

In the opinion of Katten Muchin Rosenman LLP and Charity & Associates, P.C., Co-Bond Counsel, under existing law, if there is continuing compliance with certain requirements of the Internal Revenue Code of 1986, interest on the 2011 Bonds will not be includable in gross income for federal income tax purposes. The interest on the 2011 Bonds is not an item of tax preference for purposes of computing individual or corporate alternative minimum taxable income but is taken into account when computing corporate alternative minimum taxable income for purposes of the corporate alternative minimum tax. Interest on the 2011 Bonds is not exempt from Illinois income taxes. See “TAX MATTERS” herein.



\$476,905,000
CHICAGO TRANSIT AUTHORITY
SALES TAX RECEIPTS REVENUE BONDS
SERIES 2011

Dated: Date of Issuance

Due: December 1, as shown on the inside front cover

The Chicago Transit Authority (the “Authority”) Sales Tax Receipts Revenue Bonds, Series 2011 (the “2011 Bonds”), are being issued pursuant to a Trust Indenture, dated as of March 1, 2010 (the “Master Indenture”), between the Authority and U.S. Bank National Association, Chicago, Illinois, as trustee (the “Trustee”), as heretofore supplemented and as further supplemented by a Second Supplemental Indenture dated as of November 1, 2011 (the “Second Supplemental Indenture” and together with the Master Indenture as heretofore supplemented, the “Indenture”), between the Authority and the Trustee.

The 2011 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 2011 Bonds will be made in principal amounts of \$5,000 and integral multiples thereof and will be in book-entry form only. Purchasers of 2011 Bonds will not receive physical bonds representing their beneficial ownership in the 2011 Bonds but will receive a credit balance on the books of their respective DTC Participants or DTC Indirect Participants. The 2011 Bonds will not be transferable or exchangeable except for transfer to another nominee of DTC or as otherwise described herein.

Interest on the 2011 Bonds, which is payable on June 1 and December 1 of each year, commencing June 1, 2012, and principal of the 2011 Bonds, is payable to Cede & Co. Such interest and principal payments are to be disbursed to the beneficial owners of the 2011 Bonds through their respective DTC Participants or DTC Indirect Participants. The 2011 Bonds are subject to optional redemption and mandatory sinking fund redemption. See “DESCRIPTION OF THE 2011 BONDS – Redemption.”

The proceeds from the sale of the 2011 Bonds will be used to (i) purchase rail cars to replace existing cars and finance any other capital project approved by the Chicago Transit Board by ordinance, (ii) capitalize interest on the 2011 Bonds by a deposit to the 2011 Capitalized Interest Account (as defined below), and (iii) pay costs in connection with the issuance of the 2011 Bonds.

The 2011 Bonds are limited obligations of the Authority. The 2011 Bonds constitute Corporate Purpose Debt Obligations under the Trust Indenture, dated as of July 1, 2008 (the “2008 Indenture”), between the Authority and U.S. Bank National Association, as trustee, that are payable from and secured by a lien on Sales Tax Receipts deposited in the Sales Tax Receipts Fund established under the 2008 Indenture and held by the Authority, subject however, to the parity pledge and lien and parity rights of certain other obligations described herein.

The 2011 Bonds are not a general obligation of the Authority, and the revenues of the Authority (other than the Sales Tax Receipts deposited in the Sales Tax Receipts Fund established under the 2008 Indenture) are not pledged or available for the payment of the 2011 Bonds or the interest thereon. The Authority has no taxing power.

The maturities, amounts, interest rates and yields of the 2011 Bonds are set forth on the inside front cover.

The 2011 Bonds are offered when, as and if issued and received by the Underwriters, subject to the approval of validity thereof by Katten Muchin Rosenman LLP, Chicago, Illinois, and Charity & Associates, P.C., Chicago, Illinois, Co-Bond Counsel. Certain legal matters will be passed upon for the Underwriters by Schiff Hardin LLP, Chicago, Illinois, and Sanchez Daniels & Hoffman LLP, Chicago, Illinois, Co-Underwriters’ Counsel, and for the Authority by its General Counsel. The 2011 Bonds are expected to be delivered through the facilities of DTC in New York, New York on or about November 4, 2011.

Wells Fargo Securities

Morgan Stanley

Loop Capital Markets

J.P. Morgan

Barclays Capital

Blaylock Robert Van, LLC

Cabrera Capital Markets, LLC

Estrada Hinojosa & Company, Inc.

Melvin & Company

M.R. Beal & Company

\$476,905,000
CHICAGO TRANSIT AUTHORITY
SALES TAX RECEIPTS REVENUE BONDS
SERIES 2011

MATURITY SCHEDULE

Maturity Date (December 1)	Principal Amount	Interest Rate	Yield	Price	CUSIP®*
2021	\$ 14,090,000	5.00%	3.71%	110.759%	16772PAR7
2022	14,800,000	5.00	3.86	109.438**	16772PAS5
2023	15,540,000	5.25	3.99	110.366**	16772PAT3
2024	16,360,000	5.25	4.12	109.237**	16772PAU0
2025	17,220,000	5.25	4.24	108.208**	16772PAV8
2026	18,120,000	5.25	4.37	107.106**	16772PAW6
2027	19,075,000	5.25	4.48	106.184**	16772PAX4
2028	20,080,000	5.25	4.58	105.355**	16772PAY2
2029	21,135,000	5.25	4.69	104.451**	16772PAZ9
2030	22,250,000	5.25	4.76	103.881**	16772PBA3
2031	23,425,000	5.25	4.81	103.476**	16772PBB1

\$136,940,000 5.25% Term Bonds Due December 1, 2036—Yield 4.87%—Price 102.993% ** —CUSIP®*: 16772PBC9

\$137,870,000 5.25% Term Bonds Due December 1, 2040—Yield 4.91%—Price 102.672% ** —CUSIP®*: 16772PBD7

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** Price shown to first call date.

Chicago Transit Authority System Map



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CHICAGO TRANSIT AUTHORITY

CHICAGO TRANSIT BOARD

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

OFFICERS

Forrest Claypool, President
Karen L. Walker, Chief Financial Officer and Treasurer
Karen Seimetz, General Counsel
Gregory Longhini, Assistant Secretary

CO-BOND COUNSEL

Katten Muchin Rosenman LLP
Charity & Associates, P.C.
Chicago, Illinois

FINANCIAL ADVISORS

A.C. Advisory, Inc.
Public Financial Management, Inc.
Chicago, Illinois

In connection with this offering, the Underwriters may overallocate or effect transactions that stabilize or maintain the market prices of the 2011 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 2011 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 2011 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 2011 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 2011 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 Advisors as to the accuracy or completeness of any information in this Official Statement, including, without limitation, the information contained in the appendices hereto, and nothing contained in this Official Statement is or shall be relied upon as a promise or representation by the Authority, the Underwriters or the Financial Advisors.

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

If and when included in this Official Statement, the words “expects,” “forecasts,” “projects,” “intends,” “anticipates,” “estimates,” “assumes” and analogous expressions are intended to identify forward-looking statements, and any such statements inherently are subject to a variety of risks and uncertainties that could cause actual results to differ materially from those that have been projected. Such risks and uncertainties which could affect the amount of Sales Tax Receipts received include, among others, changes in political, social and economic conditions, federal, state and local statutory and regulatory initiatives, litigation, 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 “SOURCES OF PAYMENT OF THE 2011 BONDS,” “HISTORICAL SALES TAX REVENUES” and “PRO FORMA DEBT SERVICE COVERAGE” and such statements speak only as of the date of this Official Statement. The Authority disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any changes in the Authority’s expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

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

The 2011 Bonds have not been registered under the Securities Act of 1933, as amended, in reliance upon an exemption contained therein, and have not been registered or qualified under the securities laws of any state.

OVERVIEW

This Overview does not constitute a part of the Official Statement for the issuance and sale by the Chicago Transit Authority of its \$476,905,000 aggregate principal amount Sales Tax Receipts Revenue Bonds, Series 2011 (the “2011 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.

Issuer	Chicago Transit Authority (the “Authority” or the “CTA”) operates the nation’s second largest public transportation system (the “Transportation System”), providing mass transit services within a 356 square mile area including the City of Chicago and 40 surrounding suburbs. The service area of the Authority has a population of approximately 3.9 million. The Authority carries over 80 percent of the public transit riders in the six-county northeastern Illinois region, including the Counties of Cook, DuPage, Kane, Lake, McHenry and Will. Transit services provided by the Authority are part of the regional public mass transportation service system in northeastern Illinois provided through the independent operations of the Authority, Metra (suburban rail) and Pace (suburban bus) (CTA, Metra and Pace are referred to collectively as the “Service Boards”). For a detailed description of the Authority and its operations, see “THE AUTHORITY” in the Official Statement.
2011 Bonds	\$476,905,000 Sales Tax Receipts Revenue Bonds, Series 2011.
Ratings	Moody’s Investors Service, Inc. (“Moody’s”) has assigned the 2011 Bonds a rating of “Aa3” and Standard & Poor’s Ratings Services (“S&P”), has assigned the 2011 Bonds a rating of “AA”. See “RATINGS” in the Official Statement.
Plan of Finance	The proceeds from the sale of the 2011 Bonds will be used to (i) purchase rail cars to replace existing cars and finance any other capital project approved by the Chicago Transit Board by ordinance, (ii) capitalize interest on the 2011 Bonds by a deposit to the 2011 Capitalized Interest Account (as defined below), and (iii) pay costs in connection with the issuance of the 2011 Bonds. See “PLAN OF FINANCE” in the Official Statement.
2011 Project	The 2011 Project consists of the following capital improvements to the Transportation System: (i) purchase rail cars to replace existing cars and (ii) finance any other capital project of the Authority as may hereinafter be designated as part of the 2011 Project by ordinance adopted by the Chicago Transit Board.
Regional Transportation Authority	The Regional Transportation Authority (the “RTA”) oversees public transportation in northeastern Illinois. The RTA provides funding, planning and fiscal oversight for the Service Boards in part through the imposition of sales taxes throughout the northeastern Illinois region. The RTA Act vests responsibility for operating budget and financial oversight of the Service Boards in the RTA and responsibility for operations and day-to-day management of rail and bus service in the Service Boards. See “THE AUTHORITY—The RTA” in the Official Statement.
Source of Payment	The source of payment for the 2011 Bonds is the Sales Tax Receipts received by the Authority from the RTA and deposited into the Sales Tax Receipts Fund established under the 2008 Indenture, consisting of the Authority’s share of certain sales, use and occupation taxes imposed by the RTA throughout northeastern Illinois. See “SOURCES OF PAYMENT OF THE 2011 BONDS” in the Official Statement.

Sales Tax Receipts	The Sales Tax Receipts consist of all amounts received by the Authority from the RTA, representing the Authority’s share of (i) the RTA Sales Taxes imposed throughout the Northeastern Illinois Transit Region, which includes the Counties of Cook, DuPage, Kane, Lake, McHenry and Will, (ii) Replacement Revenues paid to the RTA by the State, and (iii) Public Transportation Fund Revenues paid to or on behalf of the RTA by the State. See “HISTORICAL SALES TAX REVENUES—Sales Tax Receipts” in the Official Statement.
Security for the 2011 Bonds	<p>The 2011 Bonds are secured on a parity with the Authority’s Sales Tax Receipts Revenue Bonds, Series 2010A, and its Sales Tax Receipts Revenue Bonds, Taxable Series 2010B (Build America Bonds), previously issued under the Master Indenture and any Additional Bonds and Refunding Bonds by (i) amounts on deposit from time to time in the Sales Tax Receipts Fund, subject however to the PBC Parity Pledge Rights and the parity pledge and lien created with respect to Pension and Retirement Debt Obligations in accordance with (and as defined in) the 2008 Indenture, (ii) all moneys, securities and earnings thereon in all Funds, Sub-Funds, Accounts and Sub-Accounts established under the Indenture for the payment and security of the 2011 Bonds, and (iii) any and all other moneys and securities furnished from time to time to the Trustee by the Authority or on behalf of the Authority or by any other persons to be held by the Trustee under the terms of the Indenture. See “SECURITY FOR THE 2011 BONDS” in the Official Statement.</p> <p>The Indenture establishes with the Trustee a separate and segregated Sub-Fund within the Debt Service Fund related to the 2011 Bonds (the “Series 2011 Dedicated Sub-Fund”). Moneys on deposit in the Series 2011 Dedicated Sub-Fund will be held in trust by the Trustee for the sole and exclusive benefit of the Owners of the 2011 Bonds and may not be used or available for the payment of the other Parity Obligations, except as expressly provided in the Indenture.</p>
Additional Bonds	The issuance of one or more Series of Additional Bonds is authorized pursuant to the Indenture for the purpose of financing any lawful project or purpose of the Authority, to pay costs and expenses incident to the issuance of such Additional Bonds and to make deposits into any Fund, Sub-Fund, Account or Sub-Account under the Indenture or any Supplemental Indenture. Such Additional Bonds may be issued only upon delivery to the Trustee, among other things, of a certificate of the Authority stating the aggregate amount of all Sales Tax Receipts received by the Authority for any period of 12 consecutive calendar months out of the 18 calendar months next preceding the date of issuance of such Series was at least equal to 200% of the Maximum Annual Coverage Requirement as of the time immediately following the issuance of such Series. See “SECURITY FOR THE BONDS—Additional Bonds” in the Official Statement.
Limited Obligation	The 2011 Bonds are limited obligations of the Authority payable solely from the sources pledged for their payment in accordance with the Indenture and described under the heading “SECURITY FOR THE 2011 BONDS” in the Official Statement. The 2011 Bonds are not, and shall not be or become, an indebtedness or obligation of the State, the RTA or any political subdivision of the State (other than the limited obligation of the Authority) or of any municipality within the State nor shall any 2011 Bond be or become an indebtedness of the Authority within the purview of any constitutional limitation or provision. No lien upon any physical properties of the Authority is or may be created by the Indenture. The Authority has no taxing power.
Interest Payment Dates	Interest on the 2011 Bonds will be payable on June 1 and December 1 of each year, commencing June 1, 2012, until maturity or earlier redemption. Interest is computed on the basis of a 360-day year consisting of twelve 30-day months at the rates set forth on the inside front cover of the Official Statement.
Redemption	The 2011 Bonds are subject to optional redemption and mandatory sinking fund redemption. See “DESCRIPTION OF THE 2011 BONDS—Redemption.”

Trustee	U.S. Bank National Association, Chicago, Illinois, will serve as Trustee and Paying Agent.
Book-Entry Form and Denominations	The 2011 Bonds will be issued in fully registered book-entry form in denominations of \$5,000 or any integral multiple thereof.
Tax Matters	In the opinion of Katten Muchin Rosenman LLP and Charity & Associates, P.C., Co-Bond Counsel, under existing law, if there is continuing compliance with certain requirements of the Internal Revenue Code of 1986, interest on the 2011 Bonds will not be includable in gross income for federal income tax purposes. The interest on the 2011 Bonds is not an item of tax preference for purposes of computing individual or corporate alternative minimum taxable income but is taken into account when computing corporate alternative minimum taxable income for purposes of the corporate alternative minimum tax. Interest on the 2011 Bonds is not exempt from Illinois income taxes. See “TAX MATTERS” in the Official Statement.
Delivery and Clearance	The 2011 Bonds are expected to be available for delivery at DTC in New York, New York, on or about November 4, 2011.
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.
Additional Information	Additional information may be obtained upon request to Karen L. Walker, Chief Financial Officer and Treasurer, Chicago Transit Authority, 567 West Lake Street, Chicago, Illinois 60661; phone: (312) 681-3400.

