualified Swap Agreements and Subordinated Indebtedness, which are secured by a pledge of or lien on the 5337 Grant Receipts or the moneys, securities or funds held or set aside by the Authority or by the Trustee under the Indenture, and shall not, except as expressly authorized in the Indenture, create or cause to be created any lien or charge on the 5337 Grant Receipts or such moneys, securities or funds; *provided, however*, that nothing contained in the Indenture shall prevent the Authority from issuing or incurring (i) evidences of indebtedness payable from or secured by amounts that may be withdrawn from the General Fund free from the lien of the Indenture as provided by the provisions of the Indenture summarized under the heading “**Summary of Certain Provisions of the 5337 Indenture - General Fund**” above or (ii) evidences of indebtedness payable from, or secured by the pledge of, 5337 Grant Receipts to be derived on and after such date as the pledge of 5337 Grant Receipts provided in the Indenture shall be discharged and satisfied as provided in the Indenture.

Construction of Project. To the extent that construction of the Bond Financed Projects is not complete as of the date of the Fifth Supplemental Indenture, the Authority shall forthwith proceed to complete the construction of the Bond Financed Projects as Eligible Projects in conformity with all requirements of all governmental authorities having jurisdiction thereover, and in accordance with and as more fully shown on the plans therefor, and the specifications relative thereto, subject to such modifications of such plans and specifications as may be approved from time to time by the Authority.

Payment of Lawful Charges. The Authority shall pay or cause to be discharged, or will make adequate provision to satisfy and discharge, all judgments and court orders, and all lawful claims and demands for labor, materials, supplies or other objects which, if unsatisfied or unpaid, might by law become a lien upon the 5337 Grant Receipts; *provided, however,* that this covenant shall not require the Authority to pay or cause to be discharged, or make provision for, any such lien or charge, so long as the validity thereof shall be contested in good faith and by appropriate legal proceedings.

Accounts and Reports. The Authority shall keep proper books of record and account (separate from all other records and accounts) in which complete and correct entries shall be made of its transactions relating to the 5337 Grant Receipts and the Funds, Accounts and Sub-Accounts established by the Indenture and any Supplemental Indenture, and which, shall at all reasonable times be available for the inspection of the Trustee and the Owners of not less than 25 percent in principal amount of Outstanding Bonds or their representatives duly authorized in writing. The Authority further covenants that it will keep an accurate record of the 5337 Grant Receipts received and of the payment thereof to the Trustee.

Not later than June 1 of each year the Authority will cause an independent audit to be made of its books and accounts for the preceding Fiscal Year, including its books and accounts relating to the 5337 Grant Receipts. Promptly thereafter reports of each such annual audit, signed by an Accountant, shall be mailed by the Authority to the Trustee and the Trustee shall make such reports available for inspection by the Owners of the Bonds.

Tax Covenants. The Authority shall not take, or omit to take, any action lawful and within its power to take, which action or omission would cause interest on any Bond to become subject to federal income taxes in addition to federal income taxes to which interest on such Bond is subject on the date of original issuance thereof. The Authority shall not permit any of the proceeds of the Series 2017 5337 Bonds, or any facilities financed with such proceeds, to be used in any manner that would cause any Series 2017 5337 Bond to constitute a “private activity bond” within the meaning of Section 141 of the Code. The Authority shall not permit any of the proceeds of the Series 2017 5337 Bonds or other moneys to be invested in any manner that would cause any Series 2017 5337 Bond to constitute an “arbitrage bond” within the meaning of Section 148 of the Code or a “hedge bond” within the meaning of Section 149(g) of the Code. The Authority shall comply with the provisions of Section 148(f) of the Code relating to the rebate of certain investment earnings at periodic intervals to the United States of America.

FTA Funds. (a) The Authority shall comply with all applicable laws of the United States of America and regulations of the FTA relating to the administration and disbursement of federal funds under 49 United States Code Section 5337 in order to be eligible

to receive 5337 Grant Receipts for the payment of Parity Obligations and to facilitate the prompt receipt by the Authority of 5337 Grant Receipts.

(b) Within 10 days of the date that any FTA Section 5337 (49 United States Code Section 5337) State of Good Repair Formula funds appropriated with respect to a Federal Fiscal Year become available for disbursement to the Authority for payment obligations then due, the Authority shall take all reasonable actions as shall be necessary or desirable to facilitate the prompt payment of such 5337 State of Good Repair Formula funds to the Authority. All of such moneys constituting 5337 Grant Receipts, when received by the Authority, shall be deposited promptly into the Grant Receipts Deposit Fund.

(c) For each Federal Fiscal Year, the Authority shall apply for the appropriation of FTA Section 5337 State of Good Repair Formula funds on a priority basis for the payment of a sum sufficient to fund all of the payments to the Trustee required to be made under the provisions of the Indenture summarized in this APPENDIX A under the heading **“Summary of Certain Provisions of the 5337 Indenture - Deposit and Application of 5337 Grant Receipts”** above to the end of the next Bond Year, and shall cause such FTA 5337 State of Good Repair Formula funds to be obligated for such purposes on the earliest possible date in each Federal Fiscal Year.

(d) If as of the last Business Day of any Federal Fiscal Year, the grant approvals required to make the payments to the Trustee as described under this heading in subsection (c) above from the current Federal Fiscal Year appropriations have not been obtained, then the Authority shall reprogram available FTA 5337 State of Good Repair Formula funds appropriated in prior Federal Fiscal Years to the extent required to make such payments.

(e) Moneys held in the Grant Receipts Deposit Fund may be withdrawn from time to time by the Authority for the payment or reimbursement of the costs of Eligible Projects; *provided, however*, that after the first Business Day of any Bond Year if any deficiency then exists in the deposits required to be made by the Trustee pursuant to the provisions of the Indenture summarized in this APPENDIX A under the heading **“Summary of Certain Provisions of the 5337 Indenture - Deposit and Application of 5337 Grant Receipts”** above, no such withdrawal shall be made unless the Authority shall have obligated from appropriations applicable from the current or prior Federal Fiscal Years a sum sufficient for the payments to the Trustee required to be made pursuant to the Indenture summarized in this APPENDIX A under the heading **“Summary of Certain Provisions of the 5337 Indenture - Deposit and Application of 5337 Grant Receipts”** in the current Bond Year.

Events of Default and Remedies

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

(1) if a default shall occur in the due and punctual payment of the principal or Redemption Price of any Parity Obligation when and as the same shall become due and payable, whether at maturity or by call for redemption or otherwise;

(2) if a default shall occur in the due and punctual payment of interest on any Parity Obligation, when and as such interest shall become due and payable;

(3) if a default shall occur in the performance or observance by the Authority of any other of the covenants, agreements or conditions in the Indenture or in the Parity Obligations contained, and such default shall continue for a period of 60 days after written notice thereof to the Authority by the Trustee or after written notice thereof to the Authority and to the Trustee by (a) the Owners of not less than a majority in principal amount of the Outstanding Bonds or (b) the Person entitled to payment under any other Outstanding Parity Obligation; or

(4) if the Authority shall file a petition seeking a composition of indebtedness under the federal bankruptcy laws or under any other applicable law or statute of the United States of America or of the State of Illinois.

The Authority covenants that if an Event of Default shall happen and shall not have been remedied, the Authority, upon demand of the Trustee, shall pay over or cause to be paid over to the Trustee (i) forthwith, all moneys, securities and funds then held by the Authority in any Fund, Account or Sub-Account pursuant to the terms of the Indenture, and (ii) all 5337 Grant Receipts as promptly as practicable after receipt thereof.

During the continuance of an Event of Default, the Trustee shall apply such moneys, securities, funds and 5337 Grant Receipts and the income therefrom as follows and in the following order:

(1) to the payment of the reasonable and proper charges and expenses of the Trustee, including the reasonable fees and expenses of counsel employed by it pursuant to the provisions summarized under this heading;

(2) to the payment of the principal of, Redemption Price of and interest on the Parity Obligations then due, as follows:

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

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

If and whenever all overdue installments of principal and Redemption Price of and interest on all Parity Obligations, together with the reasonable and proper charges and expenses of the Trustee, and all other overdue sums payable by the Authority under the

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

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

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

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

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

Upon commencing any suit at law or in equity or upon commencement of other judicial proceedings by the Trustee to enforce any right under the Indenture, the Trustee shall be

entitled to exercise any and all rights and powers conferred in the Indenture and provided to be exercised by the Trustee upon the occurrence of any Event of Default.

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

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

Restriction on Owners' Action

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

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

Rights of Credit Bank or Bond Insurer

Subject to the provisions of any applicable Supplemental Indenture, any Credit Bank or any Bond Insurer shall be treated as the Owner of Bonds upon which such Credit Bank

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

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

Supplemental Indentures Not Requiring Consent of Owners

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

- (1) to authorize Additional Bonds and Refunding Bonds and to specify, determine or authorize any matters and things concerning any such Bonds which are not contrary to or inconsistent with the Indenture;
- (2) to close the Indenture against, or impose additional limitations or restrictions on, the issuance of Parity Obligations, or of other notes, bonds, obligations or evidences of indebtedness;
- (3) to impose additional covenants or agreements to be observed by the Authority;
- (4) to impose other limitations or restrictions upon the Authority;
- (5) to surrender any right, power or privilege reserved to or conferred upon the Authority by the Indenture;
- (6) to confirm, as further assurance, any pledge of or lien upon the 5337 Grant Receipts or any other moneys, securities or funds;

(7) authorize the issuance of Subordinated Indebtedness and in connection therewith, specify and determine any matters and things relative thereto which are not contrary to or inconsistent with the Indenture as then in effect;

(8) to cure any ambiguity, omission or defect in the Indenture;

(9) to provide for the appointment of a successor securities depository in the event any Series of Bonds is held in book-entry only form;

(10) to provide for the appointment of any successor Fiduciary; and

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

Supplemental Indentures Effective upon Consent of Owners

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

Subject to the provisions of the Indenture summarized below under “**Summary of Certain Provisions of the 5337 Indenture - Termination of Rights of Bond Insurers,**” the rights of the Owner of an Insured Bond to consent to any amendment or modification of the Indenture are abrogated and the Bond Insurer may exercise the rights of the Owner of any Insured Bond that is entitled to the benefits of the Bond Insurance Policy issued by the Bond Insurer for the purpose of any approval, request, demand, consent, waiver or other instrument of similar purpose. Upon the authorization of a Supplemental Indenture making an amendment or modification to the Indenture, a copy thereof shall be delivered to and held by the Trustee for the inspection of the Owners. A copy of such Supplemental Indenture (or summary thereof or reference thereto in form approved by the Trustee) together with a request to Owners for their consent thereto in form satisfactory to the Trustee, shall be mailed to the Owners, but failure to mail such copy and request shall not affect the validity of such Supplemental Indenture when consented to as in the Indenture provided. Such Supplemental Indenture shall not be effective unless and until, and shall take effect in accordance with its terms when (a) there shall have been filed with the Trustee (i) the written consents of the Owners of the required principal amount of Outstanding Bonds, and (ii) a Counsel’s Opinion stating that the execution and delivery of such Supplemental Indenture has been duly authorized by the Authority in accordance with the provisions of the Indenture, is authorized or permitted by the Indenture and, when effective, will be valid and binding upon the Authority, the Owners and the Trustee, and (b) a notice shall have been mailed as hereinafter provided under this heading. A certificate or certificates by the Trustee delivered to the Authority that consents have been given by the Owners of the Bonds described in such certificate or certificates of the Trustee shall be conclusive. Any such consent shall be binding upon the Owner of the Bonds giving such consent and upon any subsequent Owner of such Bonds and of any Bonds issued in exchange therefor whether or not such subsequent Owner has notice thereof; *provided, however,* that any consent may be revoked by any Owner of such Bonds by filing with the Trustee, prior to the time when the Trustee’s written statement hereafter described is filed, a written revocation, with proof that such Bonds are held by the signer of such revocation. The fact that a consent has not been revoked may be proved by a certificate of the Trustee to the effect that no revocation thereof is on file with it. Any consent, or revocation thereof, may be delivered or filed prior to any mailing or publication required by the provisions described under this heading and shall not be deemed ineffective by reason of such prior delivery or filing. Within 30 days of any date on which the consents on file with the Trustee and not theretofore revoked shall be sufficient, the Trustee shall make and deliver to the Authority a written statement that the consents of the Owners of the required principal amount of Outstanding Bonds have been filed with the Trustee. Such written statement shall be conclusive that such consents have been so filed.

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

Required Consent of Bond Insurer

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

The consent of the Bond Insurer shall be required in addition to the consent of the Owners of the Bonds insured by such Bond Insurer, when required.

Defeasance

If the Authority shall pay or cause to be paid or there shall otherwise be paid (i) to the Owners of all Bonds the principal or Redemption Price, if applicable, and interest due or to become due thereon, at the times and in the manner stipulated therein and in the Indenture, then the pledge of any 5337 Grant Receipts and other moneys and securities pledged under the Indenture and all covenants, agreements and other obligations of the Authority to the Owners shall thereupon be discharged and satisfied and (ii) to the applicable Credit Banks and Swap Providers (or their assignees) all payments due upon the instruments creating Section 206 Obligations and Section 207 Obligations, then the pledge of any 5337 Grant Receipts and other moneys and securities pledged under the Indenture and all covenants, agreements and obligations of the Authority to the Credit Banks, the Swap Providers and any of their assignees with respect to payment of Section 206 Obligations and Section 207 Obligations shall thereupon be discharged and satisfied. In such event, the Trustee, upon request of the Authority, shall provide an accounting of the assets managed by the Trustee to be prepared and filed with the Authority for any year or part thereof requested, and shall execute and deliver to the Authority all such instruments as may be desirable to evidence such discharge and satisfaction, and the Fiduciaries shall pay over or deliver to the Authority all moneys and securities held by them pursuant to the Indenture which are not required for the payment of Bonds not previously surrendered for such payment or redemption or for the payment of Section 206 Obligations and Section 207 Obligations. If the Authority shall pay or cause to be paid, or there shall otherwise be paid, to the Owners of all Outstanding Bonds of a particular Series, maturity within a Series or portion of any maturity within a Series (which portion shall be selected by lot by the Trustee in the manner provided in the Indenture for the selection of Bonds to be redeemed in part), the principal or Redemption Price, if applicable, thereof and interest due or to become due thereon, at the times and in the manner stipulated therein and in the Indenture, such Bonds shall cease to be entitled to any lien, benefit or security under the Indenture, and all covenants, agreements and obligations of the Authority to the Owners of such Bonds and to the Trustee shall thereupon be discharged and satisfied.

Bonds or interest installments for the payment or redemption of which moneys shall have been set aside and held in trust by the Trustee at or prior to their maturity or redemption date shall be deemed to have been paid within the meaning of and with the effect expressed in the Indenture if the Authority shall have delivered to or deposited with the Trustee (i) irrevocable instructions to pay or redeem all of said Bonds in specified amounts no less than the respective amounts of, and on specified dates no later than the respective due dates of, their principal, (ii) irrevocable instructions to publish or mail the required notice of redemption of any Bonds so to be redeemed, (iii) either moneys in an amount which shall be sufficient, or

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

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

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

Termination of Rights of Bond Insurers

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

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APPENDIX B

DTC AND THE BOOK-ENTRY ONLY SYSTEM

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INFORMATION CONCERNING DTC

General. The Series 2017 Bonds are available in book-entry only form. Purchasers of the Series 2017 Bonds will not receive certificates representing their interests in the Series 2017 Bonds. Ownership interests in the Series 2017 Bonds will be available to purchasers only through a book-entry system (the “**Book-Entry System**”) maintained by The Depository Trust Company “**DTC**”), New York, New York.

The following information concerning DTC and the Book-Entry System has been obtained from DTC. The Authority take no responsibility as to the accuracy or completeness thereof and neither the Indirect Participants nor the Beneficial Owners should rely on the following information with respect to such matters, but should instead confirm the same with DTC or the Direct Participants, as the case may be. There can be no assurance that DTC will abide by its procedures or that such procedures will not be changed from time to time.

DTC will act as securities depository for the Series 2017 Bonds. The Series 2017 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the Series 2017 Bonds, each in the aggregate principal amount of such maturity and will be deposited with DTC.

DTC and its Participants. DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides assets servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“**Direct Participants**”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“**DTCC**”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“**Indirect Participants**”). DTC has a Standard & Poor’s Global Ratings rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Ownership Interests. Purchases of Series 2017 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2017 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2017 Certificate (the "**Beneficial Owner**") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2017 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2017 Bonds, except in the event that use of the book-entry system for the Series 2017 Bonds is discontinued.

Transfers. To facilitate subsequent transfers, all Series 2017 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2017 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2017 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2017 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Notices. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Series 2017 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2017 Bonds, such as prepayments, redemptions, tenders, defaults and proposed amendments to the Indenture. For example, Beneficial Owners of Series 2017 Bonds may wish to ascertain that the nominee holding the Series 2017 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Prepayment and redemption notices shall be sent to DTC. If less than all of the Series 2017 Bonds within an issue are being prepaid or redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be prepaid or redeemed.

Voting. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Series 2017 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Series 2017 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of Principal, Redemption, Prepayment Price and Interest. Payment of principal, redemption proceeds, prepayments and interest components of the Series 2017 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee, on the payment date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, redemption proceeds, prepayments and interest components of the Series 2017 Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

Discontinuation of Book Entry System. DTC may discontinue providing its services as depository with respect to the Series 2017 Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, the Series 2017 Bonds are required to be printed and delivered. The Authority may decide to discontinue use of the system of book-entry transfer through DTC (or a successor securities depository). In that event, Series 2017 Bonds will be printed and delivered.

If the Book-Entry Only System is discontinued, the following provisions would apply: Each Certificate when delivered will be registered by the Trustee in the name of the owner thereof on the Certificate Register. Certificates are transferable only upon the Certificate Register upon presentation and surrender of the Certificate, together with instructions for transfer. Certificates may be exchanged for Certificates in the same aggregate principal component and maturity upon presentation to the Trustee, subject to the terms, conditions and limitations set forth in the Indenture and upon payment of any tax, fee or other governmental charge required to be paid with respect to any such registration, transfer or exchange.

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APPENDIX C

SELECTED ECONOMIC AND DEMOGRAPHIC INFORMATION

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SELECTED ECONOMIC AND DEMOGRAPHIC INFORMATION

The Authority’s revenue is affected by various economic and demographic factors, including population, economic conditions, employment, fuel costs and consumer and producer prices. Set forth below are selected and comparative statistics demonstrating trends in population, economic activity and prices for the sectors and years cited. Information presented for the Northeastern Illinois Transit Region is for Cook County and the Collar Counties of DuPage, Kane, Lake, McHenry and Will, collectively. The Chicago Metropolitan Statistical Area (“Chicago MSA”) represents the Northeastern Illinois Transit Region and the Counties of DeKalb, Grundy, and Kendall in Illinois, the Counties of Jasper, Lake, Newton and Porter in Indiana, and the County of Kenosha in Wisconsin. Chicago MSA information is presented where no comparable information is available for the Northeastern Illinois Transit Region.

Population 1980-2016 (most current)

Year	Chicago MSA	Northeastern Illinois Transit Region	Cook County	Chicago
1980	7,869,542 ¹	7,103,624 ¹	5,253,655 ¹	3,005,072 ¹
1990	8,065,633 ²	7,261,176 ²	5,105,067 ²	2,783,726 ²
2000	9,098,316 ³	8,091,720 ⁴	5,376,741 ⁴	2,896,016 ⁵
2010	9,461,105 ⁶	8,316,650 ⁷	5,194,675 ⁷	2,695,598 ⁸
2015 Estimate	9,532,569 ⁹	8,383,632 ⁷	5,224,823 ⁷	2,713,596 ⁸
2016 Estimate	9,512,999 ⁹	8,364,162 ⁷	5,203,499 ⁷	2,704,958 ⁸

Sources:

- 1: https://www2.census.gov/prod2/decennial/documents/1980/1980censusofpopu8011uns_bw.pdf
- 2: <https://www.census.gov/prod/cen1990/cph2/cph-2-1-1.pdf>
- 3: <https://www.census.gov/data/tables/2000/dec/phc-t-29.html>
- 4: <https://www.census.gov/census2000/states/us.html>
- 5: <https://www.census.gov/census2000/states/il.html>
- 6: <https://www.census.gov/data/tables/time-series/dec/cph-series/cph-t/cph-t-2.html>
- 7: <https://www.census.gov/data/tables/2016/demo/popest/counties-total.html>
- 8: <https://www.census.gov/data/tables/2016/demo/popest/total-cities-and-towns.html>
- 9: <https://www.census.gov/data/tables/2016/demo/popest/total-metro-and-micro-statistical-areas.html>

The information contained in the above table was accessed as of July 11, 2017.

The 2015 Estimates are as of July 1, 2015.

The 2016 Estimates are as of July 1, 2016.

**Gross Domestic Product
Percent Change from Preceding Period⁽¹⁾
2006-2016**

Year	United States	State of Illinois	Chicago MSA
2006	5.8	5.9	5.7%
2007	4.5	4.1	4.2
2008	1.6	-0.6	-1.0
2009	-2.1	-0.7	-1.8
2010	3.8	2.4	2.6
2011	3.7	4.0	3.4
2012	4.1	4.6	5.5
2013	3.3	1.5	0.9
2014	4.2	3.6	3.7
2015	3.7	3.3	5.2
2016	3.0	2.5	Unavailable

Source: U.S. Department of Commerce, Bureau of Economic Analysis, <http://www.bea.gov/national/>, <http://www.bea.gov/regional/> (accessed May 10, 2017).

⁽¹⁾ GDP percent change based on current dollars.

**Per Capita Personal Income
2006—2016 (most current)**

Year	United States	State of Illinois	Chicago MSA	Cook County
2006	\$38,130	\$40,124	\$43,428	\$43,642
2007	39,776	42,265	45,763	46,662
2008	41,052	43,358	46,488	47,176
2009	39,366	40,994	43,264	43,289
2010	40,275	41,698	43,803	43,664
2011	42,467	43,724	45,807	45,332
2012	44,263	45,654	48,281	47,872
2013	44,457	46,646	49,057	49,141
2014	46,442	48,563	51,597	52,380
2015	48,131	50,377	53,886	54,714
2016	49,511	52,098	Unavailable	Unavailable

Source: U.S. Department of Commerce, Bureau of Economic Analysis, <http://www.bea.gov/national/>, <http://www.bea.gov/regional/> (accessed May 10, 2017); Federal Reserve Bank of St. Louis, FRED Economic Data, <https://fred.stlouisfed.org/> (accessed May 10, 2017).

**Employment
2006 – 2017
(in thousands)**

Calendar Year-End	State of Illinois	Chicago MSA	Cook County	City of Chicago
2006	5,951	4,532	2,481	1,242
2007	5,985	4,561	2,483	1,245
2008	5,851	4,441	2,386	1,200
2009	5,584	4,227	2,281	1,149
2010	5,644	4,266	2,348	1,202
2011	5,701	4,327	2,378	1,217
2012	5,778	4,400	2,406	1,232
2013	5,834	4,472	2,411	1,234
2014	5,921	4,542	2,462	1,260
2015	6,002	4,631	2,490	1,276
2016	6,021	4,665	2,486	1,274
2017 ⁽¹⁾	6,035	4,678	2,507	1,284

Source: Federal Reserve Bank of St. Louis, FRED Economic Data, <https://fred.stlouisfed.org/> (accessed May 10, 2017), U.S. Bureau of Labor Statistics; <https://beta.bls.gov>

⁽¹⁾ March 2017 data.

**Annual Unemployment Rates
2006—2017**

Calendar Year-End	United States	State of Illinois	Chicago MSA	Cook County	City of Chicago
2006	4.4%	4.5%	4.2%	4.4%	4.8%
2007	5.0	5.5	5.2	5.4	5.9
2008	7.3	7.9	7.4	7.5	8.1
2009	9.9	11.2	11.0	11.3	11.9
2010	9.3	9.5	9.4	9.7	10.1
2011	8.5	9.3	9.3	9.7	10.2
2012	7.9	9.1	9.1	9.6	9.9
2013	6.7	8.4	8.1	8.6	9.0
2014	5.6	6.1	5.9	6.0	6.3
2015	5.0	6.1	5.8	6.0	6.3
2016	4.7	5.7	5.5	5.7	6.0
2017 ⁽¹⁾	4.5	4.9	4.5	4.4	4.5

Source: Federal Reserve Bank of St. Louis, FRED Economic Data, <https://fred.stlouisfed.org/> (accessed May 10, 2017); Source: U.S. Bureau of Labor Statistics, <https://www.bls.gov/data/>

⁽¹⁾ March 2017 data.

**Percentage of Total Non-Farm Employment by Major Industry Sector
March 2017**

Sector	Chicago Metropolitan Division	Illinois	United States
Trade, Transportation and Utilities.....	20.0%	20.1%	18.8%
Education and Health Services	16.1	15.3	15.7
Government	11.4	13.7	15.3
Professional and Business Services	18.4	15.6	14.1
Leisure and Hospitality.....	9.9	9.9	10.8
Manufacturing	7.6	9.4	8.5
Financial Activities.....	7.2	6.5	5.8
Construction	3.2	3.6	4.7
Other Services	4.3	4.1	3.9
Information.....	1.9	1.6	1.9
Mining and Logging.....	0.0	0.1	0.5

Source: U.S. Bureau of Labor Statistics, http://www.bls.gov/regions/midwest/il_chicago_md.htm;
<http://www.bls.gov/regions/midwest/illinois.htm>; “Current Employment Statistics (National),”
<http://www.bls.gov/web/empst/ceseeb1a.htm>.

**Largest Non-Government Employers in Chicago Area⁽¹⁾
(As of December 31, 2016)**

Employer	Number of Employees
Advocate Health Care Bank, N.A.	18,930
University of Chicago	16,374
Northwestern Memorial Healthcare	15,747
JPMorgan Chase	15,229
United Continental Holdings Inc.	15,157
Walgreens Boots Alliance Inc.	12,685
Northwestern University	10,241
Presence Health	10,183
Abbott Laboratories	9,800
Jewel Osco	9,660

Source: Crain's Chicago Business, Crain Communications, Inc.
<http://www.chicagobusiness.com/> (accessed May 11, 2017).

⁽¹⁾ Includes employers with the most employees in Cook, DuPage, Kane, Lake (Ill.), Lake (Ind.) McHenry and Will counties.

**Tourism—City of Chicago
2010-2016 (most current)
(in millions)**

	2010	2011	2012	2013	2014	2015	2016
Visitations	39.3	43.7	46.5	48.5	50.2	52.8	54.1

Source: Choose Chicago, <http://www.choosechicago.com>
(accessed May 10, 2017).

Retail Fuel Prices
2006-2016
(\$ per gallon)

Year	Gasoline (Unleaded Regular)	On-Highway Diesel Fuel
2006	\$2.589	\$2.705
2007	2.801	2.885
2008	3.266	3.803
2009	2.350	2.467
2010	2.788	2.992
2011	3.527	3.840
2012	3.644	3.968
2013	3.526	3.922
2014	3.367	3.825
2015	2.448	2.707
2016	2.142	2.304

Source: U.S. Department of Labor, Bureau of Labor Statistics; US City Average per Gallon; U.S. Energy Information Administration, http://www.eia.gov/totalenergy/data/monthly/pdf/sec9_6.pdf (accessed May 10, 2017).

Consumer Price Index (All Urban Consumers)
Year-to-Year Changes⁽¹⁾
2006-2016

Year	U.S. City Average	Chicago MSA
2006	3.2%	2.0%
2007	2.9	3.3
2008	3.8	3.8
2009	-0.4	-1.2
2010	1.6	1.4
2011	3.2	2.7
2012	2.1	1.5
2013	1.5	1.1
2014	1.6	1.7
2015	0.1	-0.3
2016	1.3	0.7

Source: U.S. Department of Labor, Bureau of Labor Statistics, <http://www.bls.gov/cpi/> (accessed May 10, 2017).

⁽¹⁾ Not seasonally adjusted.

**Producer Price Index
Year-to-Year Changes
2006-2016**

Year	Industrial Commodities	Gasoline	Diesel Fuel (No. 2)
2006	5.4%	17.0%	14.7%
2007	3.8	12.5	8.5
2008	9.8	18.5	38.0
2009	-9.1	-32.2	-44.4
2010	7.0	26.2	29.0
2011	8.0	31.2	35.8
2012	0.0	2.5	3.1
2013	0.4	-3.5	-2.6
2014	0.6	-5.6	-5.7
2015	-7.5	-35.8	-39.5
2016	-2.3	-18.1	-21.0

Source: U.S. Department of Labor, Bureau of Labor Statistics, <http://www.bls.gov/ppi/> (accessed May 10, 2017).

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APPENDIX D

**CHICAGO TRANSIT AUTHORITY FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION YEARS ENDED DECEMBER 31, 2016 AND 2015**

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**CHICAGO TRANSIT AUTHORITY
CHICAGO, ILLINOIS**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

Years Ended December 31, 2016 and 2015
(With Independent Auditor's Report Thereon)

CHICAGO TRANSIT AUTHORITY
Chicago, Illinois

FINANCIAL STATEMENTS
Years Ended December 31, 2016 and 2015

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INDEPENDENT AUDITOR'S REPORT

Chicago Transit Board
Chicago Transit Authority
Chicago, Illinois

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and fiduciary activities of the Chicago Transit Authority (CTA), as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the CTA's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and fiduciary activities of the CTA, as of December 31, 2016 and 2015, and the respective changes in its financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

(Continued)

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the CTA's basic financial statements. The accompanying supplementary schedules of expenses and revenues – budget and actual for the years ended December 31, 2016 and 2015, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying supplementary schedules of expenses and revenues – budget and actual for the years ended December 31, 2016 and 2015 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary schedules of expenses and revenues – budget and actual for the years ended December 31, 2016 and 2015 are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 20, 2017 on our consideration of the CTA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the CTA's internal control over financial reporting and compliance.



Crowe Horwath LLP

Chicago, Illinois
April 20, 2017

CHICAGO TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended December 31, 2016 and 2015

Introduction

The following discussion and analysis of the financial performance and activity of the Chicago Transit Authority (CTA) provide an introduction and understanding of the basic financial statements of the CTA for the fiscal years ended December 31, 2016 and 2015. This discussion was prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

Financial Highlights for 2016

- Net position totaled (\$416,775,000) at December 31, 2016.
- Net position decreased \$79,512,000 in 2016, which compares to a decrease of \$776,000 in 2015.
- Total net capital assets were \$4,975,873,000 at December 31, 2016, a decrease of 0.37% over the balance at December 31, 2015 of \$4,994,363,000.

Financial Highlights for 2015

- Net position totaled (\$337,263,000) at December 31, 2015.
- Net position decreased \$776,000 in 2015, which compares to an increase of \$52,518,000 in 2014.
- Total net capital assets were \$4,994,363,000 at December 31, 2015, an increase of 3.55% over the balance at December 31, 2014 of \$4,823,134,000.

The Financial Statements

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

Overview of the Financial Statements for Business-Type Activities

The financial statements consist of the (1) Statements of Net Position, (2) Statements of Revenues, Expenses, and Changes in Net Position, (3) Statements of Cash Flows, and (4) Notes to the Financial Statements. The financial statements are prepared on the accrual basis of accounting, meaning that all expenses are recorded when incurred and all revenues are recognized when earned, in accordance with U.S. generally accepted accounting principles.

Statements of Net Position

The Statements of Net Position reports all financial and capital resources for the CTA (excluding fiduciary activities). The statements are presented in the format where assets, plus deferred outflows of resources, less liabilities, less deferred inflows of resources, equals net position, formerly known as equity. Assets and liabilities are presented in order of liquidity and are classified as current (convertible into cash within one year) and noncurrent. The focus of the Statements of Net Position is to show a picture of the liquidity and health of the organization as of the end of the year.

(Continued)

CHICAGO TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended December 31, 2016 and 2015

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

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

Statements of Revenues, Expenses, and Changes in Net Position

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

Statements of Cash Flows

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

Notes to Financial Statements

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

(Continued)

CHICAGO TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended December 31, 2016 and 2015

Financial Analysis of the CTA's Business-Type Activities

Statements of Net Position

The following table reflects a condensed summary of assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position of the CTA as of December 31, 2016, 2015, and 2014:

Table 1
Summary of Assets, Deferred Outflows of Resources, Liabilities,
Deferred Inflows of Resources, and Net Position
December 31, 2016, 2015, and 2014
(In thousands of dollars)

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Assets:			
Current assets	\$ 795,652	\$ 786,311	\$ 673,418
Capital Assets, net	4,975,873	4,994,363	4,823,134
Noncurrent assets	355,655	463,726	954,950
Total assets	<u>6,127,180</u>	<u>6,244,400</u>	<u>6,451,502</u>
Total deferred outflows of resources	<u>271,637</u>	<u>168,657</u>	<u>12,015</u>
Total assets and deferred outflows of resources	<u>\$ 6,398,817</u>	<u>\$ 6,413,057</u>	<u>\$ 6,463,517</u>
Liabilities:			
Current liabilities	\$ 699,152	\$ 681,843	\$ 648,886
Long-term liabilities	6,116,440	6,068,477	4,929,154
Total liabilities	<u>6,815,592</u>	<u>6,750,320</u>	<u>5,578,040</u>
Net position			
Net investment in capital assets	2,707,945	2,726,057	2,727,982
Restricted:			
Payment of leasehold obligations	4,906	7,813	28,358
Debt service	28,232	47,857	78,405
Unrestricted (deficit)	<u>(3,157,858)</u>	<u>(3,118,990)</u>	<u>(1,949,268)</u>
Total net position	<u>(416,775)</u>	<u>(337,263)</u>	<u>885,477</u>
Total liabilities and net position	<u>\$ 6,398,817</u>	<u>\$ 6,413,057</u>	<u>\$ 6,463,517</u>

Year Ended December 31, 2016

Current assets increased by \$9,341,000 primarily due to higher cash and investment balances.

Capital assets (net) decreased by 0.37% to \$4,975,873,000 due to depreciation. The CTA's capital improvement projects were funded primarily by the Federal Transit Administration (FTA), the Illinois Department of Transportation (IDOT), the Regional Transportation Authority (RTA), and CTA bonds.

Other non-current assets decreased by 23.30% to \$355,655,000 due to capital spending of bond proceeds.

Current liabilities increased 2.54% to \$699,152,000 primarily due to higher accrued payroll and grant deposits.

(Continued)

CHICAGO TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended December 31, 2016 and 2015

Long-term liabilities increased 0.79% to \$6,116,440,000. The increase is primarily due to an increase in the net pension liability associated with the employee, supplemental and board pension plans in accordance with GASB 68.

Net investment in capital assets consists of capital assets, net of accumulated depreciation, and reduced by the amount of outstanding indebtedness attributable to the acquisition, construction, or improvement of those assets.

The net position balances restricted for other purposes include amounts restricted for two distinct purposes. The first restriction is for the assets restricted for future payments on the lease obligations. The second restriction is for the assets restricted for debt service payments.

The deficit in unrestricted net position, represents assets available for operations, increased 1.25% over the prior year.

Year Ended December 31, 2015

Current assets increased by \$112,893,000 primarily due to higher cash and investment balances.

Capital assets (net) increased by 3.55% to \$4,994,363,000 due to an increase in vehicle purchases. The CTA's capital improvement projects were funded primarily by the Federal Transit Administration (FTA), the Illinois Department of Transportation (IDOT), the Regional Transportation Authority (RTA), and CTA bonds.

Other non-current assets decreased by 51.44% to \$463,726,000 due to both the early termination of several lease/leaseback transactions and capital spending of bond proceeds.

Current liabilities increased 5.08% to \$681,843,000 primarily due to higher accounts payable and other accrued expenses.

Long-term liabilities increased 23.11% to \$6,068,477,000. The increase is primarily due to the recording of a net pension liability associated with the employee, supplemental and board pension plans in accordance with GASB 68.

Net investment in capital assets consists of capital assets, net of accumulated depreciation, and reduced by the amount of outstanding indebtedness attributable to the acquisition, construction, or improvement of those assets.

The net position balances restricted for other purposes include amounts restricted for two distinct purposes. The first restriction is for the assets restricted for future payments on the lease obligations. The second restriction is for the assets restricted for debt service payments.

The deficit in unrestricted net position, represents assets available for operations, increased 60.01% over the prior year.