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OFFICIAL STATEMENT



\$476,905,000
CHICAGO TRANSIT AUTHORITY
SALES TAX RECEIPTS REVENUE BONDS
SERIES 2011

INTRODUCTION

The purpose of this Official Statement, which includes the cover page and appendices hereto (the “Official Statement”), is to set forth certain information concerning the issuance by the Chicago Transit Authority (the “Authority” or the “CTA”) of \$476,905,000 aggregate principal amount of Sales Tax Receipts Revenue Bonds, Series 2011 (the “2011 Bonds”). The 2011 Bonds, together with the Sales Tax Receipts Revenue Bonds, Series 2010A (the “Series 2010A Bonds”), the Sales Tax Receipts Revenue Bonds, Taxable Series 2010B (Build America Bonds) (the “Series 2010B Bonds” and together with the Series 2010A Bonds, the “Series 2010 Bonds”), and any Series of Additional Bonds and Refunding Bonds that may be issued in the future under the Indenture (as such terms are defined herein), are collectively referred to in this Official Statement as the “Bonds.”

The 2011 Bonds are being issued pursuant to the laws of the State of Illinois, including the Metropolitan Transit Authority Act (70 ILCS 3605/1 *et seq.*) (the “Act”) and the Local Government Debt Reform Act (30 ILCS 350/1 *et seq.*). The 2011 Bonds are authorized by an ordinance adopted by the Chicago Transit Board, the Authority’s governing body (the “CTA Board”), on October 13, 2011.

The 2011 Bonds are being issued under and secured by a Trust Indenture, dated as of March 1, 2010 (the “Master Indenture”), between the Authority and U.S. Bank National Association, Chicago, Illinois, as trustee (the “Trustee”), as heretofore supplemented by the First Supplemental Indenture, dated as of March 1, 2010 (the “First Supplemental Indenture”), relating to the Series 2010 Bonds, and as further supplemented by the Second Supplemental Indenture, dated as of November 1, 2011 (the “Second Supplemental Indenture” and together with the Master Indenture and the First Supplemental Indenture, the “Indenture”), between the Authority and the Trustee.

Certain References; Definitions

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

PLAN OF FINANCE

The proceeds from the sale of the 2011 Bonds will be used to (i) purchase rail cars to replace existing cars and finance any other capital project approved by the CTA Board by ordinance, (ii) capitalize interest on the 2011 Bonds by a deposit to the 2011 Capitalized Interest Account (as defined below), and (iii) pay costs in connection with the issuance of the 2011 Bonds.

The Authority may, subject to receipt of all necessary CTA Board approvals and as permitted by the Indenture, issue Additional Bonds at future dates to finance capital needs as they may be identified in its capital plan from time to time. See “THE AUTHORITY – Capital Plan” for a further explanation of how the Authority’s capital plan is developed.

SOURCES AND USES OF FUNDS

Sources of Funds

Par Amount	\$476,905,000.00
Original Issue Premium	<u>21,391,718.45</u>
Total Sources of Funds	\$498,296,718.45

Uses of Funds

Deposit to Project Account	\$425,252,559.35
Deposit to Capitalized Interest Account ¹	69,608,530.31
Costs of Issuance ²	<u>3,435,628.79</u>
Total Uses of Funds	\$498,296,718.45

¹ Under the Indenture, an amount will be deposited in the 2011 Capitalized Interest Account that, when invested as permitted under the Indenture, is expected to be sufficient, together with the interest earnings thereon, to provide for a portion of the payment of the scheduled interest on the 2011 Bonds through December 1, 2015. See “SECURITY FOR THE BONDS — Disbursements from Debt Service Fund and Additional Deposits Fund — Capitalized Interest Account.”

² Includes Underwriters’ Discount.

THE 2011 PROJECT

A portion of the proceeds of the 2011 Bonds will be deposited under the Indenture and may be used to pay for, or reimburse the Authority for prior expenditures relating to any or all of the following: (i) purchase rail cars to replace existing cars and (ii) finance any other capital project of the Authority as may hereinafter be designated as part of the 2011 Project by ordinance adopted by the CTA Board. The Authority expects, subject to receipt of all necessary CTA Board approvals, to finance future capital needs as they may be identified in its Capital Plan from time to time. Some or all of these needs may be financed with Additional Bonds as permitted by the Indenture. See “THE AUTHORITY – Capital Plan” for a further explanation of how the Authority’s Capital Plan is developed.

DESCRIPTION OF THE 2011 BONDS

General

The 2011 Bonds will be dated the date of their issuance and mature at the times and in the principal amounts set forth on the inside front cover of this Official Statement. Interest on the 2011 Bonds shall be payable on June 1 and December 1 of each year, commencing June 1, 2012. Interest on the 2011 Bonds shall be computed on the basis of a 360-day year of twelve 30-day months.

The 2011 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 2011 Bonds. Ownership interests in the 2011 Bonds may be purchased by or through a DTC Participant (as described below) in book-entry form only in denominations of \$5,000 or any integral multiple thereof. See APPENDIX D – “DTC AND THE BOOK-ENTRY ONLY SYSTEM.”

Redemption

Optional Redemption. The 2011 Bonds maturing on or after December 1, 2022 are subject to redemption prior to maturity at the option of the Authority, as a whole, or in part by lot, and upon notice as provided in the Indenture, on December 1, 2021 and on any date thereafter at a Redemption Price equal to the principal amount of the 2011 Bonds to be redeemed, plus accrued interest on the 2011 Bonds being redeemed to the date fixed for redemption.

Mandatory Sinking Fund Redemption. The 2011 Bonds maturing on December 1, 2036 are Term Bonds subject to mandatory redemption at a Redemption Price of par, on December 1 of the following years and in the following principal amounts, each constituting a Sinking Fund Installment (as defined in the Indenture) for the retirement of the Term Bonds as set forth in the following table, subject to adjustment pursuant to the Indenture:

<u>Year</u>	<u>Principal Amount</u>
2032	\$24,655,000
2033	25,950,000
2034	27,315,000
2035	28,755,000

The final maturity amount of the Term Bonds is \$30,265,000.

The 2011 Bonds maturing on December 1, 2040 are Term Bonds subject to mandatory redemption at a Redemption Price of par, on December 1 of the following years and in the following principal amounts, each constituting a Sinking Fund Installment (as defined in the Indenture) for the retirement of the Term Bonds as set forth in the following table, subject to adjustment pursuant to the Indenture:

<u>Year</u>	<u>Principal Amount</u>
2037	\$31,860,000
2038	33,540,000
2039	35,305,000

The final maturity amount of the Term Bonds is \$37,165,000.

Adjustment of Sinking Fund Installments. In the event of the optional redemption by the Authority of less than all of the Term Bonds of the same series and maturity, the principal amount so redeemed shall be credited against the unsatisfied balance of future Sinking Fund Installments and the final maturity amount established with respect to such Term Bonds as shall be determined by the Authority in a Certificate of an Authorized Officer filed with the Trustee or, in the absence of such determination, shall be credited pro-rata against the applicable Sinking Fund Installments and final maturity amount.

Purchase of Term Bonds in Satisfaction of Sinking Fund Installments. Amounts deposited to the credit of the 2011 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 60th day next preceding the next Principal Payment Date on which a Sinking Fund Installment is due, to the purchase of Outstanding Term Bonds of the maturity for which such Sinking Fund Installment was established. All such purchases of Outstanding Term Bonds shall be made at prices not exceeding the applicable sinking fund Redemption Price of such Term Bonds plus accrued interest, and such purchases shall be made in such manner as the Authority shall determine.

At any time up to the 60th 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 Term Bonds for which such Sinking Fund Installment was established and surrender such Term Bonds to the Trustee at any time up to said date.

After giving effect to the Outstanding Term Bonds purchased by the Trustee and Outstanding Term Bonds surrendered by the Authority, which shall be credited against the Sinking Fund Installment at the applicable sinking fund Redemption Price thereof, the Trustee shall proceed to call for redemption on such Principal Payment Date Outstanding Term Bonds 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.

Redemption Procedures. In the case of any redemption of 2011 Bonds, the Authority shall give written notice to the Trustee of its election or direction so to redeem, of the date fixed for redemption, and of the principal amounts and interest rates of the 2011 Bonds of each maturity to be redeemed. Such notice shall be given at least 25 days prior to the specified redemption date or such shorter period as shall be acceptable to the Trustee. In the event notice of redemption shall have been given, there shall be paid on or prior to the specified redemption date to the Trustee an amount in cash or Government Obligations maturing on or before the specified redemption date which, together with other moneys, if any, available therefor held by the Trustee, will be sufficient to redeem all of the 2011 Bonds to be redeemed on the specified redemption date at their Redemption Price plus interest accrued and unpaid to the date fixed for redemption. Such amount and moneys shall be held in a separate, segregated account for the benefit of the Owners of the 2011 Bonds so called for redemption.

Selection of 2011 Bonds to Be Redeemed. If less than all the 2011 Bonds of the same maturity are called for redemption, the particular 2011 Bonds or portion of 2011 Bonds to be redeemed shall be selected at random by the Trustee in such manner as the Trustee in its discretion may deem fair and appropriate; *provided, however*, that the portion of any 2011 Bond of a denomination of more than the minimum Authorized Denomination to be redeemed shall be in the principal amount of an Authorized Denomination and that, in selecting portions of such 2011 Bonds for redemption, the Trustee shall treat each such 2011 Bond as representing that number of 2011 Bonds of the minimum Authorized Denomination which is obtained by dividing the principal amount of such 2011 Bond to be redeemed in part by said minimum Authorized Denomination. If all 2011 Bonds are held in book-entry only form, the particular 2011 Bonds or portions thereof to be redeemed shall be selected by DTC in such manner as DTC shall determine.

Notice of Redemption. When the Trustee shall receive notice from the Authority of its election or direction to redeem 2011 Bonds pursuant to the Indenture, and when redemption of 2011 Bonds is authorized or required pursuant to the Indenture, the Trustee shall give notice, in the name of the Authority, of the redemption of such 2011 Bonds, which notice shall specify the maturities and interest rates of the 2011 Bonds to be redeemed, the date fixed for redemption and the place or places where amounts due upon such date fixed for redemption will be payable and, if less than all of the 2011 Bonds of any like maturity and interest rate are to be redeemed, the letters and numbers or other distinguishing marks of such 2011 Bonds so to be redeemed and, in the case of 2011 Bonds to be redeemed in part only, such notice shall also specify the respective portions of the principal amount thereof to be redeemed. Such notice shall further state that on such date there shall become due and payable the Redemption Price of each 2011 Bond to be redeemed, or the Redemption Price of the specified portions of the principal thereof in the case of 2011 Bonds to be redeemed in part only, together with interest accrued to the date fixed for redemption, and that from and after such date interest thereon shall cease to accrue and be

payable. The Trustee shall mail copies of such notice by first-class mail, postage prepaid, not more than 60 days nor less than 20 days before the date fixed for redemption, to the Owners of the 2011 Bonds to be redeemed at their addresses as shown on the registration books of the Authority maintained by the Registrar. If the Trustee mails notices of redemption as provided in the Indenture, notice shall be conclusively presumed to have been given to all Owners.

With respect to an optional redemption of any 2011 Bonds, unless moneys sufficient to pay the Redemption Price of, and interest on, the 2011 Bonds to be redeemed shall have been received by the Trustee prior to the giving of such notice of redemption, such notice may, at the option of the Authority, state that said redemption shall be conditional upon the receipt of such moneys by the Trustee on or prior to the date fixed for redemption. If such moneys are not received, such notice shall be of no force and effect, the Authority shall not redeem such 2011 Bonds and the Trustee shall give notice, in the same manner in which the notice of redemption was given, that such moneys were not so received and that such 2011 Bonds will not be redeemed.

Payment of Redeemed 2011 Bonds. Notice having been given in the manner provided above, the 2011 Bonds or portions thereof so called for redemption shall become due and payable on the date fixed for redemption at the Redemption Price, plus interest accrued and unpaid to such date, and, upon presentation and surrender thereof at any place specified in such notice, such 2011 Bonds, or portions thereof, shall be paid at the Redemption Price, plus interest accrued and unpaid to such date. If there shall be called for redemption less than all of a 2011 Bond, the Authority shall execute and the Trustee shall authenticate and the appropriate Fiduciary shall deliver, upon the surrender of such 2011 Bond, without charge to the Owner thereof, for the unredeemed balance of the principal amount of the 2011 Bond so surrendered, fully registered 2011 Bonds of like maturity and interest rate in any Authorized Denominations. If, on the date fixed for redemption, moneys for the redemption of all the 2011 Bonds or portions thereof of like maturity and interest rate to be redeemed, together with interest to such date, shall be held by the Trustee so as to be available therefor on said date and if notice of redemption shall have been given as aforesaid, then, from and after the date fixed for redemption, interest on the 2011 Bonds or portions thereof of such maturity and interest rate so called for redemption shall cease to accrue and become payable. If said moneys shall not be so available on the date fixed for redemption, such 2011 Bonds or portions thereof shall continue to bear interest until paid at the same rate as they would have borne had they not been called for redemption.

Book-Entry Only System

As noted above, DTC will act as securities depository for the 2011 Bonds. See APPENDIX D – “DTC AND THE BOOK-ENTRY ONLY SYSTEM.”

Payments of interest on and principal of the 2011 Bonds will be made to DTC or its nominee, Cede & Co., as registered owner of the 2011 Bonds. Each such payment to DTC or its nominee will be valid and effective to fully discharge all liability of the Authority or the Trustee with respect to interest on and principal of the 2011 Bonds to the extent of the sum or sums so paid.

The 2011 Bonds shall be initially issued in the form of a separate single fully registered 2011 Bond for each maturity with the same interest rate. Upon initial issuance, the ownership of each such 2011 Bond shall be registered in the registration books kept by the Trustee in the name of Cede & Co., as nominee of DTC, and except as provided in the Indenture, the ownership of all of the outstanding 2011 Bonds shall be registered in the name of Cede & Co., as nominee of DTC.