(Continued)

CHICAGO TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended December 31, 2016 and 2015

Statements of Revenues, Expenses, and Changes in Net Position

The following table reflects a condensed summary of the revenues, expenses, and changes in net position (in thousands) for the years ended December 31, 2016, 2015, and 2014:

Table 2
Condensed Summary of Revenues, Expenses, and Changes in Net Position
Years ended December 31, 2016, 2015, and 2014
(In thousands of dollars)

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Operating revenues	\$ 625,050	\$ 630,812	\$ 623,628
Operating expenses:			
Operating expenses	1,397,536	1,365,957	1,331,898
Depreciation	446,039	450,035	419,151
Total operating expenses	<u>1,843,575</u>	<u>1,815,992</u>	<u>1,751,049</u>
Operating loss	(1,218,525)	(1,185,180)	(1,127,421)
Nonoperating revenues:			
Public funding from the RTA	809,748	793,008	739,238
Build America Bond subsidy	10,041	10,019	9,998
Interest revenue from leasing transactions	2,417	14,279	75,589
Other nonoperating revenues	44,497	37,013	50,106
Total nonoperating revenues	<u>866,703</u>	<u>854,319</u>	<u>874,931</u>
Nonoperating expenses	<u>(205,771)</u>	<u>(234,505)</u>	<u>(246,571)</u>
Change in net position before capital contributions	(557,593)	(565,366)	(499,061)
Capital contributions	478,081	564,590	551,579
Change in net position	<u>(79,512)</u>	<u>(776)</u>	<u>52,518</u>
Total net position, beginning of year (as restated)	<u>(337,263)</u>	<u>(336,487)</u>	<u>832,959</u>
Total net position, end of year	<u>\$ (416,775)</u>	<u>\$ (337,263)</u>	<u>\$ 885,477</u>

Year Ended December 31, 2016

Total operating revenues decreased by \$5,762,000, or 0.91% primarily due to decreases in both farebox and pass revenue.

Farebox and pass revenue decreased \$10,102,000 primarily due to lower ridership. CTA's ridership decreased by 3.54% or 18,261,000 million rides over the prior year. CTA's average fare of \$1.16 was \$0.02 higher than 2015.

(Continued)

CHICAGO TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended December 31, 2016 and 2015

In 2016, CTA provided approximately 69,809,000 free rides, a decrease of 3,336,000 or 4.56% over 2015. The Illinois General Assembly passed legislation to allow senior citizens aged 65 and over who live in the RTA service region to take free fixed route public transit rides on CTA, Metra and Pace beginning March 17, 2008. The Chicago City Council passed an ordinance to provide free CTA rides for active military personnel beginning May 1, 2008 and disabled veterans beginning August 1, 2008. The Illinois General Assembly also enacted legislation to require free rides on fixed-route transit to be made available to any Illinois resident who has been enrolled as a person with a disability in the Illinois Circuit Breaker program. In 2011, the free ride program was modified to subject the participants to a means test. Under this program seniors who do not qualify to ride free pay a reduced fare.

Total operating expenses increased \$27,583,000, or 1.52%. The increase is primarily driven by higher labor expense. Labor expense increased \$59,009,000 due negotiated wage increases and the related increase in fringe benefit cost.

Year Ended December 31, 2015

Total operating revenues increased by \$7,184,000, or 1.15% primarily due to increases in both farebox and advertising revenue.

Farebox and pass revenue increased \$3,809,000 despite no change to the fare policy. CTA's ridership increased by 0.34% or 1,748,000 million rides over the prior year. CTA's average fare of \$1.14 was \$0.01 higher than 2014. In 2015, CTA launched the Ventra mobile application which allows customers greater flexibility and access to load value or check balances on their Ventra accounts.

In 2015, CTA provided approximately 73,145,000 million free rides, a decrease of 5,113,000 million or 6.53% over 2014. The Illinois General Assembly passed legislation to allow senior citizens aged 65 and over who live in the RTA service region to take free fixed route public transit rides on CTA, Metra and Pace beginning March 17, 2008. The Chicago City Council passed an ordinance to provide free CTA rides for active military personnel beginning May 1, 2008 and disabled veterans beginning August 1, 2008. The Illinois General Assembly also enacted legislation to require free rides on fixed-route transit to be made available to any Illinois resident who has been enrolled as a person with a disability in the Illinois Circuit Breaker program. In 2011, the free ride program was modified to subject the participants to a means test. Under this program seniors who do not qualify to ride free pay a reduced fare.

Total operating expenses increased \$64,943,000, or 3.71%. The increase is primarily driven by higher depreciation and labor expense. Depreciation expense increased \$30,884,000 due to the increase in vehicle, equipment and track structure assets. Labor expense increased \$36,365,000 due negotiated wage increases and the related increase in fringe benefit cost.

(Continued)

CHICAGO TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended December 31, 2016 and 2015

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

Table 3
Operating Revenues and Expenses
Years ended December 31, 2016, 2015, and 2014
(In thousands of dollars)

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Operating Revenues:			
Farebox revenue	\$ 358,328	\$ 365,212	\$ 364,144
Pass revenue	218,678	221,896	219,155
Total farebox and pass revenue	<u>577,006</u>	<u>587,108</u>	<u>583,299</u>
Advertising and concessions	35,019	31,241	27,561
Other revenue	13,025	12,463	12,768
Total operating revenues	<u>\$ 625,050</u>	<u>\$ 630,812</u>	<u>\$ 623,628</u>
Operating Expenses:			
Labor and fringe benefits	\$ 1,093,433	\$ 1,034,424	\$ 998,059
Materials and supplies	82,921	83,507	80,963
Fuel	32,738	49,830	59,476
Electric power	29,283	28,818	33,568
Purchase of security services	14,095	14,431	13,628
Other	136,114	134,223	121,309
Operating expense before provisions	<u>1,388,584</u>	<u>1,345,233</u>	<u>1,307,003</u>
Provision for injuries and damages	8,952	20,724	24,895
Provision for depreciation	446,039	450,035	419,151
Total operating expenses	<u>\$ 1,843,575</u>	<u>\$ 1,815,992</u>	<u>\$ 1,751,049</u>

Capital Asset and Debt Administration

Capital Assets

The CTA invested \$11,848,655,000 (not adjusted for inflation) in capital assets, including buildings, vehicles, elevated railways, signal and communication equipment, as well as other equipment as of December 31, 2016. Net of accumulated depreciation, the CTA's capital assets at December 31, 2016 totaled \$4,975,873,000. This amount represents a net decrease (including additions and disposals, net of depreciation) of \$18,490,000, or 0.37%, over the December 31, 2015 balance primarily due to an increase in accumulated depreciation and asset retirements.

The CTA invested \$11,503,792,000 (not adjusted for inflation) in capital assets, including buildings, vehicles, elevated railways, signal and communication equipment, as well as other equipment as of December 31, 2015. Net of accumulated depreciation, the CTA's capital assets at December 31, 2015 totaled \$4,994,363,000. This amount represents a net increase (including additions and disposals, net of depreciation) of \$171,229,000, or 3.55%, over the December 31, 2014 balance primarily due to the purchase of new rail vehicles and overhauls on aging bus and rail fleets.

Additional information on the capital assets can be found in note 6 of the audited financial statements.

(Continued)

CHICAGO TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended December 31, 2016 and 2015

Debt Administration

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

At December 31, 2016, the CTA had \$190,611,000 in capital lease obligations outstanding, a decrease from the prior year due to principal payments on lease transactions. The bonds payable liability excluding premiums decreased \$72,460,000 primarily due to debt service payments.

At December 31, 2015, the CTA had \$206,713,000 in capital lease obligations outstanding, a decrease from the prior year due to the early termination of three lease transactions. The bonds payable liability excluding premiums decreased \$92,440,000 primarily due to debt service payments.

Additional information on the debt activity can be found in notes 7, 8, 9, 10, and 11 of the audited financial statements.

2017 Budget and Economic Factors

On November 18, 2016, the CTA Board adopted the fiscal Year 2017 operating budget of \$1.524 billion and capital budget of \$1.283 billion. After adoption, the budgets were submitted to and approved by the RTA Board (the regional oversight agency) on December 15, 2016. The budgets call for no fare increase and reflect service level improvements.

The Proposed 2017 Operating Budget is balanced between expenses, system generated revenues, and public funding. The 2017 operating budget freezes base fares for an eighth straight year and continues the expanded service begun in 2015 and 2016. The agency has been able to maintain fares by strategically pursuing management efficiencies and cost savings through reducing ongoing maintenance needs by modernizing the fleet, pre-purchasing diesel fuel and electricity at historically low levels and through responsible spending practices.

The 2017 Operating budget is 2.5% higher than the 2016 forecast, due to increase pension contributions, higher material cost as railcars come off warranty and costs related to additional service levels, and debt service payments due on 2014 capital bonds. Increases were offset by higher advertising, charter and concession revenue, and savings in fuel.

System-generated revenue is projected to be \$686.3 million in 2017, representing a 1.45% increase from 2016 forecast. This increase is primarily due to the implementation of a full year State's subsidy for reduced fares. Public funding is projected to be \$837.9 million, representing a 3.3% increase over 2016 forecast. Per the Regional Transit Authority (RTA), which sets public funding estimates for the three service boards (CTA, Metra and Pace), sales taxes are expected to grow by 4 percent in 2017. The estimate is in line with Moody's forecasts for sales tax growth in the Chicago area.

The Chicago-area unemployment rate has dropped from as high as 10.4 percent in 2010 to 5.4 percent in 2016. The total number of employed in the Chicago region is 4.6 million in 2016; and reflects a 1.2 percent increase in payroll in the Chicago area from 2015 to 2016 year-to-date. This is the sixth consecutive year of gains in employment and the highest total since 2008, before the recession. The economic recovery is expected to continue to increase public funding from sales tax receipts. Final estimates from 2016 show a public funding total of \$787.6 million, an increase of 4.4% over 2015 receipts.

(Continued)

CHICAGO TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended December 31, 2016 and 2015

Overall, CTA's 2017 budget supports initiatives to enhance the customer experience, safety and security and workforce development. Safety and security continues to remain a top priority where the CTA continues to work closely with our partners in the federal government to implement the nation's first Safety Management System Program, designed to enhance the culture of safety among the agency's 11,000 employees.

The budget includes public art, diversity programs, a Vocational Mechanics Program, and the Second Chance Program. The Second Chance Program continues to provide valuable job skills and career opportunities to Chicago residents who meet with challenges re-entering the workforce. CTA will continue to leverage technology for customers, from expansion of transit tracker to new features on the Ventra fare payment app.

CTA in 2017 will continue to pursue long-term priorities, which focus on improving service to customers. The agency will continue to make extensive investments in its bus and rail system – including some of the largest station reconstruction projects in CTA history, such as the Red-Purple Modernization project, a \$2.1 billion investment to modernize and add capacity to the CTA's busiest rail corridor.

Major project completed or substantially underway in 2016:

Vehicles – Contracted to purchase 400 New 7000 Series Railcars; placed into service all 425 New Nova buses; and overhauled 80 Series 3200 railcars. Infrastructure – Construction underway to rehabilitate the Illinois Medical District Station on the Blue Line; Construction completed for Loop Link, the dedicated bus lane system which provides service in the Central Business District, and for the Union Station Transit Center an off street CTA Bus facility; Renewal of rail power substations at key locations along the Brown, and Red South Lines; Renewal of Track and Structure – Ravenswood (Brown) Loop Connector from Merchandise Mart to Armitage, Purple Line Express, and Red North Main line; and an Upgrade to CTA's Enterprise Resource Planning Systems.

Among the capital projects to continue or begin in 2017:

Vehicles – Overhaul 96 Series 3200 railcars; Continue project development for the new 7000 Series railcars, Advertise for proposals to purchase up to 30 electric buses; and begin the overhaul of 208 Series Hybrid buses. Infrastructure - Reconstruction of the Wilson transfer station and the Loop Washington-Wabash station is to be complete as of 2017; Expansion of the 95th Street Terminal on the Red Line South; Upgrade and accessibility improvements to Quincy Loop station and Illinois Medical District Blue Line stations; Rehabilitation of Belmont Blue and Garfield Green stations where renewal work will complement the larger redevelopment initiatives currently underway while enhancing the commuter experience; Modernization of the Red and Purple Lines which includes rebuilding four Red Line stations and constructing a rail bypass continues; Project Engineering for the proposed Red Line Extension from 95th Street to 130th Street; The final phases of investment for the Your New Blue program to upgrade the Blue Line O'Hare branch where work includes rail signal and power renewal and the remaining five stations to be renovated; Construct Ravenswood Corridor signal improvements to benefit Brown, Purple Express between Armitage and the Merchandise Mart stations; and, Renewal of track and structure along system right of way.

Many of the capital projects will feature distinctive architecture and public art from notable Chicago and international artists, part of ongoing efforts to make public transportation more attractive and to highlight communities.

(Continued)

CHICAGO TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended December 31, 2016 and 2015

Legislation

On January 18, 2008, Public Act 95-708 became law. This legislation provides funding for CTA operations, pension and retiree healthcare from four sources: 1) a 0.25 percent increase in the RTA sales tax in each of the six counties, 2) a \$1.50 per \$500 of transfer price increase in the City of Chicago's real estate transfer tax, 3) an additional 5% state match on the real estate transfer tax and all sales tax receipts except for the replacement and use tax, and 4) a 25% state match on the new sales tax and real estate transfer tax. The proceeds from the increase in the RTA sales tax will be used to fund some existing programs such as ADA paratransit services, as well as some new initiatives such as the Suburban Community Mobility Fund and the Innovation, Coordination and Enhancement Fund. The balance of these additional proceeds along with the 5% state match on: existing, additional sales tax and real estate transfer tax; and the state 25% match on the new sales tax will be divided among the CTA (48%), Metra (39%) and Pace (13%) according to the statutory formula. On February 6, 2008, the Chicago City Council authorized an increase in the real estate transfer tax in the amount of \$1.50 per \$500 of transfer price, the proceeds of which (after deducting costs associated with collection) will be entirely directed to the CTA. Additionally the state 25% match on the real estate transfer tax will be entirely directed to CTA as well.

Pursuant to Public Act 94-839, the CTA was required to make contributions to its retirement system in an amount which, together with the contributions of its participants, interest earned on investments and other income, were sufficient to bring the total assets of the retirement system up to 90% of its total actuarial liabilities by the end of fiscal year 2058. This legislation also required the RTA to monitor the payment by the CTA of its required retirement system contributions. If the CTA's contributions were more than one month overdue, the RTA would pay the amount of the overdue contributions directly to the trustee of the CTA's retirement system out of moneys otherwise payable by the RTA to the CTA.

Public Act 95-708 modified this directive slightly and added a number of other requirements. First, a new Retirement Plan Trust was created to manage the Retirement Plan assets. Second, CTA contributions and employee contributions were increased. Third, in addition to the requirement that the Retirement Plan be 90% funded by 2059, there is a new requirement that the Retirement Plan be funded at a minimum of 60% by September 15, 2009. Any deviation from the stated projections could result in a directive from the State of Illinois Auditor General to increase the CTA and employee contributions. Fourth, Public Act 95-708 authorized the CTA to issue \$1.349 billion in pension obligation bonds to fund the Retirement Plan. Finally, the legislation provides that CTA will have no future responsibility for retiree healthcare costs after the bond funding.

Public Act 95-708 also addressed retiree healthcare. In addition to the separation between pension and healthcare that was mandated by Public Act 94-839, Public Act 95-708 provides funding and benefit changes to the retiree healthcare benefits. First, all CTA employees will be required to contribute 3% of their compensation into the new retiree healthcare trust. Second, all employees will be eligible for retiree healthcare, but after January 18, 2008, only those employees who retire at or after the age of 55 with 10 years of continuous service will actually receive the benefit. Third, retiree, dependent and survivor premiums can be raised up to 45% of the premium cost. Finally, the CTA has been given the authorization to issue \$640 million in pension obligation bonds to fund the healthcare trust. Subsequent to the 2008 legislation, the Board of Trustees of the Retiree Healthcare Trust amended the eligibility requirements to receive postemployment health benefits. After 2010, employees will be eligible for retiree healthcare at or after the age of 55 with 20 years of continuous service.

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

(Continued)

CHICAGO TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended December 31, 2016 and 2015

Contacting the CTA's Financial Management

This financial report is designed to provide our bondholders, patrons, and other interested parties with a general overview of the CTA's finances and to demonstrate the CTA's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Chicago Transit Authority's Chief Financial Officer, 567 W. Lake Street, Chicago, IL 60661.

CHICAGO TRANSIT AUTHORITY
Business-Type Activities
Statements of Net Position
December 31, 2016 and 2015
(In thousands of dollars)

	<u>2016</u>	<u>2015</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 79,127	\$ 85,438
Cash and cash equivalents restricted for damage reserve	103,755	97,010
Investments	<u>119,942</u>	<u>107,192</u>
Total cash, cash equivalents, and investments	<u>302,824</u>	<u>289,640</u>
Grants receivable:		
Due from the RTA	315,372	310,502
Unbilled work in progress	100,886	110,810
Other	<u>2,376</u>	<u>28</u>
Total grants receivable	<u>418,634</u>	<u>421,340</u>
Accounts receivable, net	37,997	36,072
Materials and supplies, net	30,622	34,174
Prepaid expenses and other assets	<u>5,575</u>	<u>5,085</u>
Total current assets	<u>795,652</u>	<u>786,311</u>
Noncurrent assets:		
Other noncurrent assets:		
Restricted assets for repayment of leasing commitments	79,842	84,692
Bond proceeds held by trustee	275,197	378,431
Assets held by trustee for supplemental retirement plans	<u>616</u>	<u>603</u>
Total other noncurrent assets	<u>355,655</u>	<u>463,726</u>
Capital assets:		
Capital assets not being depreciated:		
Land	121,357	120,257
Construction in process	<u>680,258</u>	<u>635,299</u>
Capital assets not being depreciated	<u>801,615</u>	<u>755,556</u>
Capital assets being depreciated	11,047,040	10,748,236
Less accumulated depreciation	<u>(6,872,782)</u>	<u>(6,509,429)</u>
Total capital assets being depreciated, net	<u>4,174,258</u>	<u>4,238,807</u>
Total capital assets, net	<u>4,975,873</u>	<u>4,994,363</u>
Total noncurrent assets	<u>5,331,528</u>	<u>5,458,089</u>
Total assets	<u>6,127,180</u>	<u>6,244,400</u>
Deferred outflows of resources		
Deferred loss on refunding	15,587	18,870
Pension outflows - CTA Retirement Plan	254,131	146,920
Pension outflows - CTA Supplemental Plans	<u>1,919</u>	<u>2,867</u>
Total deferred outflows of resources	<u>271,637</u>	<u>168,657</u>
Total assets and deferred outflows of resources	<u>\$ 6,398,817</u>	<u>\$ 6,413,057</u>

(Continued)

CHICAGO TRANSIT AUTHORITY
Business-Type Activities
Statements of Net Position
December 31, 2016 and 2015
(In thousands of dollars)

	<u>2016</u>	<u>2015</u>
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	\$ 149,299	\$ 183,494
Accrued payroll, vacation pay, and related liabilities	164,669	138,262
Accrued interest payable	21,421	22,407
Advances, deposits, and other	52,484	31,765
Unearned passenger revenue	62,847	59,639
Other unearned revenue	2,841	4,148
Unearned operating assistance	40,250	38,136
Current portion of long-term liabilities	<u>205,341</u>	<u>203,992</u>
Total current liabilities	<u>699,152</u>	<u>681,843</u>
Long-term liabilities:		
Self-insurance claims, less current portion	180,051	190,045
Capital lease obligations, less current portion	180,393	190,867
Bonds payable, less current portion	4,012,477	4,106,567
Certificates of participation payable, less current portion	22,633	29,775
Net pension liability	1,648,772	1,470,041
Net other postemployment benefits obligation	5,052	4,637
Other long-term liabilities	<u>67,062</u>	<u>76,545</u>
Total long-term liabilities	<u>6,116,440</u>	<u>6,068,477</u>
Total liabilities	<u>6,815,592</u>	<u>6,750,320</u>
Net position:		
Net investment in capital assets	2,707,945	2,726,057
Restricted:		
Payment of leasehold obligations	4,906	7,813
Debt service	28,232	47,857
Unrestricted (deficit)	<u>(3,157,858)</u>	<u>(3,118,990)</u>
Total net position	<u>(416,775)</u>	<u>(337,263)</u>
Total liabilities and net position	<u>\$ 6,398,817</u>	<u>\$ 6,413,057</u>

CHICAGO TRANSIT AUTHORITY
Business-Type Activities
Statements of Revenues, Expenses, and Changes in Net Position
Years ended December 31, 2016 and 2015
(In thousands of dollars)

	<u>2016</u>	<u>2015</u>
Operating revenues:		
Fare box revenue	\$ 358,328	\$ 365,212
Pass revenue	<u>218,678</u>	<u>221,896</u>
Total fare box and pass revenue	<u>577,006</u>	<u>587,108</u>
Advertising and concessions	35,019	31,241
Other revenue	<u>13,025</u>	<u>12,463</u>
Total operating revenues	<u>625,050</u>	<u>630,812</u>
Operating expenses:		
Labor and fringe benefits	1,093,433	1,034,424
Materials and supplies	82,921	83,507
Fuel	32,738	49,830
Electric power	29,283	28,818
Purchase of security services	14,095	14,431
Maintenance and repairs, utilities, rent, and other	<u>136,114</u>	<u>134,223</u>
	1,388,584	1,345,233
Provisions for injuries and damages	8,952	20,724
Provision for depreciation	<u>446,039</u>	<u>450,035</u>
Total operating expenses	<u>1,843,575</u>	<u>1,815,992</u>
Operating expenses in excess of operating revenues	<u>(1,218,525)</u>	<u>(1,185,180)</u>
Nonoperating revenues (expenses):		
Public funding from the RTA	809,748	793,008
Build America Bond subsidy	10,041	10,019
Reduced-fare subsidies	14,385	14,606
Operating grant revenue	16,712	13,957
Contributions from local government agencies	5,000	5,000
Investment income	3,785	2,606
Gain on sale of assets	3,771	-
Recognition of leasing transaction proceeds	844	844
Interest expense on bonds and other financing	(196,217)	(202,523)
Interest revenue from leasing transactions	2,417	14,279
Interest expense on leasing transactions	<u>(9,554)</u>	<u>(31,982)</u>
Total nonoperating revenues, net	<u>660,932</u>	<u>619,814</u>
Change in net position before capital contributions	<u>(557,593)</u>	<u>(565,366)</u>
Capital contributions	<u>478,081</u>	<u>564,590</u>
Change in net position	(79,512)	(776)
Total net position – beginning of year	<u>(337,263)</u>	<u>(336,487)</u>
Total net position – end of year	<u>\$ (416,775)</u>	<u>\$ (337,263)</u>

CHICAGO TRANSIT AUTHORITY
Business-Type Activities
Statements of Cash Flows
Years ended December 31, 2016 and 2015
(In thousands of dollars)

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Cash received from fares	\$ 580,214	\$ 597,674
Payments to employees	(1,001,439)	(985,903)
Payments to suppliers	(322,091)	(309,790)
Other receipts	<u>65,531</u>	<u>65,993</u>
Net cash flows used in operating activities	<u>(677,785)</u>	<u>(632,026)</u>
Cash flows from noncapital financing activities:		
Public funding from the RTA	806,992	757,795
Build America Bond subsidy	10,041	10,019
Reduced-fare subsidies	14,385	14,606
Operating grant revenue	16,712	13,957
Contributions from local governmental agencies	<u>5,000</u>	<u>5,000</u>
Net cash flows provided by noncapital financing activities	<u>853,130</u>	<u>801,377</u>
Cash flows from capital and related financing activities:		
Interest income from assets restricted for payment of leasehold obligations	2,417	14,279
Interest expense on bonds	(204,022)	(209,531)
Decrease in restricted assets for repayment of leasing commitments	4,850	186,481
Repayment of lease obligations	(25,403)	(218,627)
Proceeds from issuance of bonds	-	1,330
Repayment of bonds payable	(79,409)	(95,442)
Repayment of other long-term liabilities	(9,056)	(8,649)
Payments for acquisition and construction of capital assets	(451,347)	(611,258)
Proceeds from the sale of property and equipment	7,146	-
Capital grants	<u>485,657</u>	<u>563,153</u>
Net cash flows used in capital and related financing activities	<u>(269,167)</u>	<u>(378,264)</u>
Cash flows from investing activities:		
Purchases of unrestricted investments	(119,942)	(107,192)
Proceeds from maturity of unrestricted investments	107,192	86,032
Restricted cash and investment accounts:		
Purchases	(2,139,381)	(1,985,021)
Withdrawals	2,242,602	2,272,436
Investment revenue	<u>3,785</u>	<u>2,606</u>
Net cash flows provided by investing activities	<u>94,256</u>	<u>268,861</u>
Net increase in cash and cash equivalents	434	59,948
Cash and cash equivalents – beginning of year	<u>182,448</u>	<u>122,500</u>
Cash and cash equivalents – end of year	<u>\$ 182,882</u>	<u>\$ 182,448</u>

(Continued)

CHICAGO TRANSIT AUTHORITY
Business-Type Activities
Statements of Cash Flows
Years ended December 31, 2016 and 2015
(In thousands of dollars)

	<u>2016</u>	<u>2015</u>
Reconciliation of operating expenses in excess of operating revenues to net cash flows used in operating activities:		
Operating expenses in excess of operating revenues	\$ (1,218,525)	\$ (1,185,180)
Adjustments to reconcile operating expenses in excess of operating revenues to net cash flows used in operating activities:		
Depreciation	446,039	450,035
(Increase) decrease in assets:		
Pension outflows	(106,263)	(67,519)
Accounts receivable	(1,925)	6,762
Materials and supplies	3,552	(199)
Prepaid expenses and other assets	(490)	160
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(13,772)	18,925
Accrued payroll, vacation pay, and related liabilities	26,407	15,879
Self-insurance reserves	(14,574)	3,587
Unearned passenger revenue	3,208	10,566
Other unearned revenue	(1,307)	1,935
Advances, deposits, and other	20,719	13,592
Accrued pension costs and OPEB	<u>179,146</u>	<u>99,431</u>
Net cash flows used in operating activities	<u>\$ (677,785)</u>	<u>\$ (632,026)</u>
 Noncash investing and financing activities:		
Recognition of leasing proceeds	\$ 844	\$ 844
Accretion of interest on lease/leaseback obligations	5,630	8,653
Retirement of fully depreciated capital assets	86,061	150,054
Purchases of capital assets in accounts payable at year-end	35,412	55,835
RTA assistance not received	315,372	310,502
Capital grant assistance not received		
Unbilled work in progress	100,886	110,810
Debt defeasance	-	197,159

CHICAGO TRANSIT AUTHORITY
Fiduciary Activities
Statements of Fiduciary Net Position
Qualified Supplemental Retirement Plan
December 31, 2016 and 2015
(In thousands of dollars)

	<u>2016</u>	<u>2015</u>
Assets:		
Contributions from employees	\$ 39	\$ 42
Investments at fair value:		
Short-term investments	719	1,407
Government agencies	-	7,976
U.S. fixed income	7,300	-
Global fixed income	3,693	-
Equity mutual funds	-	7,859
Common stock	22,275	20,591
Real estate	3,817	-
Total investments at fair value	<u>37,804</u>	<u>37,833</u>
Securities lending collateral	-	19,223
Total assets	<u>37,843</u>	<u>57,098</u>
Liabilities:		
Accounts payable and other liabilities	38	-
Securities lending collateral obligation	-	19,223
Total liabilities	<u>38</u>	<u>19,223</u>
Net position restricted for pensions	<u>\$ 37,805</u>	<u>\$ 37,875</u>

CHICAGO TRANSIT AUTHORITY
Fiduciary Activities
Statements of Changes in Fiduciary Net Position
Qualified Supplemental Retirement Plan
Years ended December 31, 2016 and 2015
(In thousands of dollars)

	<u>2016</u>	<u>2015</u>
Additions:		
Contributions:		
Employee	\$ 8	\$ 34
Employer	<u>1,380</u>	<u>1,155</u>
Total contributions	<u>1,388</u>	<u>1,189</u>
Investment income:		
Net decrease in fair value of investments	(2,867)	(2,953)
Investment income	<u>5,809</u>	<u>2,063</u>
Total investment income	<u>2,942</u>	<u>(890)</u>
Total additions	<u>4,330</u>	<u>299</u>
Deductions:		
Benefits paid to participants or beneficiaries	4,143	4,233
Refunds of member contributions	17	-
Administrative fees	<u>240</u>	<u>237</u>
Total deductions	<u>4,400</u>	<u>4,470</u>
Net increase (decrease)	(70)	(4,171)
Net position restricted for pensions		
Beginning of year	<u>37,875</u>	<u>42,046</u>
End of year	<u>\$ 37,805</u>	<u>\$ 37,875</u>

See accompanying notes to financial statements.

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 1 - ORGANIZATION

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

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

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

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

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

The CTA participates in the Employees’ Retirement Plan, which is a single-employer, defined benefit pension plan covering substantially all full-time permanent union and nonunion employees. The Employees’ Plan is governed by Illinois state statute (40 ILCS 5/22-101). The fund, established to administer the Employees’ Retirement Plan, is not a fiduciary fund or a component unit of the CTA. This fund is a legal entity separate and distinct from the CTA. This plan is administered by its own board of trustees comprised of 5 union representatives, 5 representatives appointed by the CTA, and a professional fiduciary appointed by the RTA. The CTA has no direct authority and assumes no fiduciary responsibility with regards to the Employees’ Retirement Plan. Accordingly, the accounts of this fund are not included in the accompanying financial statements.

The CTA participates in the Retiree Health Care Trust (RHCT), which provides and administers health care benefits for CTA retirees and their dependents and survivors. The Retiree Health Care Trust was established by Public Acts 94-839 and 95-708. The RHCT is not a fiduciary fund or a component unit of the CTA. This trust is a legal entity separate and distinct from the CTA. This trust is administered by its own board of trustees comprised of three union representatives, three representatives appointed by the CTA and a professional fiduciary appointed by the RTA. The CTA has no direct authority and assumes no fiduciary responsibility with regards to the RHCT. Accordingly, the accounts of this fund are not included in the accompanying financial statements.

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 1 - ORGANIZATION (Continued)

The CTA administers supplemental retirement plans that are separate, defined benefit pension plans for selected individuals. The supplemental retirement plans provide benefits to employees of the CTA in certain employment classifications. The supplemental retirement plans consist of the: (1) closed board member plan (Board), (2) closed (Non-Qualified) supplemental plan for members retired or terminated from employment before March 2005, including early retirement incentive, and (3) closed (Qualified) supplemental plan for members retiring or terminating after March 2005. The CTA received qualification under Section 401(a) of the Internal Revenue Code for the supplemental plan and established a qualified trust during 2005 for members retiring after March 2005 (Qualified Supplemental Retirement Plan). The Qualified Supplemental Retirement Plan is reported in a fiduciary fund, whereas the activities for the Non-Qualified and Board Plans are included in the financial statements of the CTA's business-type activities.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The financial statements for the CTA's business-type activities are used to account for the CTA's activities that are financed and operated in a manner similar to a private business enterprise. Accordingly, the CTA maintains its records on the accrual basis of accounting. Under this basis, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred, depreciation of assets is recognized, and all assets and liabilities associated with the operation of the CTA are included in the Statements of Net Position.

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

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

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

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

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

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

Bond proceeds held by trustee: During various fiscal years, the CTA issued Capital Grant Receipt Revenue Bonds. The proceeds from each sale were placed in trust accounts restricted for financing the costs of capital improvement projects associated with each issuance. For more detailed information see note 9.

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Capitalized interest cost is amortized on the same basis as the related asset is depreciated. Projects funded with bond proceeds incurred \$70,399,000 and \$77,357,000 of interest expense for the years ended December 31, 2016 and 2015, respectively. Of those interest costs incurred, \$2,473,000 and \$3,257,000 were capitalized during the years ended December 31, 2016 and 2015, respectively.

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

	<u>Years</u>
Buildings	40
Elevated structures, tracks, tunnels, and power system	20-40
Transportation vehicles:	
Bus	7-12
Rail	25
Signal and communication	10-20
Other equipment	3-10

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

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

Included with the CTA's *other equipment* capital assets, the CTA has capitalized an intangible asset, computer software. The CTA follows the same capitalization policy and estimated useful life for its intangible asset as it does for its *other equipment* capital assets. The CTA also amortizes the intangible asset utilizing the straight-line method.

Deferred Outflows of Resources: A deferred outflow of resources is a consumption of net assets by the government that is applicable to a future reporting period.

Self-insurance: The CTA is self-insured for various risks of loss, including public liability and property damage, workers' compensation, and health benefit claims, as more fully described in note 16. A liability for each self-insured risk is provided based upon the present value of the estimated ultimate cost of settling claims using a case-by-case review and historical experience. A liability for claims incurred but not reported is also provided.

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences: Substantially all employees receive compensation for vacations, holidays, illness, and certain other qualifying absences. The number of days compensated for the various categories of absence is based generally on length of service. Vacation leave that has been earned but not paid has been accrued in the accompanying financial statements. Compensation for holidays, illness, and other qualifying absences is not accrued in the accompanying financial statements because rights to such compensation amounts do not accumulate or vest.

Under GASB Statement No. 16, Accounting for Compensated Absences, applicable salary-related employer obligations are accrued in addition to the compensated absences liability. This amount is recorded as a portion of the accrued payroll, vacation pay, and related liabilities on the Statements of Net Position.

Bond Premiums: Bond premiums are amortized over the life of the bonds using the bonds outstanding method, which is materiality consistent with the effective interest method.

Pensions: For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Pension Plans (the Plans) and additions to/deductions from the Plans fiduciary net position have been determined on the same basis as they are reported by the Plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. For more detailed information see notes 13 and 14.

Net Position: Net position is displayed in three components as follows:

Net Investment in Capital Assets – This consists of capital assets, net of accumulated depreciation, less the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted – This component of net position consists of legally restricted assets by outside parties or by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the CTA's policy to use restricted resources first, and then unrestricted resources when they are needed.

Unrestricted – This component of net position that does not meet the definition of "restricted" or "net investment in capital assets."

Retirement Plan: The CTA has a retirement plan for all nontemporary, full-time employees with service greater than one year. Pension expense is recorded on an annual basis based on the results of an actuarial valuation in conformity with GASB 68. For more detailed information see note 13.

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

Classification of Revenues: The CTA has classified its revenues as either operating or nonoperating. Operating revenues include activities that have the characteristics of exchange transactions, including bus and rail passenger fares, rental fees received from concessionaires, the fees collected from advertisements on CTA property, and miscellaneous operating revenues. Nonoperating revenue includes activities that have the characteristics of nonexchange transactions, such as federal, state, and local grants and contracts.

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimates: The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Reclassifications: Certain amounts from the prior year have been reclassified to conform to the current year presentation. The reclassifications had no effect on net position or change in net position.

Implementation of New Accounting Standards:

In February 2015, the GASB issued Statement No. 72 – Fair Value Measurement and Application. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The provisions of this Statement became effective for the CTA during fiscal year 2016.

In June 2015, GASB issued Statement No. 73, Amendments to Certain Provisions of GASB Statements 67 and 68. It amends certain provisions of Statement No. 67, Financial Reporting for Pension Plans, and Statement 68 for pension plans and pensions that are within their respective scopes. The provisions of this Statement became effective for the CTA during fiscal year 2016.

In June 2015, GASB issued Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). This Statement supersedes Statement No. 55, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. The provisions of this Statement became effective for the CTA during fiscal year 2016.

In August 2015, GASB issued Statement No. 77, Tax Abatement Disclosures. This Statement requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. The provisions of this Statement became effective for the CTA during fiscal year 2016.

In December 2015 GASB issued Statement No. 78, Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans. This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan. The provisions of this Statement became effective for the CTA during fiscal year 2016.

In December 2015 GASB issued Statement No. 79 Certain External Investment Pools and Pool Participants. This statement addresses accounting and financial reporting for certain external investment pools and pool participants. It establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The provisions of this Statement became effective for the CTA during fiscal year 2016.

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CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Future Pronouncements:

In June 2015, GASB issued Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68. This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, Accounting and Financial Reporting for Pensions, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. The provisions in Statement 73 are effective for fiscal years beginning after June 15, 2016.

In June 2015, GASB issued statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans. This Statement replaces Statements No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, as amended, Statement 43, and Statement No. 50, Pension Disclosures. The provisions in Statement 74 are effective for fiscal years beginning after June 15, 2016.

In June 2015, GASB issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. This Statement replaces the requirements of Statements No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2017.

In January 2016 GASB issued Statement No. 80 Blending Requirements for Certain Component Units. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016.

In March 2016 GASB issued Statement No. 81 Irrevocable Split-Interest Agreements. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively.

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CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In March 2016 GASB issued Statement No. 82 Pension Issues. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.

In November 2016, the GASB issued Statement 83, Certain Asset Retirement Obligations. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations (AROs). The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2018.

In January 2017, the GASB issued Statement 84, Fiduciary Activities. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2018.

In March 2017, the GASB issued Statement 85, Omnibus 2017. This Statement addresses a variety of topics including issued related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). This Statement further addresses the (1) timing of the measurement of pension or OPEB liabilities, (2) recognizing on-behalf payments for pensions or OPEB in employer financial statements, (3) classifying employer-paid member contributions for OPEB, (4) accounting and financial reporting for OPEB, (5) measuring certain money market investments, (6) blending a component unit in which the primary government is a business-type activity that reports in a single column for financial statement presentation. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2017.

Management has not yet determined the impact of these statements on the basic financial statements.