With respect to 2011 Bonds registered in the name of Cede & Co., as nominee of DTC, the Authority and the Trustee shall have no responsibility or obligation to any DTC Participant or to any person on behalf of whom such a DTC Participant holds an interest in the 2011 Bonds. Without limiting the immediately preceding sentence, the Authority and the Trustee shall have no responsibility or obligation with respect to (i) the accuracy of the records of DTC, Cede & Co. or any DTC Participant with respect to any ownership interest in any 2011 Bond, (ii) the delivery to any DTC Participant or any other Person, other than the Owner of any 2011 Bond, of any notice with respect to such 2011 Bond, (iii) the payment to any DTC Participant or any other Person, other than the Owner of any 2011 Bond, of any amount with respect to Principal or Redemption Price of or interest on such 2011 Bond or (iv) the allocation method for the pro-rata redemption of 2011 Bonds among DTC Participants and the beneficial owners of the 2011 Bonds. The Authority, the Trustee and each other Paying Agent, if any, shall be entitled to treat and consider the Person in whose name each 2011 Bond is registered as the absolute owner of such 2011 Bond for the purpose of payment of Principal and interest with respect to such 2011 Bond, for the purpose of giving notices of redemption, for the purpose of registering transfers with respect to such 2011 Bond and for all other purposes whatsoever. The Trustee and each other Paying Agent, if any, shall pay all Principal of and interest on the 2011 Bonds only to or upon the order of the respective Owners thereof, or their respective attorneys duly authorized in writing, and all such payments shall be valid and effective to satisfy and discharge fully the Authority's obligations with respect to payment of Principal of and interest on the 2011 Bonds to the extent of the sum or sums so paid. No Person other than an Owner of a 2011 Bond shall receive a 2011 Bond evidencing the obligation of the Authority to make payments of Principal of and interest on the 2011 Bonds pursuant to the Indenture.

The Authority has heretofore executed and delivered the Letter of Representations to DTC. So long as DTC, or its designee, is the Owner of all 2011 Bonds, the provisions set forth in the Letter of Representations shall apply to the redemption of any 2011 Bonds and to the payment of Principal or Redemption Price of and interest on the 2011 Bonds, including without limitation, that: (1) presentation of 2011 Bonds to the Trustee at maturity shall be deemed made to the Trustee when the right to exercise ownership rights in the 2011 Bonds through DTC or DTC's Participants is transferred by DTC on its books; and (2) DTC may present notices, approvals, waivers or other communications required or permitted to be made by Owners of 2011 Bonds under the Indenture on a fractionalized basis on behalf of some or all of those Persons entitled to exercise ownership rights in the 2011 Bonds through DTC or DTC's Participants.

So long as the 2011 Bonds are registered in the name of Cede & Co., as nominee of DTC, the Trustee agrees to comply with the terms and provisions of the Letter of Representations.

Successor Securities Depository; Transfers and Exchanges of 2011 Bonds Upon Abandonment of Book-Entry-Only System

The Owners of the 2011 Bonds have no right to the appointment or retention of a depository for the 2011 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 2011 Bonds to such successor securities depository or (ii) notify DTC of the availability through DTC of 2011 Bonds and transfer or cause the transfer of one or more 2011 Bonds to DTC Participants having 2011 Bonds credited to their DTC accounts. In such event, the 2011 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 2011 Bonds shall designate, in accordance with the provisions of the Indenture.

SECURITY FOR THE 2011 BONDS

Pledge of Security

Pursuant to a Trust Indenture, dated July 1, 2008, as supplemented (the “2008 Indenture”), by and between the Authority and U.S. Bank National Association, as trustee (the “2008 Trustee”) securing (among other obligations) the Bonds, the Authority has established and holds the Sales Tax Receipts Fund. The 2008 Indenture establishes the Authority’s right to issue Corporate Purpose Debt Obligations under the terms and conditions described therein on a parity with the lien on and pledge of the Sales Tax Receipts Fund granted by the 2008 Indenture as security for the payment of Pension and Retirement Debt Obligations, subject to the PBC Parity Pledge Rights. See the definitions of the terms “Pension and Retirement Debt Obligations” and “PBC Parity Pledge Rights” in Appendix A. The 2008 Indenture defines “Corporate Purpose Debt Obligations” as any bond, note, installment contract, financing contract, lease or other evidence of indebtedness (other than a Pension and Retirement Debt Obligation or the PBC Lease) that is payable from or secured by a pledge of or lien on the Sales Tax Receipts Fund on a parity with any lien on or pledge of the Sales Tax Receipts Fund granted by the 2008 Indenture as security for the payment of Pension and Retirement Debt Obligations. In 2010, the Authority issued \$44,645,000 principal amount of its Sales Tax Receipts Revenue Bonds, Series 2010A, and \$505,355,000 principal amount of its Sales Tax Receipts Revenue Bonds, Taxable Series 2010B (Build America Bonds) (collectively, the “Series 2010 Bonds”), under the Indenture as Corporate Purpose Debt Obligations under the 2008 Indenture. The 2011 Bonds are being issued as Corporate Purpose Debt Obligations under the 2008 Indenture and as Additional Bonds under the Indenture. The Series 2010 Bonds, the 2011 Bonds and any Additional Bonds and Refunding Bonds issued under the Indenture are referred to herein as the “Bonds” and the Bonds and all Section 206 Obligations and Section 207 Obligations (as defined in the Indenture) are referred to as “Parity Obligations.”

In the Indenture, the following sources are pledged for the payment of Parity Obligations:

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

(b) All moneys and securities and earnings thereon in all Funds, Sub-Funds, Accounts and Sub-Accounts established pursuant to the Indenture for the payment and security of the Bonds (including the Consolidated Debt Service Reserve Fund for the benefit of Consolidated Reserve Fund Bonds), subject to the right of the Authority to make periodic withdrawals from the Sales Tax Receipts Fund, the Debt Service Fund and the Consolidated Debt Service Reserve Fund as provided in the Indenture; and

(c) Any and all other moneys and securities furnished from time to time to the Trustee by the Authority or on behalf of the Authority or by any other persons to be held by the Trustee under the terms of the Indenture.

The 2011 Bonds are not designated as Consolidated Reserve Fund Bonds. There is no debt service reserve fund securing the 2011 Bonds. See “Consolidated Debt Service Reserve Fund” below.

Right to Issue Additional Pension and Retirement Debt Obligations

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

Additional Bonds

The issuance of one or more Series of Additional Bonds is authorized pursuant to the Indenture for the purpose of financing any lawful project or purpose of the Authority, to pay costs and expenses incident to the issuance of such Additional Bonds and to make deposits into any Fund, Sub-Fund, Account or Sub-Account under the Indenture or any Supplemental Indenture. Such Additional Bonds may be issued only upon the delivery to the Trustee of, among other things, a certificate of the Authority stating that the aggregate amount of all Sales Tax Receipts received by the Authority for any period of 12 consecutive calendar months out of the 18 calendar months next preceding the date of issuance of such Series was at least equal to 200% of the Maximum Annual Coverage Requirement as of the time immediately following the issuance of such Series.

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

Subordinated Indebtedness

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

Indebtedness and Liens

The Authority may not issue any bonds or other evidences of indebtedness or incur any indebtedness, other than the Parity Obligations, Qualified Swap Agreements, the PBC Lease, the Pension and Retirement Debt Obligations, and Subordinated Indebtedness, which are secured by a pledge of or lien on the Sales Tax Receipts or the moneys, securities or funds held or set aside by the Authority or by the Trustee under the Indenture, and shall not, except as expressly authorized in the Indenture, create or cause to be created any lien or charge on the Sales Tax Receipts or such moneys, securities or funds; *provided* that nothing contained in the Indenture shall prevent the Authority from issuing or incurring evidences of indebtedness (a) payable from or secured by amounts that may be withdrawn from the Sales Tax Receipts Fund free from the lien of the Indenture as provided in the Indenture or from the Debt Service Fund or the Consolidated Debt Service Reserve Fund as provided in the Indenture or (b) payable from, or secured by the pledge of, Sales Tax Receipts to be derived on and after such date as the pledge of the Trust Estate provided in the Indenture shall be discharged and satisfied as provided in the Indenture.

Equality of Security

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

Equality of Parity Obligations

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

Funds and Accounts

Pursuant to the 2008 Indenture, the Authority established the Sales Tax Receipts Fund as a special fund of the Authority held by the Authority as part of the Trust Estate, subject to the PBC Parity Pledge Rights and the other parity pledges described above. In the Master Indenture, the Authority established the Debt Service Fund, which is a special fund of the Authority held in

trust by the Trustee as part of the Trust Estate. The Authority also established the Consolidated Debt Service Reserve Fund, which is a special fund of the Authority held in trust by the Trustee as part of the Trust Estate for the benefit and security of the Owners of Consolidated Reserve Fund Bonds. The 2011 Bonds are not Consolidated Reserve Fund Bonds. Subject to use and application in accordance with the 2008 Indenture and the Indenture in the case of the Sales Tax Receipts Fund and the Indenture in the case of the Debt Service Fund and the Consolidated Debt Service Reserve Fund, all of the moneys and securities held in the Sales Tax Receipts Fund and the Debt Service Fund are pledged as security for the payment of the principal of, redemption premium, if any, and interest on the Parity Obligations to the extent provided in the Indenture and shall be subject to the lien of the Indenture.

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

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

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

Series 2011 Additional Deposits Fund

The Second Supplemental Indenture establishes with the Trustee a separate trust fund to be designated the “Series 2011 Additional Deposits Fund” (the “Additional Deposits Fund”). Pursuant to the Second Supplemental Indenture, the Authority may make at any time and from time to time, but is not obligated to make, deposits of any legally available moneys (including, but not limited to, capital grant moneys received by the Authority), into the Additional Deposits Fund. Moneys on deposit in the Additional Deposits Fund shall be held in trust by the Trustee and subject to the lien of the Indenture but for the sole and exclusive benefit of the Owners of the 2011 Bonds; *provided* that, pursuant to the Indenture, the Authority may withdraw at any time and from time to time funds from the Additional Deposits Fund free from the lien of the Indenture.

Deposit and Application of Sales Tax Receipts

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

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

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

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

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

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

Disbursements from Debt Service Fund and Additional Deposits Fund

The moneys in the Debt Service Fund shall be disbursed and applied by the Trustee as required to make the deposits on the dates and in the amounts provided by a Supplemental Indenture creating a Series of Bonds, or by an instrument creating Section 206 Obligations or Section 207 Obligations, which in the case of the 2011 Bonds is described below.

Creation of Dedicated Sub-Fund. The Indenture establishes with the Trustee a separate and segregated Sub-Fund within the Debt Service Fund related to the 2011 Bonds (the “Series 2011 Dedicated Sub-Fund”). Moneys on deposit in the Series 2011 Dedicated Sub-Fund, and in each Account established therein as provided in the Indenture, shall be held in trust by the Trustee for the sole and exclusive benefit of the Owners of the 2011 Bonds and shall not be used or available for the payment of the other Parity Obligations, except as expressly provided in the Indenture.

Creation of Accounts. The Second Supplemental Indenture establishes with the Trustee separate Accounts within the Series 2011 Dedicated Sub-Fund, designated as follows:

- (i) 2011 Capitalized Interest Account: an Account to be designated the “Series 2011 Capitalized Interest Account” (the “2011 Capitalized Interest Account”);
- (ii) 2011 Project Account: an Account to be designated the “Series 2011 Project Account” (the “2011 Project Account”);
- (iii) 2011 Principal Account: an Account to be designated the “Series 2011 Principal Account” (the “2011 Principal Account”); and
- (iv) 2011 Interest Account: an Account to be designated the “Series 2011 Interest Account” (the “2011 Interest Account”).

Capitalized Interest Account. The Trustee shall withdraw from the 2011 Capitalized Interest Account, prior to each of the following Interest Payment Dates, the amounts set forth in the following table, and apply the same to the payment of the interest on the 2011 Bonds due on such Interest Payment Date:

<u>Interest Payment Date</u>	<u>Amount</u>
June 1, 2012	\$14,355,040.31
December 1, 2012	10,243,927.00
June 1, 2013	10,243,927.00
December 1, 2013	8,921,455.00
June 1, 2014	8,921,455.00
December 1, 2014	8,920,843.00
June 1, 2015	6,218,648.00
December 1, 2015	1,783,235.00

Any amount remaining in the 2011 Capitalized Interest Account on December 1, 2015, shall be withdrawn from the 2011 Capitalized Interest Account and deposited into the 2011 Interest Account.

Deposits into Series 2011 Dedicated Sub-Fund and Accounts. On the 25th day of each month, or if such day is not a Business Day, the immediately preceding Business Day, commencing November 25, 2011 (each such date a “Deposit Date”), there shall be deposited into the Series 2011 Dedicated Sub-Fund first, from amounts on deposit in the Additional Deposits Fund, if any, and second, if needed, from amounts on deposit in the Debt Service Fund, an amount equal to the aggregate of the amounts described in the following paragraph, which amounts shall have been calculated by the Trustee on the fifth day of each month (such aggregate amount with respect to any Deposit Date being referred to herein as the “Series 2011 Deposit Requirement”).

On each Deposit Date the Trustee shall make the following deposits in the following order of priority and if the moneys deposited into the Series 2011 Dedicated Sub-Fund are

insufficient to make any required deposit, the deposit shall be made up on the next Deposit Date after required deposits into other Accounts having a higher priority shall have been made in full:

First: (i) for deposit into the 2011 Interest Account, an amount equal to the lesser of (A) (1) prior to the June 25, 2012 Deposit Date, one-seventh of the interest due on the 2011 Bonds on the June 1, 2012 Interest Payment Date, other than interest payable on such Interest Payment Date from the 2011 Capitalized Interest Account; and (2) commencing on the June 25, 2012 Deposit Date, one-sixth of the interest due on the 2011 Bonds on the next Interest Payment Date, other than interest payable on such Interest Payment Date from the 2011 Capitalized Interest Account; or (B) the amount required so that the sum held in the 2011 Interest Account, when added to the interest payable from the 2011 Capitalized Interest Account on the next Interest Payment Date, will equal the interest due on the 2011 Bonds on the next Interest Payment Date; and

Second: commencing on December 25, 2020, for deposit into the 2011 Principal Account, an amount equal to the lesser of (A) one-twelfth of the Principal due on the 2011 Bonds on the first day of December next ensuing, or (B) the amount required so that the sum then held in the Principal Account will equal the Principal due on the 2011 Bonds on the first day of December next ensuing.

In addition to the Series 2011 Deposit Requirement, there shall be deposited into the Series 2011 Dedicated Sub-Fund any other moneys received by the Trustee under and pursuant to the Master Indenture, the First Supplemental Indenture or the Second Supplemental Indenture, when accompanied by directions from the person depositing such moneys that such moneys are to be paid into the Series 2011 Dedicated Sub-Fund and to one or more accounts in the Series 2011 Dedicated Sub-Fund.

Upon calculation by the Trustee of each Series 2011 Deposit Requirement, the Trustee shall notify the Authority of the Series 2011 Deposit Requirement and the Deposit Date to which it relates together with such supporting documentation and calculations as the Authority may reasonably request.

Consolidated Debt Service Reserve Fund

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

The 2011 Bonds are not designated as Consolidated Reserve Fund Bonds. There is no debt service reserve fund securing the 2011 Bonds.

Limited Obligations of the Authority

The 2011 Bonds, the Series 2010 Bonds and all other Parity Obligations are limited obligations of the Authority payable solely from and secured solely by (i) the Sales Tax Receipts Fund, subject however to the PBC Parity Pledge Rights and the parity pledge and lien created by the 2008 Indenture with respect to Pension and Retirement Debt Obligations, and (ii) amounts on deposit in the funds and accounts established under the Indenture, including investment earnings thereon. The Bonds are not, and shall not constitute, an indebtedness of the Regional Transportation Authority (the “RTA”) or the State of Illinois or any other political subdivision of or municipality within the State of Illinois, except the Authority.

DEBT SERVICE REQUIREMENTS

The annual debt service for the existing Pension and Retirement Debt Obligations, the Series 2010 Bonds and the 2011 Bonds is set forth in the following table. See also “PRO FORMA DEBT SERVICE COVERAGE” below.

<u>Period Ending December 1</u>	<u>Outstanding Pension and Retirement Debt Obligation Debt Service</u>	<u>Series 2010A Bonds Outstanding</u>	<u>Series 2010B Bonds Outstanding*</u>	<u>2011 Bonds Principal</u>	<u>2011 Bonds Interest</u>	<u>Capitalized Interest**</u>	<u>Total Aggregate Pension and Retirement Debt Obligations and Bonds Net Debt Service</u>
2012	\$141,386,832	\$2,178,650	\$30,798,001		\$26,837,684	\$24,598,967	\$176,602,200
2013	156,574,008	2,178,650	30,798,001		24,965,288	19,165,381	195,350,565
2014	156,577,659	2,178,650	30,798,001		24,965,288	17,842,298	196,677,300
2015	156,574,139	7,893,650	30,798,001		24,965,288	8,001,882	212,229,195
2016	156,573,519	9,579,700	30,798,001		24,965,288		221,916,508
2017	156,573,869	11,445,950	30,798,001		24,965,288		223,783,108
2018	156,572,944	11,449,200	30,798,001		24,965,288		223,785,433
2019	156,573,184	11,450,750	30,798,001		24,965,288		223,787,223
2020	156,576,399		42,308,001		24,965,288		223,849,688
2021	156,573,769		42,309,444	\$14,090,000	24,965,288		237,938,501
2022	156,576,474		42,303,085	14,800,000	24,260,788		237,940,347
2023	156,575,395		42,305,021	15,540,000	23,520,788		237,941,204
2024	156,574,586		42,301,767	16,360,000	22,704,938		237,941,291
2025	156,574,560		42,302,380	17,220,000	21,846,038		237,942,978
2026	156,574,793		42,301,720	18,120,000	20,941,988		237,938,501
2027	156,573,729		42,298,710	19,075,000	19,990,688		237,938,127
2028	156,573,774		42,299,940	20,080,000	18,989,250		237,942,964
2029	156,570,957		42,296,380	21,135,000	17,935,050		237,937,387
2030	156,575,270		42,289,310	22,250,000	16,825,463		237,940,043
2031	156,574,636		42,284,700	23,425,000	15,657,338		237,941,674
2032	156,576,290		42,282,900	24,655,000	14,427,525		237,941,715
2033	156,575,394		42,283,950	25,950,000	13,133,138		237,942,482
2034	156,570,732		48,472,580	27,315,000	11,770,763		244,129,075
2035	156,574,364		48,464,740	28,755,000	10,336,725		244,130,829
2036	156,575,588		48,460,070	30,265,000	8,827,088		244,127,746
2037	156,577,324		48,450,820	31,860,000	7,238,175		244,126,319
2038	156,570,078		48,454,240	33,540,000	5,565,525		244,129,843
2039	156,572,630		48,446,030	35,305,000	3,804,675		244,128,335
2040	156,574,965		48,437,820	37,165,000	1,951,163		244,128,948
TOTAL	\$4,525,467,861	\$58,355,200	\$1,177,737,616	\$476,905,000	\$531,252,372	\$69,608,528	\$6,700,109,520

* “Series 2010B Bonds Outstanding” debt service does not net out any Build America Bonds subsidy payments on the Series 2010B Bonds, which are not pledged to pay debt service on the Series 2010B Bonds.

** Includes remaining capitalized interest for all Outstanding Bonds.

SOURCES OF PAYMENT OF THE 2011 BONDS

General

The source of payment for the 2011 Bonds is the Sales Tax Receipts received by the Authority from the RTA and deposited into the Sales Tax Receipts Fund established under the 2008 Indenture and held by the Authority.

In the Indenture, the Authority covenants to comply with all applicable laws, including all provisions of the Regional Transportation Authority Act of the State of Illinois (70 ILCS 3615/1 *et seq.*) (the “RTA Act”) and the Act, in order to be eligible to receive the Sales Tax Receipts for the payment of the 2011 Bonds and all other Parity Obligations and to facilitate the payment of the Sales Tax Receipts to the Authority. See “AUTHORITY – The RTA” and “– RTA Financial Oversight.”

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

Sales Tax Receipts

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

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

The RTA Sales Tax, net of applicable retailers' discount, is collected by the State Department of Revenue, with proceeds (the "RTA Sales Tax Collections") paid to the Treasurer of the State to be held in trust for the RTA outside the State Treasury in the RTA tax fund created under the RTA Act (the "RTA Tax Fund"). Moneys in the RTA Tax Fund are payable monthly, without appropriation, by the State Treasurer on the order of the State Comptroller directly to a trustee appointed pursuant to the RTA Act (the "RTA Trustee"), to serve as security for debt service on all RTA bonds and notes (the "RTA Obligations"). Pursuant to the RTA Act, the RTA adopted a Bond and Note General Ordinance on August 8, 1985 (as supplemented and amended, the "RTA General Ordinance"), which provides, among other things, for the assignment and direct payment of all RTA Sales Taxes to the RTA Trustee with respect to the RTA Obligations. The 2011 Bonds do not constitute RTA Obligations and are not secured by the RTA Sales Tax Collections segregated with the RTA Trustee. After the RTA Trustee has made all required deposits and payments with respect to the debt service on RTA Obligations, the RTA Trustee transfers all remaining RTA Sales Tax proceeds to the RTA for its corporate purposes, including distribution to the Authority and the other Service Boards. Pursuant to the RTA Act, the RTA is required to pay to the Authority and the other Service Boards the remainder of the RTA Sales Tax Collections pursuant to distribution ratios established in the RTA Act and described in this Official Statement. Then, upon receipt by the Authority of its distribution of RTA Sales Tax Collections from the RTA, those amounts become Sales Tax Receipts.

The RTA is also authorized by the RTA Act to impose certain other taxes which it currently does not impose, including, but not limited to: (i) a tax on the gross receipts from automobile rentals at a rate not to exceed 1.00 percent in Cook County and 0.25 percent in the Collar Counties; (ii) a tax on the sale of motor fuel at a rate not to exceed 5.00 percent of the gross receipts of such sales; and (iii) a tax on the privilege of parking motor vehicles at off street parking facilities. The tax on motor fuel and the tax on the use of off street parking facilities cannot by law be imposed concurrently with the RTA Sales Taxes currently imposed by the RTA without additional legislative authority.

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

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

Public Transportation Fund Revenues. Public Transportation Fund Revenues are amounts paid to or on behalf of the RTA from the Public Transportation Fund in the State Treasury. Pursuant to an irrevocable and continuing appropriation by the Illinois General Assembly, each month the State Comptroller is authorized to order and the State Treasurer is authorized to transfer from the State General Revenue Fund to the Public Transportation Fund in the State Treasury an amount equal to 25 percent of the net revenues realized from (i) 80 percent of the proceeds of the Food and Drug Tax, (ii) 75 percent of the proceeds of the General Sales Tax imposed by the RTA in Cook County, (iii) one-third of the proceeds of the General Sales Tax imposed by the RTA in the Collar Counties, (iv) 25 percent of the amount deposited in the RTA County and Mass Transit Fund, and (v) 25 percent of the amounts deposited into the RTA Occupation and Use Tax Replacement Fund from the State and Local Sales Tax Reform Fund. See “SOURCES OF PAYMENT OF THE 2011 BONDS - Sales Tax Receipts – Status of State Funding.”

Pursuant to the 2008 Amendatory Legislation, the State Comptroller is authorized to order and the State Treasurer is authorized to transfer each month from the State General Revenue Fund to the Public Transportation Fund in the State Treasury an amount equal to 5 percent of the net revenues from any imposed RTA Sales Tax and 5 percent of the revenue realized by the Authority from the Transfer Tax Receipts (as defined in the 2008 Indenture). Beginning in January, 2009, the State Comptroller is authorized to order and the State Treasurer is authorized to transfer each month from the State General Revenue Fund to the Public Transportation Fund in the State Treasury an amount equal to 25 percent of the net revenues realized from (i) 20 percent of the proceeds of the Food and Drug Tax, (ii) 25 percent of the proceeds of the General Sales Tax imposed by the RTA in Cook County, and (iii) one-third of the proceeds of the General Sales Tax imposed by the RTA in the Collar Counties. Public Transportation Fund Revenues may not be paid to the RTA until the RTA has certified to the Governor, the State Comptroller and the Mayor of the City that it has adopted for that Fiscal Year a budget and two-year financial plan meeting the requirements of the RTA Act. In each year since the RTA has been statutorily required to do so, it has certified that its budget has met the requirements of the RTA Act. See “SOURCES OF PAYMENT OF THE 2011 BONDS - Sales Tax Receipts – Status of State Funding.”

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

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

Distribution of RTA Sales Tax Collections, Replacement Revenues and Public Transportation Fund Revenues. The RTA Sales Tax Collections, Replacement Revenues and Public Transportation Fund Revenues to be applied to the payment of the 2011 Bonds are distributed to the Authority as described herein. Prior to the effectiveness of the tax increases imposed by the 2008 Amendatory Legislation, the RTA retained 15 percent of the RTA Sales Tax Collections then imposed and passed the remaining 85 percent to the Service Boards according to the following formula that is specified in the RTA Act and summarized in the Table below. In addition to distributions of the additional taxes imposed by the 2008 Amendatory Legislation, the Authority will continue to receive the statutory distribution summarized in the Table below of the 1.00 percent portion of the RTA sales tax rate imposed in Chicago and Cook County.

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

The 2008 Amendatory Legislation provided the Authority with a broader participation in the Region’s sales tax base. The law provides a 0.25 percent increase in the RTA Sales Tax in each of Cook, DuPage, Kane, Lake, McHenry and Will Counties. This new tax is pooled together with the Public Transportation Fund state match on the new tax and an additional 5 percent Public Transportation Fund state match on all RTA Sales Tax and the Transfer Tax Receipts. Prior to a statutory distribution of these new funds to the Service Boards, in 2008, funds were required to be first distributed as follows: \$100 million to the ADA paratransit services, \$20 million to the Suburban Community Mobility Fund and \$10 million to Innovation, Coordination and Enhancement Fund, subject to increase or decrease in each subsequent year, based upon the RTA Sales Tax Collections in the prior year. In addition, commencing in 2009 and continuing every year thereafter, the RTA is obligated to allocate \$7,500,000 for certain jobs programs, including the Suburban Job Access Fund. The remaining funds are then divided among the three Service Boards: CTA (48 percent), Metra (39 percent) and Pace (13 percent) according to the statutory formula. Table III under “HISTORICAL SALES TAX REVENUES - CTA Sales Tax Receipts and CTA Share of Discretionary Operating Funds” presents CTA Sales Tax Receipts during the period from 1999 though 2010 (estimated).

Additionally, the RTA distributes to the Authority and other Service Boards discretionary operating funds from its 15 percent retainage of collections of sales taxes imposed at the rates imposed prior to the effectiveness of the 2008 Amendatory Legislation, after payment of the RTA Obligations, of the historically collected sales taxes and the 25 percent match from Public Transportation Fund Revenues received from the State on such sales tax collections. Although the RTA Act does not specify how the remainder of such discretionary funds is to be allocated, the RTA has historically allocated between 90% and 99% of the discretionary funds to the Authority. Table III under “HISTORICAL SALES TAX REVENUES - CTA Sales Tax Receipts and CTA Share of Discretionary Operating Funds” presents the Authority’s share of discretionary operating funds during the period from 1999 through 2010 (estimated). See “INVESTMENT CONSIDERATIONS – FACTORS AFFECTING SALES TAX RECEIPTS.”

Status of State Funding

In 2010, the State of Illinois began delaying its funding to the RTA, resulting in delayed funding by the RTA of the Authority’s share of Public Transportation Fund Revenues (“PTF”). The RTA advised the Authority that, as of September 26, 2011, the State was \$330.8 million past due in its funding to the RTA. The Authority’s share of the past due funding is \$79.8 million, representing five months of expected PTF distributions for May, 2011 through September, 2011. Since 2010, the RTA has been consistently five months in arrears in making PTF payments to the Authority.

The RTA has advised the Authority that it continues to diligently seek to resolve the foregoing issue with the State, but there is no assurance that additional RTA funds allocable to the Authority will not be withheld, delayed or not paid in the future. The RTA has a right to intercept the RTA Sales Tax Collections, expected to be allocable to the Authority, to make debt service payments on certain RTA bond obligations. To date, the RTA has not exercised that right. See “CERTAIN INVESTMENT CONSIDERATIONS – Factors Affecting Sales Tax Receipts – RTA’s Right to Intercept Sales Tax Revenues.”

HISTORICAL SALES TAX REVENUES

Sales Tax Rates

The following table sets forth the sales tax rates imposed by the RTA for the periods shown. See the discussion herein under the caption “SOURCES OF PAYMENT OF THE 2011 BONDS - Sales Tax Receipts-RTA Sales Tax and RTA Sales Tax Collections.”

**TABLE I
HISTORICAL
RTA SALES TAX RATES
1998-2010**

<u>YEAR</u>	<u>COOK COUNTY FOOD & DRUG TAX</u>	<u>COOK COUNTY GENERAL SALES TAX</u>	<u>COOK COUNTY USE TAX</u>	<u>COOK COUNTY SERVICE OCCUPATION TAX</u>	<u>COLLAR COUNTY GENERAL SALES TAX</u>	<u>COLLAR COUNTY USE TAX</u>	<u>COLLAR COUNTY SERVICE OCCUPATION TAX</u>
1998	1.00%	0.75%	0.75%	0.75%	0.25%	0.25%	0.25%
1999	1.00	0.75	0.75	0.75	0.25	0.25	0.25
2000	1.00	0.75	0.75	0.75	0.25	0.25	0.25
2001	1.00	0.75	0.75	0.75	0.25	0.25	0.25
2002	1.00	0.75	0.75	0.75	0.25	0.25	0.25
2003	1.00	0.75	0.75	0.75	0.25	0.25	0.25
2004	1.00	0.75	0.75	0.75	0.25	0.25	0.25
2005	1.00	0.75	0.75	0.75	0.25	0.25	0.25
2006	1.00	0.75	0.75	0.75	0.25	0.25	0.25
2007	1.00	0.75	0.75	0.75	0.25	0.25	0.25
2008	1.25	1.00	1.00	1.00	0.75	0.75	0.75
2009	1.25	1.00	1.00	1.00	0.75	0.75	0.75
2010	1.25	1.00	1.00	1.00	0.75	0.75	0.75

Source: Regional Transportation Authority.