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NOTE 3 - BUDGET AND BUDGETARY BASIS OF ACCOUNTING

The CTA is required under Section 4.01 of the Regional Transportation Authority Act to submit for approval an annual budget to the RTA by November 15 prior to the commencement of each fiscal year. The budget is prepared on a basis consistent with GAAP, except for the exclusion of certain income and expenses. For 2016 and 2015, these amounts include provision for injuries and damage in excess of (or under) budget, depreciation expense, pension expense in excess of pension contributions, actuarial adjustments, revenue from leasing transactions, interest income and expense from sale/leaseback transactions, and capital contributions.

The Act requires that expenditures for operations and maintenance in excess of budget cannot be made without approval of the Chicago Transit Board. All annual appropriations lapse at fiscal year-end. The RTA, in accordance with the RTA Act, has approved for budgetary basis presentation the CTA's recognition of the amount of the injury and damage reserve and pension contribution, funded by the RTA in the approved annual budget. Provisions in excess of the approved annual budget that are unfunded are excluded from the recovery ratio calculation.

Prior to 2009, the RTA funded the budgets of the service boards rather than the actual operating expenses in excess of system-generated revenue. Under this funding policy favorable variances from budget remain as unearned operating assistance to the CTA, and can be used in future years with RTA approval. At the end of 2009, the RTA changed the funding policy to reflect actual collections rather than the budgeted funding marks. This new policy shifts the risk of shortfalls from actual collections to the respective service boards.

The RTA approves the proposed budget based on a number of criteria:

- That the budget is in balance with regard to anticipated revenues from all sources, including operating subsidies and the costs of providing services and funding operating deficits;
- That the budget provides for sufficient cash balances to pay, with reasonable promptness, costs and expenses when due;
- That the budget provides for the CTA to meet its required system-generated revenue recovery ratio; and
- That the budget is reasonable, prepared in accordance with sound financial practices and complies with such other RTA requirements as the RTA Board of Directors may establish.

The RTA monitors the CTA's performance against the budget on a quarterly basis. If, in the judgment of the RTA, this performance is not substantially in accordance with the CTA's budget for such period, the RTA shall so advise the CTA and the CTA must, within the period specified by the RTA, submit a revised budget to bring the CTA into compliance with the budgetary requirements listed above.

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

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

The funding "marks" represent the amount of funds that each Service Board can expect to receive from the RTA and other sources.

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CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

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

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

	<u>2016</u>	<u>2015</u>
1983 Legislation Illinois state sales tax allocation	\$ 365,622	\$ 360,575
1983 Legislation RTA discretionary funding and other	218,922	214,471
2008 Legislation Illinois state sales tax allocation & PTF	145,141	143,239
2008 Legislation Real estate transfer tax	79,063	74,723
2008 Legislation Innovation, Coordination and Enhancement funding (ICE)	1,000	-
Final public funding	<u>\$ 809,748</u>	<u>\$ 793,008</u>

Reduced-fare subsidies from the State of Illinois were \$14,385,000 and \$14,606,000 during the years ended December 31, 2016 and 2015, respectively, for discounted services provided to the elderly, disabled, or student riders.

NOTE 5 - CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash, Cash Equivalents, and Investments of the Business-type Activities

Cash, cash equivalents, and investments are reported in the Statements of Net Position of the business-type activities as follows as of December 31, 2016 and 2015 (in thousands of dollars):

	<u>2016</u>	<u>2015</u>
Current assets:		
Cash and cash equivalents	\$ 79,127	\$ 85,438
Restricted for injury and damage reserve	103,755	97,010
Investments	119,942	107,192
Noncurrent assets:		
Bond proceeds held by trustee	275,197	378,431
Held by trustee for supplemental retirement plan	616	603
Total	<u>\$ 578,637</u>	<u>\$ 668,674</u>

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

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

Cash, cash equivalents, and investments of the business-type activities consist of the following as of December 31, 2016 and 2015 (in thousands of dollars):

	<u>2016</u>	<u>2015</u>
Investments:		
Certificates of deposit	\$ 20	\$ 20
Money market mutual funds	116,484	52,066
U.S. government agencies	263,815	297,551
U.S. Treasury bills	-	48,365
Municipal bonds	17,583	36,964
Commercial paper	145,851	208,216
Total Investments	<u>543,753</u>	<u>643,182</u>
Deposits with financial institutions	<u>34,884</u>	<u>25,492</u>
Total deposits and investments	<u>\$ 578,637</u>	<u>\$ 668,674</u>

Investment Policy: CTA investments are made in accordance with the Public Funds Investment Act (30 ILCS 235/1) (the Act) and, as required under the Act, the Chicago Transit Authority Investment Policy (the Investment Policy). The Investment Policy does not apply to the Employees Retirement Plan or the Retiree Healthcare Trust, which are separate legal entities. Additionally, the CTA Investment Policy does not apply to the Supplemental Retirement Plan, which is directed by the Employee Retirement Review Committee. In accordance with the Act and the Investment Policy, CTA invests in the following types of securities:

1. United States Treasury Securities (Bonds, Notes, Certificates of Indebtedness, and Bills). CTA may invest in obligations of the United States government, which are guaranteed by the full faith and credit of the United States of America as to principal and interest.
2. United States Agencies. CTA may invest in bonds, notes, debentures, or other similar obligations of the United States or its agencies. Agencies include: (a) federal land banks, federal intermediate credit banks, banks for cooperative, federal farm credit bank, or other entities authorized to issue debt obligations under the Farm Credit Act of 1971, as amended; (b) federal home loan banks and the federal home loan mortgage corporation; and (c) any other agency created by an act of Congress.
3. Bank Deposits. CTA may invest in interest-bearing savings accounts, interest-bearing certificates of deposit, or interest-bearing time deposits or other investments constituting direct obligations of any bank as defined by the Illinois Banking Act (205 ILCS 5/1 et seq.), provided that any such bank must be insured by the Federal Deposit Insurance Corporation (the FDIC).
4. Commercial Paper. CTA may invest in short-term obligations (commercial paper) of corporations organized in the United States with assets exceeding \$500 million, provided that: (a) such obligations are at the time of purchase at the highest classification established by at least two standard rating services and which mature not later than 270 days from the date of purchase; and (b) such purchases do not exceed 10% of the corporation's outstanding obligations.
5. Mutual Funds. CTA may invest in mutual funds which invest exclusively in United States government obligations and agencies.
6. Discount Obligations. CTA may invest in short-term discount obligations of the Federal National Mortgage Association.
7. Investment Pool. CTA may invest in a Public Treasurers' Investment Pool created under Section 17 of the State Treasurer Act (15 ILCS 505/17).

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

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

8. Repurchase Agreements. CTA may invest in repurchase agreements for securities that are authorized investments under the Investment Policy, subject to all of the requirements of the Act, provided that: (a) the securities shall be held by an authorized custodial bank; and (b) each transaction must be entered into under terms of an authorized master repurchase agreement.
9. Investment Certificates. CTA may invest in investment certificates issued by FDIC-insured savings banks or FDIC-insured savings and loan associations.
10. Interest-bearing bonds of any county, township, city, village, incorporated town, municipal corporation, or school district, of the State of Illinois, of any other state, or of any political subdivision or agency of the State of Illinois or of any other state, whether the interest earned thereon is taxable or tax-exempt under federal law. The bonds shall be registered in the name of the Authority or held under a custodial agreement at a bank. The bonds shall be rated, at the time of purchase, no lower than 'A' category by at least two accredited rating agencies with nationally recognized expertise in rating bonds of states and their political subdivisions. The maturity of the bonds authorized by this subsection (10) shall, at the time of purchase, not exceed 10 years; provided that a longer maturity is authorized if the Authority has a put option to tender the bonds within 10 years from the date of purchase. These securities shall show on their face that they are fully payable as to principal and interest, where applicable, if any, within ten years from the date of purchase.

Custodial Credit Risk: Custodial credit risk for deposits is the risk that in the event of a financial institution failure, the CTA's deposits may not be returned. The CTA's investment policy requires that deposits which exceed the amount insured by the FDIC be collateralized, at the rate of 102% of such deposits, by bonds, notes, certificates of indebtedness, treasury bills or other securities which are guaranteed by the full faith and credit of the United States of America as to principal and interest or, at the rate of 110% of such deposit, by: bonds, notes, debentures, or other similar obligations of agencies of the United States of America. As of December 31, 2016 and 2015, the CTA's bank balances were fully insured or collateralized.

Interest Rate Risk: Interest rate risk is the risk that the fair value of the CTA's investments will decrease as a result of an increase in interest rates. As a means of limiting its exposure to fair value losses arising from rising interest rates, the Investment Policy limits the term of investments as follows:

Instrument type	Term of investment
U.S. treasuries	3 years
Repurchase agreements	330 days
Certificates of deposit	365 days
Commercial paper	270 days
U.S. Government agencies	3 years
Government money market funds	n.a.
Federal National Mortgage Assn.	3 years
Municipal bonds (callable)	10 years
Mutual funds	n.a.
Investment pool	n.a.

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

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

As of December 31, 2016, the maturities for the CTA's fixed-income investments are as follows (in thousands of dollars):

	Fair value	Investment maturities (by years)		
		Less than 1	1 - 5	5+
Money market mutual funds	\$ 116,484	\$ 116,484	\$ -	\$ -
U.S. government agencies	263,815	194,866	68,949	-
Municipal bonds	17,583	10,647	6,936	-
Commercial paper	145,851	145,851	-	-
Total	<u>\$ 543,733</u>	<u>\$ 467,848</u>	<u>\$ 75,885</u>	<u>\$ -</u>

As of December 31, 2015, the maturities for the CTA's fixed-income investments are as follows (in thousands of dollars):

	Fair value	Investment maturities (by years)		
		Less than 1	1 - 5	5+
Money market mutual funds	\$ 52,066	\$ 52,066	\$ -	\$ -
U.S. government agencies	297,551	225,706	71,845	-
U.S. treasury bills	48,365	48,365	-	-
Municipal bonds	36,964	17,864	19,100	-
Commercial paper	208,216	208,216	-	-
Total	<u>\$ 643,162</u>	<u>\$ 552,217</u>	<u>\$ 90,945</u>	<u>\$ -</u>

Credit Risk: Credit risk is the risk that the CTA will not recover its investments due to the failure of the counterparty to fulfill its obligation. As of December 31, 2016, the CTA had the following fixed-income investments which are rated by both Moody's and Standard and Poor's (in thousands of dollars):

	Fair value	Credit ratings				
		A1P1 or AAA	A2P2 or AA	A3P3 or A	B	Not rated
Money market mutual funds	\$ 116,484	\$ 116,484	\$ -	\$ -	\$ -	\$ -
U.S. government agencies	263,815	263,815	-	-	-	-
U.S. treasury bills	-	-	-	-	-	-
Municipal bonds	17,583	1,192	7,753	6,972	1,666	-
Commercial paper	145,851	145,851	-	-	-	-
Total	<u>\$ 543,733</u>	<u>\$ 527,342</u>	<u>\$ 7,753</u>	<u>\$ 6,972</u>	<u>\$ 1,666</u>	<u>\$ -</u>

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

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

As of December 31, 2015, the CTA had the following fixed-income investments which are rated by both Moody's and Standard and Poor's (in thousands of dollars):

	Fair value	Credit ratings				Not rated
		A1P1 or AAA	A2P2 or AA	A3P3 or A	B	
Money market mutual funds	\$ 52,066	\$ -	\$ -	\$ -	\$ -	\$ 52,066
U.S. government agencies	297,551	-	297,551	-	-	-
U.S. treasury bills	48,365	-	48,365	-	-	-
Municipal bonds	36,964	2,662	16,342	12,978	4,982	-
Commercial paper	208,216	208,216	-	-	-	-
Total	<u>\$ 643,162</u>	<u>\$ 210,878</u>	<u>\$ 362,258</u>	<u>\$ 12,978</u>	<u>\$ 4,982</u>	<u>\$ 52,066</u>

In addition, the Investment Policy requires that whenever funds are deposited in a financial institution in an amount which causes the total amount of the Authority's funds deposited with such institution to exceed the amount which is protected by the FDIC, all deposits which exceed the amount insured be collateralized, at the rate of 102% of such deposit, by: bonds, notes, certificates of indebtedness, Treasury bills, or other securities which are guaranteed by the full faith and credit of the United States of America as to principal and interest or, at the rate of 110% of such deposit, by: bonds, notes, debentures, or other similar obligations of agencies of the United States of America.

Custodial Credit Risk – Investments: Custodial credit risk is the risk that, in the event of the failure of the counterparty, the CTA will not be able to recover the value of its investments or collateral securities that are in the possession of a third party. The Investment Policy requires that investment securities be held by an authorized custodial bank pursuant to a written custodial agreement.

Concentration of Credit Risk: Except for investments in certificates of deposits and commercial paper, the CTA does not restrict the amount which may be invested in authorized investments of a single issuer or financial institution. No more than 30 percent of the maximum portfolio percentage amount allowed for investment in certificates of deposit may be invested in certificates of deposit of a single issuer of such certificates. No more than 25 percent of the maximum portfolio percentage amount allowed for investment in commercial paper may be invested in commercial paper of a single issuer of such commercial paper.

As of December 31, 2016, the CTA had investments in the Federal Home Loan Bank (FHLB) (20.45%), Federal Home Loan Mortgage Corporation (FHLMC) (10.80%), Mountcliff Finance (5.72%), Bank of China (5.54%), Federal National Mortgage Association (FNMA) (9.14%), Goldman Sachs – Financial Square Government Fund (15.81%) and Goldman Sachs – Amalgamated (5.61%) that exceeded 5 percent of the total investment balance. As of December 31, 2015, U.S. Bank (10.68%), FHLB (24.52%), FHLMC (6.94%), Treasury Bills (7.52%), FNMA (7.48%) and Goldman Sachs – Amalgamated (7.00%) that exceeded 5 percent of the total investment balance.

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

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

Fair Value: CTA categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs and are valued using a matrix pricing model. Level 3 inputs are significant unobservable inputs and are valued using future projected cash flows. CTA has the following fair value measurements as of December 31, 2016 and 2015 (in thousands of dollars).

Fair Value Measurements as of December 31, 2016				
	Total			
	Amount	Level 1	Level 2	Level 3
Federal Home Loan Bank	\$ 111,186	\$ -	\$ 111,186	\$ -
Federal National Mortgage Association	39,709	-	39,709	-
Federal Home Loan Mortgage Corporation	12,967	-	12,967	-
Federal Farm Credit Banks	4,690	-	4,690	-
Federal Agriculture Mortgage Corporation	26,564	-	26,564	-
FHLMC Discount Note	58,719	-	58,719	-
FNMA Discount Note	9,980	-	9,980	-
Municipal bonds	17,583	-	17,583	-
Money market mutual funds	116,484	116,484	-	-
Commercial paper	145,851	-	145,851	-
Total	\$ 543,733	\$ 116,484	\$ 427,249	\$ -

Fair Value Measurements as of December 31, 2015				
	Total			
	Amount	Level 1	Level 2	Level 3
Federal Home Loan Bank	\$ 157,690	\$ -	\$ 157,690	\$ -
Federal National Mortgage Association	10,017	-	10,017	-
Federal Home Loan Mortgage Corporation	33,329	-	33,329	-
Federal Farm Credit Banks	12,176	-	12,176	-
Federal Agriculture Mortgage Corporation	14,999	-	14,999	-
FC Discount Note	4,986	-	4,986	-
FFCB Discount Note	14,970	-	14,970	-
FHLMC Discount Note	11,296	-	11,296	-
FNMA Discount Note	38,088	-	38,088	-
U.S. treasury bills	48,365	-	48,365	-
Municipal bonds	36,964	-	36,964	-
Money market mutual funds	52,066	52,066	-	-
Commercial paper	208,216	-	208,216	-
Total	\$ 643,162	\$ 52,066	\$ 591,096	\$ -

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

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

Cash, Cash Equivalents, and Investments of the Fiduciary Activities

Cash, cash equivalents, and investments are reported in the Fiduciary Fund as follows as of December 31, 2016 and 2015 (in thousands of dollars):

	2016	2015
Investments, at fair value:		
Short-term investments	\$ 719	\$ 1,407
U.S. government agency commingled funds	-	7,976
U.S. fixed income	7,300	-
Global fixed income	3,693	-
Equity mutual funds	-	7,859
Common stock	22,275	20,591
Real estate	3,817	-
Total	\$ 37,804	\$ 37,833

Investment Policy: The Employee Retirement Review Committee has been appointed as the fiduciary having responsibility for administering the Qualified Supplemental Retirement Plan, including the responsibility for allocating the assets of the trust fund among the separate accounts, for monitoring the diversification of the investments of the trust fund, for determining the propriety of investments of the trust fund in foreign securities and of maintaining the custody of foreign investments abroad, for assuring that the plan does not violate any provisions of applicable law limiting the acquisition or holding of certain securities or other property, and for the appointment and removal of an investment fiduciary. The Qualified Supplemental Retirement Plan is a qualified plan that is not subject to the Public Funds Investment Act.

In March 2005 the Employee Retirement Review Committee engaged a registered investment adviser under the Investment Advisers Act of 1940. The Employee Retirement Review Committee engaged a new registered investment adviser in October 2015. The investment adviser is authorized to invest and reinvest the assets of the Qualified Supplemental Retirement Plan and keep the same invested, without distinction between principal and income, in any property, real, personal or mixed or share or part thereof, or part interest thereof, or part interest therein, wherever situated, and whether or not productive of income, including: capital, common and preferred stock, and short-term investments.

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CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

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

Interest Rate Risk: Interest rate risk is the risk that the fair value of the Qualified Supplemental Retirement Plan investments will decrease as a result of an increase in interest rates. The Employee Retirement Review Committee mitigates exposure to changes in interest rates by requiring that the assets of the Trust be invested in accordance with the following asset allocation guidelines as of December 31, 2016:

Asset class	Allocation
U.S. large cap equities	14.50%
U.S. mid size cap equities	12.50
U.S. small cap equities	11.00
Developed non-U.S. equities	10.00
Small non-U.S. equities	5.00
Emerging markets equities	7.00
U.S. fixed income	20.00
Global fixed income	10.00
Real estate	10.00
	100.00%

During the 2016 fiscal year, the allocation guidelines were revised. As of December 31, 2015, the assets of the Trust were required to be invested in accordance with the following asset allocation guidelines:

Asset class	Allocation
U.S. large cap equities	39.00%
U.S. mid size cap equities	14.00
U.S. small cap equities	12.00
Non-U.S. equities	10.00
U.S. fixed income	25.00
	100.00%

As of December 31, 2016, the maturities for the Plan's fixed-income investments are as follows (in thousands):

	Fair value	Investment Maturities (in years)	
		Less than 1	1 - 5
Short-term investment funds	\$ 719	\$ 719	\$ -
U.S. fixed income	7,300	7,300	-
Global fixed income	3,693	3,693	-
Total	\$ 11,712	\$ 11,712	\$ -

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

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

As of December 31, 2015, the maturities for the Plan's fixed-income investments are as follows (in thousands):

	Fair value	Investment Maturities (in years)	
		Less than 1	1 - 5
Short-term investment funds	\$ 1,407	\$ 1,407	\$ -
U.S. government agency commingled funds	7,976	7,976	-
Total	<u>\$ 9,383</u>	<u>\$ 9,383</u>	<u>\$ -</u>

Credit Risk: Credit risk is the risk that the Qualified Supplemental Retirement Plan will not recover its investments due to the failure of the counterparty to fulfill its obligation.

As of December 31, 2016, the Plan had the following fixed-income investments which are not rated by either Moody's or Standard and Poor's (in thousands of dollars):

	Fair value	Credit ratings	
		Government Secured	Not Rated
Short-term investment funds	\$ 719	\$ -	\$ 719
U.S. fixed income	7,300	-	7,300
Global fixed income	3,693	-	3,693
Total	<u>\$ 11,712</u>	<u>\$ -</u>	<u>\$ 11,712</u>

As of December 31, 2015, the Plan had the following fixed-income investments which are rated by both Moody's and Standard and Poor's (in thousands of dollars):

	Fair value	Credit ratings	
		Government Secured	Not Rated
Short-term investment funds	\$ 1,407	\$ -	\$ 1,407
U.S. government agency commingled funds	7,976	7,976	-
Total	<u>\$ 9,383</u>	<u>\$ 7,976</u>	<u>\$ 1,407</u>

Custodial Credit Risk – Investments: Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Qualified Supplemental Retirement Plan will not be able to recover the value of its investments or collateral securities that are in the possession of a third party. The investment securities are held in trust pursuant to a written trust agreement.

Foreign Currency Risk: Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. The Plan's foreign currency risk is limited to its investments in an international equity commingled fund with a fair value of \$4,222,000 as of December 31, 2015. There was no foreign currency risk as of December 31, 2016.

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

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

Fair Value: The Qualified Supplemental Plan categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs and are valued using a matrix pricing model. Level 3 inputs are significant unobservable inputs and are valued using future projected cash flows. The Qualified Supplemental Plan has the following fair value measurements as of December 31, 2016 and 2015 (in thousands of dollars).

Fair Value Measurements as of December 31, 2016				
Total				
	Amount	Level 1	Level 2	Level 3
Global Fixed Income	\$ 3,693	\$ 3,693	\$ -	\$ -
Common Stock	19,389	19,375	14	-
Total investments by fair value level	\$ 23,082	\$ 23,068	\$ 14	\$ -
Investments measured at Net Asset Value				
U.S. Fixed Income	7,300			
Common Stock	2,886			
Real Estate	3,817			
Total investments	\$ 37,085			

Investment in Certain Entities that Calculate Net Asset Value Per Share

CTA measures certain investments that do not have a readily determinable fair value using NAV as a practical expedient. These investments are generally structured as limited partnerships with an investment manager and are created by raising pools of capital from investors that will be invested according to one or more specific investment strategies. Investors commit capital to the fund, and as the investment manager identifies investment opportunities, the committed capital is called to purchase the investments.

The following table displays information regarding investments that use NAV per share (or equivalent) as their fair value measurement:

	Net Asset Value Practical Expedient			
	Fair Value December 31, 2016	Total Unfunded Commitments	Redemption Frequency if Currently Eligible	Redemption Notice Period
	U.S. Fixed Income	\$ 7,300	\$ -	N/A
Common Stock	2,886	-	N/A	N/A
Real Estate	3,817	-	N/A	N/A

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

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

	Fair Value Measurements as of December 31, 2015			
	Total			
	Amount	Level 1	Level 2	Level 3
U.S. Government Agency Commingled Funds	\$ 7,976	\$ 7,976	\$ -	\$ -
Equity Mutual Funds	7,859	7,859	-	-
Common Stock	20,591	20,591	-	-
Total	\$ 36,426	\$ 36,426	\$ -	\$ -

Securities Lending: The Qualified Supplemental Plan of the CTA participated in a domestic and international securities lending program whereby securities were loaned to investment brokers/dealers (borrower). Securities loaned were collateralized at 102% of the domestic equity and US dollar-denominated securities that can be loaned and not less than 105% of the borrowed securities if they were denominated in different currencies. The CTA loaned U.S. Equity securities at a fair value of approximately \$18,684,000 as of December 31, 2015. The collateral received was in the form of cash and valued at approximately \$19,223,000 as of December 31, 2015. As of December 31, 2016, the Qualified Supplemental Plan of the CTA no longer participated in the securities lending program.

Restricted Assets for Repayment of Leasing Commitments

The CTA has outstanding lease/leaseback obligations. When the CTA entered into these transactions it received advance payments. The CTA deposited a portion of the advance payment with a trustee, who was to purchase direct obligations of the U.S. government and other securities that would mature on the dates and in the amounts required to pay lease payments and the respective purchase option price. These investments are held by the trustee and are invested in U.S. Treasury strips, U.S. government obligations, or guaranteed investment contracts. Because these investments are insured by a third party and are held in U.S. Treasuries and government investment contracts they are not recorded at fair value but are recorded at amortized cost on the Statements of Net Position.

NOTE 6 - CAPITAL ASSETS

The CTA has capital grant contracts with federal, state, and regional agencies, including the U.S. Department of Transportation, Federal Transit Administration (FTA), the State of Illinois Department of Transportation (IDOT), established under the Transportation Bond Act, and the RTA. Under these contracts, the CTA has acquired rapid-transit cars, buses, and equipment and is constructing, renewing, and improving various portions of track structures and related operating facilities and systems. It is anticipated that the FTA will finance approximately 80% of the total cost of the federal projects, with the balance of the cost being financed principally by IDOT, the RTA, and CTA bonds. Commitments of approximately \$342,930,000 and \$299,400,000 have been entered into for federal and state (including local) capital grant contracts as of December 31, 2016 and 2015, respectively.

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 6 - CAPITAL ASSETS (Continued)

The CTA also has additional capital grant contracts, which are 100% funded by the RTA, IDOT, FEMA, IEMA, or CTA bonds. Commitments of approximately \$422,407,000 and \$552,395,000 have been entered into for these state and local capital grants as of December 31, 2016 and 2015, respectively. Changes in capital assets for the year ended December 31, 2016 are as follows (in thousands of dollars):

	Balance at January 1, 2016	Increase	Decrease	Balance at December 31, 2016
Capital assets not being depreciated:				
Land	\$ 120,257	\$ 3,489	\$ (2,389)	\$ 121,357
Construction in process	635,299	430,924	(385,965)	680,258
Total capital assets not being depreciated	<u>755,556</u>	<u>434,413</u>	<u>(388,354)</u>	<u>801,615</u>
Capital assets being depreciated:				
Land improvements	36,779	309	-	37,088
Buildings	2,650,424	120,261	(12,268)	2,758,417
Transportation vehicles	3,581,282	169,439	(44,559)	3,706,162
Elevated structure track	2,335,880	50,669	(118)	2,386,431
Signal and communication	1,411,622	19,974	(8,517)	1,423,079
Other equipment	732,249	21,824	(18,210)	735,863
Total capital assets being depreciated	<u>10,748,236</u>	<u>382,476</u>	<u>(83,672)</u>	<u>11,047,040</u>
Less accumulated depreciation for:				
Land improvements	28,068	6,021	(4,053)	30,036
Buildings	1,388,663	88,392	(7,229)	1,469,826
Transportation vehicles	2,069,440	186,191	(44,558)	2,211,073
Elevated structure track	1,482,515	71,476	(118)	1,553,873
Signal and communication	962,330	48,781	(8,518)	1,002,593
Other equipment	578,413	45,178	(18,210)	605,381
Total accumulated depreciation	<u>6,509,429</u>	<u>446,039</u>	<u>(82,686)</u>	<u>6,872,782</u>
Total capital assets being depreciated, net	<u>4,238,807</u>	<u>(63,563)</u>	<u>(986)</u>	<u>4,174,258</u>
Total capital assets, net	<u>\$ 4,994,363</u>	<u>\$ 370,850</u>	<u>\$ (389,340)</u>	<u>\$ 4,975,873</u>

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 6 - CAPITAL ASSETS (Continued)

Changes in capital assets for the year ended December 31, 2015 are as follows (in thousands of dollars):

	Balance at January 1, 2015	Increase	Decrease	Balance at December 31, 2015
Capital assets not being depreciated:				
Land	\$ 115,982	\$ 4,275	\$ -	\$ 120,257
Construction in process	760,040	621,264	(746,005)	635,299
Total capital assets not being depreciated	<u>876,022</u>	<u>625,539</u>	<u>(746,005)</u>	<u>755,556</u>
Capital assets being depreciated:				
Land improvements	34,264	2,515	-	36,779
Buildings	2,524,837	125,587	-	2,650,424
Transportation vehicles	3,345,154	374,367	(138,239)	3,581,282
Elevated structure track	2,215,927	119,953	-	2,335,880
Signal and communication	1,333,615	78,762	(755)	1,411,622
Other equipment	702,762	40,546	(11,059)	732,249
Total capital assets being depreciated	<u>10,156,559</u>	<u>741,730</u>	<u>(150,053)</u>	<u>10,748,236</u>
Less accumulated depreciation for:				
Land improvements	26,300	1,768	-	28,068
Buildings	1,285,940	102,723	-	1,388,663
Transportation vehicles	2,038,669	169,010	(138,239)	2,069,440
Elevated structure track	1,404,266	78,249	-	1,482,515
Signal and communication	908,269	54,816	(755)	962,330
Other equipment	546,003	43,469	(11,059)	578,413
Total accumulated depreciation	<u>6,209,447</u>	<u>450,035</u>	<u>(150,053)</u>	<u>6,509,429</u>
Total capital assets being depreciated, net	<u>3,947,112</u>	<u>291,695</u>	<u>-</u>	<u>4,238,807</u>
Total capital assets, net	<u>\$ 4,823,134</u>	<u>\$ 917,234</u>	<u>\$ (746,005)</u>	<u>\$ 4,994,363</u>

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 7 - LONG-TERM OBLIGATIONS

Changes in long-term obligations for the year ended December 31, 2016 are as follows (in thousands of dollars):

	Balance at January 1, 2016	Additions	Reductions	Balance at December 31, 2016	Amount due beyond one year	Amount due within one year
Self insurance claims (note 16)	\$ 283,841	\$ 216,721	\$ (231,295)	\$ 269,267	\$ 180,051	\$ 89,216
Capital lease obligations:						
Capital lease obligations (note 8)	206,713	5,630	(21,732)	190,611	175,756	14,855
Premium on capital lease obligation	4,199	-	(404)	3,795	3,795	-
Unearned rev. – leasing trans. (note 8)	1,686	-	(844)	842	842	-
Total capital lease obligations	<u>212,598</u>	<u>5,630</u>	<u>(22,980)</u>	<u>195,248</u>	<u>180,393</u>	<u>14,855</u>
Bonds payable:						
Bonds payable (note 9)	4,084,585	-	(72,460)	4,012,125	3,927,480	84,645
Premium on bonds payable	94,442	-	(9,445)	84,997	84,997	-
Total bonds payable	<u>4,179,027</u>	<u>-</u>	<u>(81,905)</u>	<u>4,097,122</u>	<u>4,012,477</u>	<u>84,645</u>
Certificates of participation (note 10)	36,724	-	(6,949)	29,775	22,633	7,142
Net pension liability (note 13 & 14)	1,470,041	178,731	-	1,648,772	1,648,772	-
Net OPEB obligation (note 15)	4,637	415	-	5,052	5,052	-
Other long-term liabilities:						
Fare system purchase agreement (note 11)	85,581	-	(9,056)	76,525	67,042	9,483
Other	20	-	-	20	20	-
Total other long-term liabilities	<u>85,601</u>	<u>-</u>	<u>(9,056)</u>	<u>76,545</u>	<u>67,062</u>	<u>9,483</u>
Total	<u>\$ 6,272,469</u>	<u>\$ 401,497</u>	<u>\$ (352,185)</u>	<u>\$ 6,321,781</u>	<u>\$ 6,116,440</u>	<u>\$ 205,341</u>

Changes in long-term obligations for the year ended December 31, 2015 are as follows (in thousands of dollars):

	Balance at January 1, 2015	Additions	Reductions	Balance at December 31, 2015	Amount due beyond one year	Amount due within one year
Self insurance claims (note 16)	\$ 280,254	\$ 224,516	\$ (220,929)	\$ 283,841	\$ 190,045	\$ 93,796
Capital lease obligations:						
Capital lease obligations (note 8)	386,303	8,653	(188,243)	206,713	184,982	21,731
Premium on capital lease obligation	4,617	-	(418)	4,199	4,199	-
Unearned rev. – leasing trans. (note 8)	9,967	-	(8,281)	1,686	1,686	-
Total capital lease obligations	<u>400,887</u>	<u>8,653</u>	<u>(196,942)</u>	<u>212,598</u>	<u>190,867</u>	<u>21,731</u>
Bonds payable:						
Bonds payable (note 9)	4,177,025	176,920	(269,360)	4,084,585	4,012,125	72,460
Premium on bonds payable	85,369	21,568	(12,495)	94,442	94,442	-
Total bonds payable	<u>4,262,394</u>	<u>198,488</u>	<u>(281,855)</u>	<u>4,179,027</u>	<u>4,106,567</u>	<u>72,460</u>
Certificates of participation (note 10)	43,486	-	(6,762)	36,724	29,775	6,949
Net pension liability (note 13 & 14)	1,371,034	99,007	-	1,470,041	1,470,041	-
Net OPEB obligation (note 15)	4,213	424	-	4,637	4,637	-
Other long-term liabilities:						
Fare system purchase agreement (note 11)	94,230	-	(8,649)	85,581	76,525	9,056
Other	20	-	-	20	20	-
Total other long-term liabilities	<u>94,250</u>	<u>-</u>	<u>(8,649)</u>	<u>85,601</u>	<u>76,545</u>	<u>9,056</u>
Total	<u>\$ 6,456,518</u>	<u>\$ 531,088</u>	<u>\$ (715,137)</u>	<u>\$ 6,272,469</u>	<u>\$ 6,068,477</u>	<u>\$ 203,992</u>

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 8 - CAPITAL LEASE OBLIGATIONS

Capital Lease – 2008 Bus Lease: During 2008, the CTA entered into a lease-purchase agreement to finance the purchase of 150 sixty foot New Flyer articulated hybrid buses and certain related parts and equipment with a book value of \$42,130,000 and \$51,810,000 at December 31, 2016 and 2015, respectively. The terms of the 2008 agreement allow CTA to lease the buses for 12 years and retain ownership at the conclusion of the lease. Lease payments are due every June 1 and December 1 of each year. During 2013, CTA terminated the 2008 agreement and entered into a 2013 lease-purchase agreement with the same term and reduced rental payments. A deferred loss on refunding of \$3,207,000 was recorded at the time of the 2013 transaction. The remaining unamortized loss of \$943,000 is recorded as a deferred outflow of resources. The present value of the future payments to be made by the CTA under the lease of approximately \$43,865,000 is reflected in the accompanying December 31, 2016 Statements of Net Position as a capital lease obligation.

Capital Lease – Public Building Commission: In 2003, the Public Building Commission of Chicago (PBC) issued revenue bonds for the benefit of the CTA in the amount of \$119,020,000. The bonds were issued to pay costs associated with the acquisition of real property and construction of a building, and facilities, including certain furniture, fixtures, and equipment. The real property, building and facilities, and all furniture, fixtures, and equipment are owned by the PBC and leased to the CTA for use as its headquarters. On October 26, 2006, the Public Building Commission of Chicago (PBC) issued Building Refunding Revenue Bonds for the benefit of the CTA in the amount of \$91,340,000. The proceeds of the bonds were used to advance refund the Public Building Commission of Chicago, Series 2003 bonds. The principal amount of the bonds refunded was \$111,120,000.

The proceeds from the sale of the 2006 bonds are being held in escrow under an escrow refunding agreement and have been invested in United States Treasury obligations. The principal amount of such obligations, together with interest earned thereon, will permit the payment of principal and interest on the refunded bonds up to an including their respective call dates. The refunded bonds are treated in the financial statements as defeased obligations. Accordingly, neither the trust account assets nor the refunded bonds appear in the accompanying financial statements. This refunding decreased annual debt service payments over 27 years by approximately \$388,000, resulting in an economic gain of approximately \$20,404,000. Based upon the requirements of GASB Statement No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Accounts*, the CTA recorded a deferred amount (loss) on refunding of \$2,395,000. The remaining unamortized portion of \$796,000 is recorded as a deferred outflow of resources in the accompanying December 31, 2016 Statements of Net Position.

The bonds are payable from and secured by the lease entered into between the Commission and the CTA and are considered a general obligation of the CTA payable from any lawfully available funds. The bond premium related to this transaction is presented as such on the Statements of Net Position. The present value of the future payments to be made by the CTA under the lease of approximately \$69,755,000 is reflected in the accompanying December 31, 2016 Statements of Net Position as a capital lease obligation.

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 8 - CAPITAL LEASE OBLIGATIONS (Continued)

Capital Lease – Lease and Leaseback Transactions: During 1998, the CTA entered into lease and leaseback agreements with three third party investors pertaining to certain property, railway tracks and train stations on the Green Line, with a book value of \$145,922,000 and \$157,183,000 at December 31, 2016 and 2015, respectively. The 1998 Agreement, which provides certain cash and tax benefits to the third parties, also provides for a trust established by the CTA to lease the rail line to an equity investor trust (the 1998 Equity Trust), which would then lease the facilities back to another trust established by the CTA under a separate lease (the 1998 Lease). In 2008, one of the three investors chose to unwind the transaction and the corresponding agreements were terminated. On March 6, 2015, another investor chose to unwind the transaction and the corresponding agreements were terminated. The present value of the future payments to be made by the CTA under the single remaining lease and leaseback of approximately \$76,991,000 is reflected in the accompanying December 31, 2016 Statements of Net Position as a capital lease obligation.

During 1997, the CTA entered into four lease and leaseback agreements (the 1997 Agreements) with a third party pertaining to certain of its facilities having a book value of \$26,451,000 and \$33,276,000 at December 31, 2016 and 2015, respectively. The 1997 Agreements, which provide certain cash and tax benefits to the third party, also provide for a trust established by the CTA to lease the facilities to an equity investor trust (the Equity Trust), which would then lease the facilities back to another trust established by the CTA under separate leases (the Leases). The CTA received certain funds as prepayment by the Equity Trust. The funds were deposited in designated investment accounts sufficient to meet the payments required under the Leases and are recorded as assets restricted for repayment of leasing commitments. The Equity Trust has a security interest in the deposits to guarantee the payments due by the CTA and may take possession of the facilities upon a default by the CTA under the Lease. No other lease payments are required until the end of each lease. On April 7, 2015, CTA exercised an option to early terminate the 1997 Agreements and therefore no capital lease obligation is reflected as of December 31, 2016 or 2015.