RTA Sales Tax Collections

The following table sets forth the amounts of RTA Sales Tax Collections (including Replacement Revenues) collected by the RTA for the periods shown. See the discussion herein under the caption "SOURCES OF PAYMENT OF THE 2011 BONDS - Sales Tax Receipts."

TABLE II
HISTORICAL
RTA SALES TAX COLLECTIONS
1998-2010⁽¹⁾

<u>YEAR</u>	<u>AMOUNT (MILLIONS)</u>	<u>PERCENT INCREASE/ (DECREASE)</u>
1998	\$576.7	3.82%
1999	613.5	6.38
2000	650.3	5.99
2001	653.5	0.50
2002	647.7	(0.89)
2003	655.0	1.13
2004	675.6	3.15
2005	700.4	3.67
2006	746.8	6.63
2007	752.9	0.82
2008	921.2	22.35
2009	894.2	(2.93)
2010	931.4	4.16

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

Source: Regional Transportation Authority.

CTA Sales Tax Receipts and CTA Share of Discretionary Operating Funds

The following table sets forth the amounts of RTA Sales Tax Collections (including Replacement Revenues) collected by the RTA and distributed to the Authority pursuant to the formulas specified in the RTA Act (the “CTA Sales Tax Receipts”), the formula based distribution of Public Transportation Fund Revenues imposed by the 2008 Amendatory Legislation (the “Additional Public Transportation Fund Revenues”), and the amounts of Public Transportation Fund Revenues distributions and the distributions from RTA’s 15 percent retainage of the RTA Sales Tax Collections (the “CTA Share of Discretionary Operating Funds”), for the periods shown. All of these sources of revenue constitute the Sales Tax Receipts. See the discussion herein under the caption “SOURCES OF PAYMENT OF THE 2011 BONDS - Sales Tax Receipts-Distribution of RTA Sales Tax Collections, Replacement Revenues and Public Transportation Fund Revenues.”

TABLE III
SALES TAX RECEIPTS
1998-2010
(\$ IN MILLIONS)

YEAR	CTA SALES TAX RECEIPTS ⁽¹⁾ SPECIFIED IN THE RTA ACT (PRIOR TO 2008 AMENDATORY LEGISLATION)	ADDITIONAL CTA SALES TAX RECEIPTS ⁽²⁾ (IMPOSED BY 2008 AMENDATORY LEGISLATION)	ADDITIONAL PUBLIC TRANSPORTATION FUND REVENUES (IMPOSED BY 2008 AMENDATORY LEGISLATION)	CTA SHARE OF DISCRETIONARY OPERATING FUNDS	TOTAL
1998	\$230.6	-	-	\$146.7	\$377.3
1999	244.8	-	-	140.0	384.8
2000	259.5	-	-	142.6	402.1
2001	258.9	-	-	160.1	419.0
2002	256.4	-	-	185.3	441.7
2003	259.5	-	-	194.0	453.5
2004	267.3	-	-	174.3	441.6
2005	277.2	-	-	164.4	441.6
2006	297.5	-	-	158.3	455.8
2007	302.0	-	-	162.3	464.3
2008	292.4	\$41.3	\$8.1	249.9 ⁽³⁾	591.7
2009	268.4	73.4	39.7	150.2 ⁽⁴⁾	531.6
2010	281.0	76.0	41.5	97.6	496.1

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

Source: Chicago Transit Authority.

PRO FORMA DEBT SERVICE COVERAGE

The table below sets forth Pro Forma Debt Service Coverage for the years 2009 through 2014. The Sales Tax Receipts for 2009 and 2010 are actual. The Sales Tax Receipts for 2011 are the budgeted amounts allocated to the Authority pursuant to RTA’s 2011 Adopted Budget, approved December 16, 2010. The Sales Tax Receipts for 2012, 2013 and 2014 are the projected amounts allocated to the Authority pursuant to the RTA ordinance adopted September 14, 2011. The projections of CTA Sales Tax Receipts, Additional Public Transportation Fund Revenues, and Discretionary Operating Funds taken together constitute the projected revenues available in any year for the payment of debt service. Should CTA Sales Tax Receipts, Additional Public Transportation Fund Revenues, and Discretionary Operating Funds be less than projected, such shortfall could affect the debt service coverage projections for calendar years 2011-2014. See “CERTAIN INVESTMENT CONSIDERATIONS.”

Fiscal Year Ending December 31

	2009	2010	2011 ⁽¹⁾	2012 ⁽²⁾	2013 ⁽²⁾	2014 ⁽²⁾
CTA Sales Tax Receipts ⁽³⁾	\$268.3	\$281.0	\$271.9	\$301.4	\$309.8	\$318.5
Additional CTA Sales Tax Receipts ⁽⁴⁾	73.4	76.0	75.7	111.5	113.4	115.3
Additional Public Transportation Fund Revenues ⁽⁵⁾	39.7	41.5	39.7	7.0	7.1	7.3
Discretionary Operating Funds	150.2 ⁽⁶⁾	97.6	128.2	168.7	173.4	178.3
Sales Tax Receipts	\$531.6	\$496.1	\$515.5	\$588.6	\$603.7	\$619.4
Aggregate Gross Annual Debt Service ⁽⁷⁾ on Pension and Retirement Debt Obligations, Series 2010 Bonds ⁽⁸⁾ and 2011 Bonds	131.4	131.4	131.4	176.6	195.4	196.7
Aggregate Annual Debt Service Coverage ⁽⁷⁾	4.0x ⁽⁶⁾	3.8x	3.9x	3.4x	3.1x	3.1x
Maximum Annual Pro Forma Debt Service on Pension and Retirement Debt Obligations, Series 2010 Bonds ⁽⁸⁾ and 2011 Bonds	244.1	244.1	244.1	244.1	244.1	244.1
Maximum Annual Pro Forma Debt Service Coverage on Pension and Retirement Debt Obligations, Series 2010 Bonds ⁽⁸⁾ and 2011 Bonds	2.2x	2.0x	2.1x	2.4x	2.5x	2.5x

- (1) Sales Tax, Additional Public Transportation Fund Revenues and Discretionary Operating Funds for fiscal year 2011 receipts are based on the RTA’s 2011 Budget, adopted by the RTA on December 16, 2010.
- (2) Sales Tax, Additional Public Transportation Fund Revenues and Discretionary Operating Funds for fiscal year 2012, 2013 and 2014 receipts are based on the RTA’s 2012 Budget and 2013-2014 Financial Plan approved by ordinance adopted on September 14, 2011.
- (3) CTA Sales Tax Receipts are based on the Authority percentage rates prior to the increases imposed by the 2008 Amendatory Legislation.
- (4) Additional CTA Sales Tax Receipts based on increases to percentage rates and the broader Regional collection base effective April 1, 2008, as contained in the 2008 Amendatory Legislation.
- (5) CTA Share of Additional Public Transportation Fund Revenues imposed by 2008 Amendatory Legislation.
- (6) Includes a \$56.147 million working cash borrowing from the RTA, which is anticipated to be repaid to the RTA no earlier than fiscal year ending 2013. If the working cash borrowing amount was not included, coverage would have been 3.6x for Aggregate Annual Debt Service Coverage and 2.0x for Maximum Annual Pro Forma Debt Service Coverage on Pension and Retirement Debt Obligations, 2010 Bonds and 2011 Bonds.
- (7) Debt service requirements under the PBC Lease are excluded from aggregate gross annual debt service and in computing aggregate annual debt service coverage.
- (8) Gross debt service does not net out any Build America Bonds subsidy payments on the Series 2010B Bonds, which are not pledged to pay debt service on the Series 2010B Bonds, but does net out capitalized interest. Transfer taxes are an additional source of payment for the Pension and Retirement Debt Obligations, but the pro forma debt service coverage assumes that there will be no transfer taxes available to pay debt service on the Pension and Retirement Debt Obligations. In 2010, \$32.4 million of transfer taxes were used to pay Pension and Retirement Debt Obligations.

THE AUTHORITY

General

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

Operations

The Authority is the nation's second largest public transit system. The Authority operates public mass transit service, including bus and rail service, in the City of Chicago and 40 surrounding suburbs. The service area of the Authority has a population of approximately 3.9 million. The Authority carries over 80% percent of the public transit riders in the six-county Northeastern Illinois region, comprised of the Counties of Cook, DuPage, Kane, Lake, McHenry and Will (the "Northeastern Illinois Transit Region" or the "Region"). The transit services provided by the Authority are part of the regional public mass transportation service system in the Region provided through the independent operations of the Authority, Metra (suburban rail) and Pace (suburban bus). The Authority, Metra and Pace are referred to collectively as the "Service Boards."

The Authority has approximately 1,800 buses that operate over 140 routes. Authority buses provide about 1.0 million passenger trips each weekday. The buses serve approximately 12,000 posted bus stops. The Authority's 1,200 rapid transit cars operate over eight routes. Authority trains provide approximately 700,000 passenger trips each weekday. These trains serve 143 stations.

Funding

On November 10, 2010, the CTA Board adopted the President's 2011 Budget Recommendations (the "President's 2011 Budget Recommendations"). The President's 2011 Budget Recommendations include, among other things, the President's 2011 Proposed Operating Budget, 2012 – 2013 Proposed Operating Financial Plan and 2011 – 2015 Capital Improvement Plan and Program. The Authority's Operating Budget for Fiscal Year 2011 (ending December 31, 2011) and its operating financial plan for Fiscal Years 2012 and 2013 were considered and approved by the CTA Board and approved by the RTA, as described below under "– RTA Financial Oversight."

The Authority's current operating budget for 2011 is approximately \$1.337 billion. Approximately 39.14% percent of the operating budget is funded from fare revenues. Another 5.86% percent of the operating budget is funded from contributions from local governments, reduced fare subsidies and other revenue sources (including investment income and advertising and concession revenues). An additional 8.46% percent is funded from transfers from grant funds received from the Federal Transit Administration of the United States Department of

Transportation (the “FTA”). The balance of the operating budget of approximately 46.53% percent or \$622.5 million is funded from public funding available through the RTA and other sources.

Approved operating budgets, including the Authority’s operating budget for fiscal year 2011, may be obtained upon request of the Authority and from the Authority’s web site, www.transitchicago.com/business/financebudget.aspx.

The Authority’s capital budget for 2011 (amended as of August 2011) is approximately \$652.5 million. The capital budget is funded from a combination of Federal, State, and local dedicated funds and grants and the proceeds of bonds. The Authority’s five-year capital budget for 2011 – 2015 is \$3.18 billion. See “Capital Plan” below.

Administration

The governing and administrative body of the Authority is the CTA Board consisting of seven members. Three CTA Board members are appointed by the Governor of the State, 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 CTA Board elects one of its members as chairman for a maximum term of three years. Each member serves for a seven-year term and until his or her successor has been appointed and qualified; *provided* that, in the case of an appointment to fill a vacancy, the appointed member serves during the remainder of the vacated term and until his or her successor has been appointed and qualified.

There are currently six members of the CTA Board and one vacancy. The current members are as follows:

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

John Bouman was appointed a temporary member of the CTA Board by Governor Pat Quinn in November 2009 and was appointed a permanent member in May 2010, for a term continuing until September 1, 2011. Though his term has expired, Mr. Bouman will remain on the CTA Board until his successor is appointed. Mr. Bouman is the President and Director of Advocacy for the Sargent Shriver National Center on Poverty Law. He also previously worked for many years at the Legal Assistance Foundation of Chicago.

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

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

Reverend Charles E. Robinson has been pastor of Holy Starlight M.B. Church in the Lawndale community since 1987. Reverend Robinson was initially appointed to the CTA Board by Mayor Richard M. Daley in 2002 and reappointed by the Mayor in 2010 for a term expiring in September 2014. Reverend Robinson has served as Chairman of the Community Bank of Lawndale's Advisory Board, President of the North Lawndale Ministers' Council, and Vice President of the Westside Baptist Ministers' Conference.

Alejandro Silva, Chairman of the Committee on Finance, Audit and Budget, was appointed to the CTA Board by Mayor Richard M. Daley in March 2004 and reappointed by the Mayor in February 2009 for a term expiring on September 1, 2015. Mr. Silva's term expires on September 1, 2015. Mr. Silva is the chairman of the Evans Food Group, Ltd., an international food production company with facilities in North America and Europe. A native of Mexico, Mr. Silva is active in numerous business and civic organizations, such as the Mexican American Chamber of Commerce and the Chicago Council on Foreign Relations.

The current officers of the Authority are as follows:

Forrest Claypool has been President of the Chicago Transit Authority since May 2011. Before that, he served as president of Rise Health. Mr. Claypool has considerable experience in government, serving two terms as a Commissioner on the Cook County Board, Superintendent/CEO of the Chicago Park District, two-time Chief of Staff for Mayor Richard M. Daley, Deputy State Treasurer, and Deputy Commissioner on the Cook County Board of Appeals. He received his Bachelor's Degree in Journalism from Southern Illinois University and law degree from the University of Illinois College of Law, where he served as Editor-in-Chief of the law review.

Karen G. Seimetz has been the General Counsel of the Chicago Transit 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 CTA, she spent 14 years in the Law Department at the City of Chicago and, before coming to CTA, 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.

Karen L. Walker, Chief Financial Officer and Treasurer, joined the Authority in March 2009. As Chief Financial Officer and Treasurer, Ms. Walker is responsible for overseeing the financial management of the nation's second largest transit agency. As Chief Financial Officer and Treasurer, Ms. Walker oversees and manages the operations of the CTA's Finance Department including accounting, audit, budget, capital development and treasury functions. She served as the Director of Financial Services for the Illinois Finance Authority prior to joining the Authority. Ms. Walker is a CPA and has over 25 years of experience in accounting,

finance and government. Her prior experience includes twelve years as a public finance investment banker with Banc of America Securities and A.G. Edwards.

Gregory Longhini is the Assistant Board Secretary of the CTA 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.

Divisions

The Authority is comprised of four major divisions: transit operations, facilities maintenance and construction, power and way maintenance and construction, and operations support. As of September 15, 2011, the Authority had approximately 10,301 employees.

Labor Relations

As of September 15, 2011, the Authority had labor agreements with seventeen different unions. The Amalgamated Transit Union Locals 241 and 308 (the “ATU Locals”) represent approximately 7,880 of the Authority’s unionized employees. The collective bargaining agreement with the ATU Locals for years 2007 through 2011 has been decided by an interest arbitrator and its execution has been approved by the CTA Board. Fourteen other unions represent another 1,314 craft union employees. Of these unions, the Authority has agreements with its craft unions (11 separate trade unions) for years 2007 through 2011. The Authority has four separate contracts with IBEW Local 134, which represents certain of the Authority’s electricians along with the controllers, yardmasters and roadmasters. The CTA Board has authorized management to execute collective bargaining agreements with those units consistent with the terms of tentative agreements. The Authority also has agreements with the Operating Engineers Local 399, the United Steelworkers Local 9777, and the IAM/Mechanics Local 701 for 2007 through 2011.

Ironworkers Local 1 covers approximately 46 employees. The Authority does not negotiate a separate bargaining agreement with them but participates in the area-wide agreement negotiated for a three-year term beginning June 1, 2009.

Capital Plan

The Authority prepares a capital plan each year which is comprised of capital projects the Authority intends to undertake within a five-year period to renovate and improve the physical infrastructure of its system, subject to available funding. Generally, available funding as used in the capital plan is based on available funding for the current year of the plan and on projected funding receipts for the four out-years of the plan. Sources of funding available to the Authority for its capital projects include: federal grant funding from the FTA under the FTA’s Urbanized Area Formula Program, 49 U.S.C. Section 5307 and Fixed Guideway Modernization Program, 49 U.S.C. Section 5309, other federal funds, funding from the State of Illinois Department of Transportation, and funding from the RTA. A capital plan may be revised from time to time, depending on changing circumstances, to add or delete specific capital projects.

The Authority's 2011-2015 \$3.18 billion Capital Improvement Program (the "Capital Plan") includes funds to purchase replacement buses and railcars and to complete the major rehabilitation of the Brown Line. Other projects will upgrade and renew the Authority's rail right-of-way, upgrade maintenance facilities, and implement vehicle overhauls for the Authority's bus and rail fleets. The Authority does not have any near-term plans to issue additional bonds following the issuance of the 2011 Bonds and the Authority's Capital Grant Receipts Revenue Bonds, Refunding Series 2011 (Federal Transit Administration Section 5307 Urbanized Area Formula Funds).

CTA Ridership Trends

Total Authority ridership for 2010 was 516.8 million, constituting an approximately 0.8 percent decline from the 2009 total. The Authority projects that ridership will increase to approximately 521.7 million in 2011. See "2011 Operating Budget" below. The following table provides a breakdown of CTA ridership trends since 2005 (including rail-to-rail transfers).

YEARLY RIDERSHIP - UNLINKED PASSENGER TRIPS*

(In Millions)

CTA	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008***</u>	<u>2009</u>	<u>2010</u>	<u>2011****</u>
Bus	305.6	299.6	309.3	328.2	318.7	306.0	306.7
Rail	<u>186.8</u>	<u>195.2</u>	<u>190.2</u>	<u>198.1</u>	<u>202.6</u>	<u>210.8</u>	<u>215.0</u>
Total CTA **	492.4	494.8	499.5	526.3	521.2	516.8	521.7
Change	3.68%	0.49%	0.95%	5.37%	-0.99%	-0.80%	0.90%

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

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

*** In 2008, the Illinois General Assembly and the Chicago City Council passed requirements that the Authority provide free bus and rail service to certain qualifying groups. On March 17, 2008 the "Seniors Ride Free" program began. On May 1, 2008, the Authority began to implement a military free ride program; this program was fully implemented on August 4, 2008. Beginning October 24, 2008, the Authority also began providing free rides to eligible persons with disabilities through the "Circuit Breaker Permit Ride Free" program. On September 1, 2011, the "Seniors Ride Free" program ended.

**** Budgeted.

2011 Operating Budget

On November 10, 2010, the CTA Board approved the Operating Budget for Fiscal Year 2011 and 2012-2013 Financial Plan. RTA's Board subsequently approved the operating budget as submitted on December 16, 2010. The Authority's Operating Budget for Fiscal Year 2011 is balanced, as required, at \$1.337 billion. The operating budget includes \$539.5 million in public funding and \$523.7 million in fare and pass revenues.

Financial Information

The 2011 Bonds are not general obligations of the Authority and the assets and revenues of the Authority (other than the Sales Tax Receipts) are not pledged for the payment of the 2011 Bonds or the interest thereon. Solely for informational purposes, the Authority has included its audited financial statements for its fiscal years 2010 and 2009 (ending December 31) attached hereto as APPENDIX B.

Debt Obligations

As of December 31, 2010, the Authority had approximately \$3.348 billion aggregate principal amount of outstanding bonded indebtedness and approximately \$253.6 million of outstanding capitalized lease obligations. The capitalized lease obligations consist of (i) \$83,340,000 of obligations under the PBC Lease incurred in connection with the acquisition and construction of the Authority's headquarters and (ii) \$170,268,000 of obligations incurred in connection with the financing of a portion of the Authority's bus fleet.

Obligations Secured by a Parity Pledge of Sales Tax Receipts. Of the amounts referenced above, approximately \$2,486,855,000 aggregate principal amount of outstanding debt is secured by a parity pledge of amounts on deposit from time to time in the Sales Tax Receipts Fund, consisting of (i) the currently outstanding Pension and Retirement Debt Obligations, which include approximately \$1,936,855,000 in aggregate principal amount of its Sales and Transfer Tax Receipts Revenue Bonds, Series 2008A (Pension Funding), and its Sales and Transfer Tax Receipts Revenue Bonds, Taxable Series 2008B (Retiree Health Care Funding), and (ii) \$550,000,000 of its outstanding Sales Tax Receipts Revenue Bonds, previously issued under the Master Indenture. The existing Pension and Retirement Debt Obligations are also secured by a pledge of certain transfer taxes. See "DEBT SERVICE REQUIREMENTS" above, for a summary of the annual debt service for the existing Pension and Retirement Debt Obligations, the outstanding Sales Tax Receipts Revenue Bonds, and the 2011 Bonds. Amounts on deposit from time to time in the Sales Tax Receipts Fund are also subject to the PBC Parity Pledge Rights.

Obligations Not Secured by a Pledge of Sales Tax Receipts. As of December 31, 2010, in addition to the capitalized lease obligations described above, the Authority had issued \$534,950,000 aggregate principal amount of outstanding Capital Grant Receipts Revenue Bonds (Federal Transit Administration Section 5307 Urbanized Area Formula Funds) (the "Section 5307 Capital Grant Bonds"), and \$325,845,000 in aggregate principal amount of outstanding Capital Grant Receipts Revenue Bonds (Federal Transit Administration Section 5309 Fixed Guidance Modernization Formula Funds). On or about the date of issuance of the 2011 Bonds, the Authority expects to issue \$56,525,000 in aggregate principal amount of its Capital Grant Receipts Revenue Bonds, Refunding Series 2011 (Federal Transit Administration Section 5307 Urbanized Area Formula Funds), refunding a portion of its previously issued and outstanding Section 5307 Capital Grant Bonds.

Pension and Other Post-Employment Benefit Obligations

The Authority maintains a trusted, single-employer, defined benefit pension plan covering substantially all full-time permanent union and nonunion employees. The Employees' Retirement Plan (the "Retirement Plan") is governed by Illinois state statute (40 ILCS 5/22-101). On August 6, 2008, the Authority issued the outstanding Pension and Retirement Debt Obligations and deposited \$1.1 billion of the proceeds into the pension trust and \$528.8 million of the proceeds into the healthcare trust. The Authority no longer has any responsibility for funding retiree healthcare benefits. As of January 1, 2011, the Authority's funded ratio for the Retirement Plan was 70.1 percent. Since January 1, 2010, the Authority has not been overdue on any portion of the required contributions to the Retirement Plan. Information relating to the Retirement Plan is contained on pages 57 through 63 of the Authority's audited financial statements for Fiscal Years 2010 and 2009 attached to this Official Statement as APPENDIX B.

The RTA

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

Pursuant to P.A. 95-708, effective as of April 1, 2008, the governing body of the RTA is its Board of Directors which consists of sixteen persons. Five directors are appointed by the Mayor of the City of Chicago with the advice and consent of the City Council. Four directors are appointed by the commissioners of the Cook County Board elected from districts in which a majority of the electors reside outside the City of Chicago. One director is appointed by the President of the Cook County Board, with the advice and consent of the commissioners of the Cook County Board, selected from districts in which a majority of electors reside outside the City of Chicago. One director each is appointed by the Chairman or Chief Executive of the County Boards of the Collar Counties, with the advice and consent of the respective County Boards. The Chairman of the Board of the RTA is appointed by eleven members of the Board with at least two votes from each subregion of Chicago, Suburban Cook County and the Collar Counties. The Chairman and each director serve five-year terms and until his or her successor has been appointed and qualified.

RTA Financial Oversight

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

The RTA Board, by the affirmative vote of twelve of its directors, determines whether the results of operations are substantially in accordance with the adopted budget and certifies such to

the Governor, the Mayor of the City of Chicago and the Auditor General of the State. If a Service Board is found not to be substantially in compliance with its budget, the RTA may direct that Service Board to submit a revised budget meeting the mandated criteria. If a Service Board's budget does not meet the criteria, the RTA may not release any funds, other than 75 percent of a Service Board's statutory share of sales tax and Public Transportation Fund revenues, to the Service Board. The RTA has never withheld funds from the Authority as the result of a non-compliant budget 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 five-year capital program.

CERTAIN INVESTMENT CONSIDERATIONS

Attention should be given to the investment considerations described below, which, among others, could affect the ability of the Authority to pay principal of and interest on the 2011 Bonds, and which could also affect the marketability of, or the market price for, the 2011 Bonds to an extent that cannot be determined.

The purchase of the 2011 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 2011 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 2011 Bonds.**

Factors Affecting Sales Tax Receipts

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

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

Changes in Economic and Demographic Conditions. Sales tax revenues historically have been sensitive to changes in local, regional and national economic conditions. For example, sales tax revenues have historically declined during economic recessions, when higher unemployment adversely affects consumption. Demographic changes in the population of the

Region may adversely affect the level of commercial and industrial activity in the Region and could reduce the number and value of taxable transactions and thus reduce the amount of Sales Tax Receipts.

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

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

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

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

RTA's Right to Intercept Sales Tax Revenues. Pursuant to the RTA Act, the RTA has the right to intercept RTA Sales Taxes allocable to the Authority in order to make debt service payments on certain RTA bond obligations, in the event that funds from the State (including, but not limited to Public Transportation Fund Revenues) are not available to make such payments.

Such occurrence may result in the RTA withholding, delaying or not making payments to the Authority of its share of certain RTA Sales Taxes. To date, the RTA has not exercised that right.

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

Limitations on Remedies of Bondholders

The remedies available upon an event of default under the Indenture are in many respects dependent upon judicial actions which are often subject to discretion and delay. The various legal opinions to be delivered concurrently with the delivery of the 2011 Bonds will be qualified as to the enforceability of the various documents by bankruptcy, insolvency or other similar laws affecting the rights of creditors generally.

No Acceleration Provision

The Indenture does not contain a provision allowing for the acceleration of the 2011 Bonds in the event of a default in the payment of principal of and interest on the 2011 Bonds when due. In the event of a default under the Indenture, the Trustee will have the right to exercise the remedies provided in the Indenture, subject to the rights of any Bond Insurers. See APPENDIX A – “THE INDENTURE – Events of Default” and “- Remedies.”

LEGAL MATTERS

Legal matters incident to the issuance of the 2011 Bonds are subject to the approving opinion of Katten Muchin Rosenman LLP, Chicago, Illinois, and Charity & Associates, P.C., Chicago, Illinois, Co-Bond Counsel. The proposed form of the opinions to be delivered by Co-Bond Counsel is attached hereto as APPENDIX E. Approval of certain other legal matters will be passed upon for the Authority by its General Counsel, and for the Underwriters by Schiff Hardin LLP, Chicago, Illinois, and Sanchez Daniels & Hoffman LLP, Chicago, Illinois, Co-Underwriters’ Counsel.

TAX MATTERS

2011 Bonds

Summary of Co-Bond Counsel Opinion

Katten Muchin Rosenman LLP and Charity & Associates, P.C., Co-Bond Counsel, are of the opinion that under existing law, interest on the 2011 Bonds is not includable in the gross income of the owners thereof for federal income tax purposes. If there is continuing compliance with the applicable requirements of the Internal Revenue Code of 1986 (the “Code”), Co-Bond Counsel are of the opinion that interest on the 2011 Bonds will continue to be excluded from the gross income of the owners thereof for federal income tax purposes. In addition, interest on the 2011 Bonds is not an item of tax preference for purposes of computing individual or corporate alternative minimum taxable income. Interest on the 2011 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.

Interest on the 2011 Bonds is not exempt from Illinois income taxes.

Exclusion from Gross Income: Requirements

The Code contains certain requirements that must be satisfied from and after the date of issuance of the 2011 Bonds in order to preserve the exclusion from gross income for federal income tax purposes of interest on the 2011 Bonds. These requirements relate to the use and investment of the proceeds of the 2011 Bonds, the payment of certain amounts to the United States, the security and source of payment of the 2011 Bonds and the use of the property financed with the proceeds of the 2011 Bonds. The Authority covenants in the Indenture to comply with these requirements. Among these specific requirements are the following:

(a) *Investment Restrictions.* Except during certain “temporary periods,” proceeds of the 2011 Bonds and investment earnings thereon (other than amounts held in a reasonably required reserve or replacement fund, if any, or as part of a “minor portion”) may generally not be invested in investments having a yield that is materially higher than the yield on the 2011 Bonds.

(b) *Rebate of Permissible Arbitrage Earnings.* Earnings from the investment of the “gross proceeds” of the 2011 Bonds in excess of the earnings that would have been realized if such investments had been made at a yield equal to the yield on the 2011 Bonds are required to be paid to the United States at periodic intervals. For this purpose, the term “gross proceeds” includes the original proceeds of the 2011 Bonds, amounts received as a result of investing such proceeds and amounts to be used to pay debt service on the 2011 Bonds.

(c) *Restrictions on Ownership and Use.* The Code includes restrictions on the ownership and use of the facilities financed with the proceeds of the 2011 Bonds. Such provisions may restrict future changes in the use of any property financed with the proceeds of the 2011 Bonds.

Covenants to Comply

The Authority covenants in the Indenture to comply with the requirements of the Code relating to the exclusion from gross income for federal income tax purposes of interest on the 2011 Bonds.

Risk of Non-Compliance

In the event that the Authority fails to comply with the requirements of the Code, interest on the 2011 Bonds may become includable in the gross income of the owners thereof for federal income tax purposes retroactively to the date of issue. In such event, the Indenture does not require acceleration of payment of principal of or interest on the 2011 Bonds or payment of any additional interest or penalties to the owners of the 2011 Bonds.

Federal Income Tax Consequences

Pursuant to Section 103 of the Code, interest on the 2011 Bonds is not includable in the gross income of the owners thereof for federal income tax purposes. However, the Code contains a number of other provisions relating to the treatment of interest on the 2011 Bonds that may affect the taxation of certain types of owners, depending on their particular tax situations. Some of the potentially applicable federal income tax provisions are described in general terms below. PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR TAX ADVISORS CONCERNING THE PARTICULAR FEDERAL INCOME TAX CONSEQUENCES OF THEIR OWNERSHIP OF THE BONDS.

(a) *Cost of Carry.* Owners of the 2011 Bonds will generally be denied a deduction for otherwise deductible interest on any debt that is treated for federal income tax purposes as incurred or continued to purchase or carry the 2011 Bonds. Financial institutions are denied a deduction for their otherwise allowable interest expense in an amount determined by reference to their adjusted basis in the 2011 Bonds.