During 1996, the CTA entered into similar lease and leaseback agreements (the 1996 Agreements) with a third party pertaining to certain of its facilities, with a book value of \$33,275,000 and \$35,800,000 at December 31, 2016 and 2015, respectively. The 1996 Agreements, which provide certain cash and tax benefits to the third party, also provide for a trust established by the CTA to lease the facilities to an equity investor trust (the 1996 Equity Trust), which would then lease the facilities back to another trust established by the CTA under a separate lease (the 1996 Lease). On April 7, 2015, CTA exercised an option to early terminate the 1997 Agreements and therefore no capital lease obligation is reflected as of December 31, 2016 or 2015.

Change in Capital Lease Obligations: Changes in capital leases for the year ended December 31, 2016 are as follows (in thousands of dollars):

2016	Beginning balance	Additions*	Principal paid	Ending balance	Interest paid	Due in one year
1998 (Green) - Lease / Leaseback	\$ 78,629	\$ 5,630	\$ (7,268)	\$ 76,991	\$ 5,630	\$ -
2006 PBC lease	72,285	-	(2,530)	69,755	3,659	2,660
2008 Bus Lease	55,799	-	(11,934)	43,865	1,152	12,195
Total capital lease obligation	<u>\$ 206,713</u>	<u>\$ 5,630</u>	<u>\$ (21,732)</u>	<u>\$ 190,611</u>	<u>\$ 10,441</u>	<u>\$ 14,855</u>

* Additions include accretion of interest.

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 8 - CAPITAL LEASE OBLIGATIONS (Continued)

Change in Capital Lease Obligations: Changes in capital leases for the year ended December 31, 2015 are as follows (in thousands of dollars):

2015	Beginning balance	Additions*	Principal paid	Ending balance	Interest paid	Due in one year
1998 (Green)	\$ 136,629	\$ 6,655	\$ (64,655)	\$ 78,629	\$ 6,655	\$ 7,268
1997 (Garages)	53,931	1,014	(54,945)	-	1,014	-
1996 (Skokie/Racine)	53,576	984	(54,560)	-	984	-
Total lease/leasebacks	244,136	8,653	(174,160)	78,629	8,653	7,268
2006 PBC lease	74,690	-	(2,405)	72,285	3,783	2,530
2008 Bus Lease	67,477	-	(11,678)	55,799	1,408	11,933
Total capital lease obligation	<u>\$ 386,303</u>	<u>\$ 8,653</u>	<u>\$ (188,243)</u>	<u>\$ 206,713</u>	<u>\$ 13,844</u>	<u>\$ 21,731</u>

* Additions include accretion of interest.

Future Minimum Lease Payments: As of December 31, 2016 future minimum lease payments for capital leases, in the aggregate, are as follows (in thousands of dollars):

2017	\$ 14,855
2018	99,717
2019	15,651
2020	9,537
2021	3,225
2022 - 2026	18,850
2027 - 2031	24,505
2032 - 2033	<u>11,750</u>
Total minimum lease payments	198,090
Less interest	<u>7,479</u>
	<u>\$ 190,611</u>

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 9 - BONDS PAYABLE

2004 Series Capital Grant Receipts Revenue Bonds (Federal Transit Administration Section 5307 Urbanized Area Formula Funds): On October 20, 2004, the CTA issued Capital Grant Receipts Revenue Bonds, "2004 Project," in the amount of \$250,000,000, along with a premium of \$26,713,000, in anticipation of the receipt of grants from the federal government. The bonds were issued to provide funds to finance or reimburse the CTA for prior expenditures relating to a portion of the costs of capital improvements to the Transportation System referred to as the "2004 Project." The Federal Transit Administration's section 5307 program is a formula grant program for metropolitan areas providing capital, operating or planning assistance for mass transportation.

The Series 2004 bonds bore interest ranging from 3.60% to 5.25%. Interest was payable semiannually on June 1 and December 1 and the bonds matured serially through June 1, 2016.

The Capital Grant Receipts Revenue Bonds, Refunding Series 2010 refunded the maturities dated June 1, 2010 through June 1, 2011 of the 5307 (Series 2004A, 2004B and 2006A) and 5309 (Series 2008 and 2008A) bonds.

The Capital Grant Receipts Revenue Bonds, Refunding Series 2011 refunded the maturity dated June 1, 2016 of the 5307 Series 2004B bonds and the maturities dated June 1, 2013 and June 1, 2016 through June 1, 2020 of the 5307 Series 2006A bonds.

The Capital Grant Receipts Revenue Bonds, Refunding Series 2016 5307 bonds refunded the maturity dated June 1, 2016 of the 5307 Series 2004B bonds and the maturities dated June 1, 2018 through June 1, 2021 of the 5307 Series 2006A bonds.

There are no bond debt service requirements as of December 31, 2016.

2006A Series Capital Grant Receipts Revenue Bonds (Federal Transit Administration Section 5307 Urbanized Area Formula Funds): On November 1, 2006, the CTA issued Capital Grant Receipts Revenue Bonds, "2006 Project," in the amount of \$275,000,000, along with a premium of \$19,652,000, in anticipation of the receipt of grants from the federal government. The bonds were issued to provide funds to finance or reimburse the CTA for expenditures relating to a portion of the costs of capital improvements to the Transportation System referred to as the "2006 Project." The Federal Transit Administration's section 5307 program is a formula grant program for metropolitan areas providing capital, operating or planning assistance for mass transportation.

The Series 2006A bonds bear interest ranging from 4.0% to 5.0%. Interest is payable semiannually on June 1 and December 1 and the bonds mature serially through June 1, 2021.

The Capital Grant Receipts Revenue Bonds, Refunding Series 2010 refunded the maturities dated June 1, 2010 through June 1, 2011 of the 5307 (Series 2004A, 2004B and 2006A) and 5309 (Series 2008 and 2008A) bonds.

The Capital Grant Receipts Revenue Bonds, Refunding Series 2011 refunded the maturity dated June 1, 2016 of the 5307 Series 2004B bonds and the maturities dated June 1, 2013 and June 1, 2016 through June 1, 2020 of the 5307 Series 2006A bonds.

The Capital Grant Receipts Revenue Bonds, Refunding Series 2015 5307 bonds refunded the maturity dated June 1, 2016 of the 5307 Series 2004B bonds and the maturities dated June 1, 2018 through June 1, 2021 of the 5307 Series 2006A bonds.

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CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 9 - BONDS PAYABLE (Continued)

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

		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017		\$ 24,720	\$ 618	\$ 25,338
	Total	<u>\$ 24,720</u>	<u>\$ 618</u>	<u>\$ 25,338</u>

2008 Series (5309 Fixed Guideway Modernization Program) and 2008A Series (5307 Urbanized Area Formula Program) Capital Grant Receipts Revenue Bonds: On April 16, 2008, the CTA issued Capital Grant Receipts Revenue Bonds, "2008 Project," in the amount of \$250,000,000, along with a premium of \$18,637,000, in anticipation of the receipt of grants from the federal government. The bonds were issued to provide funds to finance or reimburse the CTA for expenditures relating to a portion of the costs of capital improvements to the Transportation System referred to as the "2008 Project." The Federal Transit Administration's section 5307 program is a formula grant program for metropolitan areas providing capital, operating or planning assistance for mass transportation. The section 5309 program is a formula grant program providing capital assistance for the modernization of existing rail systems.

The Series 2008 (5309) and 2008A (5307) bonds bear interest ranging from 3.5% to 5.25%. Interest is payable semiannually on June 1 and December 1 and the bonds mature serially through June 1, 2026.

The Capital Grant Receipts Revenue Bonds, Refunding Series 2010 refunded the maturities dated June 1, 2010 through June 1, 2011 of the 5307 (Series 2004A, 2004B and 2006A) and 5309 (Series 2008 and 2008A) bonds.

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

	<u>2008 (5309)</u>		<u>2008A (5307)</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 8,085	\$ 5,134	\$ -	\$ 5,250	\$ 8,085	\$ 10,384
2018	8,490	4,720	-	5,250	8,490	9,970
2019	8,910	4,274	-	5,250	8,910	9,524
2020	9,380	3,794	-	5,250	9,380	9,044
2021	9,870	3,288	-	5,250	9,870	8,538
2022	10,390	2,757	18,005	4,777	28,395	7,534
2023	10,935	2,197	18,955	3,807	29,890	6,004
2024	11,510	1,608	19,950	2,786	31,460	4,394
2025	12,115	987	20,995	1,711	33,110	2,698
2026	12,750	335	22,095	580	34,845	915
Total	<u>\$ 102,435</u>	<u>\$ 29,094</u>	<u>\$ 100,000</u>	<u>\$ 39,911</u>	<u>\$ 202,435</u>	<u>\$ 69,005</u>

2008A Series (5309 Fixed Guideway Modernization Program) Capital Grant Receipts Revenue Bonds: On November 20, 2008, the CTA issued Capital Grant Receipts Revenue Bonds, "2008 Project," in the amount of \$175,000,000, along with a premium of \$3,760,000, in anticipation of the receipt of grants from the federal government. The bonds were issued to provide funds to finance or reimburse the CTA for expenditures relating to a portion of the costs of capital improvements to the Transportation System referred to as the "2008 Project." The section 5309 program is a formula grant program providing capital assistance for the modernization of existing rail systems.

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CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 9 - BONDS PAYABLE (Continued)

The Series 2008A (5309) bonds bear interest ranging from 5.0% to 6.0%. Interest is payable semiannually on June 1 and December 1 and the bonds mature serially through June 1, 2026.

The Capital Grant Receipts Revenue Bonds, Refunding Series 2010 refunded the maturities dated June 1, 2010 through June 1, 2011 of the 5307 (Series 2004A, 2004B and 2006A) and 5309 (Series 2008 and 2008A) bonds.

The Capital Grant Receipts Revenue Bonds, Refunding Series 2015 5337 bonds refunded the maturities dated June 1, 2016, 2024 thru 2026 of the 5337 Series 2008A bonds.

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 9,440	\$ 3,785	\$ 13,225
2018	9,935	3,264	13,199
2019	10,480	2,703	13,183
2020	11,055	2,138	13,193
2021	11,610	1,572	13,182
2022	12,190	977	13,167
2023	12,800	336	13,136
Total	<u>\$ 77,510</u>	<u>\$ 14,775</u>	<u>\$ 92,285</u>

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

Public Act 94-839 required the CTA to make contributions to its retirement system in an amount which, together with the contributions of its participants, interest earned on investments and other income, were sufficient to bring the total assets of the retirement system up to 90% of its total actuarial liabilities by the end of fiscal year 2058. Additionally, Public Act 94-839 required that the Retirement Plan's pension and retiree health care programs be separated into two distinct trusts by December 31, 2008.

Public Act 95-708 modified this directive slightly and added a number of other requirements. First, a new Retirement Plan Trust will be created to manage the Retirement Plan assets. Second, CTA contributions and employee contributions were increased. Third, in addition to the requirement that the Retirement Plan be 90% funded by 2059, there is a new requirement that the Retirement Plan be funded at a minimum of 60% by September 15, 2009. Any deviation from the stated projections could result in a directive from the State of Illinois Auditor General to increase the CTA and employee contributions. Fourth, Public Act 95-708 authorized the CTA to issue \$1.9 billion in pension obligation bonds to fund the pension and retiree health care. Finally, the legislation provides that CTA will have no future responsibility for retiree healthcare costs after the bond funding. In accordance with Public Act 95-708, all retiree healthcare benefits are now paid from the newly established Retiree Health Care Trust.

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CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 9 - BONDS PAYABLE (Continued)

The Series 2008A and 2008B bonds bear interest ranging from 5.1% to 6.9%. Scheduled interest on the 2008A and 2008B bonds will be funded through June 1, 2009 and June 1, 2010, respectively, with bond proceeds and interest earnings thereon. Interest is payable semiannually on June 1 and December 1 and the bonds mature serially on June 1, 2013 through June 1, 2040.

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 32,475	\$ 124,099	\$ 156,574
2018	34,520	122,053	156,573
2019	36,695	119,878	156,573
2020	39,010	117,566	156,576
2021	41,465	115,109	156,574
2022	44,080	112,496	156,576
2023	47,120	109,455	156,575
2024	50,370	106,205	156,575
2025	53,845	102,730	156,575
2026	57,560	99,015	156,575
2027	61,530	95,044	156,574
2028	65,775	90,799	156,574
2029	70,310	86,261	156,571
2030	75,165	81,410	156,575
2031	80,350	76,225	156,575
2032	85,895	70,681	156,576
2033	91,820	64,755	156,575
2034	98,150	58,421	156,571
2035	104,925	51,649	156,574
2036	112,165	44,411	156,576
2037	119,905	36,672	156,577
2038	128,170	28,400	156,570
2039	137,015	19,558	156,573
2040	146,470	10,105	156,575
Total	<u>\$ 1,814,785</u>	<u>\$ 1,942,997</u>	<u>\$ 3,757,782</u>

2010A Sales Tax Receipts Revenue Bonds and Taxable Series 2010B Sales Tax Receipts Revenue Bonds (Build America Bonds): On March 23, 2010, the CTA issued the Sales Tax Receipts Revenue Bonds, Series 2010A and Taxable Series 2010B Build America Bonds, in the amount of \$550,000,000, along with a premium of \$5,186,000. The bonds were issued to provide funds to finance or reimburse the CTA for expenditures relating to the purchase of new rail cars, overhaul and rehabilitation of existing rail cars, and the purchase and installation of upgrades for rail system components. The American Recovery and Reinvestment Act of 2009 created the Build America Bond (BAB) Program. This program allows state and local governments to issue taxable bonds for capital projects and to receive a federal subsidy payment from the U.S. Treasury Department for a portion of their borrowing costs.

The Series 2010A and 2010B bonds bear interest ranging from 4.0% to 6.2%. Scheduled interest on the 2010 bonds was funded through December 1, 2010 with proceeds of the 2010 bonds and interest earnings thereon. Interest is payable semiannually on June 1 and December 1 and the bonds mature serially on June 1, 2015 through June 1, 2040.

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 9 - BONDS PAYABLE (Continued)

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

	<u>2010A</u>		<u>2010B</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 9,925	\$ 1,521	\$ -	\$ 30,798	\$ 9,925	\$ 32,319
2018	10,415	1,034	-	30,798	10,415	31,832
2019	10,915	536	-	30,798	10,915	31,334
2020	-	-	11,510	30,798	11,510	30,798
2021	-	-	12,095	30,214	12,095	30,214
2022	-	-	12,720	29,583	12,720	29,583
2023	-	-	13,405	28,900	13,405	28,900
2024	-	-	14,135	28,167	14,135	28,167
2025	-	-	14,930	27,372	14,930	27,372
2026	-	-	15,855	26,447	15,855	26,447
2027	-	-	16,835	25,464	16,835	25,464
2028	-	-	17,880	24,420	17,880	24,420
2029	-	-	18,985	23,311	18,985	23,311
2030	-	-	20,155	22,134	20,155	22,134
2031	-	-	21,400	20,885	21,400	20,885
2032	-	-	22,725	19,558	22,725	19,558
2033	-	-	24,135	18,149	24,135	18,149
2034	-	-	31,820	16,653	31,820	16,653
2035	-	-	33,785	14,680	33,785	14,680
2036	-	-	35,875	12,585	35,875	12,585
2037	-	-	38,090	10,361	38,090	10,361
2038	-	-	40,455	7,999	40,455	7,999
2039	-	-	42,955	5,491	42,955	5,491
2040	-	-	45,610	2,828	45,610	2,828
Total	<u>\$ 31,255</u>	<u>\$ 3,091</u>	<u>\$ 505,355</u>	<u>\$ 518,393</u>	<u>\$ 536,610</u>	<u>\$ 521,484</u>

2010 (5307 Urbanized Area Formula Program & 5309 Fixed Guideway Modernization Program) Refunding Series Capital Grant Receipts Revenue Bonds: On May 6, 2010, the CTA issued the tax-exempt Capital Grant Receipts Revenue Bonds backed by the pledge of Federal Transit Administration Section 5307 Urbanized Area Formula Program and 5309 Fixed Guideway Modernization Program Funds, in the amount of \$90,715,000, along with a premium of \$1,876,000, in anticipation of the receipt of grants from the federal government pursuant to a full funding grant agreement. The bonds were issued to provide funds to refund a portion of the outstanding 5307 (Series 2004A, 2004B and 2006A) and 5309 (Series 2008 and 2008A) bonds.

The Series 2010 bonds bear interest at 5.00%. Interest is payable semiannually on June 1 and December 1, and the bonds mature serially on June 1, 2027 and June 1, 2028.

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CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 9 - BONDS PAYABLE (Continued)

Net proceeds of \$45,778,000 were deposited into an irrevocable trust with an escrow agent to provide for 2011 debt service payments on the 5307 (Series 2004A, 2004B and 2006A) and 5309 (Series 2008 and 2008A) bonds. As a result, a portion of the 5307 (Series 2004A, 2004B and 2006A) and 5309 (Series 2008 and 2008A) bonds then outstanding are considered to be defeased and the 2011 liability has been removed from the Statements of Net Position. The CTA refunded the various bonds using the proceeds from the 2010 Series bonds which increased its total debt service payments over the next 19 years by \$78,528,000 and resulted in an economic loss (difference between the present values of the debt service payments on the old and new debt) of \$3,099,000. The defeased debt had a zero balance as of December 31, 2016 and 2015.

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

	<u>2010 5307</u>		<u>2010 5309</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ -	\$ 3,195	\$ -	\$ 1,341	\$ -	\$ 4,536
2018	-	3,195	-	1,341	-	4,536
2019	-	3,195	-	1,341	-	4,536
2020	-	3,195	-	1,341	-	4,536
2021	-	3,195	-	1,341	-	4,536
2022	-	3,195	-	1,341	-	4,536
2023	-	3,195	-	1,341	-	4,536
2024	-	3,195	-	1,341	-	4,536
2025	-	3,195	-	1,341	-	4,536
2026	-	3,195	-	1,341	-	4,536
2027	31,170	2,415	13,085	1,014	44,255	3,429
2028	32,725	818	13,735	343	46,460	1,161
Total	<u>\$ 63,895</u>	<u>\$ 35,183</u>	<u>\$ 26,820</u>	<u>\$ 14,767</u>	<u>\$ 90,715</u>	<u>\$ 49,950</u>

2011 (5307 Urbanized Area Formula Program) Refunding Series Capital Grant Receipts Revenue Bonds: On October 26, 2011, the CTA issued the tax-exempt Capital Grant Receipts Revenue Bonds backed by the pledge of Federal Transit Administration Section 5307 Urbanized Area Formula Program, in the amount of \$56,525,000, along with a premium of \$1,806,000, in anticipation of the receipt of grants from the federal government pursuant to a full funding grant agreement. The bonds were issued to provide funds to refund a portion of the outstanding 5307 (Series 2004B and 2006A) bonds.

The Series 2011 bonds bear interest ranging from 4.5% to 5.25%. Interest is payable semiannually on June 1 and December 1, and the bonds mature serially from June 1, 2022 to June 1, 2029.

Net proceeds of \$57,535,000 were deposited into an irrevocable trust with an escrow agent to provide for debt service payments on the 5307 (Series 2004B and 2006A) bonds. As a result, a portion of the 5307 (Series 2004B and 2006A) bonds then outstanding are considered to be defeased and the related liability has been removed from the Statements of Net Position. The CTA refunded the various bonds using the proceeds from the 2011 Series bonds which increased its total debt service payments over the next 18 years by \$34,252,000 and resulted in an economic loss (difference between the present values of the debt service payments on the old and new debt) of \$9,214,000. The balance of the defeased debt was \$32,255,000 and \$48,470,000 as of December 31, 2016 and 2015.

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CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 9 - BONDS PAYABLE (Continued)

The difference between the reacquisition price and the net carrying amount of the bonds refunded by the Capital Grant Receipts Revenue Bonds, Refunding Series 2011 of \$6,794,000 was deferred and is being amortized over 18 years. The deferred amount ending balance for the years ended December 31, 2016 and 2015 was \$4,373,000 and \$4,842,000, respectively, and recorded as a deferred outflow of resources in the accompanying Statements of Net Position. Amortization of the deferred amount on the refunding was \$469,000 and \$468,000 for the year ended December 31, 2016 and 2015, respectively.

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ -	\$ 2,865	\$ 2,865
2018	-	2,865	2,865
2019	-	2,865	2,865
2020	-	2,865	2,865
2021	-	2,865	2,865
2022	6,595	2,700	9,295
2023	6,920	2,353	9,273
2024	7,285	1,980	9,265
2025	7,665	1,594	9,259
2026	8,060	1,187	9,247
2027	-	975	975
2028	-	975	975
2029	20,000	488	20,488
Total	<u>\$ 56,525</u>	<u>\$ 26,577</u>	<u>\$ 83,102</u>

2011 Sales Tax Receipts Revenue Bonds: On October 26, 2011, the CTA issued the Sales Tax Receipts Revenue Bonds, Series 2011, in the amount of \$476,905,000, along with a premium of \$21,392,000. The bonds were issued to pay for, or reimburse the CTA for prior expenditures relating to (i) the purchase of rail cars to replace existing cars and (ii) the finance of any other capital project designated by the CTA Board as part of the 2011 Project.

The Series 2011 bonds bear interest ranging from 5.0% to 5.25%. Scheduled interest on the 2010 bonds will be funded through December 1, 2015 with proceeds of the 2011 bonds and interest earnings thereon. Interest is payable semiannually on June 1 and December 1 and the bonds mature serially on December 1, 2021 through December 1, 2040.

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 9 - BONDS PAYABLE (Continued)

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ -	\$ 24,965	\$ 24,965
2018	-	24,965	24,965
2019	-	24,965	24,965
2020	-	24,965	24,965
2021	14,090	24,965	39,055
2022	14,800	24,261	39,061
2023	15,540	23,521	39,061
2024	16,360	22,705	39,065
2025	17,220	21,846	39,066
2026	18,120	20,942	39,062
2027	19,075	19,991	39,066
2028	20,080	18,989	39,069
2029	21,135	17,935	39,070
2030	22,250	16,825	39,075
2031	23,425	15,657	39,082
2032	24,655	14,428	39,083
2033	25,950	13,133	39,083
2034	27,315	11,771	39,086
2035	28,755	10,337	39,092
2036	30,265	8,827	39,092
2037	31,860	7,238	39,098
2038	33,540	5,566	39,106
2039	35,305	3,805	39,110
2040	37,165	1,951	39,116
Total	<u>\$ 476,905</u>	<u>\$ 404,553</u>	<u>\$ 881,458</u>

2014 Sales Tax Receipts Revenue Bonds: On July 10, 2014, the CTA issued Sales and Transfer Tax Receipts Revenue Bonds, Series 2014 in the amount of \$550,000,000, along with a premium of \$45,154,000. The bonds were issued to provide funds to finance, in whole or in part, capital projects contemplated by the Authority's Capital Plan.

The Series 2014 bonds bear interest ranging from 5.0% to 5.25%. Interest is payable semiannually on June 1 and December 1 and the bonds mature serially December 1, 2041 through December 1, 2049.

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 9 - BONDS PAYABLE (Continued)

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ -	\$ 28,597	\$ 28,597
2018	-	28,597	28,597
2019	-	28,597	28,597
2020	-	28,597	28,597
2021	-	28,597	28,597
2022	-	28,597	28,597
2023	-	28,597	28,597
2024	-	28,597	28,597
2025	-	28,597	28,597
2026	-	28,597	28,597
2027	-	28,597	28,597
2028	-	28,597	28,597
2029	-	28,597	28,597
2030	-	28,597	28,597
2031	-	28,597	28,597
2032	-	28,597	28,597
2033	-	28,597	28,597
2034	-	28,597	28,597
2035	-	28,597	28,597
2036	-	28,597	28,597
2037	-	28,597	28,597
2038	-	28,597	28,597
2039	-	28,597	28,597
2040	-	28,597	28,597
2041	50,180	28,597	78,777
2042	52,690	26,088	78,778
2043	55,325	23,453	78,778
2044	58,090	20,687	78,777
2045	60,995	17,783	78,778
2046	64,195	14,580	78,775
2047	67,565	11,210	78,775
2048	71,115	7,663	78,778
2049	74,845	3,929	78,774
Total	<u>\$ 555,000</u>	<u>\$ 840,318</u>	<u>\$ 1,395,318</u>

Capital Grant Receipts Revenue Bonds, Refunding Series 2015: On September 16, 2015, the CTA issued Capital Grant Receipts Revenue Bonds backed by the pledge of Federal Transit Administration Section 5307 Urbanized Area Formula Program Funds and Section 5337 State of Good Repair Formula Program Funds, in the amount of \$176,920,000 along with a premium of \$21,569,000, in anticipation of the receipt of grants from the federal government pursuant to a full funding grant agreement. The bonds were issued to refund a portion of the outstanding 5307 (Series 2004B and 2006A) and 5337 (Series 2008A) bonds.

The Series 2015 bond bear interest at 5.00%. Interest is payable semiannually on June 1 and December 1, commencing December 1, 2015 and the bonds mature serially June 1, 2018 through June 1, 2026.

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 9 - BONDS PAYABLE (Continued)

The remaining net proceeds of \$197,159,000 were deposited into an irrevocable trust with an escrow agent to provide for debt service payments on the 5307 (Series 2004B and 2006A) and 5337 (Series 2008A) bonds. As a result, a portion of the 5307 (Series 2004B and 2006A) and 5337 (Series 2008A) bonds then outstanding are considered to be defeased and the related liability has been removed from the Statements of Net Position. The CTA refunded the various bonds using the proceeds from the 2015 Series bonds which reduced its total debt service payments over the next 10 years by \$10,043,000 and resulted in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$9,856,000. The defeased debt had a balance of \$180,680,000 as of December 31, 2016 and 2015.

The difference between the reacquisition price and the net carrying amount of the bonds refunded by the Capital Grant Receipts Revenue Bonds, Refunding Series 2015 of \$12,281,000 was deferred and is being amortized over the next 10 years. The deferred amount ending balance for the years ended December 31, 2016 and 2015 was \$9,475,000 and \$11,579,000, respectively. Amortization of the deferred amount on the refunding was \$2,104,000 and \$702,000 for the year ended December 31, 2016 and 2015, respectively.

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

	<u>2015 (5307)</u>		<u>2015 (5337)</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ -	\$ 6,564	\$ -	\$ 2,283	\$ -	\$ 8,847
2018	27,000	5,889	290	2,275	27,290	8,164
2019	31,275	4,432	305	2,260	31,580	6,692
2020	31,585	2,860	320	2,245	31,905	5,105
2021	41,410	1,035	335	2,228	41,745	3,263
2022	-	-	350	2,211	350	2,211
2023	-	-	370	2,193	370	2,193
2024	-	-	13,855	1,838	13,855	1,838
2025	-	-	14,550	1,128	14,550	1,128
2026	-	-	15,275	382	15,275	382
Total	<u>\$ 131,270</u>	<u>\$ 20,780</u>	<u>\$ 45,650</u>	<u>\$ 19,043</u>	<u>\$ 176,920</u>	<u>\$ 39,823</u>

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 9 - BONDS PAYABLE (Continued)

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 84,645	\$ 241,015	\$ 325,660
2018	90,650	236,246	326,896
2019	98,580	231,094	329,674
2020	102,860	225,614	328,474
2021	130,875	219,659	350,534
2022 - 2026	669,675	989,734	1,659,409
2027 - 2031	665,065	785,363	1,450,428
2032 - 2036	778,235	573,023	1,351,258
2037 - 2041	886,720	282,959	1,169,679
2042 - 2046	291,295	102,591	393,886
2047 - 2049	213,525	22,802	236,327
Total	<u>\$ 4,012,125</u>	<u>\$ 3,910,100</u>	<u>\$ 7,922,225</u>

NOTE 10 - CERTIFICATES OF PARTICIPATION

In August 2008, Certificates of Participation (COP) totaling \$78,430,000 were issued on behalf of the CTA. The COPs were used to finance the purchase of 200 (40 ft.) New Flyer low floor buses and certain related parts and equipment. On August 1, 2008, the CTA entered into an installment purchase agreement. The obligation of the CTA to make installment payments is an unconditional obligation of the CTA and is payable from legally available funds. The installment agreement requires the CTA to make annual COP payments which are remitted to the COP holders. Scheduled maturity dates occur at various times through December 1, 2020. During 2013, CTA terminated the original 2008 agreement and entered into three new agreements with the same terms and reduced interest rates. The total principal and interest remaining to be paid on the COPs as of December 31, 2016, is \$31,646,000. Principal and interest paid in 2016 was approximately \$7,912,000.

As of December 31, 2016, debt service requirements to maturity are as follows (in thousands of dollars):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 7,142	\$ 770	\$ 7,912
2018	7,339	572	7,911
2019	7,543	369	7,912
2020	7,751	160	7,911
Total	<u>\$ 29,775</u>	<u>\$ 1,871</u>	<u>\$ 31,646</u>

(Continued)

CHICAGO TRANSIT AUTHORITY
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2016 and 2015

NOTE 11 – FARE COLLECTION SYSTEM PURCHASE AGREEMENT

CTA entered into a purchase agreement to finance a fare collection system with a value of \$102,900,000. Under the purchase agreement, the CTA will make monthly payments of approximately \$1,067,600 over the ten year term to finance the design, acquisition and installation of the open standards fare system. The present value of the future payments to be made by the CTA under the purchase agreement of approximately \$76,525,000 is reflected in the accompanying December 31, 2016 Statements of Net Position as an other long term liability.

The purchase agreement requirements to maturity are as follows (in thousands of dollars):

	Principal	Interest	Total
2017	\$ 9,483	\$ 3,328	\$ 12,811
2018	9,929	2,882	12,811
2019	10,397	2,414	12,811
2020	10,886	1,925	12,811
2021	11,398	1,413	12,811
2022 - 2023	24,432	1,190	25,622
	\$ 76,525	\$ 13,152	\$ 89,677

NOTE 12 – TIFIA LOANS

2014 TIFIA Loan

On April 24, 2014, CTA entered into a definitive loan agreement with the United States Department of Transportation (USDOT), an agency of the United States of America, acting by and through the Federal Highway Administrator under the Transportation Infrastructure Finance and Innovation Act (TIFIA) loan program to finance certain projects that are a part of the Authority's 95th Street Terminal Improvement Project.

The principal amount of the TIFIA Loan shall not exceed \$79,200,000; provided, the maximum principal amount of the TIFIA loan disbursed by the USDOT, together with the amount (excluding any interest that is capitalized) of any other credit assistance provided under TIFIA, cannot exceed thirty-three percent (33%) of reasonably anticipated eligible project costs. Further, total federal funding, inclusive of the TIFIA loans and all federal direct or indirect grants, cannot exceed eighty percent (80%) of reasonably anticipated eligible project costs.

As evidence of CTA's obligation to repay the TIFIA Loan, CTA has issued to the lender a registered fare box receipts revenue bonds in the amount of \$79,200,000 million dated April 24, 2014 with a maturity date of December 1, 2050 bearing an interest rate of 3.5%, with a loan amortization schedule.

2015 TIFIA Loan

On February 3, 2015, CTA entered into a definitive loan agreement with the United States Department of Transportation (USDOT), an agency of the United States of America, acting by and through the Federal Highway Administrator under the Transportation Infrastructure Finance and Innovation Act (TIFIA) loan program to finance certain projects that are a part of the Authority's "Your New Blue" capital improvement program.

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 12 – TIFIA LOANS (Continued)

The principal amount of the TIFIA Loan shall not exceed \$120,000,000; provided, the maximum principal amount of the TIFIA loan disbursed by the USDOT, together with the amount (excluding any interest that is capitalized) of any other credit assistance provided under TIFIA, cannot exceed thirty-three percent (33%) of reasonably anticipated eligible project costs. Further, total federal funding, inclusive of the TIFIA loans and all federal direct or indirect grants, cannot exceed eighty percent (80%) of reasonably anticipated eligible project costs.

As evidence of CTA's obligation to repay the TIFIA Loan, CTA has issued to the lender two fare box receipts revenue bonds in the amounts of \$42,600,000 million with a maturity date of December 1, 2029, bearing an interest rate of 2.02%, and \$77,400,000 million with a maturity date of December 1, 2052, bearing an interest rate of 2.31%.

2016 TIFIA Loan

On March 30, 2016, CTA entered into a third definitive loan agreement with the United States Department of Transportation (USDOT), an agency of the United States of America, acting by and through the Federal Highway Administration under the Transportation Infrastructure Finance and Innovation Act (TIFIA) loan program to finance certain projects that are part of the Authority's Rail Car Purchase Program.

The aggregate principal amount of the loan shall not exceed \$254,930,000, (excluding any interest that is capitalized in accordance with the terms of the loan); provided, however, in no event shall the maximum principal amount of the TIFIA loan disbursed by the USDOT, together with the amount (excluding any interest that is capitalized) of any other credit assistance provided under TIFIA Act, cannot exceed thirty-three percent (33%) of reasonable anticipated eligible project costs. Further, total federal funding, inclusive of the TIFIA loan and all federal direct or indirect grants, shall not exceed eighty percent (80%) of reasonably eligible project costs.

As evidence of CTA's obligation to repay the TIFIA Loan, CTA has issued to the lender registered receipts revenue bonds in the aggregate principal amount not to exceed \$254,930,000, comprising two (2) tranches in the principal amounts of \$147,018,000 ("Tranche A-1") and \$107,912,000 ("Tranche A-2") and bearing an interest rate of 2.64%, with corresponding loan amortization schedules for each tranche. The final maturity date for the Tranche A-1 is December 1, 2049 and the earlier of (a) the last semi-annual payment date occurring no later than thirty-four (34) years from the substantial completion date and (b) December 1, 2056.

As of December 31, 2016 no drawdowns had occurred on the TIFIA loans. No balance is presented on the Statements of Net Position as of December 31, 2016 or 2015.

NOTE 13 – EMPLOYEES' RETIREMENT PLAN PENSION DISCLOSURES

GASB Statements No. 68 *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27* and No.71 *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 13 – EMPLOYEES’ RETIREMENT PLAN PENSION DISCLOSURES (Continued)

General Information about the Retirement Plan for Chicago Transit Authority Employees

Plan Description. The CTA participates in a single employer defined benefit pension plan covering substantially all full-time permanent union and non-union employees. The Retirement Plan for Chicago Transit Authority Employees (the Employees’ Plan) is governed by Illinois state statute (40 ILCS 5/22-101). Substantially all non-temporary, full-time employees who have completed one year of continuous service (“Service”) participate in the Employees’ Plan. The Employees’ Plan issues a separate stand-alone financial report which is available at <http://www.ctaretirement.org/index.asp>.

Contributions. Prior to 2008, contribution requirements of the Employees’ Plan were governed by collective bargaining agreements. After 2008, contribution requirements are governed by Illinois state statute (40 ILCS 5/22-101).

Actual contributions made to the Employees’ Plan during the years ended December 31, 2016 and 2015 are as follows (in thousands of dollars):

	<u>Employees’ Plan</u>	
	<u>2016</u>	<u>2015</u>
Employer contributions	\$ 83,855	\$ 82,800
Employee contributions	59,253	58,993
Total	<u>\$ 143,108</u>	<u>\$ 141,793</u>

Benefit terms. Substantially all non-temporary, full-time employees who have completed one year of continuous service (“Service”) participate in the Employee Plan. Employees are entitled to annual pension benefits upon normal retirement at age 65, in an amount generally based on a percentage, not to exceed 70%, of their average annual compensation in the highest four of the 10 preceding years. For employees retiring on or after January 1, 2001, the percentage is 2.15% multiplied by the employee’s number of continuous years of participating service. The Employee Plan permits early retirement at age 55 with three years of service, generally with reduced benefits. However, in the event of early retirement by an employee who has 25 years or more of continuous service, regardless of their age, benefits will not be reduced. In accordance with Public Act 095-0708, for all employees hired on or after January 18, 2008, eligibility for an unreduced pension benefit has changed to age 64 with 25 years of service and early retirement is age 55 with 10 years of service. Benefits are paid monthly equal to one-twelfth of the annual benefit for the retiree’s lifetime. Married employees can elect to receive their pension benefits in the form of a joint and survivor option. In addition to retirement benefits, the Employee Plan also provides disability and death benefits.

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 13 – EMPLOYEES’ RETIREMENT PLAN PENSION DISCLOSURES (Continued)

Employees covered by the benefit terms. The following participants were covered by the benefit terms as of January 1, 2015 and January 1, 2014:

	<u>Employees' Plan</u>
<i>Participants as of January 1, 2015</i>	
Retirees and beneficiaries currently receiving benefits	9,890
Terminated employees entitled to but not yet receiving benefits	103
Active plan members	<u>8,251</u>
Total	<u><u>18,244</u></u>
<i>Participants as of January 1, 2014</i>	
Retirees and beneficiaries currently receiving benefits	9,693
Terminated employees entitled to but not yet receiving benefits	95
Active plan members	<u>8,186</u>
Total	<u><u>17,974</u></u>

Net Pension Liability

The CTA's net pension liability was measured as of December 31, 2015 and 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2015 and 2014.