(b) *Corporate Owners.* Interest on the 2011 Bonds is taken into account in computing earnings and profits of a corporation and consequently may be subject to federal income taxes based thereon. Thus, for example, interest on the 2011 Bonds is taken into account in computing the corporate alternative minimum tax, the branch profits tax imposed on certain foreign corporations, the passive investment income tax imposed on certain S corporations, and the accumulated earnings tax.

(c) *Individual Owners.* Receipt of interest on the 2011 Bonds may increase the amount of social security and railroad retirement benefits included in the gross income of the recipients thereof for federal income tax purposes.

(d) *Certain Blue Cross or Blue Shield Organizations.* Receipt of interest on the 2011 Bonds may reduce a special deduction otherwise available to certain Blue Cross or Blue Shield organizations.

(e) *Property or Casualty Insurance Companies.* Receipt of interest on the 2011 Bonds may reduce otherwise deductible underwriting losses of a property or casualty insurance company.

(f) *Foreign Personal Holding Company Income.* A United States shareholder of a foreign personal holding company may realize taxable income to the extent that interest on the 2011 Bonds held by such a company is properly allocable to the shareholder.

2011 Bonds Purchased at a Premium

The difference (if any) between the initial price at which a substantial amount of each maturity of the 2011 Bonds is sold to the public (the “Offering Price”) and the principal amount payable at maturity of such 2011 Bonds is given special treatment for federal income tax purposes. If the Offering Price is higher than the maturity value of a 2011 Bond, the difference between the two is known as “*bond premium.*”

Bond premium is amortized over the term of a 2011 Bond on the basis of the owner’s yield from the date of purchase to the date of maturity, compounded at the end of each accrual period of one year or less with straight line interpolation between compounding dates, as provided more specifically in the Income Tax Regulations. The amount of bond premium accruing during each period is subtracted from the owner’s tax basis in the 2011 Bond. A 2011 Bond’s adjusted tax basis is used to determine whether, and to what extent, the owner realizes taxable gain or loss upon the disposition of the 2011 Bond (whether by reason of sale, acceleration, redemption prior to maturity or payment at maturity of the 2011 Bond).

Owners who purchase 2011 Bonds at a price other than the Offering Price, after the termination of the initial public offering or at a market discount should consult their tax advisors with respect to the tax consequences of their ownership of the 2011 Bonds. In addition, owners of 2011 Bonds should consult their tax advisors with respect to the state and local tax consequences of owning the 2011 Bonds; under the applicable provisions of state or local income tax law, bond premium may give rise to taxable income at different times and in different amounts than it does for federal income tax purposes.

Change of Law

The opinions of Co-Bond Counsel and the descriptions of the tax law contained in this Official Statement are based on statutes, judicial decisions, regulations, rulings, and other official interpretations of law in existence on the date the 2011 Bonds were issued. There can be no assurance that such law or the interpretation thereof will not be changed or that new provisions of law will not be enacted or promulgated at any time while the 2011 Bonds are outstanding in a manner that would adversely affect the value or the tax treatment of ownership of the 2011 Bonds. Such potential new provisions of law may include the provisions of the American Jobs Act of 2011 or other similar legislation that, if enacted into law, would limit the value of the exclusion from gross income of interest on the 2011 Bonds for high-income taxpayers. Prospective purchasers should consult their own tax and investment advisors concerning the tax and investment consequences of a purchase of the 2011 Bonds.

MATERIAL LITIGATION

There is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, regulatory agency, public board or body, to the knowledge of the Authority, pending or threatened against the Authority in any way affecting the existence of the Authority or the titles of its officers to their respective offices or seeking to restrain or to enjoin the issuance, sale or delivery of the 2011 Bonds, the application of the proceeds thereof in accordance with the Indenture, or the receipt or application of Sales Tax Receipts or other moneys to be pledged to pay the principal of and interest on the 2011 Bonds, or the pledge thereof, or in any way contesting or affecting the validity or enforceability of the 2011 Bonds, the Indenture or any other agreement entered into in connection therewith, or in any way contesting the completeness or accuracy of this Official Statement or the powers of the Authority or its authority with respect to the 2011 Bonds, or the Indenture or any other agreement entered into in connection therewith.

RATINGS

Moody's and S&P have assigned their municipal bond ratings of "Aa3" and "AA", respectively, to the 2011 Bonds. There is no assurance that any credit ratings given to the 2011 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 2011 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

A.C. Advisory, Inc., Chicago, Illinois, and Public Financial Management, Inc., Chicago Illinois, serve as Financial Advisors to the Authority with respect to the sale of the 2011 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.

CONTINUING DISCLOSURE

In order to assist the Underwriters in complying with the requirements of Rule 15c2-12 promulgated by the Securities Exchange Commission (the "Rule"), the Authority will enter into a Continuing Disclosure Undertaking for the benefit of the Bondholders (as defined in such agreement) from time to time of the 2011 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 C. The Authority has not failed to comply with any undertaking under the Rule. See "APPENDIX C – FORM OF CONTINUING DISCLOSURE UNDERTAKING."

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

UNDERWRITING

The 2011 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 2011 Bonds (the "Bond Purchase Agreement").

Pursuant to the Bond Purchase Agreement, the Underwriters has agreed to purchase the 2011 Bonds at a purchase price of \$496,004,535.97 (representing the principal amount of the 2011 Bonds, less the Underwriters' discount of \$2,292,182.48, plus original issue premium of \$21,391,718.45). The initial public offering prices of the 2011 Bonds may be changed from time to time by the Underwriters after the 2011 Bonds have been released for sale. The Bond Purchase Agreement provides that the Underwriters will purchase all of the 2011 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.

Wells Fargo Securities is the trade name for certain capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association.

Wells Fargo Bank, National Association ("WFBNA"), the senior underwriter of the Bonds, has entered into an agreement (the "Wells Fargo Distribution Agreement") with Wells Fargo Advisors, LLC ("WFA") for the retail distribution of certain municipal securities offerings, including the 2011 Bonds. Pursuant to the Wells Fargo Distribution Agreement, WFBNA will share a portion of its underwriting compensation with respect to the 2011 Bonds with WFA. WFBNA and WFA are both subsidiaries of Wells Fargo & Company.

Morgan Stanley, parent company of Morgan Stanley & Co. LLC, an underwriter of the 2011 Bonds, has entered into a retail brokerage joint venture with Citigroup Inc. As part of the joint venture, Morgan Stanley & Co. LLC will distribute municipal securities to retail investors through the financial advisory network of a new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, Morgan Stanley & Co. LLC will compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the 2011 Bonds.

J.P. Morgan Securities LLC (“JPMS”), one of the Underwriters of the 2011 Bonds, has entered into negotiated dealer agreements (each, a “Dealer Agreement”) with each of UBS Financial Services Inc. (“UBSFS”) and Charles Schwab & Co., Inc. (“CS&Co.”) for the retail distribution of certain securities offerings, including the 2011 Bonds, at the original issue prices. Pursuant to each Dealer Agreement (if applicable to this transaction), each of UBSFS and CS&Co. may purchase 2011 Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any 2011 Bonds that such firm sells.

M.R. Beal & Company, underwriter on the transaction, has entered into an agreement (the “M.R. Beal Distribution Agreement”) with TD Ameritrade, Inc. for the retail distribution of certain municipal securities offerings, at the original issue prices. Pursuant to the M.R. Beal Distribution Agreement (as applicable for the transaction), M.R. Beal & Company will share a portion of its underlying compensation with respect to the transaction with TD Ameritrade, Inc.

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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 2011 Bonds. All of the summaries of the 2011 Bonds, the Indenture, applicable legislation, and other agreements and documents in this Official Statement are made subject to the provisions of the 2011 Bonds and such documents, respectively, and do not purport to be complete statements of any or all of such provisions. Reference is hereby made to such documents on file with the Authority for further information in connection therewith.

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

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

CHICAGO TRANSIT AUTHORITY

By: /s/ Karen L. Walker

Its: Chief Financial Officer and Treasurer

APPENDIX A

DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

DEFINITIONS OF CERTAIN TERMS

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

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

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

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

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

“Additional Bonds” means Bonds authorized and delivered on original issuance pursuant to the provisions of the Indenture summarized under the heading “THE INDENTURE-Additional Bonds” in this APPENDIX A.

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

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

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

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

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

“Authorized Denominations” means \$5,000 or any integral multiple thereof.

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

“Board” means the Chicago Transit Board.

“Bond” or *“Bonds”* means any bond or bonds, including any 2011 Bond, any Additional Bond, and any Refunding Bond, authenticated and delivered under and pursuant to the Indenture.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

“*Cost of Construction*” means with respect to the 2011 Project, the cost of acquisition, construction and equipping thereof, including the cost of acquisition of all land, rights of way, property, rights, easements and interests, acquired by the Authority for such construction, the cost of all machinery and equipment, financing charges, financial advisory fees, interest prior to and during construction and for such period after completion of construction as the Authority shall determine, the cost of design, engineering and legal expenses, plans, specifications, surveys, estimates of cost and revenues, other expenses necessary or incident to determining the feasibility or practicability of constructing the 2011 Project, administrative expenses and such other costs, expenses and funding as may be necessary or incident to the construction, the financing of such construction and the placing of the 2011 Project in operation.

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

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

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

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

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

“*Debt Service Fund*” means the Debt Service Fund established in the Indenture.

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

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

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

“*DTC*” means The Depository Trust Company, as securities depository for the 2011 Bonds.

“*DTC Participant*” means any securities broker or dealer, bank, trust company, clearing corporation or other organization depositing 2011 Bonds with DTC.

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

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

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

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

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

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

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

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

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

“*Interest Payment Date*” means any Payment Date on which interest on any Parity Obligation is payable and for the 2011 Bonds means June 1, 2012 and each June 1 and December 1 thereafter.

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

“*Interest Requirement*” for any Bond Year or any Interest Period, as the context may require, as applied to Bonds of any Series then Outstanding and each Section 207 Obligation then Outstanding, shall mean the total of the sums that would be deemed to accrue on such Bonds or Section 207 Obligations during such Bond Year or Interest Period if the interest on the Bonds or Section 207 Obligations were deemed to accrue daily during such Bond Year or Interest Period in equal amounts, and employing the methods of calculation set forth (i) in the Indenture as described in this APPENDIX A under the heading “INDENTURE – Hedging Transactions” in the case of a Qualified Swap Agreement and (ii) in the Indenture as described in this APPENDIX A under the heading “INDENTURE – Optional Tender Bonds and Variable Rate Bonds and -Variable Interest Rates” in the cases of Optional Tender Bonds and Variable Rate Bonds; *provided* that interest expense shall be excluded from the determination of Interest Requirement to the extent that such interest is to be paid from the proceeds of Bonds allocable to the payment of such interest as provided in the Supplemental Indenture authorizing the issuance of a Series of Bonds or other available moneys or from investment (but not reinvestment) earnings thereon if such proceeds shall have been invested in Investment Securities and to the extent such earnings may be determined precisely. Unless the Authority shall otherwise provide in a Supplemental Indenture, interest expense on Credit Facilities drawn upon to purchase but not to retire Bonds, except to the extent such interest exceeds the interest otherwise payable on such Bonds, shall not be included in the determination of Interest Requirement.

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

- (i) Government Obligations;
- (ii) obligations of any of the following federal agencies, which obligations are fully guaranteed by the full faith and credit of the United States of America:
 - Department of Treasury
 - Commodity Credit Corporation
 - Small Business Administration
 - U.S. Department of Housing & Urban Development (PHAs)
 - Federal Housing Administration
 - Public Housing Agencies
- (iii) direct obligations of any of the following federal agencies, which obligations are not fully guaranteed by the full faith and credit of the United States of America:
 - senior debt obligations issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC)
 - obligations of the Resolution Funding Corporation (REFCORP)
 - obligations of the Tennessee Valley Authority (TVA)
 - senior debt obligations of the Federal Home Loan Bank System (FHLB)

— senior debt obligations of other government sponsored agencies approved by each Bond Insurer

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

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

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

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

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

(ix) any repurchase agreements collateralized by securities described in clauses (i), (ii) or (iii) above with any registered broker/dealer subject to the Securities Investors' Protection Corporation jurisdiction or any commercial bank, if such broker/dealer or bank or parent holding company providing a guaranty has an uninsured, unsecured and unguaranteed obligation rated (an "unsecured rating") Prime-1 and A3 or better by Moody's Investors Service, Inc. or A- or better by Standard & Poor's Ratings Services provided (1) a specific written agreement governs the transaction; (2) the

securities are held by a depository acting solely as agent for the Trustee, and such third party is (a) a Federal Reserve Bank, or (b) a bank which is a member of the Federal Deposit Insurance Corporation and with combined capital, surplus and undivided profits of not less than \$25,000,000, and the Trustee shall have received written confirmation from such third party that it holds such securities; (3) a perfected first security interest under the Uniform Commercial Code, or book entry procedures prescribed at 31 C.F.R. 306.1 *et seq.* or 31 C.F.R. 350.0 *et seq.* in such securities is created for the benefit of the Trustee; (4) the repurchase agreement has a term of one year or less, or the collateral securities will be valued no less frequently than monthly and will be liquidated if any deficiency in the required collateral percentage is not restored within two business days of such valuation; (5) the repurchase agreement matures at least 10 days (or other appropriate liquidation period) prior to a Payment Date; and (6) the fair market value of the securities in relation to the amount of the repurchase obligations, including principal and interest, is equal to at least 100 percent;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

applicable, or at maturity or (iii) with respect to a Section 207 Obligation, the principal amount payable on each repayment date.

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

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

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

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

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

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

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

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

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

“*Qualified Reserve Credit Instrument*” means a letter of credit, surety bond or non-cancelable insurance policy issued by a domestic or foreign bank, insurance company or other

financial institution whose debt obligations are rated “Aa2” or better by Moody’s Investors Service, Inc. or “AA” or better by Standard & Poor’s Ratings Service or “AA” or better by Fitch Ratings as of the date of issuance thereof.

“*Qualified Swap Agreement*” means an agreement between the Authority and a Swap Provider under which the Authority agrees to pay the Swap Provider an amount calculated at an agreed-upon rate and/or index based upon a notional amount and the Swap Provider agrees to pay the Authority or the Authority agrees to pay the Swap Provider for a specified period of time an amount calculated at an agreed-upon rate or index based upon such notional amount, where (a) each Rating Service (if such Rating Service also rates the unsecured obligations of the Swap Provider or its guarantor) has assigned to the unsecured obligations of the Swap Provider, or of the person who guarantees the obligation of the Swap Provider to make its payments to the Authority, as of the date the swap agreement is entered into, a rating that is equal to or higher than “AA”, without regard to sub-category designations; *provided* that if three or more Rating Services have assigned ratings to any Outstanding Bonds then such “AA” rating need only be assigned by two Rating Services, and (b) the Authority has notified each Rating Service (whether or not such Rating Service also rates the unsecured obligations of the Swap Provider or its guarantor) in writing at least 15 days prior to executing and delivering the swap agreement of its intention to enter into the swap agreement.