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 13 – EMPLOYEES’ RETIREMENT PLAN PENSION DISCLOSURES (Continued)

Actuarial assumptions and calculations. The total pension liability was determined using the following actuarial assumptions, applied to the periods included in the measurement:

	Employee Plan
2016 Actuarial Valuation	
Actuarial valuation date	January 1, 2015
Measurement date	December 31, 2015. Census data was collected as of January 1, 2015. Liabilities measured as of the census date were projected to December 31, 2015, assuming no demographic gains or losses.
Investment return	8.25% per annum, compounded annually, including inflation, net of expenses
Inflation	3.25% per annum
Salary increases	Service graded table starting at 9% with 4% ultimate rate after 5 years of service
Future ad hoc benefit increases	None assumed
Mortality	RP-2000 Blue Collar Table, generational to 2016 based on Scale BB and then fully generational.
Early retirement age	55
Normal retirement age	65
Actuarial cost method	Entry Age Normal - Level Percentage of Pay
Experience study	The actuarial assumptions used were based on the results of an actuarial experience study for the period January 1, 2008 through December 31, 2013.
2015 Actuarial Valuation	
Actuarial valuation date	January 1, 2014
Measurement date	December 31, 2014. Census data was collected as of January 1, 2014. Liabilities measured as of the census date were projected to December 31, 2014, assuming no demographic gains or losses.
Investment return	8.25% per annum, compounded annually, including inflation, net of expenses
Inflation	3.25% per annum
Salary increases	Service graded table starting at 9% with 4% ultimate rate after 5 years of service
Future ad hoc benefit increases	None assumed
Mortality	RP-2000 Blue Collar Table, generational to 2016 based on Scale BB and then fully generational.
Early retirement age	55
Normal retirement age	65
Actuarial cost method	Entry Age Normal - Level Percentage of Pay
Experience study	The actuarial assumptions used were based on the results of an actuarial experience study for the period January 1, 2008 through December 31, 2013.

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 13 – EMPLOYEES’ RETIREMENT PLAN PENSION DISCLOSURES (Continued)

Best estimates of arithmetic real rates of return for each major asset class included in the Employees’ Plan target asset allocation as of January 1, 2016 and 2015 are summarized in the following tables (note that the rates shown below include the inflation components):

	Employees’ Plan	
	2016	2015
Target Allocation	Estimate of expected long-term rate of return	Estimate of expected long-term rate of return
Fixed income	17%	1.45%
Domestic equities	28	9.27
International equities	21	8.62
Venture capital and partnerships	10	12.40
Real estate	12	6.91
Hedge funds	7	4.68
Infrastructure	5	6.61

The long-term expected rate of returns on pension plan investments were determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of returns by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Discount rate. The discount rate used to measure the total pension liability was 8.25% for both 2016 and 2015. The projection of cash flows used to determine the discount rate assumed that Employees’ Plan members and employer contributions will continue to follow the current funding policy. Based on those assumptions, the Employees’ Plan fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 13 – EMPLOYEES’ RETIREMENT PLAN PENSION DISCLOSURES (Continued)

Changes in Net Pension Liability (in thousands of dollars):

	Employees' Plan		
	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/13	\$ 3,220,533	\$ 1,892,715	\$ 1,327,818
Change for the year:			
Service cost	49,066	-	49,066
Interest	259,593	-	259,593
Benefit payments	(246,038)	(246,038)	-
Contributions - Employer	-	82,268	(82,268)
Contributions - Employee	-	58,566	(58,566)
Net investment income, net of expenses	-	71,524	(71,524)
Administrative expenses	-	(3,123)	3,123
Net changes	<u>62,621</u>	<u>(36,803)</u>	<u>99,424</u>
Balance at 12/31/14	<u>3,283,154</u>	<u>1,855,912</u>	<u>1,427,242</u>
Change for the year:			
Service cost	51,358	-	51,358
Interest	264,579	-	264,579
Difference between expected and actual experience	13,082	-	13,082
Benefit payments	(260,142)	(260,142)	-
Contributions - Employer	-	82,800	(82,800)
Contributions - Employee	-	58,993	(58,993)
Net investment income, net of expenses	-	8,230	(8,230)
Administrative expenses	-	(2,577)	2,577
Net changes	<u>68,877</u>	<u>(112,696)</u>	<u>181,573</u>
Balance at 12/31/15	<u>\$ 3,352,031</u>	<u>\$ 1,743,216</u>	<u>\$ 1,608,815</u>

Plan fiduciary net position as a percentage of the total net pension liability - 2016 52.00%
Plan fiduciary net position as a percentage of the total net pension liability - 2015 56.53%

Sensitivity of the net pension liability to changes in discount rate. The following presents the net pension liability of the Employees’ Plan, calculated using the discount rate of 8.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.25%) or 1-percentage-point higher (9.25%) than the current rate (in thousands of dollars):

	Employees' Plan		
	1% Decrease (7.25%)	Current Discount Rate (8.25%)	1% Increase (9.25%)
Employees' Plan net pension liability - 2016	\$ 1,937,759	\$ 1,608,815	\$ 1,327,140
Employees' Plan net pension liability - 2015	1,752,257	1,427,242	1,149,201

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 13 – EMPLOYEES’ RETIREMENT PLAN PENSION DISCLOSURES (Continued)

Pension plan fiduciary net position. Detailed information about the pension plan’s fiduciary net position is available in the separately issued CTA Employees’ Retirement Plan financial report.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.

For the years ended December 31, 2016 and 2015, CTA recognized pension expense of \$158,221,000 and \$117,567,000, respectively. At December 31, 2016 and 2015, CTA reported deferred outflows of resources related to pensions from the following sources:

	Employee Plan	
	2016	2015
	Deferred Outflow of Resources (in thousands)	Deferred Outflow of Resources (in thousands)
Difference between projected and actual earnings on pension plan	\$ 160,088	\$ 64,125
Difference between expected and actual experience	10,188	-
Employer contribution made after measurement date	83,855	82,795
Balance as of 12/31/16	<u>\$ 254,131</u>	<u>\$ 146,920</u>

CTA reported \$83,855,000 and \$82,795,000 as a deferred outflows of resources related to pensions resulting from contributions paid subsequent to the measurement date and will be recognized as a reduction of the net pension liability for the years ended December 31, 2017 and 2016, respectively. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in the pension expense as follows:

Year Ended December 31:	Employees' Plan	
	2016 Amortization per year (in thousands)	2015 Amortization per year (in thousands)
2016	\$ -	\$ 16,031
2017	46,924	16,031
2018	46,924	16,031
2019	46,924	16,032
2020	29,504	-
Total Amortization	<u>\$ 170,276</u>	<u>\$ 64,125</u>

(Continued)

NOTE 14 – SUPPLEMENTAL PLANS PENSION DISCLOSURES

GASB Statements No. 68 *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27* and No.71 *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*

General Information about the Supplemental Plans

Plan Description. The CTA also maintains separate single-employer, defined benefit pension plans for selected individuals. The supplemental retirement plans provide benefits to employees of the CTA in certain employment classifications. The supplemental retirement plans consist of the: (1) closed board member plan (Board) (2) closed (Non-Qualified) supplemental plan for members that retired or terminated employment before March 2005, including early retirement incentive, and (3) closed (Qualified) supplemental plan for active employees and members retiring after March 2005. All plans are closed to new entrants. CTA received qualification under Section 401(a) of the Internal Revenue Code for the supplemental plan and established a qualified trust during 2005 for members retiring after March 2005 (Qualified Supplemental Retirement Plan). The Qualified Supplemental Retirement Plan is reported in a fiduciary fund, whereas the activities for the Non-Qualified and Board plans are included in the financial statements of the CTA's business-type activities. There are no separate stand-alone financial reports issued for any of the Supplemental Plans.

Each of the Supplemental plans are administered by the Employee Retirement Review Committee (EERC) of the CTA, whose members are appointed by the Board of Directors of the CTA, which retains oversight of the plan administration. The plans are each established by CTA ordinances, which grant the EERC operational authority and can be modified by the CTA Board.

Contributions. The Board and Non-Qualified plans are administered on a pay as you go basis. The CTA contributes to the Qualified plan based on an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability.

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 14 – SUPPLEMENTAL PLANS PENSION DISCLOSURES (Continued)

The CTA’s annual pension cost for the current year and related information for fiscal years ended December 31, 2016 and 2015 for each plan are as follows (in thousands of dollars):

	<u>Qualified Supplemental</u>	<u>Non-Qualified Supplemental</u>	<u>Board Plan</u>
Actual 2016 contributions:			
CTA	\$1,380	\$2,617	\$327
Plan members	\$8	\$0	\$8
Actual 2015 contributions:			
CTA	\$1,164	\$2,683	\$328
Plan members	\$34	\$0	\$10

Benefit terms.

Qualified and Non-Qualified Plans: Employees of the CTA in certain employment classifications established by Board ordinance are eligible to participate based on age and service credit, generally as follows: at age 65, at age 55 with three years of pensionable service or with twenty five years of pensionable service. Disability and death benefits are provided to employees.

Benefits are based on the highest average annual compensation (“AAC”) over any four calendar years out of the final ten years prior to retirement. For normal retirement and disability retirees, the benefit is the lessor of 1% of AAC per year of service or the excess of 75% of AAC over the benefit payable under the Retirement Plan for CTA Employees. For early retirees, the benefit is the lessor of 1% of AAC per year of service or the excess of 75% of AAC multiplied by the ratio of service completed at early retirement to service projected to age 65 over the benefit payable under the Retirement Plan for CTA Employees, with this benefit commencing at age 65. Benefits can commence prior to age 65 under certain conditions, generally as follows: any time after age 55 with a 5% reduction for each year under age 65 or with twenty five years of service with no reduction. A minimum benefit is payable to an employee under normal, early or disability retirement equal to one-sixth of 1% of AAC multiplied by years of service limited to a maximum of 5% of AAC, with the minimum benefit commencing at early retirement. Termination benefits available to employees who complete ten years of service are as follows: the lessor of 1% of AAC per year of service or the excess of 75% of AAC over the benefit payable under the Retirement Plan for CTA Employees, with the benefit commencing at age 65.

Qualified and Non-Qualified participants who retire on or after February 1, 1984 may receive credit for service with certain other governmental agencies, if satisfying certain conditions and making required application and contributions. In addition to the increased supplemental benefits attributable to such “bridged” service, the Supplemental Plan is responsible for paying any additional benefits that the employees would be eligible for under the Retirement Plan for CTA Employees had they received this additional bridged service under both plans.

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CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 14 – SUPPLEMENTAL PLANS PENSION DISCLOSURES (Continued)

Board Plan: Individuals appointed to the Chicago Transit Board are eligible to participate based on age and service credit, generally as follows: at age 65 with completion of two years of service or at age 50 with completion of five years of service.

Benefits are based, generally, on provisions of the Retirement Plan for CTA Employees and the Supplemental Plan, to provide benefits to members of the Board comparable to what they would receive if employees of the CTA participating in those plans – with certain additional conditions and provisions, including specified minimum benefits, intended to take into account the anticipated periods of service by individuals as members of the Board.

Participants in the Board Plan may receive credit for service with certain other governmental agencies, if satisfying certain conditions and making required application and contributions – generally on terms similar to those applying to Qualified and Non-Qualified Plan participants receiving credit for bridged service.

Employees covered by the benefit terms. The following participants were covered by the benefit terms as of January 1, 2017 and January 1, 2016:

	<u>Qualified</u>	<u>Non-Qualified</u>	<u>Board</u>	<u>Total</u>
<i>Participants as of January 1, 2017</i>				
Retirees and beneficiaries currently receiving benefits	125	354	19	498
Terminated employees entitled to but not yet receiving benefits	11	8	4	23
Active plan members	<u>9</u>	<u>-</u>	<u>2</u>	<u>11</u>
Total	<u><u>145</u></u>	<u><u>362</u></u>	<u><u>25</u></u>	<u><u>532</u></u>
<i>Participants as of January 1, 2016</i>				
Retirees and beneficiaries currently receiving benefits	123	358	20	501
Terminated employees entitled to but not yet receiving benefits	12	9	4	25
Active plan members	<u>9</u>	<u>-</u>	<u>2</u>	<u>11</u>
Total	<u><u>144</u></u>	<u><u>367</u></u>	<u><u>26</u></u>	<u><u>537</u></u>

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CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 14 – SUPPLEMENTAL PLANS PENSION DISCLOSURES (Continued)

Net Pension Liabilities

Actuarial assumptions and calculations. The total pension liabilities in the December 31, 2016 and 2015 actuarial valuation were determined using the following actuarial assumptions, applied to the periods included in the measurement:

2016 Actuarial Assumptions

Actuarial valuation date	December 31, 2016
Measurement date	December 31, 2016
Investment return	
Qualified	7.00% per year
Non-Qualified and Board	3.78%
Inflation	2.50%
Salary increases	3.50% per year
Future ad hoc benefit increases	0.00% per year
Mortality	RP-2000 Mortality projected to 2016 based on Scale AA
Early retirement age	
Qualified and Non-Qualified	55 with completion of three years of pensionable service. For employees hired before January 1, 2000, with 25 years of service, there is no age requirement.
Normal retirement age	
Qualified and Non-Qualified	65 with completion of three years of service
Board	65 with completion of two years of service or age 50 with completion of five years of service
Actuarial cost method	Entry Age Normal

2015 Actuarial Assumptions

Actuarial valuation date	December 31, 2015
Measurement date	December 31, 2015
Investment return	
Qualified	7.00% per year
Non-Qualified and Board	3.57%
Inflation	2.50%
Salary increases	3.50% per year
Future ad hoc benefit increases	0.00% per year
Mortality	RP-2000 Mortality projected to 2015 based on Scale AA
Early retirement age	
Qualified and Non-Qualified	55 with completion of three years of pensionable service. For employees hired before January 1, 2000, with 25 years of service, there is no age requirement.
Normal retirement age	
Qualified and Non-Qualified	65 with completion of three years of service
Board	65 with completion of two years of service or age 50 with completion of five years of service
Actuarial cost method	Entry Age Normal

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
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NOTE 14 – SUPPLEMENTAL PLANS PENSION DISCLOSURES (Continued)

Best estimates of arithmetic real rates of return for each major asset class included in the Supplemental Plans target asset allocation as of December 31, 2016 and 2015 are summarized in the following tables (note that the rates shown below include the inflation components):

	2016 Target Allocation	2016 Estimate of expected long-term rate of return	2015 Target Allocation	2015 Estimate of expected long-term rate of return
U.S. Large Size Company Equities	14.5%	7.1%	39.0%	7.1%
U.S. Mid Size Company Equities	12.5%	7.4%	14.0%	7.2%
U.S. Small Size Company Equities	11.0%	8.1%	12.0%	8.0%
Developed Non-U.S. Size Company Equities	10.0%	7.4%	0.0%	0.0%
Small Non-U.S. Size Company Equities	5.0%	8.1%	0.0%	0.0%
Emerging Markets Company Equities	7.0%	8.2%	0.0%	0.0%
Non-U.S. Equities	0.0%	0.0%	10.0%	8.2%
Total Equities	60.0%		75.0%	
U.S. Fixed Income	20.0%	3.0%	25.0%	2.6%
Global Fixed Income	10.0%	1.7%	0.0%	0.0%
Total Fixed Income	30.0%		25.0%	
Real Estate	10.0%	7.7%	0.0%	0.0%
Total Real Estate	10.0%		0.0%	
Total Assets	100.0%		100.0%	

(Continued)

NOTE 14 – SUPPLEMENTAL PLANS PENSION DISCLOSURES (Continued)

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

Discount rate. The discount rates used to measure the total pension liabilities in 2016 were 7.00% for the Qualified and 3.78% for the Non-Qualified and Board. The Non-Qualified and Board discount rate of 3.78% is a change from 3.57% that was used to measure the total pension liabilities as of December 31, 2015. The projection of cash flows used to determine the discount rate assumed that the System's contributions will continue to follow the current funding policy. Based on those assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

The discount rates used to measure the total pension liabilities in 2015 were 7.00% for the Qualified and 3.57% for the Non-Qualified and Board. The projection of cash flows used to determine the discount rate assumed that the System's contributions will continue to follow the current funding policy. Based on those assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

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CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 14 – SUPPLEMENTAL PLANS PENSION DISCLOSURES (Continued)

Changes in Net Pension Liabilities (in thousands of dollars):

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Qualified			
Balance as of 12/31/14	\$ 52,118	\$ 42,046	\$ 10,072
Change for the year:			
Service cost	52	-	52
Interest	3,488	-	3,488
Differences between expected and actual experience	(2,145)	-	(2,145)
Changes in assumptions	67	-	67
Benefit payments	(4,245)	(4,245)	-
Contributions - Employer	-	1,164	(1,164)
Contributions - Employee	-	34	(34)
Net investment income, net of expenses	-	(878)	878
Administrative expenses	-	(246)	246
Net changes	<u>(2,783)</u>	<u>(4,171)</u>	<u>1,388</u>
Balance as of 12/31/15	<u>\$ 49,335</u>	<u>\$ 37,875</u>	<u>\$ 11,460</u>
Change for the year:			
Service cost	56	-	56
Interest	3,296	-	3,296
Differences between expected and actual experience	(611)	-	(611)
Changes in assumptions	71	-	71
Benefit payments	(4,143)	(4,143)	-
Refunds of member contributions	-	(17)	17
Contributions - Employer	-	1,380	(1,380)
Contributions - Employee	-	8	(8)
Net investment income, net of expenses	-	2,942	(2,942)
Administrative expenses	-	(240)	240
Net changes	<u>(1,331)</u>	<u>(70)</u>	<u>(1,261)</u>
Balance as of 12/31/16	<u>\$ 48,004</u>	<u>\$ 37,805</u>	<u>\$ 10,199</u>
Plan fiduciary net position as a percentage of the total pension liability - 2016			78.75%
Plan fiduciary net position as a percentage of the total pension liability - 2015			76.77%

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 14 – SUPPLEMENTAL PLANS PENSION DISCLOSURES (Continued)

Changes in Net Pension Liabilities (in thousands of dollars):

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Non-Qualified			
Balance as of 12/31/14	\$ 28,105	\$ -	\$ 28,105
Change for the year:			
Service cost	-	-	-
Interest	949	-	949
Differences between expected and actual experience	498	-	498
Changes in assumptions	57	-	57
Benefit payments	(2,683)	(2,683)	-
Contributions - Employer	-	2,683	(2,683)
Contributions - Employee	-	-	-
Net investment income, net of expenses	-	-	-
Administrative expenses	-	-	-
Net changes	<u>(1,179)</u>	<u>-</u>	<u>(1,179)</u>
Balance as of 12/31/15	<u>\$ 26,926</u>	<u>\$ -</u>	<u>\$ 26,926</u>
Change for the year:			
Service cost	-	-	-
Interest	911	-	911
Differences between expected and actual experience	369	-	369
Changes in assumptions	(315)	-	(315)
Benefit payments	(2,617)	(2,617)	-
Contributions - Employer	-	2,617	(2,617)
Contributions - Employee	-	-	-
Net investment income, net of expenses	-	-	-
Administrative expenses	-	-	-
Net changes	<u>(1,652)</u>	<u>-</u>	<u>(1,652)</u>
Balance as of 12/31/16	<u>\$ 25,274</u>	<u>\$ -</u>	<u>\$ 25,274</u>
Plan fiduciary net position as a percentage of the total pension liability - 2016			0.00%
Plan fiduciary net position as a percentage of the total pension liability - 2015			0.00%

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CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 14 – SUPPLEMENTAL PLANS PENSION DISCLOSURES (Continued)

Changes in Net Pension Liabilities (in thousands of dollars):

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Board			
Balance as of 12/31/14	\$ 5,128	\$ 88	\$ 5,040
Change for the year:			
Service cost	46	-	46
Interest	176	-	176
Differences between expected and actual experience	(514)	-	(514)
Changes in assumptions	3	-	3
Benefit payments	(358)	(358)	-
Contributions - Employer	-	328	(328)
Contributions - Employee	-	10	(10)
Net investment income, net of expenses	-	-	-
Administrative expenses	-	-	-
Net changes	<u>(647)</u>	<u>(20)</u>	<u>(627)</u>
Balance as of 12/31/15	<u>\$ 4,481</u>	<u>\$ 68</u>	<u>\$ 4,413</u>
Change for the year:			
Service cost	33	-	33
Interest	153	-	153
Differences between expected and actual experience	310	-	310
Changes in assumptions	(90)	-	(90)
Benefit payments	(326)	(326)	-
Contributions - Employer	-	327	(327)
Contributions - Employee	-	8	(8)
Net investment income, net of expenses	-	-	-
Administrative expenses	-	-	-
Net changes	<u>80</u>	<u>9</u>	<u>71</u>
Balance as of 12/31/16	<u>\$ 4,561</u>	<u>\$ 77</u>	<u>\$ 4,484</u>
Plan fiduciary net position as a percentage of the total pension liability - 2016			1.69%
Plan fiduciary net position as a percentage of the total pension liability - 2015			1.52%

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CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 14 – SUPPLEMENTAL PLANS PENSION DISCLOSURES (Continued)

Changes in Net Pension Liabilities (in thousands of dollars):

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Total			
Balance as of 12/31/14	\$ 85,351	\$ 42,134	\$ 43,217
Change for the year:			
Service cost	98	-	98
Interest	4,613	-	4,613
Differences between expected and actual experience	(2,161)	-	(2,161)
Changes in assumptions	127	-	127
Benefit payments	(7,286)	(7,286)	-
Contributions - Employer	-	4,175	(4,175)
Contributions - Employee	-	44	(44)
Net investment income, net of expenses	-	(878)	878
Administrative expenses	-	(246)	246
Net changes	<u>(4,609)</u>	<u>(4,191)</u>	<u>(418)</u>
Balance as of 12/31/15	<u>\$ 80,742</u>	<u>\$ 37,943</u>	<u>\$ 42,799</u>
Change for the year:			
Service cost	89	-	89
Interest	4,360	-	4,360
Differences between expected and actual experience	68	-	68
Changes in assumptions	(334)	-	(334)
Benefit payments	(7,086)	(7,086)	-
Refunds of member contributions	-	(17)	17
Contributions - Employer	-	4,324	(4,324)
Contributions - Employee	-	16	(16)
Net investment income, net of expenses	-	2,942	(2,942)
Administrative expenses	-	(240)	240
Net changes	<u>(2,903)</u>	<u>(61)</u>	<u>(2,842)</u>
Balance as of 12/31/16	<u>\$ 77,839</u>	<u>\$ 37,882</u>	<u>\$ 39,957</u>
Plan fiduciary net position as a percentage of the total pension liability - 2016			48.67%
Plan fiduciary net position as a percentage of the total pension liability - 2015			46.99%

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CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 14 – SUPPLEMENTAL PLANS PENSION DISCLOSURES (Continued)

Sensitivity of the net pension liability to changes in discount rate. The following presents the net pension liability of the Qualified, Non-qualified, and Board plans, calculated using the discount rates disclosed above for each plan, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage point higher than the current rate (in thousands of dollars):

<u>Plan</u>	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
Qualified Discount Rate			
Qualified Plan - 2016 - 7.00%	\$ 14,661	\$ 10,199	\$ 6,381
Qualified Plan - 2015 - 7.00%	15,973	11,460	7,599
Non-Qualified Discount Rate			
Non-Qualified Plan - 2016 - 3.78%	\$ 27,247	\$ 25,274	\$ 23,549
Non-Qualified Plan - 2015 - 3.57%	29,138	26,926	25,001
Board Discount Rate			
Board Plan - 2016 - 3.78%	\$ 4,991	\$ 4,484	\$ 4,062
Board Plan - 2015 - 3.57%	4,948	4,413	3,970

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.

For the years ended December 31, 2016 and 2015, CTA recognized pension expense and reported deferred outflows and inflows of resources related to pensions from the following sources (in thousands of dollars):

	December 31, 2016		
	<u>Qualified</u>	<u>Non-Qualified</u>	<u>Board</u>
Pension expense	<u>\$ 1,172</u>	<u>\$ 965</u>	<u>\$ 294</u>
Deferred Outflows of Resources			
Difference between projected and actual earnings on pension plan:	<u>\$ 2,229</u>	<u>\$ -</u>	<u>\$ -</u>
Deferred Inflows of Resources			
Difference between projected and actual earnings on pension plan:	<u>\$ (310)</u>	<u>\$ -</u>	<u>\$ -</u>
Total Deferred Outflows (Inflows)	<u>\$ 1,919</u>	<u>\$ -</u>	<u>\$ -</u>

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 14 – SUPPLEMENTAL PLANS PENSION DISCLOSURES (Continued)

	<i>December 31, 2015</i>		
	<u>Qualified</u>	<u>Non-Qualified</u>	<u>Board</u>
<i>Pension expense</i>	\$ (420)	\$ 1,505	\$ (194)
<i>Deferred Outflows of Resources</i>			
Difference between projected and actual earnings on pension plan:	\$ 2,971	\$ -	\$ -
Assumption changes:	-	-	1
Balance as of 12/31/15	<u>\$ 2,971</u>	<u>\$ -</u>	<u>\$ 1</u>
<i>Deferred Inflows of Resources</i>			
Difference between expected and actual non-investment experience	\$ -	\$ -	\$ (105)
<i>Total Deferred Outflows (Inflows)</i>	<u>\$ 2,971</u>	<u>\$ -</u>	<u>\$ (104)</u>

CTA did not report a deferred outflow of resources related to pensions resulting from contributions paid subsequent to the measurement dates for any Supplemental Plan for December 31, 2016 and 2015. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in the pension expense as follows for December 31, 2016 and 2015:

<u>Year Ended December 31:</u>	<i>December 31, 2016</i>		
	<u>Qualified</u>	<u>Non-Qualified</u>	<u>Board</u>
2017	\$ 665	\$ -	\$ -
2018	665	-	-
2019	666	-	-
2020	(77)	-	-
Total Amortization	<u>\$ 1,919</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Year Ended December 31:</u>	<i>December 31, 2015</i>		
	<u>Qualified</u>	<u>Non-Qualified</u>	<u>Board</u>
2016	\$ 743	\$ -	\$ (104)
2017	743	-	-
2018	743	-	-
2019	742	-	-
Total Amortization	<u>\$ 2,971</u>	<u>\$ -</u>	<u>\$ (104)</u>

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CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 14 – SUPPLEMENTAL PLANS PENSION DISCLOSURES (Continued)

GASB Statements No. 67 *Financial Reporting for Pensions Plans—an amendment of GASB Statement No. 25*

Investments. The Board and Non-Qualified plans are administered on a pay as you go basis. The Non-Qualified plan does not have any associated assets. The Board plan has a limited reserve held in cash or cash equivalents, which is not actively managed or associated with an investment policy. The Qualified plan's investment policy is established and may be amended by the CTA's Employment Retirement Review Committee. The primary objective of the policy is to provide a documented structure for the implementation of investment strategies which suggests the highest probability of maximizing the level of investment return within acceptable parameters for the total Fund's volatility and risk.

For the years ended December 31, 2016 and 2015, the annual money-weighted rate of return on Qualified plan assets, net of pension plan investment expense, was 7.4% and -2.7%, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Actuarial assumptions: The total pension liability was determined by an actuarial valuation as of December 31, 2016 and 2015, using the following actuarial assumptions, applied to all periods included in the measurement:

	<u>12/31/2016</u>	<u>12/31/2015</u>
Inflation	2.50% per year	2.50% per year
Salary increases	3.50% per year	3.50% per year
Investment rate of return (Discount rate)		
Qualified Plan	7.00% per year	7.00% per year
Non-Qualified and Board Plan	3.78% per year	3.57% per year

Mortality rates were based on the RP-2000 Mortality projected to 2016 and 2015 based on Scale AA.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of December 31, 2016 and 2015 (see the discussion of the pension plan's investment policy). The 3.78% and 3.57% rates used for the Non-qualified and Board plans represents the 20-year municipal bond rate as of December 31, 2016 and 2015, respectively. The 7.00% rate used for the Qualified plan relates to fixed income government securities.

(Continued)

NOTE 15 - OTHER POSTEMPLOYMENT BENEFITS

Plan Descriptions – Other Postemployment Benefits (OPEB)

Employees' Plan – Retiree Healthcare Benefits: In accordance with Public Act 95-708, all retiree healthcare benefits are to be paid from the Retiree Health Care Trust (RHCT), a single employer defined benefit plan. The RHCT was established in May 2008 and began paying for all retiree healthcare benefits in February 2009. For financial reporting purposes, the postemployment healthcare benefits are considered, in substance, a postemployment healthcare plan administered by the RHCT. Members are eligible for health benefits based on their age and length of service with CTA. The legislation provides that CTA will have no future responsibility for retiree healthcare costs. The RHCT issues a separate stand-alone financial report which is available at <http://www.ctaretirement.org/index.asp>.

Supplemental and Board Plans – Retiree Healthcare Benefits: Employees of the CTA in certain employment classifications are eligible to participate in the supplemental retirement plan, a single employer defined benefit plan. Members of the Supplemental Plan with bridged service or service purchased through the Voluntary Termination Program are eligible for Supplemental Healthcare benefits if they retired under the Supplemental Plan and do not immediately qualify for healthcare benefits under the CTA RHCT. Supplemental Healthcare Plan benefits are administered through the CTA's healthcare program covering active members. Supplemental healthcare benefits cease when the member becomes eligible for healthcare coverage under the RHCT. Certain members not eligible for benefits under the RHCT will continue to receive benefits through the CTA's healthcare program covering active members. The benefits are dependent on the amount of bridged service and the amount of service at the CTA that is credited in the Employees Plan.

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

The Supplemental and Board Plans do not issue separate stand-alone financial reports.

Funding Policy - OPEB

Supplemental and Board Plan – Retiree Healthcare Benefits: Funding for the Supplemental and Board Retiree Healthcare Plans are on a pay-as-you-go basis.

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 15 - OTHER POSTEMPLOYMENT BENEFITS (Continued)

Annual OPEB Cost and Net OPEB Obligation. The annual OPEB cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the net OPEB obligation during the year ended December 31, 2016 (dollar amounts in thousands):

	Supplemental & Board Plans
Annual required contribution	\$ 1,101
Interest on net OPEB obligation	185
Adjustment to ARC	(421)
Annual OPEB cost	865
Expected employer contribution	450
Increase (decrease) in net OPEB obligation	415
Net OPEB obligation – December 31, 2015	4,637
Net OPEB obligation – December 31, 2016	\$ 5,052

The following table shows the components of the annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the net OPEB obligation during the year ended December 31, 2015 (dollar amounts in thousands):

	Supplemental & Board Plans
Annual required contribution	\$ 1,138
Interest on net OPEB obligation	169
Adjustment to ARC	(362)
Annual OPEB cost	945
Expected employer contribution	521
Increase (decrease) in net OPEB obligation	424
Net OPEB obligation – December 31, 2014	4,213
Net OPEB obligation – December 31, 2015	\$ 4,637

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CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 15 - OTHER POSTEMPLOYMENT BENEFITS (Continued)

The annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2016 and the two preceding years were as follows (dollar amounts in thousands):
Supplemental and Board Plan:

<u>Year ended</u>	<u>Annual OPEB cost (AOC)</u>	<u>Actual contributions</u>	<u>Percentage of AOC contributed</u>	<u>Net OPEB obligation</u>
2016	\$ 866	\$ 450	52.0%	\$ 5,052
2015	945	520	55.0%	4,637
2014	895	803	89.7%	4,213
2013	997	810	81.2%	4,120

Funded Status and Funding Progress - OPEB

Supplemental and Board Plans – Retiree Healthcare Benefits:

As of January 1, 2017, the plan was not funded. The actuarial accrued liability for benefits was \$11,511,000 and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$11,511,000. The covered payroll (annual payroll of active employees covered by the plan) was \$409,000, and the ratio of the UAAL to the covered payroll was 2,816.9%.

As of January 1, 2016, the plan was not funded. The actuarial accrued liability for benefits was \$12,140,000, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$12,140,000. The covered payroll (annual payroll of active employees covered by the plan) was \$402,000, and the ratio of the UAAL to the covered payroll was 3,017.3%.

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

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

In the actuarial valuation of the Supplemental and Board Plans as of January 1, 2017, and January 1, 2016, the projected unit credit cost method was used. The actuarial assumptions included a 4.0 percent investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and a medical and prescription trend rate of 8.25 percent initial to 5.0 ultimate. The Supplemental Plan UAAL is being amortized as a level dollar over a 13 year closed period. The Board Plan UAAL is amortized as a level dollar open 30 year amortization.

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 15 - OTHER POSTEMPLOYMENT BENEFITS (Continued)

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

<u>Plan year</u>	<u>Trend rate</u>
2017	8.25%
2018	7.75%
2019	7.25%
2020	6.75%
2021	6.25%
2022	5.75%
2023	5.25%
2024 and after	5.00%

NOTE 16 - RISK MANAGEMENT

The CTA is exposed to various types of risk of loss, including torts; theft of, damage to, or destruction of assets; errors or omissions; job-related illnesses or injuries to employees; natural disasters; and environmental occurrences. Also included are risks of loss associated with providing health, dental, and life insurance benefits to employees.

The CTA provides health insurance benefits to employees through a self-insured comprehensive PPO plan. The CTA provides dental insurance benefits through an insured dental maintenance organization and a self-insured dental indemnity plan. The CTA does not purchase stop-loss insurance for its self-insured comprehensive PPO plan. The CTA provides life insurance benefits for active employees through an insured life insurance program.

CTA purchases property insurance for damage to CTA property including rolling stock. This insurance program is effective July 29, 2016 to July 29, 2017. Property limit of liability is \$130,000,000 per occurrence, and is purchased in two layers. The first/primary layer provides a \$25,000,000 limit. The excess layer provides the \$105,000,000 limit excess and above the primary. The basic policy deductible is \$250,000 per each occurrence, with some exceptions as defined more fully in the policy.

The CTA is also self-insured for general liability, workers' compensation, employee accidents, environmental, automotive liability losses, employment-related suits, including discrimination and sexual harassment, and management liability of board members, directors, and officers of the CTA.

The RTA provides excess liability insurance to protect the self-insurance programs for general liability and terrorism currently maintained by the CTA. There are three insurance policies in effect from June 15, 2016 to June 15, 2017. The first policy provides \$15,000,000 in excess of the \$15,000,000 self-insured retention and \$30,000,000 in the aggregate. The second policy provides \$20,000,000 in excess of the \$30,000,000 and \$40,000,000 in the aggregate. The third policy provides \$50,000,000 in excess of \$50,000,000 and \$100,000,000 in the aggregate. In 2016 and 2015, no CTA claim existed that is expected to exceed the \$15,000,000 self-insured retention under this insurance policy.

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 16 - RISK MANAGEMENT (Continued)

The CTA participates in a Joint Self-Insurance Fund (the Fund) with the RTA that permits the CTA to receive monies necessary to pay injury and damage claims in excess of \$2,500,000 per occurrence up to the total balance in the Fund or a maximum of \$47,500,000. The CTA is obligated to reimburse the Fund for the principal amount borrowed plus a floating interest rate. However, reimbursement payments, including interest, cannot exceed \$3,500,000 in any one year. No borrowings were made from the Fund in fiscal years 2016 or 2015.

Settlements did not exceed coverage for any of the past four years, and there has been no significant reduction in coverage during that period.

Self-insured liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. The estimate for injury and damage claims is adjusted for a current trend rate and discount factor of 2.0% and 2.0%, respectively. The estimate for workers' compensation claims is adjusted for a current trend rate and discount factor of 4.0% and 3.0%, respectively. Changes in the balance of claims liabilities during the past two years are as follows (in thousands of dollars):

	Injury and damage	Group health and dental	Workers' compensation	Total
Balance at January 1, 2014	\$ 81,747	\$ 18,300	\$ 162,091	\$ 262,138
Funded*	3,500	144,337	57,603	205,440
Funding (excess)/deficiency per actuarial requirement	21,395	-	8,695	30,090
Payments*	<u>(13,379)</u>	<u>(144,699)</u>	<u>(59,336)</u>	<u>(217,414)</u>
Balance at December 31, 2014	93,263	17,938	169,053	280,254
Funded*	13,000	142,050	60,498	215,548
Funding (excess)/deficiency per actuarial requirement	7,724	-	1,244	8,968
Payments*	<u>(17,867)</u>	<u>(140,305)</u>	<u>(62,757)</u>	<u>(220,929)</u>
Balance at December 31, 2015	96,120	19,683	168,038	283,841
Funded*	10,500	147,992	58,229	216,721
Funding (excess)/deficiency per actuarial requirement	(1,548)	-	(7,538)	(9,086)
Payments*	<u>(16,230)</u>	<u>(147,713)</u>	<u>(58,266)</u>	<u>(222,209)</u>
Balance at December 31, 2016	<u>\$ 88,842</u>	<u>\$ 19,962</u>	<u>\$ 160,463</u>	<u>\$ 269,267</u>

(Continued)

NOTE 16 - RISK MANAGEMENT (Continued)

Chapter 70, Paragraph 3605/39 of the Illinois Compiled Statutes requires the CTA to establish an injury and damage reserve in order to provide for the adjustment, defense, and satisfaction of all suits, claims, and causes of action, and the payment and satisfaction of all judgments entered against the CTA for damages caused by injury to or death of any person and for damages to property resulting from the construction, maintenance, and operation of the transportation system. The statute also requires the CTA to separately fund the current year's budgeted provision for the injury and damage reserve. See note 5 regarding cash and investment amounts maintained in this account.

NOTE 17 - COMMITMENTS AND CONTINGENCIES

Litigation: The CTA has been named as a defendant in various other legal proceedings arising in the normal course of operations. Although the ultimate outcome of these matters cannot be presently determined, it is the opinion of management of the CTA that resolution of these matters will not have a material adverse impact on the CTA's financial statements.

Defeased Debt: On October 26, 2006, the PBC issued Building Refunding Revenue Bonds for the benefit of the CTA in the amount of \$91,340,000. The proceeds of the bonds were used to advance refund the Public Building Commission of Chicago, Series 2003 bonds. The outstanding balance of the defeased debt was \$57,600,000 as of December 31, 2016.

Lease Transactions:

Green Line

During 1998, the CTA entered into three lease and leaseback transactions, 1998-NL, 1998-PB and 1998-JH with third party investors pertaining to certain property, railway tracks and train stations on the Green Line. The CTA's payments associated with these agreements were guaranteed by American International Group Inc. (AIG) as the "Debt Payment Undertaker." During 2008, AIG's credit rating was downgraded amid the U.S. mortgage meltdown and global economic crisis. This rating downgrade provided the third party investors with the option under their respective agreements to require CTA to replace AIG as the Debt Payment Undertaker. In 2008, one of the three investors chose to unwind the transaction and the corresponding 1998-NL agreement was terminated. Another transaction, 1998-PB, was terminated on March 6, 2015. The remaining investor, on the 1998-JH transaction, entered into a conditional forbearance agreement that allows CTA to continue to use AIG as long as the rating does not fall below BB by Standard & Poor's and Ba2 by Moody's.

NOTE 18 – SUBSEQUENT EVENTS

Second Lien Sales Tax Receipts Revenue Bonds

In January 2017, the CTA issued the Second Lien Sales Tax Receipts Revenue Bonds, Series 2017, in the amount of \$296,220,000, along with a premium of \$18,108,000. The bonds were issued to (i) finance certain capital projects contemplated by the CTA's capital improvement plan, (ii) capitalize interest on the 2017 Second Lien Bonds and (iii) pay costs in connection with the issuance of the 2017 Second Lien Bonds. The Series 2017 bonds bear interest ranging from 4.0% to 5.0%.

REQUIRED SUPPLEMENTARY INFORMATION

CHICAGO TRANSIT AUTHORITY
Required Supplementary Information – Other Postemployment Benefits
Schedules of Funding Progress (Unaudited)
Year Ended December 31, 2016
(In thousands of dollars)
as required by GASB 45

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	Percentage of covered payroll ((b-a)/c)
Supplemental & Board Plan - Healthcare:						
1/1/2017	\$ -	\$ 11,511	\$ 11,511	0.0%	\$ 409	2,816.9%
1/1/2016	-	12,140	12,140	-	402	3,017.3
1/1/2015	-	12,963	12,963	-	741	1,749.9
1/1/2014	-	11,869	11,869	-	581	2,041.8
1/1/2013	-	13,168	13,168	-	752	1,750.5
1/1/2012	-	13,138	13,138	-	887	1,481.2
1/1/2011	-	18,400	18,400	-	2,219	829.2
1/1/2010	-	18,967	18,967	-	3,580	529.8
1/1/2009	-	16,830	16,830	-	4,420	380.8
1/1/2008	-	6,287	6,287	-	2,771	226.9

CHICAGO TRANSIT AUTHORITY
Other Postemployment Benefits
Required Supplementary Information –
Schedules of Employer Contributions (Unaudited)
Year Ended December 31, 2016
(In thousands of dollars)
as required by GASB 45

Supplemental and Board Plans - Healthcare		
Year ended	Annual required contribution	Percentage contributed
12/30/16	\$ 1,101	40.9%
12/31/15	1,138	45.7
12/31/14	1,061	75.7
12/31/13	1,141	71.0
12/31/12	1,080	65.2
12/31/11	1,606	44.1
12/31/10	1,785	29.7

CHICAGO TRANSIT AUTHORITY
 Employees' Plan
 Required Supplementary Information -
 Schedules of Net Pension Liability and Related Ratios (Unaudited)
 Year Ended December 31, 2016
 (In thousands of dollars)
 as required by GASB 68

	<u>2016</u>	<u>2015</u>
Employees' Plan		
Total Pension Liability	\$ 3,352,031	\$ 3,283,154
Plan Fiduciary Net Position	<u>1,743,216</u>	<u>1,855,912</u>
Plan's Net pension Liability	<u>\$ 1,608,815</u>	<u>\$ 1,427,242</u>
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	52.00%	56.53%
Covered Employee Payroll	573,548	564,828
Plan's Net pension Liability as a percentage of Covered Employee Payroll	280.50%	252.69%

The amounts presented for each fiscal year were determined as of the yearend that occurred one year prior.

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

CHICAGO TRANSIT AUTHORITY
Supplemental Plans
Required Supplementary Information -
Schedules of Net Pension Liability and Related Ratios (Unaudited)
Year Ended December 31, 2016
(In thousands of dollars)
as required by GASB 67/68

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Supplemental Qualified Plan			
Total Pension Liability	\$ 48,004	\$ 49,335	\$ 52,118
Plan Fiduciary Net Position	37,805	37,875	42,046
Plan's Net pension Liability	<u>\$ 10,199</u>	<u>\$ 11,460</u>	<u>\$ 10,072</u>
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	78.75%	76.77%	80.67%
Covered Employee Payroll	1,213	1,355	1,443
Plan's Net pension Liability as a percentage of Covered Employee Payroll	841.07%	845.71%	697.92%
Supplemental Non-Qualified Plan			
Total Pension Liability	\$ 25,274	\$ 26,926	\$ 28,105
Plan Fiduciary Net Position	-	-	-
Plan's Net pension Liability	<u>\$ 25,274</u>	<u>\$ 26,926</u>	<u>\$ 28,105</u>
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	0%	0%	0%
Covered Employee Payroll	-	-	-
Plan's Net pension Liability as a percentage of Covered Employee Payroll	N/A	N/A	N/A
Board Member Plan			
Total Pension Liability	\$ 4,561	\$ 4,481	\$ 5,128
Plan Fiduciary Net Position	77	68	88
Plan's Net pension Liability	<u>\$ 4,484</u>	<u>\$ 4,413</u>	<u>\$ 5,040</u>
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	1.69%	1.53%	1.72%
Covered Employee Payroll	75	75	125
Plan's Net pension Liability as a percentage of Covered Employee Payroll	5978.83%	5883.44%	4031.43%

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

CHICAGO TRANSIT AUTHORITY
Employees' Plan
Required Supplementary Information -
Schedules of Changes in Net Pension Liability - Employees' Retirement Plan (Unaudited)
Year Ended December 31, 2016
(In thousands of dollars)
as required by GASB 68

Employees' Plan	2016	2015
Total Pension Liability		
Total Pension Liability - Beginning	\$ 3,283,154	\$ 3,220,533
Service Cost	51,358	49,066
Interest	264,579	259,593
Changes of Benefit Terms	-	-
Differences Between Expected and Actual Experience	13,082	-
Changes of Assumptions	-	-
Benefit Payments, Including Refunds of Member Contributions	(260,142)	(246,038)
Net Change in Total Pension Liability	68,877	62,621
Total Pension Liability - Ending	\$ 3,352,031	\$ 3,283,154
Plan Fiduciary Net Position		
Plan Fiduciary Net Position - Beginning	\$ 1,855,912	\$ 1,892,715
Contributions - Employer	82,800	82,268
Contributions - Member	58,993	58,566
Net Investment Income	8,230	71,524
Benefit Payments, Including Refunds of Member Contributions	(260,142)	(246,038)
Administrative Expense	(2,577)	(3,123)
Other	-	-
Net Change in Plan Fiduciary Net Position	(112,696)	(36,803)
Plan Fiduciary Net Position - Ending	1,743,216	1,855,912
CTA Net Pension Liability - Ending	\$ 1,608,815	\$ 1,427,242

The amounts presented for each fiscal year were determined as of the yearend that occurred one year prior.

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

CHICAGO TRANSIT AUTHORITY
Supplemental Plans
Required Supplementary Information -
Schedules of Changes in Net Pension Liability - Qualified Supplemental Plan (Unaudited)
Year Ended December 31, 2016
(In thousands of dollars)
as required by GASB 67/68

Qualified	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total Pension Liability			
Total Pension Liability - Beginning	\$ 49,335	\$ 52,118	\$ 53,464
Service Cost	56	52	61
Interest	3,296	3,488	3,578
Changes of Benefit Terms	-	-	-
Differences Between Expected and Actual Experience	(611)	(2,145)	(554)
Changes of Assumptions	71	67	-
Benefit Payments	<u>(4,143)</u>	<u>(4,245)</u>	<u>(4,431)</u>
Net Change in Total Pension Liability	<u>(1,331)</u>	<u>(2,783)</u>	<u>(1,346)</u>
Total Pension Liability - Ending	<u>\$ 48,004</u>	<u>\$ 49,335</u>	<u>\$ 52,118</u>
Plan Fiduciary Net Position			
Plan Fiduciary Net Position - Beginning	\$ 37,875	\$ 42,046	\$ 43,503
Contributions - Employer	1,380	1,164	1,130
Contributions - Member	8	34	82
Net Investment Income	2,942	(878)	2,073
Benefit Payments	(4,143)	(4,245)	(4,431)
Refunds of Member Contributions	(17)	-	-
Administrative Expense	(240)	(237)	(311)
Other	<u>-</u>	<u>(9)</u>	<u>-</u>
Net Change in Plan Fiduciary Net Position	(70)	(4,171)	(1,457)
Plan Fiduciary Net Position - Ending	<u>37,805</u>	<u>37,875</u>	<u>42,046</u>
CTA Net Pension Liability - Ending	<u>\$ 10,199</u>	<u>\$ 11,460</u>	<u>\$ 10,072</u>

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

CHICAGO TRANSIT AUTHORITY
Supplemental Plans
Required Supplementary Information -
Schedules of Changes in Net Pension Liability - Non-Qualified Supplemental Plan (Unaudited)
Year Ended December 31, 2016
(In thousands of dollars)
as required by GASB 67/68

Non-Qualified	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total Pension Liability			
Total Pension Liability - Beginning	\$ 26,926	\$ 28,105	\$ 27,205
Service Cost	-	-	-
Interest	911	949	1,209
Changes of Benefit Terms	-	-	-
Differences Between Expected and Actual Experience	369	498	341
Changes of Assumptions	(315)	57	2,373
Benefit Payments	<u>(2,617)</u>	<u>(2,683)</u>	<u>(3,023)</u>
Net Change in Total Pension Liability	<u>(1,652)</u>	<u>(1,179)</u>	<u>900</u>
Total Pension Liability - Ending	<u>\$ 25,274</u>	<u>\$ 26,926</u>	<u>\$ 28,105</u>
Plan Fiduciary Net Position			
Plan Fiduciary Net Position - Beginning	\$ -	\$ -	\$ -
Contributions - Employer	2,617	2,683	3,023
Contributions - Member	-	-	-
Net Investment Income	-	-	-
Benefit Payments	(2,617)	(2,683)	(3,023)
Administrative Expense	-	-	-
Other	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Plan Fiduciary Net Position	-	-	-
Plan Fiduciary Net Position - Ending	<u>-</u>	<u>-</u>	<u>-</u>
CTA Net Pension Liability - Ending	<u>\$ 25,274</u>	<u>\$ 26,926</u>	<u>\$ 28,105</u>

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

CHICAGO TRANSIT AUTHORITY
Supplemental Plans
Required Supplementary Information -
Schedules of Changes in Net Pension Liability - Board Supplemental Plan (Unaudited)
Year Ended December 31, 2016
(In thousands of dollars)
as required by GASB 67/68

Board	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total Pension Liability			
Total Pension Liability - Beginning	\$ 4,481	\$ 5,128	\$ 4,698
Service Cost	33	46	45
Interest	153	176	216
Changes of Benefit Terms	-	-	-
Differences Between Expected and Actual Experience	310	(514)	(64)
Changes of Assumptions	(90)	3	566
Benefit Payments	<u>(326)</u>	<u>(358)</u>	<u>(333)</u>
Net Change in Total Pension Liability	<u>80</u>	<u>(647)</u>	<u>430</u>
Total Pension Liability - Ending	<u>\$ 4,561</u>	<u>\$ 4,481</u>	<u>\$ 5,128</u>
Plan Fiduciary Net Position			
Plan Fiduciary Net Position - Beginning	\$ 68	\$ 88	\$ 75
Contributions - Employer	327	328	334
Contributions - Member	8	10	12
Net Investment Income	-	-	-
Benefit Payments	(326)	(358)	(333)
Administrative Expense	-	-	-
Other	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Plan Fiduciary Net Position	9	(20)	13
Plan Fiduciary Net Position - Ending	<u>77</u>	<u>68</u>	<u>88</u>
CTA Net Pension Liability - Ending	<u>\$ 4,484</u>	<u>\$ 4,413</u>	<u>\$ 5,040</u>

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

CHICAGO TRANSIT AUTHORITY
 Employees' Plan
 Required Supplementary Information -
 Schedules of Statutorily Determined Contributions (Unaudited)
 Year Ended December 31, 2016
 (In thousands of dollars)
 as required by GASB 68

Employees' Plan

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Statutorily determined contribution	\$ 195,226	\$ 178,861	\$ 165,500	\$ 157,594	\$ 155,600	\$ 123,158	\$ 108,478	\$ 118,717	\$ 206,670	\$ 198,457
Contributions in relation to the statutorily determined contribution	83,855	82,800	82,268	79,518	62,788	60,318	56,216	41,448	1,165,947	25,038
Contribution deficiency (excess)	<u>\$ 111,371</u>	<u>\$ 96,061</u>	<u>\$ 83,232</u>	<u>\$ 78,076</u>	<u>\$ 92,812</u>	<u>\$ 62,840</u>	<u>\$ 52,262</u>	<u>\$ 77,269</u>	<u>\$ (959,277)</u>	<u>\$ 173,419</u>
Covered-employee payroll	Not available	\$ 573,548	\$ 564,827	\$ 550,616	\$ 548,515	\$ 541,354	\$ 528,288	\$ 567,173	\$ 594,139	\$ 571,314
Contributions as a percentage of covered-employee payroll	Not available	31.19%	29.30%	28.62%	28.37%	22.75%	20.53%	20.93%	34.78%	34.74%

Notes to Schedule

Valuation date: January 1, 2015

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age Normal Method
Amortization method	For pension expense; the difference between expected and actual liability experience and changes of assumptions are amortized over the average of the expected remaining service lives of all members. The difference between projected and actual earnings is amortized over a closed period of five years.
Remaining amortization period	5 Years - Closed
Asset valuation method	Market Value
Inflation	3.25%
Salary increases	Service graded table starting at 9% with 4% ultimate rate after 5 years of service
Investment rate of return	8.25% per annum, compounded annually, including inflation, net of expenses

CHICAGO TRANSIT AUTHORITY
Supplemental Plans
Required Supplementary Information -
Schedules of Actuarially Determined Contributions (Unaudited)
Year Ended December 31, 2016
(In thousands of dollars)
as required by GASB 67/68

Qualified Plan

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Actuarially determined contribution	\$ 1,380	\$ 1,164	\$ 1,130	\$ 1,926	\$ 2,267	\$ 2,207	\$ 2,577	\$ 2,410	\$ 230	\$ 200
Contributions in relation to the actuarially determined contribution	1,380	1,164	1,130	1,927	2,267	2,210	2,600	7,410	8,000	-
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1)</u>	<u>\$ -</u>	<u>\$ (3)</u>	<u>\$ (23)</u>	<u>\$ (5,000)</u>	<u>\$ (7,770)</u>	<u>\$ 200</u>
Covered-employee payroll	\$ 1,213	\$ 1,355	\$ 1,443	\$ 1,647	\$ 2,282	\$ 2,486	\$ 4,259	\$ 7,265	\$ 11,691	\$ 13,551
Contributions as a percentage of covered-employee payroll	113.81%	85.90%	78.30%	117.02%	99.33%	88.90%	61.05%	102.00%	68.43%	0.00%

Non-qualified Plan

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Actuarially determined contribution	\$ 2,571	\$ 2,678	\$ 4,595	\$ 4,295	\$ 4,116	\$ 4,041	\$ 3,771	\$ 3,635	\$ 3,599	\$ 3,450
Contributions in relation to the actuarially determined contribution	2,617	2,683	3,023	3,114	3,299	3,447	3,260	3,381	3,459	3,504
Contribution deficiency (excess)	<u>\$ (46)</u>	<u>\$ (5)</u>	<u>\$ 1,572</u>	<u>\$ 1,181</u>	<u>\$ 817</u>	<u>\$ 594</u>	<u>\$ 511</u>	<u>\$ 254</u>	<u>\$ 140</u>	<u>\$ (54)</u>
Covered-employee payroll	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions as a percentage of covered-employee payroll	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

CHICAGO TRANSIT AUTHORITY
Supplemental Plans
Required Supplementary Information -
Schedules of Actuarially Determined Contributions (Unaudited)
Year Ended December 31, 2016
(In thousands of dollars)
as required by GASB 67/68

Board Member Plan

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Actuarially determined contribution	\$ 323	\$ 379	\$ 324	\$ 331	\$ 348	\$ 372	\$ 361	\$ 288	\$ 282	\$ 287
Contributions in relation to the actuarially determined contribution	<u>327</u>	<u>328</u>	<u>333</u>	<u>338</u>	<u>323</u>	<u>323</u>	<u>323</u>	<u>266</u>	<u>263</u>	<u>284</u>
Contribution deficiency (excess)	<u>\$ (4)</u>	<u>\$ 51</u>	<u>\$ (9)</u>	<u>\$ (7)</u>	<u>\$ 25</u>	<u>\$ 49</u>	<u>\$ 38</u>	<u>\$ 22</u>	<u>\$ 19</u>	<u>\$ 3</u>
Covered-employee payroll	\$ 75	\$ 75	\$ 125	\$ 139	\$ 150	\$ 175	\$ 200	\$ 200	\$ 200	\$ 200
Contributions as a percentage of covered-employee payroll	436.37%	437.23%	266.66%	242.12%	215.19%	184.45%	161.39%	133.17%	131.73%	142.09%

Notes to Schedule

Valuation date: Actuarially determined contribution rates are calculated as of December 31, 2016

Methods and assumptions used to determine contribution rates:

Actuarial cost method Entry Age Normal Method
Amortization method Level Dollar
Remaining amortization period Qualified: 13 Years - Closed

Unfunded Plans: pay as you go actuarially determined contributions as of January 1, 2016
Prior remaining amortization period as of December 31, 2015.
Non-qualified: 6 Years - Closed
Board: 30 Years - Closed

Asset valuation method Market Value
Inflation 2.5%
Salary increases 3.5% per year
Investment rate of return Qualified: 7.0% per year
Non-qualified: 3.78% per year
Board: 3.78% per year

Investment policy During the 2016 fiscal year, the allocation guidelines were revised in the Investment Policy. See Footnote 14 for more information.

CHICAGO TRANSIT AUTHORITY
Supplemental Plans
Required Supplementary Information -
Schedule of Investment Returns (Unaudited)
Year Ended December 31, 2016

	<u>Year</u>	<u>Qualified Supplemental Plan</u>
Annual Money-Weighted Rate of Return, Net of Investment Expense	2016	7.38%
	2015	-2.69%
	2014	4.20%

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

SUPPLEMENTARY SCHEDULES

CHICAGO TRANSIT AUTHORITY
Schedule of Expenses and Revenues –
Budget and Actual – Budgetary Basis
Year ended December 31, 2016
(In thousands of dollars)

	<u>Original budget</u>	<u>Actual – budgetary basis</u>	<u>Variance favorable (unfavorable)</u>
Operating expenses:			
Labor and fringe benefits	\$ 1,025,635	\$ 1,027,047	\$ (1,412)
Materials and supplies	82,534	82,921	(387)
Fuel	37,259	32,738	4,521
Electric power	31,458	29,283	2,175
Purchase of security services	14,698	14,095	603
Other	274,123	267,558	6,565
Provision for injuries and damages	<u>9,500</u>	<u>10,500</u>	<u>(1,000)</u>
Total operating expenses	<u>1,475,207</u>	<u>1,464,142</u>	<u>11,065</u>
System-generated revenues:			
Fares and passes	590,541	577,007	(13,534)
Reduced-fare subsidies	28,322	14,385	(13,937)
Advertising and concessions	32,021	35,019	2,998
Investment income	883	1,608	725
Contributions from local governmental units	5,000	5,000	-
Other revenue	<u>27,945</u>	<u>43,550</u>	<u>15,605</u>
Total system-generated revenues	<u>684,712</u>	<u>676,569</u>	<u>(8,143)</u>
Operating expenses in excess of system-generated revenues	790,495	787,573	2,922
Public funding from the RTA:			
Operating assistance	<u>790,495</u>	<u>809,748</u>	<u>19,253</u>
	<u>790,495</u>	<u>809,748</u>	<u>19,253</u>
Change in net position – budgetary basis	<u>\$ -</u>	22,175	<u>\$ 22,175</u>
Reconciliation of budgetary basis to GAAP basis:			
Provision for depreciation		(441,237)	
Pension expense in excess of pension contributions		(44,977)	
Supplemental Retirement		841	
Incentive Retirement		758	
Workers Compensation		7,538	
Revenue from leasing transactions		844	
Provision for injuries and damages		1,548	
Interest expense on bond transactions		(100,124)	
Interest revenue on bond transactions		2,178	
Interest income from sale/leaseback		2,417	
Interest expense from sale/leaseback		(9,554)	
Capital contributions		<u>478,081</u>	
Change in net position – GAAP basis		<u>\$ (79,512)</u>	
CTA recovery ratio:			
Total operating expenses		\$ 1,464,142	
Less mandated security costs		(14,095)	
Less Pension Obligation Bond debt service		(156,574)	
Plus City of Chicago in-kind services		<u>22,000</u>	
Total operating expenses for recovery ratio calculation (B)		<u>\$ 1,315,473</u>	
Total system-generated revenues			
Plus Senior Free Rides		\$ 27,740	
Plus City of Chicago in-kind services		<u>22,000</u>	
Total system-generated revenues for recovery ratio calculation (A)		<u>\$ 726,309</u>	
Recovery ratio (A/B)		55.21%	

CHICAGO TRANSIT AUTHORITY
Schedule of Expenses and Revenues –
Budget and Actual – Budgetary Basis
Year ended December 31, 2015
(In thousands of dollars)

	<u>Original budget</u>	<u>Actual – budgetary basis</u>	<u>Variance favorable (unfavorable)</u>
Operating expenses:			
Labor and fringe benefits	\$ 1,005,919	\$ 1,002,486	\$ 3,433
Materials and supplies	73,331	83,507	(10,176)
Fuel	55,396	49,830	5,566
Electric power	29,736	28,818	918
Purchase of security services	14,427	14,431	(4)
Other	261,394	252,054	9,340
Provision for injuries and damages	<u>3,500</u>	<u>13,000</u>	<u>(9,500)</u>
Total operating expenses	<u>1,443,703</u>	<u>1,444,126</u>	<u>(423)</u>
System-generated revenues:			
Fares and passes	589,212	587,108	(2,104)
Reduced-fare subsidies	28,322	14,606	(13,716)
Advertising and concessions	30,017	31,241	1,224
Investment income	682	1,123	441
Contributions from local governmental units	5,000	5,000	-
Other revenue	<u>34,286</u>	<u>36,440</u>	<u>2,154</u>
Total system-generated revenues	<u>687,519</u>	<u>675,518</u>	<u>(12,001)</u>
Operating expenses in excess of system-generated revenues	756,184	768,608	(12,424)
Public funding from the RTA:			
Operating assistance	<u>756,184</u>	<u>793,008</u>	<u>36,824</u>
	<u>756,184</u>	<u>793,008</u>	<u>36,824</u>
Change in net position – budgetary basis	<u>\$ -</u>	24,400	<u>\$ 24,400</u>
Reconciliation of budgetary basis to GAAP basis:			
Provision for depreciation		(445,179)	
Pension expense in excess of pension contributions		(6,456)	
Supplemental Retirement		3,734	
Incentive Retirement		768	
Workers Compensation		(1,244)	
Revenue from leasing transactions		844	
Provision for injuries and damages		(7,724)	
Interest expense on bond transactions		(118,289)	
Interest revenue on bond transactions		1,483	
Interest income from sale/leaseback		14,279	
Interest expense from sale/leaseback		(31,982)	
Capital contributions		<u>564,590</u>	
Change in net position – GAAP basis		<u>\$ (776)</u>	
CTA recovery ratio:			
Total operating expenses		\$ 1,444,126	
Less mandated security costs		(14,431)	
Less Pension Obligation Bond debt service		(156,574)	
Plus City of Chicago in-kind services		<u>22,000</u>	
Total operating expenses for recovery ratio calculation (B)		<u>\$ 1,295,121</u>	
Total system-generated revenues			
		\$ 675,518	
Plus Senior Free Rides		27,946	
Plus City of Chicago in-kind services		<u>22,000</u>	
Total system-generated revenues for recovery ratio calculation (A)		<u>\$ 725,464</u>	
Recovery ratio (A/B)		56.02%	

APPENDIX E

PENSION PLANS AND POST-EMPLOYMENT HEALTHCARE

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PENSION PLANS AND POST-EMPLOYMENT HEALTHCARE

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PENSION PLANS AND POST-EMPLOYMENT HEALTHCARE

General Overview

Retirement Plan. The Authority contributes to the Retirement Plan for Chicago Transit Authority Employees, a trustee, single-employer defined benefit pension plan covering substantially all full-time permanent union and non-union Authority employees (the “**Retirement Plan**”). The Retirement Plan was first established by an agreement between the Authority and its collective bargaining units in 1949 (“**Plan Agreement**”), which has since been amended and is currently governed by Section 22-101 of the Illinois Pension Code (40 ILCS 5/22-101) (the “**Pension Code**”). The Authority’s contributions to the Retirement Plan and benefits for participants in the Retirement Plan are governed by the Plan Agreement and the Pension Code. This appendix describes, among other things, the current provisions of the Pension Code applicable to the Authority’s funding of the Retirement Plan; however, no assurance can be made that the Pension Code will not be amended in the future by the General Assembly.

The Retirement Plan is governed by an 11-member Board of Trustees (the “**Retirement Board**”) established under the Pension Code, which is separate and distinct from the Chicago Transit Board and the RTA Board. More information about the Retirement Board can be found below under the heading “**Background Information Regarding the Retirement Plan**” below.

The Retirement Plan’s primary sources of funding come from the Authority’s contributions, the employees’ contributions, and investment income on the Retirement Plan’s assets. The amount of benefits payable to participating employees under the Retirement Plan and the calculation of the Authority and employee contribution amounts and certain other provisions of the Retirement Plan are established under and governed by the Plan Agreement and the Pension Code. The Authority’s minimum contributions and the employee contributions, determined pursuant to statutorily prescribed formulas under the Pension Code, do not equal the Annual Required Contribution (or “**ARC**”, as defined below) as determined by the independent actuary engaged by the Retirement Plan. As of the 2016 Actuarial Valuation, the contributions made by the Authority and its employees have been in compliance with the Pension Code, but the Pension Code’s contribution requirements are at a level below the actuarially determined ARC and have resulted in an Unfunded Actuarial Accrued Liability (or “**UAAL**”, as defined below) of \$1.52 billion and a Funded Ratio (as defined below) of 53.3%. (See “**Determination of Authority’s Contributions**”, “**The Actuarial Valuation – Authority’s Contributions Not Related to GASB Standards**” and “**Funded Status**” below.)

Under the Pension Code, the funding of the Retirement Plan is subject to the following requirements:

- For each year through 2039, the estimated “**funded ratio**” of the Retirement Plan, which is the actuarial value of assets divided by the actuarial accrued liability, expressed as a percentage, must be at least 60%. If the funded ratio is projected to decline below 60% in any year before 2040, increased contributions will be required each year as a level percentage of payroll over the years remaining until 2040 so that the funded ratio does not decline below 60%.

- If the funded ratio actually declines below 60% in any year prior to 2040, increased contributions will be required each year as a level percentage of payroll during the years after the then current year so that the funded ratio is projected to reach at least 60% no later than 10 years after the then current year.
- Beginning in 2040, the minimum annual contribution to the Retirement Plan must be sufficient to bring the funded ratio to 90% by the end of 2059.
- Beginning in 2060, the minimum contribution must be an amount necessary to maintain the funded ratio at 90%.

Two-thirds of any increase in required contributions is to be paid by the Authority and one-third by participating employees.

Supplemental Pension Plans. The Authority also maintains three other separate, non-statutory, single-employer defined benefit pension plans for a limited number of selected employees (collectively, the “**Supplemental Pension Plans**”): (i) a Chicago Transit Board member plan (the “**Board Plan**”) for Chicago Transit Board members; (ii) a supplemental pension plan for certain employees who retired or terminated employment prior to March 2005 (the “**Closed Supplemental Plan**”); and (iii) a supplemental pension plan for certain employees retiring after March 2005 (the “**Open Supplemental Plan**”). The Board Plan and the Closed Supplemental Plan are funded on a pay-as-you-go basis. The Open Supplemental Plan is a trusteed plan funded on an actuarially determined basis.

It should be noted that pursuant to legislation in 2008 (see “**Legislative Changes Impacting the Retirement Plan**” below), the Retirement Plan is the sole pension plan for Authority employees and all supplemental pension plans were closed to any new participants. In 2013, the Authority, although not required to by state law, closed the Board Plan to any new participants and the members subsequently appointed to the Chicago Transit Board have accordingly been informed that they will not be eligible to join the Board Plan. However, the Authority could in the future reverse or modify its decision to close the Board Plan. Additional information with respect to the Supplemental Pension Plans is presented below under the heading “**Supplemental Pension Plans.**”

Retiree Health Care Trust. Prior to 2009, health care benefits for retirees and their dependents were administered by the Retirement Plan. Pursuant to amendments to the Pension Code enacted in 2008, the retiree health care benefits formerly administered by the Retirement Plan were transferred to a separate and newly created Retiree Health Care Trust (“**RHCT**”). The Authority does not have any obligation to provide or fund health care benefits for current or future retirees. However, Authority employees are required to contribute no less than three percent annually to the RHCT, which contributions are deducted from their paychecks and remitted by the Authority to the RHCT. Additional information with respect to the RHCT is presented below under the heading “**Retiree Health Care Trust.**”

Pension Bonds. On August 6, 2008, the Authority issued its Pension and Retirement Debt Obligations (“**Pension Bonds**”) in two series in an aggregate amount of \$1,936.9 million. Proceeds of the Pension Bonds in the amount of approximately \$1,110.5 million were deposited

in the Retirement Plan, and proceeds in the amount of approximately \$529.0 million were deposited into the RHCT. As a result of 2008 amendments to the Pension Code, the Authority's required annual contributions to the Retirement Plan are reduced by the amount of yearly debt service paid on the Pension and Retirement Debt Obligations up to a maximum of 6% of total employee compensation paid by the Authority for the year.

Sources of Information

Much of the information presented in this appendix regarding the Retirement Plan and the RHCT comes from and is prepared in reliance on public information made available by the Retirement Plan and the RHCT; documents produced by the Retirement Plan and the RHCT, including their respective actuarial valuations (the "**Actuarial Valuations**") prepared by independent actuaries (the "**Actuary**" or "**Actuaries**") and their respective financial statements (the "**Financial Statements**") prepared by independent auditors; and the 2015 Annual Review by the State of Illinois Office of Auditor General's "**2015 Annual Review of Information Submitted by the Retirement Plan for the CTA Employees**" and its "**2015 Annual Review of Information Submitted by the Retiree Health Care Trust.**"

Much of the information presented in this Appendix regarding the Supplemental Pension Plans comes from and is prepared in reliance on information contained in the Authority's audited financial statements for the years ended December 31, 2014 and 2015.

Such information is referred to collectively as the "**Source Information.**" With the exception of the Authority's own financial statements, the Authority has not independently verified the Source Information and makes no representations nor expresses any opinion as to the accuracy or completeness of the Source Information, and such Source Information is not incorporated herein by reference. Any discussion herein with respect to actuarial assumptions, methodology, results or projections are strictly from the sources cited and should not be construed as statements or information from the Authority. To the Authority's knowledge, the Financial Statements for the Retirement Plan for the year ended December 31, 2015 and the Actuarial Valuations as of January 1, 2016 and the RHCT for the year ended December 31, 2015 and the Actuarial Valuations as of January 1, 2016, are the most recent financial statements and actuarial valuations available.

Cautionary Statement

Certain information included in this Appendix, including information under the heading "**Projection of Funded Status,**" relies on Source Information produced by the Actuaries. Actuarial assessments are "forward-looking" information that reflects the judgment of the Actuaries. When used in this Appendix, the words "estimate," "expect," "project," "intend," "anticipate," "believe," "may," "will," "continue" and similar expressions identify forward-looking statements. Any forward-looking statement is subject to uncertainty and risks that could cause actual results to differ, possibly materially, from those contemplated in such forward-looking statements. Some assumptions used to develop forward-looking statements will not be realized, or unanticipated events and circumstances may occur. Actuarial assessments are based upon a variety of assumptions, some of which may prove to be inaccurate or changed in the

future. Therefore, investors should be aware that there are likely to be differences between forward-looking statements and actual results, and that those differences could be material.

As stated above, the Retirement Plan is governed by the Plan Agreement and the Pension Code. Certain aspects of the Retirement Plan, including the level of benefits for participants and required funding levels, are established pursuant to the Pension Code, including the 2008 Pension Reform (as defined below). See “**Legislative Changes Impacting the Retirement Plan**” below. Subsequent to 2008, various amendments to the Pension Code that could impact the Retirement Plan or the RHCT have been introduced and other amendments may be introduced in the future. It cannot be predicted whether any currently proposed amendments will be adopted in their present form or whether other amendments may be subsequently introduced or enacted and the economic impact of such amendments on the Retirement Plan, the RHCT or the Authority cannot be predicted and may be material.

Legislative Changes Impacting the Retirement Plan

2006 Pension Reform. On June 6, 2006, Public Act 094-0839 (the “**2006 Pension Reform**”) was signed into law. The 2006 Pension Reform established a requirement that the Funded Ratio of the Retirement Plan reach 90% by the end of fiscal year 2058. The 2006 Pension Reform also required the RTA to begin monitoring the Authority’s payment of the required contributions and, starting January 1, 2009, to make payments to the Retirement Plan if the Authority failed to do so.

2008 Pension Reform. On January 18, 2008, the Governor signed Public Act 095-0708 (the “**2008 Pension Reform**”) into law. The 2008 Pension Reform made several significant changes to the Authority’s pension and retiree healthcare benefits, including, among other things:

- established the Retirement Plan as the exclusive retirement plan, other than employee self-funded deferred compensation plans, for Authority employees hired after the effective date of the 2008 Pension Reform, thereby closing the Open Supplemental Plan to new participants;
- established the RHCT as a separate entity and provided that the Authority shall have no responsibility to make contributions to the RHCT after the issuance of the Pension and Retirement Debt Obligations (defined below);
- established minimum contribution requirements to the Retirement Plan for the Authority and participating employees of 12% (subject to a reduction of up to 6% for debt service paid on outstanding pension funding bonds) and 6% of employee compensation, respectively;
- requires that the Funded Ratio of the Retirement Plan be at least 60% by the end of fiscal year 2009 through 2039, with adjustments in Authority and employee contribution levels as may be necessary to achieve 60% within ten years in the event that the Funded Ratio falls below 60% in a given year;
- changed the requirement that the Retirement Plan’s Funded Ratio be at least 90% from the end of fiscal year 2058 to the end of fiscal year 2059;

- established new minimum eligibility requirements for employees hired after the effective date of the 2008 Pension Reform to receive benefits under the Retirement Plan; and
- requires a Funded Ratio of at least 80% for any future early retirement incentive program.

2013 Pension Reform. In 2013, the General Assembly passed legislation known as Public Act 098-0599 (the “**2013 Pension Reform**”) that provided for a series of changes to pension benefits and contributions affecting four pension plans covering employees of the State of Illinois. The 2013 Pension Reform does not amend any of the provisions of the Pension Code applicable to the Retirement Plan or the RHCT. Section 5 of Article XIII of the Illinois Constitution (the “**Pension Protection Clause**”) provides as follows: “Membership in any pension retirement system of the State, any unit of local government or school district, or any agency or instrumentality thereof, shall be an enforceable contractual relationship, the benefits of which shall not be diminished or impaired.” Several groups have filed lawsuits challenging the constitutionality of the 2013 Pension Reform on the basis that it violates the Pension Protection Clause and the contract impairment clause, the equal protection clause or the taking clause under the Illinois Constitution. The 2008 Pension Reform is not the subject of these lawsuits. See “**Litigation, Investigation and Labor Relations - Litigation**” below. In December 2013, retired members of the Teachers’ Retirement System (“**TRS**”) filed the first lawsuit in Cook County seeking a court declaration that the 2013 Pension Reform violates the Pension Protection Clause of the Illinois Constitution. *Heaton, et al v. Quinn, et al.*, No. 2013 CH 28406 (Cook County). Other groups have filed lawsuits on behalf of retired members of TRS, retired members of the State Employees’ Retirement System, retired members of the State Universities Retirement System, and retired members of the General Assembly Retirement System. See *Illinois State Employees Association Retirees, et al. v. The Board of Trustees of the State Employees’ Retirement System of Illinois*, No. 2014 CH 000003 (Sangamon County); *Retired State Employees Association, et al. v. Quinn, et al*, No. 2014 MR 000001 (Sangamon County); and *Harrison, et al. v. Quinn, et al.*, No. 2014 CH 00048 (Sangamon County). On additional motions for partial summary judgment, judgment on the pleadings, and to strike an affirmative defense, the circuit court found the plaintiffs’ challenge to be meritorious, declared Public Act 098-0599 to be unconstitutional in its entirety as a violation of the pension protection clause, and permanently enjoined its enforcement. This decision was appealed by the State, and the Illinois Supreme Court affirmed the circuit court’s judgment declaring Public Act 098-0599 to be unconstitutional and to permanently enjoin its enforcement.

Background Information Regarding the Retirement Plan

General. As stated in General Overview above, the Retirement Plan is a single-employer defined benefit retirement plan. “**Single-employer**” means that there is only one employer whose employees are eligible to participate in the plan. In this case, the Authority is the “single-employer”. “**Defined benefit**” refers to the fact that the Retirement Plan pays a periodic benefit to retired employees (and upon their death to their surviving spouses and, in certain instances, their children) in an amount determined pursuant to a statutory formula on the basis of the employees’ service credits and salary. Members have no segregated individual accounts in a defined benefit plan, and the amount of their benefits is not dependent on the investment

performance of the plan assets. The Retirement Plan's fiscal year runs from January 1 to December 31. Each year, the Retirement Plan issues a separate, stand-alone Financial Statement.

As described in **"Benefits and Membership"** below, the benefits payable under the Retirement Plan accrue throughout the time a member is employed by the Authority. Although benefits accrue during employment, a member must satisfy certain age and service requirements in order for the member or a survivor to receive periodic retirement benefit payments upon the member's retirement or termination from the Authority's employ.

To fund the Retirement Plan, both employees and the employer make contributions to the Retirement Plan. Both the employees' contributions and the Authority's contributions are established and calculated in accordance with the Pension Code, which can only be amended by the General Assembly. See **"Determination of Employees' Contribution"** and **"Determination of Authority's Contribution"** below.

Benefits and Membership. Employees are entitled to annual pension benefits upon normal retirement at age 65, in an amount generally based on a percentage, multiplied by the number of years of continuous participating service, of their average annual compensation in the highest four of the 10 calendar years prior to retirement. As discussed below, the multiplier has been raised from time to time and ranges from 1.65% to 2.40% depending on the year in which individual participants retired. For employees retiring before December 1, 1987, the multiplier percentage was 1.65%. An amendment to the Plan Agreement between the Authority and its unions, signed September 1987, raised the multiplier percentage to 1.70% and 1.75% for retirements on or after December 1, 1987 and 1989, respectively. Another amendment to the Plan Agreement between the Authority and its unions, signed August 1993, raised the multiplier percentage to 1.80% and 1.85% for retirements on or after January 1, 1993 and January 1, 1995, respectively. The Arbitration Award of November 12, 2003, increased the multiplier percentage for service after June 1, 1949, to 2.00% from 1.85% for employees retiring from January 1, 2000 to December 31, 2000, and to 2.15% for employees retiring on and after January 1, 2001. The multiplier percentage for employees retiring before January 1, 2000 remained at 1.85%. During 1995, a Voluntary Early Retirement Incentive Program was offered, which provided a multiplier percentage of 2.05% for employees retiring after January 1, 1994. During 1997, the Retirement Plan offered a Voluntary Early Retirement Program to eligible employees who had 25 years of continuous service on or before December 31, 1999, and had not retired prior to January 1, 1997, in the form of a multiplier percentage of 2.40% for each year of continuous service, with a maximum retirement payment of 70% of the employee's annual compensation. All eligible employees who elected to participate were allowed to retire as soon as possible but no later than December 31, 1999. As stated above, the 2008 Pension Reform now requires a Funded Ratio of at least 80% for any future early retirement incentive program.

The Retirement Plan also permits early retirement for certain participants at age 55, generally with reduced benefits. The early retirement benefit of an employee hired before January 17, 2008, who has 25 years or more of continuous service, regardless of age, is not reduced; however, in accordance with the 2008 Pension Reform, for all employees hired after January 17, 2008, eligibility for an unreduced pension benefit has changed to age 64 with 25 years of service. Members with at least ten years of continuous service who retire before age 65 are eligible to defer payment of pension benefits until they reach age 65 rather than collect a

reduced benefit. Married employees can elect to receive their pension benefits in the form of a joint and survivor annuity. Pension benefits are paid in monthly installments.

The Retirement Plan also provides lump-sum death benefits ranging from \$2,000 to \$8,000, based on age and years of service. In addition, any excess of the employee's contributions, plus interest, on such contributions over the amount of pension benefits paid by the Retirement Plan to the retiree prior to death (and the death of the spouse in case of a survivorship option) is paid to the designated beneficiary. Employees satisfying certain eligibility requirements are eligible for a disability allowance based on compensation and service to date of disability with a minimum benefit of \$400 per month.

The following Table 1 provides membership information for the Retirement Plan as of January 1, 2016, the date of the latest Actuarial Valuation.

TABLE 1
Membership of Retirement Plan

Active Members	Inactive/ Entitled to Benefits	Retirees and Beneficiaries	Total
8,204	98	10,028	18,330

Source: Actuarial Valuation Report as of January 1, 2016 prepared by Buck Consultants, LLC

Governance. The Retirement Plan is governed by the 11-member Retirement Board appointed as follows: (i) five trustees are appointed by the Chicago Transit Board; (ii) three trustees are appointed by Amalgamated Transit Union, Local 241; (iii) one trustee is appointed by Amalgamated Transit Union, Local 308; (iv) one trustee is appointed by the recognized coalition of representatives of participants who are not represented by the Amalgamated Transit Union; and (v) one trustee is selected by the RTA Board. Trustees serve on the Retirement Board until a successor has been appointed, or until resignation, death, incapacity or disqualification. Under the Pension Code, each trustee casts individual votes and a simple majority vote is required for action by the Retirement Board, provided that the Retirement Board may require a supermajority vote with respect to the investment of assets of the Retirement Plan.

Investments. The Retirement Board manages the investments of the Retirement Plan. The Pension Code regulates the types of investments in which the Retirement Plan's assets may be invested. Retirement Board members are fiduciaries of the Retirement Plan and must discharge their duties with the care, prudence and diligence that a prudent person acting in a like capacity and familiar with such matters would use in a similar situation. In carrying out its investment duty, the Retirement Board may appoint investment managers with a discretionary authority to manage, in a fiduciary capacity, all or a portion of the Retirement Plan's assets.

The Retirement Board has adopted a formal investment policy for the Retirement Plan. This investment policy is separate from the investment policy adopted for the RHCT. According to the Investment Performance Summary for the Period Ending March 31, 2013 prepared by Gray & Company Global Investment Solutions, Atlanta, Georgia, the primary objective of the investment policy is to provide a documented structure for the implementation of investment

strategies which suggests the highest probability of maximizing the level of investment return within acceptable parameters for the total Retirement Plan’s volatility and risk. Any discussion herein with respect to assumptions, methodology, results or projections are strictly from the sources cited and should not be construed as statements or information from the Authority. As shown in Table 2 below, the Retirement Plan’s assumed rate of return is currently 8.25%. According to the Auditor General’s Report released November 2015, the State of Illinois Office of the Auditor General (the “**Auditor General**”) concluded that, although “not unreasonable in the aggregate”, the assumed rate of return is “at the upper end of investment return assumptions used by other plans.”

The following Table 2 provides information on the investment returns experienced by the Retirement Plan for the period 2006 through 2015.

TABLE 2
Historical Investment Returns

Fiscal Year	Total Rate of Return
2006	13.5%
2007	9.8
2008	(11.2)
2009	8.6
2010	12.6
2011	3.5 ⁽¹⁾
2012	11.3
2013	19.5
2014	5.2
2015	(0.2)
Assumed Rate ⁽²⁾	8.25

Source: The Retirement Plan’s audited financial statements for the years ended December 31, 2006 through 2015.

- (1) Amended to conform to the Retirement Plan’s audited financial statements for the years ended December 31, 2011 and 2012.
- (2) Reflects the assumed rate of return for each fund as of December 31, 2015, as discussed in further detail under “**Actuarial Assumptions–Assumed Investment Rate of Return**” below.

Determination of Employee Contributions. Authority employees who are members of the Retirement Plan are required to contribute to the Retirement Plan as provided in the Pension Code. The Pension Code requires participating employees to contribute 6% of compensation, subject to adjustment as described in the “**Determination of Authority’s and Employees’ Contributions**” below. Beginning January 1, 2013, the employee contribution rate is 10.125% of compensation. In the 2016 Actuarial Report, the Actuaries state that the Funded Ratio has not met the standards set forth in ILCS 5/22-101(e) and that there is a need to increase the employee contribution rate to 11.962%, beginning January 1, 2017.

Determination of Authority’s Contributions. Contributions from the Authority to the Retirement Plan are based on requirements under the Pension Code. Under the Pension Code, the Authority’s required contributions are reduced by a credit of up to 6% for debt service on bonds issued by the Authority for the purposes of funding contributions to the Retirement Plan. Beginning January 1, 2013, the Authority contribution rate was 20.25% of compensation, less a

6% credit, for a net contribution rate of 14.25%. The dollar amounts contributed by the Authority for the years ended December 31, 2013, 2014 and 2015 were \$79,518,000, \$82,268,000 and \$82,800,000, respectively. The following Table 3 provides information on the annual contributions made by the Authority to the Retirement Plan for the period 2006 through 2015.

In the 2016 Actuarial Report, the Actuaries state that the Funded Ratio has not met the standards set forth in ILCS 5/22-101(e) and that there is a need to increase the Authority's required contributions to 17.925% (which takes into account the 6% credit), beginning January 1, 2017.

Under the Pension Code, by September 15 of each year for the years 2009 through 2039, the Retirement Board is required to determine the estimated Funded Ratio of the Retirement Plan. If the Funded Ratio is projected to decline below 60% in any year before 2040, the Retirement Board is required to determine the increased contribution required each year as a level percentage of payroll over the years remaining until 2040 so that the Funded Ratio does not decline below 60%. If the Funded Ratio actually declines below 60% in any year prior to 2040, the Retirement Board must also determine the increased contribution required each year as a level percentage of payroll during the years after the then current year so that the Funded Ratio is projected to reach at least 60% no later than 10 years after the then current year.

As of the January 1, 2016 Actuarial Valuation, the Funded Ratio remained below 60% at 53.3% for the Retirement Plan. Therefore, the Retirement Board increased contribution rates in compliance with the requirements under the Pension Code as described in the previous paragraph. The current contribution rates adopted by the Retirement Board pursuant to its ten-year plan now exceed the minimum requirements under the Pension Code to restore the Funded Ratio to 60%; however, the contribution rates are still less than the actuarially determined Annual Required Contribution.

Further, the Pension Code requires that, beginning in 2040, the minimum annual contribution to the Retirement Plan must be sufficient to bring the Funded Ratio to 90% by the end of 2059, and beginning in 2060, the minimum contribution must be an amount necessary to maintain the 90% Funded Ratio. Under the Pension Code, increased contributions necessary to meet these funding requirements during both of these periods will be funded two-thirds by the Authority and one-third by participating employees.

Under the Pension Code, the Retirement Board is required to file a report to the Authority, the representatives of its participating employees, the Auditor General and the RTA containing the determination of the Funded Ratio (see "**The Actuarial Valuation – General**" below). If the Auditor General finds that the determination of the Funded Ratio and the assumptions on which it is based are unreasonable, the Auditor General is authorized to issue a new determination of the Funded Ratio and establish increased contribution requirements.

Under provisions of the RTA Act, the RTA is required to continually review the Authority's payment of the required contributions to the Retirement Plan. If the RTA determines that the Authority's payment of any portion of the required contributions to the Retirement Plan is more than one month overdue, the RTA is required to pay, upon notice to the Authority, the

Mayor of the City of Chicago, the Governor, the Auditor General and the General Assembly, those overdue contributions to the Retirement Board out of moneys otherwise payable to the Authority. Any such payments by the RTA will reduce the amount of Sales Tax Receipts otherwise available to the Authority to pay debt service on the Bonds. To date, the RTA has not taken any of the foregoing actions.

The Actuarial Valuation

General. In addition to the process outlined above, the Pension Code requires that the Retirement Board annually submit to the Governor, General Assembly, the Auditor General, the Board of the Regional Transportation Authority and the Authority the amount of the required contributions for the next retirement system fiscal year and a copy of the Actuarial Valuation. The Actuarial Valuation measures the financial position and determines the Annual Required Contribution of the Retirement Plan for reporting purposes pursuant to GASB Statement No. 67 (“**GASB 67**”) which is applicable for fiscal years ending 2014 and later. GASB 67 replaces GASB 25 which is applicable for fiscal years ending prior to 2014.

Additionally, the Illinois State Auditing Act requires the Retirement Board to annually submit to the Auditor General the most recent audit and the Actuarial Valuation of the Retirement Plan by September 30. The Auditor General is required to examine the information submitted by the Retirement Board and submit a report to the Illinois General Assembly regarding the Retirement Plan (the “**Auditor General’s Report**”).

A description of the calculations performed by the Retirement Plan’s Actuary in the Actuarial Valuations follows below. This information was derived from the Source Information.

GASB, which is part of a private non-profit corporation known as the Financial Accounting Foundation, promulgates standards regarding accounting and financial reporting for governmental entities. These principles have no legal effect and do not impose any legal liability on the Authority. The references to GASB principles in this section do not suggest and should not be construed to suggest otherwise.

Actuaries and the Actuarial Process. GASB standards require disclosure of an “**Annual Required Contribution,**” which is the annual contribution amount that GASB standards would calculate is needed to fully fund the Retirement Plan over time. The Annual Required Contribution is a financial reporting requirement, but the Pension Code does not require contribution of the Annual Required Contribution level.

The Annual Required Contribution of the Retirement Plan consists of two components: (1) that portion of the present value of pension plan benefits which is allocated to the valuation year by the projected unit credit cost method (as described in “**Actuarial Methods – Actuarial Accrued Liability**” below), termed the “**Normal Cost**”; and (2) an amortized portion of any Unfunded Actuarial Accrued Liability.

In producing the Actuarial Valuations, the Retirement Plan’s Actuary uses demographic data (including employee age, salary and service credits), economic assumptions (including estimated future salary and interest rates), and decrement assumptions (including employee turnover, mortality and retirement rates) to calculate, as of the valuation date, the Normal Cost,

the Actuarial Accrued Liability, the Actuarial Value of Assets (defined below), and the actuarial present values for the Retirement Plan. The Retirement Plan's Actuary uses this data to determine the following fiscal year's Annual Required Contribution.

The Actuarial Accrued Liability is an estimate of the present value of the benefits the Retirement Plan must pay as a result of current and retired employees past employment with the Authority and participation in the Retirement Plan. The Actuarial Accrued Liability is calculated by use of a variety of demographic and other data (such as employee age, salary and service credits) and various assumptions (such as estimated salary increases, interest rates, employee turnover, retirement date and age, mortality and disability rates). The Actuarial Value of Assets reflects the value of the investments and other assets held by the Retirement Plan. Various methods exist for calculating the Actuarial Value of Assets and the Actuarial Accrued Liability. For a discussion of the methods and assumptions used to calculate the Retirement Plan's Actuarial Accrued Liability and Actuarial Value of Assets, see "**Actuarial Methods**" and "**Actuarial Assumptions**" below.

Any shortfall between the Actuarial Value of Assets and the Actuarial Accrued Liability is referred to as the "**Unfunded Actuarial Accrued Liability**" or "**UAAL.**" The UAAL represents the present value of benefits attributed to past service that are in excess of plan assets. In addition, the actuary will compute the "**Funded Ratio,**" which is the Actuarial Value of Assets divided by the Actuarial Accrued Liability, expressed as a percentage. The Funded Ratio and the UAAL provide one way of measuring the financial health of a pension plan. As described above, the Pension Code requires the Retirement Plan to maintain a Funded Ratio of 60% until 2039 and to achieve a Funded Ratio of 90% by 2059.

Authority's Contributions Not Related to GASB Standards. The Authority's contributions to the Retirement Plan are not based on the Annual Required Contribution calculated pursuant to the Actuarial Valuation. Instead, the Authority's contributions are based on the formulas and amounts established in the Pension Code, as described in "**Determination of Authority's Contributions**" above. The Retirement Plan's Actuary has recommended that the Retirement Board consider, as appropriate, moving towards a contribution of the Annual Required Contribution over the next several years. The contribution rates adopted by the Retirement Board pursuant to its ten-year plan are higher than the minimum required by the Pension Code. The Retirement Board anticipates an annual review of contribution rates during the ten-year period.

A comparison of the actual contributions and the Annual Required Contribution (as calculated by the Actuary) for the past ten fiscal years is shown under the heading "**Funded Status**" below. The Retirement Plan's Annual Required Contribution is equal to its Normal Cost plus an amortization of the Retirement Plan's UAAL over a 30-year period. The Retirement Plan amortizes the UAAL on a level dollar basis.

GASB Statements 67 and 68. In June, 2012, GASB issued GASB Statement No. 67 and GASB Statement No. 68 (together, the “**Statements**”), which promulgate new standards for employee pension accounting and financial reporting by state and local governments. The two new Statements replace some of the requirements of previous GASB statements (GASB Statements Nos. 25, 27 and 50) related to pension plans.

Some of the key changes imposed by the new Statements include: (1) requiring governments for the first time to recognize the difference between the total pension liability (i.e., the present value of projected benefit payments to employees based on their past service) and the assets (mostly investments reported at fair value) as a liability of the employer; (2) immediate recognition of annual service cost and interest on the pension liability and immediate recognition of the effect on the net pension liability of changes in benefit terms; (3) the effects on the net pension liability of differences between expected and actual investment returns will be recognized in pension expense over a closed 5-year period (previously 15-30-year period); (4) with respect to benefits not covered by projected plan assets, the use of a discount rate based on a yield or index rate on tax-exempt 20-year, AA-or-higher rated municipal bonds rather than the expected rate of return on plan investments; and (5) revising the presentation of pension liabilities in a government’s financial statements. The use of the new standards may produce a higher UAAL than one determined under the current principles. GASB Statement No. 67 became effective for pension plans in fiscal years beginning after June 15, 2013 and GASB Statement No. 68 became effective for pension plans in fiscal years beginning after June 15, 2014.

Actuarial Methods

The Retirement Plan’s Actuary employs a variety of actuarial methods to arrive at the Actuarial Value of Assets and the Actuarial Accrued Liability.

Actuarial Value of Assets. The Retirement Plan calculates its Actuarial Value of Assets by using the market value of assets. Prior to the Actuarial Valuation as of January 1, 2012, the Retirement Plan’s former Actuary, PricewaterhouseCoopers LLP, calculated the Actuarial Value of Assets under the “**Asset Smoothing Method,**” which smoothes investment gains and losses over a period of five years. Both the Asset Smoothing Method and the market value of assets methods are permitted under GASB rules. Under the Asset Smoothing Method, recognition of gains and losses is delayed, and therefore the Actuarial Value of Assets does not reflect the full impact of such gains or losses at the time of measurement. Use of the market value of assets in calculating the Actuarial Value of Assets has the advantage of better reflecting the true value of assets at the time of measurement. In the 2012 Actuarial Valuation, the Retirement Plan’s Actuary, Buck Consultants, LLC, stated that the market value approach also has the advantage of being the most readily understood by stakeholders.

The Retirement Plan’s financial statements for the year ended December 31, 2015 states that the Funded Ratio of the Retirement Plan decreased from 58.25% at December 31, 2014 to 53.3% at December 31, 2015. See “**Funded Status**” below.

Actuarial Accrued Liability. As the final step in the Actuarial Valuation, the Actuary applies a cost method to allocate the total value of benefits to past, present and future periods of

employee service. This allocation is accomplished by the development of the Actuarial Accrued Liability and the Normal Cost. Currently, the Retirement Plan uses projected unit credit cost method (the “**PUCC Method**”). The PUCC Method is a GASB-approved actuarial cost method. Under the PUCC Method, the Normal Cost is computed as the present value of the unit of benefit attributable to that year for each active plan member. Under this method, the Actuarial Accrued Liability equals the actuarial present value of that portion of a member’s projected benefit that is attributable to service to date, again, on the basis of future compensation projected to retirement.

The PUCC Method, as compared to the entry age normal method, which is another commonly used actuarial cost method, will produce a more back-loaded growth in liabilities because the PUCC Method allocates a higher portion of retirement costs closer to the time of retirement. Therefore, the PUCC Method results in a slower accumulation of assets, which in turn requires smaller initial, and larger future, contributions. Deferring contributions in this manner increases the cost of the liabilities and the associated financial risks for the Retirement Plan.

Actuarial Assumptions. The Actuarial Valuation of the Retirement Plan uses a variety of assumptions in order to calculate the Actuarial Accrued Liability and the Actuarial Value of Assets. The assumptions are based on past and anticipated future experience. No assurance can be given that any of the assumptions underlying the Actuarial Valuations will reflect the actual results experienced by the Retirement Plan. Variances between the assumptions and actual results may cause an increase or decrease in the Actuarial Value of Assets, the Actuarial Accrued Liability, the UAAL, the Funded Ratio or the Annual Required Contribution. Additional information on the Retirement Plan’s actuarial assumptions is available in the 2016 Actuarial Valuation. See “**Source Information**” above.

The actuarial assumptions used by the Retirement Plan are determined by the Retirement Board. The Retirement Plan periodically has an experience study performed to evaluate the actuarial assumptions in use. The purpose of an experience study is to validate that the actuarial assumptions used in the Actuarial Valuation continue to reasonably estimate the actual experience of a pension plan or, if necessary, to develop recommendations for modifications to the actuarial assumptions to ensure their continuing appropriateness. Traditionally, the Retirement Plan has commissioned an experience study once in every five year period. The Retirement Plan’s most recent experience study was based on the period from January 1, 2008 to December 31, 2013 and was first used with the 2014 Actuarial Valuation. In the 2016 Actuarial Valuation, the Actuary stated that the actuarial assumptions developed are, in the aggregate, reasonable. However, the Actuary indicated that the mortality tables currently in use and adopted by the Retirement Board provides for some future mortality improvements. The next experience study will cover the period from January 1, 2014 through December 31, 2019 and be used for the Actuarial Valuation as of January 1, 2020. Any changes in assumptions as a result of the experience study may have an effect on the Annual Required Contribution, Actuarial Accrued Liability, UAAL and Funded Ratio, as well as the Projections (as defined below) and such effects may be material.

Assumed Investment Rate of Return. As described under the heading “**Background Information Regarding the Retirement Plan – Investments**” above, the Actuarial Valuation assumes an investment rate of return on the assets of the Retirement Plan. The assumed

investment rate of return is used by the Retirement Plan's Actuary as the discount rate to determine the present value of future payments to the Retirement Plan's members. Such a determination is part of the Actuary's process to develop the Actuarial Accrued Liability. As described above, the Retirement Plan assumed an average long-term investment rate of return of 8.25% for the fiscal year ended December 31, 2015. There can be no assurance that the actual rate of return earned by the Retirement Plan on its assets in any year will not be lower than the assumed rate of return. As shown in the table under the heading "**Background Information Regarding the Retirement Plan – Investments**" above, actual investment rates of return have varied substantially over the previous ten years. Changes in the Retirement Plan's assets as a result of market performance will lead to an increase or decrease in the UAAL and the Funded Ratio.

The Retirement Plan's assumed rate of return has been reduced by the Retirement Board in recent years. The assumed investment rate of return was 8.50% prior to January 1, 2013, 8.75% prior to January 1, 2011 and was 9% prior to January 1, 2008. A reduction in the assumed investment rate of return, independent of other changes, produces a larger Actuarial Accrued Liability, which, independent of other changes, increases the UAAL, decreases the Funded Ratio and increases the Annual Required Contribution. Any future decreases in the Retirement Plan's assumed rate of return may increase the UAAL, decrease the Funded Ratio and increase the Annual Required Contribution, which may require the Authority to increase its contributions to the Retirement Plan under the Pension Code, which could put additional financial strain on the Authority.

Funded Status

UAAL and Funded Ratio. The fact that the contributions received from all sources by the Retirement Plan have historically been less than the Annual Required Contribution, in conjunction with other factors, has had the effect of increasing the Retirement Plan's UAAL over recent years.

According to the 2016 Actuarial Valuation, the Retirement Plan had a UAAL of approximately \$1.52 billion as of January 1, 2016. The 2016 Actuarial Valuation shows that the UAAL as of January 1, 2016 increased by approximately \$193.6 million from the UAAL as of January 1, 2015. The 2016 Actuarial Valuation states that Funded Ratio of the Retirement Plan decreased by 4.9% during this time.

The following Tables 3, 4, and 5, which were produced from information provided in the Financial Statements and the Actuarial Valuations of the Retirement Plan, summarize the current financial condition and the funding progress of the Retirement Plan.

TABLE 3
Annual Employer Contribution Status
(\$ in thousands)

Fiscal Year Ended December 31	Annual Required Contribution	Actual Employer Contribution	Actual Employee Contribution	Actual Total Contribution	Percentage of Annual Required Contribution Contributed
2006	\$194,926	\$ 23,931	\$11,971	\$ 35,902	18.4%
2007	198,457	25,038	12,549	37,587	18.9
2008 ⁽¹⁾	206,670	1,165,947	27,798	1,193,745	577.6
2009	118,717	41,448	25,666	67,114	56.5
2010	108,478	56,216	45,212	101,428	93.5
2011	123,158	60,318	47,169	107,487	87.3
2012	155,600	62,788	48,342	111,130	71.4
2013	157,594	79,518	56,792	136,310	86.5
2014	165,500	82,268	58,566	140,834	85.1
2015	178,861	82,800	58,993	141,793	79.3

Source: The Retirement Plan's audited financial statements for the years ended December 31, 2006 through 2015.

- (1) Includes in the Actual Employer Contribution the proceeds of the Authority's Pension and Retirement Debt Obligations. See "Determination of Authority's Contributions" above.

TABLE 4
Historical Funding Progress
(\$ in thousands)

Fiscal Year	Actuarial Accrued Liability	Actuarial Value of Assets	UAAL	Funded Ratio	Payroll	UAAL to Payroll
2006 ⁽¹⁾	\$2,466,106	\$1,007,305	\$1,458,801	40.8%	\$562,567	259.3
2007 ⁽²⁾	2,531,440	941,864	1,589,576	37.2	571,314	278.2
2008	2,632,356	1,995,953	636,403	75.8	594,139	107.1
2009	2,588,462	1,936,849	651,613	74.8	567,173	114.9
2010 ⁽³⁾	2,724,191	1,909,967	814,224	70.1	528,288	154.1
2011 ⁽⁴⁾	2,808,184	1,662,196	1,145,988	59.2	541,354	211.7
2012	2,867,335	1,702,789	1,164,546	59.4	548,515	212.3
2013 ⁽⁵⁾	3,105,567	1,892,714	1,212,853	60.9	550,616	220.3
2014	3,186,187	1,855,912	1,330,275	58.2	564,827	235.5
2015	3,267,121	1,743,216	1,523,904	53.3	573,548	265.7

Source: The Retirement Plan's audited financial statements for the years ended December 31, 2006 through 2015.

- (1) Effective January 1, 2007, retiree healthcare assets were marked to market value and disclosed under GASB 43. Previously, retiree health care assets were disclosed under GASB 25 and allocated in proportion to actuarial accrued liability.
- (2) Effective January 1, 2008, the assumed investment rate of return was changed from 9% to 8.75%.
- (3) Effective January 1, 2011, the assumed investment rate of return was changed from 8.75% to 8.50%.
- (4) Effective January 1, 2012, the actuarial value of assets was changed from being valued using the Asset Smoothing Method to using the market value method.
- (5) Effective January 1, 2013, the assumed investment rate of return was changed from 8.50% to 8.25%.

A variety of factors impact the Retirement Plan's UAAL and Funded Ratio. All other factors being equal, a lower return on investment than that assumed by the Retirement Plan's

Actuary, and insufficient contributions when compared to the Annual Required Contribution will cause an increase in the UAAL and a decrease in the Funded Ratio. Conversely, all other factors being equal, higher returns on investment than assumed, and contributions in excess of the Annual Required Contribution will decrease the UAAL and increase the Funded Ratio. In addition, legislative amendments, changes in actuarial assumptions and certain other factors (including, but not limited to, higher or lower incidences of retirement, disability, in-service mortality, retiree mortality or terminations than assumed) will have an impact on the UAAL and the Funded Ratio.

As stated in the Retirement Plan's Financial Statements for year ended December 31, 2015 (the "**2015 Financial Statements**"), the Funded Ratio decreased from fiscal year 2014 to fiscal year 2015 for a number of reasons, including market rate of returns of -0.2% compared to 8.25% assumed, payroll and salaries increased less than expected and demographic experience. The 2015 Financial Statements state that the decrease in the Funded Ratio from fiscal year 2013 to fiscal year 2014 was mainly caused by market rate of returns of 4.8% compared to 8.25% assumed, payroll and salaries increased slightly less than expected and demographic experience.

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TABLE 5
Statements of Changes in Fiduciary Net Positions
For years ended December 31
(\$ in thousands)

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Beginning Net Assets.....	\$1,130,350	\$1,061,114	\$977,357	\$1,743,266	\$1,716,317	\$1,794,742	\$1,662,196	\$1,702,789	\$1,892,714	\$1,855,912
Additions										
Net Investment income (loss) ..	91,704	78,585	(221,744)	113,250	197,317	(13,018)	168,193	299,510	78,661	8,230
Employer contributions	23,931	25,038	1,165,947	41,448	56,216	60,318	62,788	79,518	82,269	82,800
Employee contributions.....	11,971	12,549	27,797	25,666	45,212	47,169	48,342	56,792	58,566	58,993
Other income	-	-	-	-	-	4	-	-	-	-
Total Additions	\$ 127,606	\$ 116,172	\$ 972,000	\$ 180,364	\$ 298,745	\$ 94,473	\$ 279,323	\$ 435,820	\$ 219,496	\$ 150,023
Deductions										
Benefit payments	193,423	197,275	201,865	203,109	216,164	221,732	232,433	238,539	245,746	253,436
Contribution refunds, including interest	1,068	1,053	1,763	2,051	2,128	2,879	4,022	4,932	7,137	6,354
Administrative expenses.....	2,351	1,061	2,463	2,153	2,028	2,408	2,275	2,424	3,415	2,929
Total.....	\$ 196,842	\$ 199,929	\$ 206,091	\$ 207,313	\$ 220,320	\$ 227,019	\$ 238,730	\$ 245,895	\$ 256,298	\$ 262,719
Net Increase (Decrease).....	(69,236)	(83,757)	765,909	(26,949)	78,425	(132,546)	40,593	189,925	(36,802)	(112,696)
Ending Net Assets	<u>\$1,061,114</u>	<u>\$ 977,357</u>	<u>\$1,743,266</u>	<u>\$1,716,317</u>	<u>\$1,794,742</u>	<u>\$1,662,196</u>	<u>\$1,702,789</u>	<u>\$1,892,714</u>	<u>\$1,855,912</u>	<u>\$1,743,216</u>

Source: The Retirement Plan's audited financial statements for the years ended December 31, 2006 through 2015. Amounts in the table above may not sum due to rounding.

Note: Only amounts pertaining to the pension benefits under the Retirement Plan are shown in the table above. Changes to the Retirement Plan due to Public Act 94-839 and Public Act 95-708 effectively removed liability for retiree healthcare benefits from the Retirement Plan, effective January 1, 2009. See **"OTHER POST-EMPLOYMENT BENEFITS"** below.

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Projection of Funded Status. The following Table 6 contains projections regarding the funding of the Retirement Plan (the “**Projections**”) that are based upon numerous variables that are subject to change. The Projections are forward-looking statements regarding future events based on the Retirement Plan’s actuarial assumptions and assumptions made regarding such future events, including that there are no changes to the current legislative structure and that all projected contributions to the Retirement Plan are made as required. See “**Cautionary Statement**” above. The Projections also assume stable membership and assume that all actuarial assumptions described in the 2016 Actuarial Valuation are exactly realized each year. No representation or assurance can be given that these assumptions will be realized or that actual events will not cause material changes to the data presented in this subsection. Further, the benefits provided under the Retirement Plan and the minimum funding requirements of the Retirement Plan are established under the Pension Code, which statutory provisions are subject to change by the State legislature.

The Projections rely on information produced by the Retirement Plan’s Actuary and were not independently verified by the Authority as to their validity, accuracy or conformance to any acceptable accounting, actuarial or reporting standards. The Projections should not be relied upon as being necessarily indicative of future results, and readers of this Official Statement are cautioned not to place undue reliance on the Projections. Neither the Authority, the Authority’s independent auditors, nor any other independent accountants, have compiled, examined, or performed any procedures with respect to the prospective financial information contained in the Projections, nor have they expressed any opinion or any other form of assurance on such information or its achievability, and assume no responsibility for, and disclaim any association with, the Projections.

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The following table sets forth the projected funded status of the Retirement Plan based on the 2016 Actuarial Valuation.

TABLE 6
Projected Actuarial Results

Fiscal Year	Employee Contribution Percent	Employer Contribution Percent	Total Percent	Employee Contribution	Employer Contribution	Total Contribution	Actuarial Accrued Liability	Actuarial Value of Assets	Unfunded Actuarial Liabilities (UAAL)	Funded Ratio
2016	10.125%	14.250%	24.375%	\$ 58,008,052	\$ 81,640,96	\$139,649,014	\$3,267,120,637	\$1,743,216,432	\$1,523,904,205	53.36%
2017	11.962	17.925	29.887	70,709,254	105,952,378	176,661,632	3,329,136,870	1,759,244,400	1,569,892,470	52.84
2018	11.962	17.925	29.887	73,006,864	109,395,170	182,402,034	3,391,579,560	1,807,575,946	1,584,003,614	53.30
2019	11.962	17.925	29.887	75,643,822	113,346,449	188,990,271	3,453,780,079	1,858,818,966	1,594,961,113	53.82
2020	11.962	17.925	29.887	78,912,028	118,243,605	197,155,633	3,516,206,241	1,914,431,986	1,601,774,255	54.45
2021	11.962	17.925	29.887	82,288,534	123,303,039	205,591,573	3,578,856,068	1,976,139,981	1,602,716,087	55.22
2022	11.962	17.925	29.887	85,731,018	128,461,336	214,192,354	3,641,367,699	2,044,355,319	1,597,012,380	56.14
2023	11.962	17.925	29.887	89,377,663	133,925,554	223,303,217	3,703,737,648	2,119,746,977	1,583,990,671	57.23
2024	11.962	17.925	29.887	93,155,763	139,586,745	232,742,508	3,766,364,241	2,203,846,654	1,562,517,587	58.51
2025	11.962	17.925	29.887	97,069,565	145,451,276	242,520,841	3,829,085,838	2,297,451,498	1,531,634,340	60.00
2026	11.962	17.925	29.887	101,223,321	151,675,360	252,898,681	3,891,100,219	2,400,822,451	1,490,277,768	61.70
2027	11.962	17.925	29.887	105,584,072	158,209,610	263,793,682	3,952,727,276	2,515,754,040	1,436,973,236	63.65
2028	11.962	17.925	29.887	110,236,986	165,181,645	275,418,631	4,014,002,117	2,643,800,562	1,370,201,555	65.86
2029	11.962	17.925	29.887	115,096,227	172,462,844	287,559,071	4,075,621,596	2,787,401,021	1,288,220,575	68.39
2030	11.962	17.925	29.887	120,141,795	180,023,239	300,165,034	4,138,418,743	2,948,911,413	1,189,507,330	71.26
2031	11.962	17.925	29.887	125,378,071	187,869,396	313,247,467	4,204,010,080	3,131,155,081	1,072,854,999	74.48
2032	11.962	17.925	29.887	130,782,442	195,967,429	326,749,871	4,274,388,093	3,337,693,559	936,694,543	78.09
2033	11.962	17.925	29.887	136,272,349	204,193,632	340,465,981	4,350,962,236	3,571,554,500	779,407,736	82.09
2034	11.962	17.925	29.887	141,902,572	212,630,089	354,532,661	4,435,090,107	3,835,634,156	599,455,951	86.48
2035	11.962	17.925	29.887	147,528,547	221,060,180	368,588,727	4,527,830,865	4,133,135,167	394,695,698	91.28
2036	11.962	17.925	29.887	153,319,040	229,736,788	383,055,828	4,630,761,362	4,467,182,353	163,579,009	96.47
2037	11.962	17.925	29.887	159,203,521	238,554,230	397,757,751	4,745,265,145	4,841,514,396	(92,249,251)	102.03
2038	11.962	17.925	29.887	164,916,567	247,114,790	412,031,357	4,870,897,262	5,258,421,980	(387,524,718)	107.96
2039	11.962	17.925	29.887	170,766,179	255,879,984	426,646,163	5,007,795,263	5,719,901,524	(712,106,261)	114.22
2040	11.962	17.925	29.887	176,833,306	264,971,107	441,804,413	5,157,198,118	6,230,261,464	(1,073,063,346)	120.81

Source: The Retirement Plan's 2016 Actuarial Valuation, prepared by Buck Consultants, LLC.

As shown in Table 6 above, the Actuary is projecting that Funded Ratio of the Retirement Plan will reach 120.81% by 2040 based on current assumptions, which include the assumption that the Authority will make contributions to the Retirement Plan equal to 17.925% from 2017 to 2040, which is higher than the minimum required by the Pension Code. As discussed above, under the Pension Code, the Retirement Plan is required to be at least 60% funded by 2040 and at least 90% funded by 2060 (see “**Determination of Authority’s Contributions**” above).

Supplemental Pension Plans

As described under the heading “**General Overview**” above, in addition to the Retirement Plan, the Authority maintains three separate single-employer, defined benefit supplemental pension plans for a limited number of participants, and all three plans are currently closed to new participants. Information related to the Supplemental Pension Plans is presented in the Authority’s audited financial statements. This section summarizes the Supplemental Pension Plans based on the information in the Authority’s financial statements for the year ended December 31, 2016. The Supplemental Pension Plans do not issue separate stand-alone financial reports. Additional information related to the Supplemental Pension Plans is available in the Authority’s audited financial statements. See “**Sources of Information**” above.

The Supplemental Pension Plans provide benefits to employees of the Authority in certain employment classifications. Employees of the applicable employment classifications are eligible for retirement benefits under the Supplemental Pension Plans based on age and years of service. Except in limited circumstances, as further described in the Authority’s audited financial statements, participants in the Supplemental Pension Plans are not required to contribute to the Supplemental Pension Plans.

The following Table 7 shows the membership in the Supplemental Pension Plans as of January 1, 2017:

TABLE 7
Membership of Supplemental Pension Plans

Supplemental Pension Plan	Active Members	Inactive Members Not Yet Receiving Benefits	Retirees and Beneficiaries	Totals
Open	9	11	125	145
Closed	-	8	354	362
Board	2	4	19	25
Total	<u>11</u>	<u>23</u>	<u>498</u>	<u>532</u>

Source: Financial Statements of the Authority for the year ended December 31, 2016.

The Authority currently funds the Open Supplemental Pension Plan at the amount of the Annual Required Contribution. The Authority currently funds the Closed Pension Plan and Board Pension Plan based on paying into the respective plans an amount equal to the amount of benefits to be paid to retirees in a given year on a “pay-as-you-go” basis.

The following table shows the Annual Required Contribution and actual Authority contribution levels for the Supplemental Pension Plans for the years ended December 31, 2013 through 2016:

TABLE 8
Annual Employer Contribution
(\$ in thousands)

Pension Plan	Year Ended December 31	Annual Required Contribution	Actual Employer Contribution
Open	2013	\$1,926	\$1,927
	2014	1,130	1,130
	2015	1,164	1,164
	2016	1,380	1,380
Closed	2013	4,295	3,114
	2014	4,595	3,023
	2015	2,678	2,683
	2016	2,571	2,617
Board	2013	331	338
	2014	324	333
	2015	379	328
	2016	323	327

Source: Financial Statements of the Authority for the years ended December 31, 2015 and 2016.

For additional information regarding the funding status of the Supplemental Plans please refer to pages 87-88 of the Authority’s Financial Statements for the years ended December 31, 2016 and 2015.

Retiree Health Care Trust

As discussed in “**General Overview**” above, prior to 2009, retiree healthcare benefits were included as part of the Retirement Plan. The 2006 Pension Reform required the Authority to separate the funding of retiree healthcare benefits from the funding of its pension system by no later than January 1, 2009. The 2008 Pension Reform provided for the establishment of the RHCT, which is solely responsible for providing health care benefits to eligible Authority retirees and their dependents and survivors. The RHCT is established and administered under Section 22-101B of the Illinois Pension Code (40 ILCS 5/22-101B).

As discussed above, on August 6, 2008, the Authority issued the Pension Bonds and used \$528.8 million of the proceeds to fund the RHCT. Under the Pension Code, the RHCT was required to assume financial responsibility for health care benefits of retirees (and the dependents and survivors of retirees) no later than July 1, 2009. Further, the Pension Code provides that, after the issuance of the Pension Bonds, the Authority has no further obligation to provide or fund health care benefits for current or future retirees, dependents and survivors. As noted in General Overview above, Authority employees are required to contribute three percent of their compensation to the RHCT. The most recent Actuarial Valuation Report dated January 1, 2016

and Financial Statements for the RHCT dated December 31, 2015 show a Funded Ratio well exceeding 100% for each of the past three years. Due to the Authority having no financial obligation to the RHCT under the Pension Code, no additional information is presented in this Official Statement regarding the RHCT. See, however, “**Cautionary Statement**” above, regarding possible future changes in legislation affecting the Pension Code.

Other Post-Employment Benefits

Certain participants in the Supplemental Pension Plans may not be eligible for healthcare coverage under the RHCT upon retirement. Such participants may be eligible to participate in a healthcare plan administered and funded by the Authority (the “**OPEB Plan**”). The paragraphs below detail the benefits, funding history and funded status of the OPEB Plan.

Benefits under the OPEB Plan are available for certain participants in the Supplemental Pension Plans with bridged service or service purchased through the Authority’s Voluntary Termination Program who are not yet, or might not be, eligible for healthcare benefits under the RHCT. Benefits under the OPEB Plan cease once the member becomes eligible for coverage under the RHCT or may continue, depending on the amount of service by the participant, for members who do not become eligible for benefits under RHCT. Members of the Chicago Transit Board are eligible for benefits under the OPEB Plan after five years of service. OPEB Plan benefits are administered through the Authority’s healthcare program for employees and, as such, funds the OPEB Plan on a self-insured “pay-as-you-go” basis. As of January 1, 2016, the OPEB Plan was not funded, resulting in a UAAL of \$12.1 million and no Funded Ratio.

Information related to the OPEB Plan is presented in the Authority’s audited financial statements. The OPEB Plan does not issue separate stand-alone financial reports. This section summarizes the OPEB Plan based on the information in the Authority’s audited financial statements for the year ended December 31, 2016. Additional information related to the OPEB Plan is available in the Authority’s audited financial statements. See “**Sources of Information**” above.

The following Table 10 shows the actuarially determined Annual Required Contribution and actual Authority contribution levels for the OPEB Plan for the years ended December 31, 2014 through 2016:

TABLE 9
Annual Employer Contribution
(\$ in thousands)

Year Ended December 31	Annual Required Contribution	Actual Employer Contribution
2014	\$1,061	\$802
2015	1,138	521
2016	1,101	450

Source: Financial Statements of the Authority for the years ended December 31, 2015 and 2014 and for the years ended December 31, 2016 and 2015.

Litigation, Investigations and Labor Relations

Litigation. In 2013, the Retirement Plan filed a claim against the Authority in the Chancery Division of the Circuit Court of Cook County, Illinois, seeking an accounting and damages of approximately \$8 million. (*Retirement Plan for Chicago Transit Authority Employees v. The Chicago Transit Authority*, Case No. 13 CH 14414). The Retirement Plan claims that, for a period of time prior to the establishment of the RHCT, the Authority administered the prescription drug program for retirees and that the Authority billed the Retirement Plan for the costs of the drugs but did not share in rebates from the prescription drug providers. The Retirement Plan also claims that, during the same period of time, the Authority erroneously charged the Retirement Plan for the health care costs of certain active employees. On November 2, 2013, the Authority filed a motion to dismiss the complaint. On February 27, 2014 the Authority's motion to dismiss was denied. On April 23, 2014 the Authority filed its affirmative defense and counterclaims. The Authority filed a motion for summary judgment in June 2016. The motion for summary judgment was granted in part. The total value of the Retirement Plan's remaining claims is now less than \$2 million.

Health Care Benefits. Prior to 2008, retiree health care benefits were administered by the Retirement Plan pursuant to collective bargaining agreements (“CBAs”) between the Authority and the labor unions representing Authority employees (“Unions”). In 2007, the Authority and its Unions agreed as part of an interest arbitration award (the “2007 CBA”) that the responsibility for retiree health care benefits would be transferred to a separate and newly-created Retiree Health Care Trust. This agreement was codified in 2008 amendments to the Pension Code. As required by the parties' agreement, the Authority contributed \$529.0 million in seed money to the RHCT from proceeds of the Pension Bonds, and the parties to the 2007 CBA confirmed that the obligation of the Authority and the Retirement Plan to provide or fund retiree health care benefits was terminated. Thereafter, the RHCT required subsidy of healthcare premiums from retirees. In *Matthews et al. v. Chicago Transit Authority et al.*, 11 CH 15446 (2014), a group of retirees and Authority employees claimed that, due to changes in retiree healthcare arising under the 2007 CBA, the Authority, the Retirement Plan and the RHCT breached certain contractual and constitutional obligations to provide retiree healthcare benefits. In May 2015, the parties argued all issues in the case before the Illinois Supreme Court, which issued its opinion on May 5, 2016. The Court held that Class I retirees (hired before September 5, 2001 and retired before January 1, 2007) have standing to challenge the enforceability of the 2007 CBA as it relates to retiree healthcare benefits but that Class II Authority employees who were hired before September 5, 2001 and retired after January 1, 2007 (or remain as current employees of the Authority) lacked standing to challenge the enforceability of those provisions of the 2007 CBA. The Court dismissed any remaining claims against the Authority, while the claims against the Retirement Plan and RHCT were remanded to the Circuit Court for further proceedings. Any judgment against the RHCT would have no impact against the Authority. A judgment against the Retirement Plan could have an impact on the Authority if the judgment causes the Retirement Plan's assets to fall below the statutorily required funded ratio because the Authority and its employees could be required under the Pension Code to increase their contributions to the Retirement Plan to address such a shortfall. See “—**Background Information Regarding the Retirement Plan—Determination of Authority's Contributions.**”

Investigations. There are currently no known material investigations involving the Retirement Plan or the RHTC. Routine audits are in process.

Labor Relations. There are currently no known labor relations matters that would impact the Retirement Plan or the RHCT.

APPENDIX F

PROPOSED FORMS OF OPINIONS OF BOND COUNSEL

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The Chicago Transit Board of the Chicago Transit Authority
Chicago, Illinois

Amalgamated Bank of Chicago
Chicago, Illinois

Re: \$90,540,000 Chicago Transit Authority Capital Grant Receipts Revenue Bonds, Refunding Series 2017 (Federal Transit Administration Section 5307 Urbanized Area Formula Funds)

Ladies and Gentlemen:

We have examined a record of proceedings relating to the issuance of \$90,540,000 aggregate principal amount of Capital Grant Receipts Revenue Bonds, Refunding Series 2017 (Federal Transit Administration Section 5307 Urbanized Area Formula Funds) (the “Bonds”) of the Chicago Transit Authority, a political subdivision, body politic and municipal corporation of the State of Illinois (the “Authority”) duly organized and existing under the Metropolitan Transit Authority Act, 70 Illinois Compiled Statutes 3605 (the “Act”). The Bonds are authorized and issued under and pursuant to the Act and the Local Government Debt Reform Act, 30 Illinois Compiled Statutes 350, and by virtue of Ordinance Number 017-47 adopted by the Chicago Transit Board on June 14, 2017 (the “Bond Ordinance”). The Bonds are issued and secured under the Trust Indenture dated as of November 1, 2004 (the “Indenture”) by and between the Authority and Amalgamated Bank of Chicago, as trustee (the “Trustee”), as supplemented by the Sixth Supplemental Indenture dated as of July 1, 2017 (the “Sixth Supplemental Indenture”) by and between the Authority and the Trustee. The Bonds are a Series of Refunding Bonds and Parity Obligations under the Indenture.

The Bonds are dated _____, 2017 and bear interest from their date payable on December 1, 2017 and semiannually thereafter on each June 1 and December 1. The Bonds mature on June 1 in each of the following years in the respective principal amount set opposite each such year in the following table and bear interest at the respective rate of interest per annum set forth opposite such principal amount:

Year	Principal Amount	Interest Rate
2022	\$16,385,000	5.00%
2023	17,205,000	5.00
2024	18,065,000	5.00
2025	18,970,000	5.00
2026	19,915,000	5.00

The Bonds are payable from the Authority’s share of Section 5307 Urbanized Area Formula funds (“Section 5307 Funds”) to be received by the Authority from the United States of America, acting through the Department of Transportation, Federal Transit Administration (the “Grant Receipts”) pursuant to 49 United States Code Section 5307. The payment of Section 5307 Funds is not a contractual obligation of the United States of America and the

eligibility of the Authority to receive Section 5307 Funds for the payment of the Bonds is subject to the Authority's continuing compliance with the provisions of 49 United States Code Section 5307 and applicable regulations of the Federal Transit Administration. We express no opinion as to the rights or remedies of the Authority with respect to the payment of Section 5307 Funds.

Pursuant to the Indenture, the Authority has previously issued bonds (the "Outstanding Bonds") that are Parity Obligations. The Bonds, the Outstanding Bonds and all other Parity Obligations hereafter issued or incurred under the Indenture shall be entitled equally to the benefits and security of the Indenture, including the pledge of Grant Receipts and other moneys and securities herein mentioned.

The Act provides that the Bonds are not, and shall not be or become, an indebtedness or obligation of the State of Illinois or any political subdivision of the State (other than the Authority) or of any municipality within the State, nor shall any Bond be or become an indebtedness of the Authority within the purview of any constitutional limitation or provision.

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

1. The Authority has all requisite power and authority under the Constitution and the laws of the State of Illinois to adopt the Bond Ordinance, to enter into the Indenture and the Sixth Supplemental Indenture, to issue the Bonds thereunder, and to perform all of its obligations under the Bond Ordinance, the Indenture and the Sixth Supplemental Indenture in those respects.
2. The Bond Ordinance has been duly adopted by the Chicago Transit Board and is in full force and effect.
3. The Indenture and the Sixth Supplemental Indenture have been duly authorized, executed and delivered by the Authority and constitute valid and binding contractual obligations of the Authority enforceable in accordance with their terms.
4. The Bonds have been duly authorized and issued, are the legal, valid and binding limited obligations of the Authority, are entitled to the benefits and security of the Indenture and the Sixth Supplemental Indenture, and are enforceable in accordance with their terms.
5. The Bonds are payable solely from Grant Receipts and other moneys and securities pledged therefor under the Indenture and the Sixth Supplemental Indenture. The Indenture and the Sixth Supplemental Indenture create a valid pledge of the Grant Receipts and other moneys and securities held thereunder for the benefit and security of the Bonds, subject to application thereof in the manner provided in the Indenture and the Sixth Supplemental Indenture.
6. Under existing law and assuming continuing compliance with certain covenants made by the Authority to satisfy pertinent requirements of the Internal Revenue Code of

1986, as amended (the “Code”), interest on the Bonds (i) is excluded from the gross income of the owners thereof for federal income tax purposes and (ii) will not be treated as a specific item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. However, interest on the Bonds is includable in corporate earnings and profits and therefore must be taken into account when computing, for example, corporate alternative minimum taxable income for purposes of the corporate alternative minimum tax. Failure by the Authority to comply with such covenants could cause the interest on the Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds. Ownership of the Bonds may also result in collateral federal income tax consequences to certain taxpayers, and we express no opinion regarding any such collateral tax consequences arising with respect to the Bonds. In rendering this opinion, we have relied upon and assume the correctness of certain representations and certifications of the Authority with respect to certain material facts solely within the Authority’s knowledge relating to the property financed or refinanced with the proceeds of the Bonds and the application of the proceeds of the Bonds.

7. Interest on the Bonds is not exempt from Illinois income taxes.

In rendering the foregoing opinion, we advise you that the enforceability (but not the validity or binding effect) of the Bonds, the Indenture and the Sixth Supplemental Indenture (i) may be limited by any applicable bankruptcy, insolvency or other laws affecting the rights or remedies of creditors now or hereafter in effect and (ii) is subject to principles of equity in the event that equitable remedies are sought, either in an action at law or in equity.

Respectfully submitted,

The Chicago Transit Board of the Chicago Transit
Authority
Chicago, Illinois

Amalgamated Bank of Chicago
Chicago, Illinois

Re: \$135,255,000 Chicago Transit Authority Capital
Grant Receipts Revenue Bonds, Refunding Series
2017 (Federal Transit Administration Section 5337
State of Good Repair Formula Funds)

Ladies and Gentlemen:

We have examined a record of proceedings relating to the issuance of \$135,255,000 aggregate principal amount of Capital Grant Receipts Revenue Bonds, Refunding Series 2017 (Federal Transit Administration Section 5337 State of Good Repair Formula Funds) (the “Bonds”) of the Chicago Transit Authority, a political subdivision, body politic and municipal corporation of the State of Illinois (the “Authority”) duly organized and existing under the Metropolitan Transit Authority Act, 70 Illinois Compiled Statutes 3605 (the “Act”). The Bonds are authorized and issued under and pursuant to the Act and the Local Government Debt Reform Act, 30 Illinois Compiled Statutes 350, and by virtue of Ordinance Number 017-47 adopted by the Chicago Transit Board on June 14, 2017 (the “Bond Ordinance”). The Bonds are issued and secured under the Trust Indenture dated as of April 1, 2008 (the “Indenture”) by and between the Authority and Amalgamated Bank of Chicago, as trustee (the “Trustee”), as supplemented by the Fifth Supplemental Indenture dated as of July 1, 2017 (the “Fifth Supplemental Indenture”) by and between the Authority and the Trustee. The Bonds are a Series of Refunding Bonds and Parity Obligations under the Indenture.

The Bonds are dated _____, 2017 and bear interest from their date payable on December 1, 2017 and semiannually thereafter on each June 1 and December 1. The Bonds mature on June 1 in each of the following years in the respective principal amount set opposite each such year in the following table and bear interest at the respective rate of interest per annum set forth opposite such principal amount:

Year	Principal Amount	Interest Rate
2018	\$ 975,000	2.00%
2019	18,670,000	4.00
2020	19,415,000	5.00
2021	20,385,000	5.00
2022	21,405,000	5.00
2023	22,475,000	5.00
2024	10,130,000	5.00
2025	10,635,000	5.00
2026	11,165,000	5.00

The Bonds are payable from the Authority's share of Section 5337 State of Good Repair Formula Funds ("Section 5337 Funds") to be received by the Authority from the United States of America, acting through the Department of Transportation, Federal Transit Administration (the "Grant Receipts") pursuant to 49 United States Code Section 5337. The payment of Section 5337 Funds is not a contractual obligation of the United States of America and the eligibility of the Authority to receive Section 5337 Funds for the payment of the Bonds is subject to the Authority's continuing compliance with the provisions of 49 United States Code Section 5337 and applicable regulations of the Federal Transit Administration. We express no opinion as to the rights or remedies of the Authority with respect to the payment of Section 5337 Funds.

Pursuant to the Indenture, the Authority has previously issued bonds (the "Outstanding Bonds") that are Parity Obligations. The Bonds, the Outstanding Bonds and all other Parity Obligations hereafter issued or incurred under the Indenture shall be entitled equally to the benefits and security of the Indenture, including the pledge of Grant Receipts and other moneys and securities herein mentioned.

The Act provides that the Bonds are not, and shall not be or become, an indebtedness or obligation of the State of Illinois or any political subdivision of the State (other than the Authority) or of any municipality within the State, nor shall any Bond be or become an indebtedness of the Authority within the purview of any constitutional limitation or provision.

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

1. The Authority has all requisite power and authority under the Constitution and the laws of the State of Illinois to adopt the Bond Ordinance, to enter into the Indenture and the Fifth Supplemental Indenture, to issue the Bonds thereunder, and to perform all of its obligations under the Bond Ordinance, the Indenture and the Fifth Supplemental Indenture in those respects.
2. The Bond Ordinance has been duly adopted by the Chicago Transit Board and is in full force and effect.
3. The Indenture and the Fifth Supplemental Indenture have been duly authorized, executed and delivered by the Authority and constitute valid and binding contractual obligations of the Authority enforceable in accordance with their terms.
4. The Bonds have been duly authorized and issued, are the legal, valid and binding limited obligations of the Authority, are entitled to the benefits and security of the Indenture and the Fifth Supplemental Indenture, and are enforceable in accordance with their terms.
5. The Bonds are payable solely from Grant Receipts and other moneys and securities pledged therefor under the Indenture and the Fifth Supplemental Indenture. The Indenture and the Fifth Supplemental Indenture create a valid pledge of the Grant Receipts and other moneys and securities held thereunder for the benefit and security of the Bonds, subject to application thereof in the manner provided in the Indenture and the Fifth Supplemental Indenture.

6. Under existing law and assuming continuing compliance with certain covenants made by the Authority to satisfy pertinent requirements of the Internal Revenue Code of 1986, as amended (the "Code"), interest on the Bonds (i) is excluded from the gross income of the owners thereof for federal income tax purposes and (ii) will not be treated as a specific item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. However, interest on the Bonds is includable in corporate earnings and profits and therefore must be taken into account when computing, for example, corporate alternative minimum taxable income for purposes of the corporate alternative minimum tax. Failure by the Authority to comply with such covenants could cause the interest on the Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds. Ownership of the Bonds may also result in collateral federal income tax consequences to certain taxpayers, and we express no opinion regarding any such collateral tax consequences arising with respect to the Bonds. In rendering this opinion, we have relied upon and assume the correctness of certain representations and certifications of the Authority with respect to certain material facts solely within the Authority's knowledge relating to the property financed or refinanced with the proceeds of the Bonds and the application of the proceeds of the Bonds.
7. Interest on the Bonds is not exempt from Illinois income taxes.

In rendering the foregoing opinion, we advise you that the enforceability (but not the validity or binding effect) of the Bonds, the Indenture and the Fifth Supplemental Indenture (i) may be limited by any applicable bankruptcy, insolvency or other laws affecting the rights or remedies of creditors now or hereafter in effect and (ii) is subject to principles of equity in the event that equitable remedies are sought, either in an action at law or in equity.

Respectfully submitted,

APPENDIX G

FORM OF CONTINUING DISCLOSURE UNDERTAKING

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CONTINUING DISCLOSURE UNDERTAKING

This Continuing Disclosure Undertaking (the “**Agreement**”) is executed and delivered by the Chicago Transit Authority, a political subdivision, body politic and municipal corporation of the State of Illinois (the “**Authority**”), in connection with the issuance by the Authority of \$90,540,000 aggregate principal amount of Capital Grant Receipts Revenue Bonds, Refunding Series 2017 (Federal Transit Administration Section 5307 Urbanized Area Formula Funds) (the “**Series 2017 5307 Bonds**”) and \$135,255,000 aggregate principal amount of Capital Grant Receipts Revenue Bonds, Refunding Series 2017 (Federal Transit Administration Section 5337 State of Good Repair Formula Funds) (the “**Series 2017 5337 Bonds**” and, collectively with the Series 2017 5307 Bonds, the “**Series 2017 Bonds**”). The Series 2017 Bonds are being issued pursuant to the laws of the State of Illinois, including the Metropolitan Transit Authority Act (70 ILCS 3605) and the Local Government Debt Reform Act (30 ILCS 350). The Series 2017 Bonds are authorized by an ordinance adopted by the Chicago Transit Board of the Authority on June 14, 2017. The Series 2017 5307 Bonds are being issued pursuant to the Trust Indenture dated as of November 1, 2004 (the “**5307 Master Trust Indenture**”), between the Authority and Amalgamated Bank of Chicago, Chicago, Illinois, as trustee (the “**5307 Trustee**”), as heretofore supplemented and as further supplemented by the Sixth Supplemental Indenture, dated as of July 1, 2017 (the “**Sixth Supplemental Indenture**” and, together with the 5307 Master Trust Indenture as heretofore supplemented, the “**5307 Indenture**”) between the Authority and the 5307 Trustee. The Series 2017 5337 Bonds are being issued pursuant to the Trust Indenture dated as of April 1, 2008 (the “**5337 Master Trust Indenture**”), between the Authority and Amalgamated Bank of Chicago, Chicago, Illinois, as trustee (the “**5337 Trustee**” and, together with the 5307 Trustee, the “**Trustee**”), as heretofore supplemented and as further supplemented by the Fifth Supplemental Indenture dated as of July 1, 2017 (the “**Fifth Supplemental Indenture**” and, together with the 5337 Master Trust Indenture as heretofore supplemented, the “**5337 Indenture**” and, together with the 5307 Indenture, the “**Indentures**”) between the Authority and the 5337 Trustee.

In consideration of the issuance of the Series 2017 Bonds by the Authority and the purchase of such Series 2017 Bonds by the beneficial owners thereof, the Authority covenants and agrees as follows:

1. **PURPOSE OF THIS AGREEMENT.** This Agreement is executed and delivered by the Authority as of the date set forth below, for the benefit of the beneficial owners of the Series 2017 Bonds and in order to assist the Participating Underwriters in complying with the requirements of the Rule (as defined below). The Authority represents that it will be the only obligated person with respect to the Series 2017 Bonds at the time the Series 2017 Bonds are delivered to the Participating Underwriters and that no other person is expected to become so committed at any time after the issuance of the Series 2017 Bonds.

2. **DEFINITIONS.** The terms set forth below shall have the following meanings in this Agreement, unless the context clearly otherwise requires.

Annual Financial Information means the financial information and operating data described in **Exhibit I**.

Annual Financial Information Disclosure means the dissemination of disclosure concerning Annual Financial Information and the dissemination of the Audited Financial Statements as set forth in **Section 4**.

Audited Financial Statements means the audited financial statements of the Authority prepared pursuant to the standards and as described in **Exhibit I**.

Bondholder means any registered owner of any of the Series 2017 Bonds and any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any of the Series 2017 Bonds (including persons holding Series 2017 Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any of the Series 2017 Bonds for federal income tax purposes.

Commission means the Securities and Exchange Commission.

Dissemination Agent shall mean any dissemination agent designated in writing by the Authority and that has filed with the Trustee a written acceptance of such designation.

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

Event means one of the sixteen events with respect to the Series 2017 Bonds set forth in Exhibit II.

Exchange Act means the Securities Exchange Act of 1934, as amended.

MSRB means the Municipal Securities Rulemaking Board.

Participating Underwriters means each broker, dealer or municipal securities dealer acting as an underwriter in the primary offering of the Series 2017 Bonds.

Rule means Rule 15c2-12 adopted by the Commission under the Exchange Act, as the same may be amended from time to time.

Significant Event means the occurrence of any of Events 1 through 10 and the occurrences of any of Events 11 through 16 that is material, as materiality is interpreted under the Exchange Act.

Significant Events Disclosure means dissemination of a notice of a Significant Event as set forth in **Section 5**.

Undertaking means the obligations of the Authority pursuant to **Sections 4 and 5**.

3. **CUSIP NUMBERS/FINAL OFFICIAL STATEMENT.** The CUSIP numbers of the Series 2017 Bonds are as set forth in **Exhibit III** hereto.

4. **ANNUAL FINANCIAL INFORMATION DISCLOSURE.** The Authority hereby covenants that it will disseminate its Annual Financial Information and Audited Financial

Statements (in the form and by the dates set forth in **Exhibit I**) to EMMA, if any. The Authority is required to deliver such information in such manner and by such time so that such entities receive the information by the dates specified in **Exhibit I**.

If any part of the Annual Financial Information can no longer be generated because the operations to which it is related have been materially changed or discontinued, the Authority will provide a statement to such effect as part of its Annual Financial Information for the year in which such event first occurs.

If any amendment is made to this Agreement, the Annual Financial Information for the year in which such amendment is made (or in any notice or supplement provided to EMMA) shall contain a narrative description of the reasons for such amendment and its impact on the type of information being provided.

5. EVENTS NOTIFICATION; SIGNIFICANT EVENTS DISCLOSURE. Subject to **Section 9** of this Agreement, the Authority covenants that it will disseminate Significant Events Disclosure to the MSRB within ten (10) business days after the occurrence of the event giving rise to the requirement to file. Notwithstanding the foregoing, notice of optional or unscheduled redemption of any Series 2017 Bonds or defeasance of any Series 2017 Bonds need not be given under this Agreement any earlier than the notice (if any) of such redemption or defeasance is given to the Bondholders pursuant to the Indentures.

6. DUTY TO UPDATE MSRB OR OTHER ENTITIES. The Authority shall determine, in the manner it deems appropriate, the names and addresses of the MSRB each time it is required to file information with the MSRB.

7. CONSEQUENCES OF FAILURE OF THE AUTHORITY TO PROVIDE INFORMATION. The Authority shall give notice in a timely manner to EMMA of any failure to provide disclosure of Annual Financial Information and Audited Financial Statements when the same are due hereunder.

In the event of a failure of the Authority to comply with any provision of this Agreement, the beneficial owner of any Series 2017 Bond may seek mandamus or specific performance by court order, to cause the Authority to comply with its obligations under this Agreement. Any such action to enforce any provision of this Agreement shall be commenced in the Circuit Court of Cook County, Illinois. A default under this Agreement shall not be deemed an Event of Default under the Indentures, and the sole remedy under this Agreement in the event of any failure of the Authority to comply with this Agreement shall be an action to compel performance.

8. AMENDMENTS; WAIVER. Notwithstanding any other provision of this Agreement, the Authority may amend this Agreement, and any provision of this Agreement may be waived, if:

- (a) The amendment or waiver is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the Authority, or type of business conducted;

(b) This Agreement, as amended, or the provision, as waived, would have complied with the requirements of the Rule at the time of the primary offering, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver does not materially impair the interests of the beneficial owners of the Series 2017 Bonds, as determined either by parties unaffiliated with the Authority (such as the Trustee or nationally recognized bond counsel), or by an approving vote of Bondholders pursuant to the terms of the Indentures at the time of the amendment.

9. **TERMINATION OF UNDERTAKING.** The Undertaking of the Authority shall be terminated hereunder with respect to the Series 2017 Bonds if the Authority shall no longer have any legal liability for any obligation on or relating to repayment of such series of the Series 2017 Bonds under the Indentures. If this Section is applicable, the Authority shall give notice in a timely manner to EMMA.

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

11. **ADDITIONAL INFORMATION.** Nothing in this Agreement shall be deemed to prevent the Authority from providing any other information, using the means of dissemination set forth in this Agreement or any other means of communication, or including any other information in any Annual Financial Information or Audited Financial Statements or notice of occurrence of a Significant Event, in addition to that which is required by this Agreement. If the Authority chooses to include any information from any document or notice of occurrence of a Significant Event in addition to that which is specifically required by this Agreement, the Authority shall have no obligation under this Agreement to update such information or include it in any future disclosure or notice of occurrence of a Significant Event.

12. **BENEFICIARIES.** This Agreement has been executed in order to assist the Participating Underwriters in complying with the Rule; however, this Agreement shall inure solely to the benefit of the Authority, the Dissemination Agent, if any, and the beneficial owners of the Series 2017 Bonds, and shall create no rights in any other person or entity.

13. **RECORDKEEPING.** The Authority shall maintain records of all Annual Financial Information Disclosure and Significant Events Disclosure including the content of such disclosure, the names of the entities with whom such disclosure was filed and the date of filing such disclosure.

14. **DISSEMINATION AGENT.** The Authority may, from time to time, appoint or engage a Dissemination Agent to assist in carrying out its obligations under this Agreement, and

may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. If at any time there is not any other designated Dissemination Agent, the Authority shall be the Dissemination Agent. As of the date of this Agreement, the Authority has not designated a Dissemination Agent.

15. **ASSIGNMENT.** The Authority shall not transfer its obligations under the Indentures unless the transferee agrees to assume all obligations of the Authority under this Agreement or to execute an Undertaking under the Rule.

16. **GOVERNING LAW.** This Agreement shall be governed by the laws of the State of Illinois.

CHICAGO TRANSIT AUTHORITY

By _____
Name: _____
Title: _____

Date: _____, 2017

Exhibit I

ANNUAL FINANCIAL INFORMATION AND TIMING AND AUDITED FINANCIAL STATEMENTS

“**Annual Financial Information**” means financial information as set forth below. All or a portion of the Annual Financial Information and the Audited Financial Statements as set forth below may be included by reference to other documents, including other official statements (subject to the following sentence), which have been submitted to EMMA or filed with the SEC. If the information included by reference is contained in a final official statement, the final official statement shall have been submitted by the Authority to EMMA. The Authority shall clearly identify each such item of information included by reference.

1. Annual Financial Information:

(a) The information detailing the annual Formula Funds apportioned to Chicago, Illinois, Northwestern Indiana Urbanized Area Allocated to Illinois for further allocation by RTA and allocated to the Authority appearing in the tables in the Final Official Statement entitled as follows:

- “**Section 5307 Formula Funds Apportioned to Chicago, Illinois – Northwestern Indiana Urbanized Area Allocated to Illinois for Further Allocation by RTA**”
- “**Section 5309/5337 Formula Funds Apportioned to Chicago, Illinois - Northwestern Indiana Urbanized Area Allocated to Illinois for Further Allocation by RTA**”

(b) Annual Financial Information will be provided to EMMA not more than 210 days after the end of each Fiscal Year (as defined in the Indentures). Audited Financial Statements are expected to be filed as part of the Annual Financial Information on the schedule described in this Part 1. If Audited Financial Statements are not available to be filed as part of the Annual Financial Information at the time the Annual Financial Information is required to be filed, the Annual Financial Information shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement relating to the Series 2017 Bonds, and the Audited Financial Statements shall be filed in the same manner as the Annual Financial Information promptly after they become available.

2. Audited Financial Statements:

(a) Audited Financial Statements means:

Annual audited financial statements of the Authority prepared in accordance with the requirements of the Indentures.

(b) Audited Financial Statements shall be provided to EMMA as described in Part 1(b) above.

Exhibit II

EVENTS FOR WHICH SIGNIFICANT EVENTS DISCLOSURE IS REQUIRED

Upon the occurrence of any of the following Events with respect to the Series 2017 Bonds, the Authority shall report the Event to the MSRB:

- 1) principal and interest payment delinquencies;
- 2) unscheduled draws on debt service reserves reflecting financial difficulties;
- 3) unscheduled draws on credit enhancements reflecting financial difficulties;
- 4) substitution of credit or liquidity providers or their failure to perform;
- 5) adverse tax opinions or events affecting the tax-exempt status of the Series 2017 Bonds;
- 6) defeasances;
- 7) rating changes;
- 8) the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Series 2017 Bonds, or other material events affecting the tax status of the Series 2017 Bonds;
- 9) tender offers; and
- 10) bankruptcy, insolvency, receivership or similar event of the obligated person.

Upon the occurrence of any of the following Events with respect to the Series 2017 Bonds, if material, the Authority shall report the Event to the MSRB:

- 11) non-payment related defaults;
- 12) modifications to rights of Owners of the Series 2017 Bonds;
- 13) bond calls;
- 14) release, substitution, or sale of property securing repayment of the Series 2017 Bonds;
- 15) the consummation of a merger, consolidation, or acquisition, or certain asset sales, involving the obligated person, or entry into or termination of a definitive agreement relating to the foregoing; and
- 16) appointment of a successor or additional trustee or a change in name of the trustee.

If notices are required to be filed, filing shall be made within ten (10) business days after the occurrence of the event giving rise to the requirement to file.

Exhibit III

CUSIP NUMBERS Series 2017 5307 Bonds

Maturity Date (June 1)	Principal Amount	CUSIP†
2022	\$16,385,000	167723GK5
2023	17,205,000	167723GL3
2024	18,065,000	167723GM1
2025	18,970,000	167723GN9
2026	19,915,000	167723GP4

Series 2017 5337 Bonds

Maturity Date June 1	Principal Amount	CUSIP†
2018	\$ 975,000	167723GQ2
2019	18,670,000	167723GR0
2020	19,415,000	167723GS8
2021	20,385,000	167723GT6
2022	21,405,000	167723GU3
2023	22,475,000	167723GV1
2024	10,130,000	167723GW9
2025	10,635,000	167723GX7
2026	11,165,000	167723GY5

* Copyright 2017, American Bankers Association. CUSIP data herein is provided by CUSIP Global Services which is managed on behalf of the American Bankers Association by S&P Capital IQ, a part of McGraw-Hill Financial, Inc. The CUSIP numbers listed are being provided solely for the convenience of the bondholders only at the time of sale of the Series 2017 Bonds and the Authority does not make any representation with respect to such numbers or undertake any responsibility for their accuracy now or at any time in the future. The CUSIP number for a specific maturity is subject to change after the sale of the Series 2017 Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Series 2017 Bonds.

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