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

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

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

“*Refunding Bonds*” means Bonds issued pursuant to the provisions of the Indenture summarized under the heading “THE INDENTURE-Refunding Bonds” in this APPENDIX A.

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

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

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

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

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

“*Second Supplemental Indenture*” means the Second Supplemental Indenture, dated as of November 1, 2011, by and between the Authority and the Trustee, as from time to time amended and supplemented.

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

“*Section 206 Obligations*” means any payment obligations incurred by the Authority to any one or more Swap Providers pursuant to the Indenture summarized under the heading “THE INDENTURE – Hedging Transactions” in this APPENDIX A.

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

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

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

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

“*Sinking Fund Installment*” means, as of any particular date of determination and with respect to the Outstanding Bonds of any Series or consisting of any Section 207 Obligation, the amount required by the Supplemental Indenture creating such Series or the instrument creating such Section 207 Obligation to be paid in any event by the Authority on a single future date for the retirement of such Bonds which mature after said future date, but does not include any amount payable by the Authority by reason only of the maturity of a Bond or Section 207 Obligation.

“*State*” means the State of Illinois.

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

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

“*Subordinated Indebtedness*” means indebtedness permitted to be issued or incurred pursuant to the provisions of the Indenture summarized herein under “SECURITY FOR THE 2011 Bonds – Subordinated Indebtedness.”

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

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

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

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

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

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

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

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

“*2011 Bonds*” means the \$476,905,000 original principal amount of Sales Tax Receipts Revenue Bonds, Series 2011 of the Authority authorized by the 2011 Bond Ordinance and the Indenture.

“*2011 Bond Ordinance*” means Ordinance Number 011-118 adopted by the Board on October 13, 2011.

“*2011 Project*” means, collectively, the following capital improvements to the Transportation System, and such additional capital improvements as may hereinafter be designated as part of the 2011 Project pursuant to an ordinance of the Authority filed with the Trustee:

Purchase Rail Cars – The purchase of rail cars to replace existing cars.

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

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

THE INDENTURE

The following is a summary of certain provisions of the Indenture pursuant to which the 2011 Bonds will be issued not summarized elsewhere in this Official Statement. This summary does not purport to be complete or definitive, and is qualified in its entirety by reference to the Indenture, copies of which are on file with the Trustee.

Authorization of Bonds

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

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

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

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

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

Variable Interest Rates

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

Refunding Bonds” or “- Right to Issue Pension and Retirement Debt Obligations” and for the purpose of determining the amount of any deposit pursuant to the provisions of the Indenture summarized below under “Deposit and Application of Tax Receipts,” interest on variable rate indebtedness, including Variable Rate Bonds and variable rate interest payments for Pension and Retirement Debt Obligations, Section 207 Obligations or under Qualified Swap Agreements, shall be calculated at the lower of (1) the maximum rate of interest permitted for such variable rate indebtedness under the terms of the Variable Rate Bonds, Pension and Retirement Debt Obligations, Section 207 Obligations or the Qualified Swap Agreement and (2) the highest rate of (a) the actual rate on the date of calculation or if the indebtedness is not yet outstanding, the initial rate (if established and binding), (b) if the indebtedness has been outstanding for at least 12 months, the average rate over the 12 months immediately preceding the date of calculation, (c) if interest on the indebtedness is excludable from gross income under the applicable provisions of the Code, the average rate over the 12 months immediately preceding the date of calculation of the Securities Industry and Financial Markets Association Municipal Swap Index, (d) if interest is not so excludable, the interest rate on Government Obligations with comparable maturities plus 75 basis points, and (e) the interest rate set forth in a Certificate filed with the Trustee.

Optional Tender Bonds and Variable Rate Bonds

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

Additional Bonds

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

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

Refunding Bonds

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

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

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

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

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

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

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

Hedging Transactions

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

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

(2) any net payments required to be made by the Authority to the Swap Provider pursuant to such Qualified Swap Agreement from Sales Tax Receipts shall be made from amounts on deposit to the credit of the appropriate Sub-Fund or Account in the Debt Service Fund designated by Supplemental Indenture to the extent that the amount then held in such Sub-Fund or Account is not sufficient to make such payment; and

(3) any net payments received by the Authority from the Swap Provider pursuant to such Qualified Swap Agreement shall be deposited to the credit of the appropriate Sub-Fund or Account in the Debt Service Fund designated by Supplemental Indenture.

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

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

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

(3) any net payments received by the Authority from the Swap Provider pursuant to such swap agreement may be treated as Sales Tax Receipts at the option of the Authority, and if so treated shall be deposited in the same manner as Sales Tax Receipts are to be deposited.

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

Credit Facilities to Secure Bonds

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

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

Right to Issue Pension and Retirement Debt Obligations

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

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

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

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

Source of Payment; Pledge of Receipts

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

any Supplemental Indenture, subject however to the right of the Authority to make periodic withdrawals from the Sales Tax Receipts Fund, the Debt Service Fund and the Consolidated Debt Service Reserve Fund all as permitted by the Indenture, and (iii) any and all other moneys and securities furnished from time to time to the Trustee by the Authority or on behalf of the Authority or by any other persons to be held by the Trustee under the terms of the Indenture; *provided* that the application of moneys to the payments due to a Swap Provider under a Qualified Swap Agreement is expressly limited to the extent provided in the Indenture. The Parity Obligations do not constitute an indebtedness of the RTA, the State, or any political subdivision of the State, including the City, other than the Authority. No lien upon any physical properties of the Authority is, or shall ever be, created by the Indenture.

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

Deposit and Application of Sales Tax Receipts

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

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

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

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

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

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

The Indenture creates and establishes with the Trustee a separate and segregated Sub-Fund within the Debt Service Fund (the "Series 2011 Dedicated Sub-Fund"). Moneys on deposit in the Series 2011 Dedicated Sub-Fund and in each Account established therein are to be held in trust by the Trustee for the sole and exclusive benefit of the Owners of the 2011 Bonds and shall not be used or available for the payment of any other Parity Obligations, except as expressly provided in the Indenture.

Consolidated Debt Service Reserve Fund

A Consolidated Debt Service Reserve Fund is established under the Master Indenture for the benefit and security of Consolidated Reserve Fund Bonds to be maintained in an amount equal to the Consolidated Reserve Requirement, which requirement may be satisfied in whole or in part with one or more Qualified Reserve Credit Instruments. The Series 2010 Bonds were

designated as Consolidated Reserve Fund Bonds, but the 2011 Bonds are not designated as Consolidated Reserve Fund Bonds.

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

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

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

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

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

Consolidated Reserve Requirement within one year of the initial deficiency in the Consolidated Debt Service Reserve Fund. If, at the time that any payment or transfer required to be made by these paragraphs is to be made, there are then Outstanding two or more Series of Consolidated Reserve Fund Bonds, then each Series and its associated Sub-Fund shall be charged for its Allocable Share of the amounts due under these paragraphs.

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

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

Debt Service Reserve Accounts

Any Supplemental Indenture pursuant to which a Series is issued may establish a Debt Service Reserve Account and a Series reserve account requirement with respect thereto. Any such Supplemental Indenture may provide that the reserve account requirement may be satisfied as a whole or in part with one or more Qualified Reserve Credit Instruments. Any such Qualified Reserve Credit Instrument shall be issued in the name of the Trustee and shall contain no restrictions on the ability of the Trustee to receive payments thereunder other than a certification of the Trustee that the funds drawn thereunder are to be used for purposes for which moneys in the Debt Service Reserve Account may be used. There is no debt service reserve account securing the 2011 Bonds.

Additional Deposits Fund

In the Second Supplemental Indenture, the Authority has established with the Trustee a separate trust fund to be designated the "Series 2011 Additional Deposits Fund" (the "Additional Deposits Fund"). Moneys on deposit in the Additional Deposits Fund shall be held in trust by the Trustee and subject to the lien of the Indenture but for the sole and exclusive benefit of the Owners of the 2011 Bonds.

At any time and from time to time the Authority may make deposits of moneys into the Additional Deposits Fund. On each Deposit Date, the Trustee, without further direction from the Authority, shall transfer moneys then held in the Additional Deposits Fund to the Series 2011 Dedicated Sub-Fund and the Accounts therein as provided in the Indenture.

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

On the first Business Day following December 1 of each year, the Trustee shall withdraw from the Additional Deposits Fund and pay over to the Authority, free from the lien of the Indenture, any funds then held in the Additional Deposits Fund.

Deposits into the Dedicated Sub-Fund and Accounts

On the 25th day of each month, or if such day is not a Business Day, the immediately preceding Business Day, commencing November 25, 2011 (each such date a "Deposit Date") there shall be deposited into the Series 2011 Dedicated Sub-Fund first, from amounts on deposit in the Additional Deposits Fund, if any and second, if needed, from amounts on deposit in the Debt Service Fund, an amount equal to the aggregate of the amounts described in the following paragraph, which amounts shall have been calculated by the Trustee on the fifth day of each month (such aggregate amount with respect to any Deposit Date being referred to herein as the "Series 2011 Deposit Requirement").

On each Deposit Date the Trustee shall make the following deposits in the following order of priority and if the moneys deposited into the Series 2011 Dedicated Sub-Fund are insufficient to make any required deposit, the deposit shall be made up on the next Deposit Date after required deposits into other Accounts having a higher priority shall have been made in full:

First: for deposit into the 2011 Interest Account, an amount equal to the lesser of (i) (A) prior to the June 25, 2012 Deposit Date, one-seventh of the interest due on the 2011 Bonds on the June 1, 2012 Interest Payment Date, other than interest payable on such Interest Payment Date from the 2011 Capitalized Interest Account; and (B) commencing on June 25, 2012 Deposit Date, one-sixth of the interest due on the 2011 Bonds on the next Interest Payment Date, other than interest payable on such Interest Payment Date from the 2011 Capitalized Interest Account; or (ii) the amount required so that the sum held in the 2011 Interest Account, when added to the interest payable from the 2011 Capitalized Interest Account on the next Interest Payment Date, will equal the interest due on the 2011 Bonds on the next Interest Payment Date; and

Second: commencing on December 25, 2020, for deposit into the 2011 Principal Account, an amount equal to the lesser of (i) one-twelfth of the Principal due on the 2011 Bonds on the first day of December next ensuing, or (i) the amount required so that the sum then held in the Principal Account will equal the Principal due on the 2011 Bonds on the first day of December next ensuing.

In addition to the Series 2011 Deposit Requirement, there shall be deposited into the Series 2011 Dedicated Sub-Fund any other moneys received by the Trustee under and pursuant to the Master Indenture or the Second Supplemental Indenture, when accompanied by directions from the person depositing such moneys that such moneys are to be paid into the Series 2011 Dedicated Sub-Fund and to one or more accounts in the Series 2011 Dedicated Sub-Fund.

Upon calculation by the Trustee of each Series 2011 Deposit Requirement, the Trustee shall notify the Authority of the Series 2011 Deposit Requirement and the Deposit Date to which it relates together with such supporting documentation and calculations as the Authority may reasonably request.

Covenant Against Pledge of Sales Tax Receipts

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

Project Account

The Trustee shall apply moneys in the 2011 Project Account for the payment of costs of issuance of the 2011 Bonds, as directed in a Certificate filed with the Trustee.

The Trustee shall make payment of the Costs of Construction of the 2011 Project from the 2011 Project Account as provided in the paragraphs below.

At the direction of the Authority expressed in a Certificate of an Authorized Officer filed with the Trustee, moneys in the 2011 Project Account shall be applied to pay such amounts as are required to be paid to the United States of America pursuant to Section 148(f) of the Code. The Trustee shall withdraw from the 2011 Project Account and pay to the Authority the amounts stated in a Certificate of an Authorized Officer filed with the Trustee and directing such withdrawal.

The Trustee shall, during construction of the 2011 Project, pay from the 2011 Project Account to the Authority, upon its requisitions therefor, at one time or from time to time, a sum or sums aggregating not more than \$5,000,000, exclusive of and in addition to reimbursements as authorized, such sums and such reimbursements to be used by the Authority as a revolving fund for the payment of Costs of Construction that cannot conveniently be paid as otherwise provided under the Indenture. Such revolving fund shall be reimbursed by the Trustee from time to time for such expenses so paid, by payments from the 2011 Project Account upon requisitions of the Authority accompanied by its certificate specifying the payee and the amount and

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

The Trustee shall, during and upon completion of construction of the 2011 Project, make payments from the 2011 Project Account in addition to those made pursuant to the preceding paragraph, in the amounts, at the times, in the manner, and on the other terms and conditions set forth in the Indenture. Before any such payment shall be made, the Authority shall file with the Trustee:

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

(2) its certificate attached to the requisitions certifying: (a) that obligations in the stated amounts have been incurred by the Authority in or about the construction of the 2011 Project, and that each item thereof is a proper charge against the 2011 Project Account and is a proper Cost of Construction and has not been paid, (b) that there has not been filed with or served upon the Authority notice of any lien, right to lien, or attachment upon, or claim affecting the right to receive payment of, any of the moneys payable under such requisition, or if any such lien, attachment or claim has been filed or served upon the Authority, that such lien, attachment or claim has been released or discharged, and (c) that such requisition contains no item representing payment on account of any retained percentages which the Authority is at the date of such certificate entitled to retain.

Upon receipt of each such requisition and accompanying certificates the Trustee shall transfer from the 2011 Project Account to the credit of a special account in the name of the Authority, an amount equal to the total of the amounts to be paid as set forth in such requisition, the amounts in such special account to be held solely for the payment of the obligations set forth in such requisition. In making such transfer, the Trustee may rely upon such requisition and accompanying certificates. Each such obligation shall be paid by check or wire transfer signed by an Authorized Officer drawn on such special account to the order of the Person named in and in accordance with the requisition. Moneys deposited to the credit of such special account shall be deemed to be a part of the 2011 Project Account until paid out as above provided. If for any reason the Authority should decide prior to the payment of any item in a requisition to stop payment of such item, an Authorized Officer shall give notice of such decision to the Trustee and thereupon the Trustee shall transfer the amount of such item from such special account to the 2011 Project Account.

The Trustee shall withdraw from the 2011 Project Account and pay to the Authority free from the lien of the Indenture any balance in the 2011 Project Account, or any part thereof, in the amounts, at the times, in the manner, and on the other terms and conditions set forth in this paragraph. Before any such withdrawal and payment shall be made, the Authority shall file with

the Trustee its certificate certifying: (1) that the 2011 Project has been completed or substantially completed, and (2) that a sum stated in the certificate is sufficient to pay, and is required to be reserved in the 2011 Project Account to pay, all Costs of Construction then remaining unpaid, including the estimated amount of any such items the amount of which is not finally determined and all claims against the Authority arising out of the construction thereof. Upon receipt of such requisition and accompanying certificates, the Trustee shall withdraw from the 2011 Project Account and pay to, or upon the order of, the Authority the amount stated in such requisition, provided that no such withdrawal shall be made if it would reduce the amount in the 2011 Project Account below the amount stated in the respective certificate of the Authority as required to be reserved in the 2011 Project Account. Moneys so withdrawn from the 2011 Project Account may be reappropriated by the Authority if such appropriation is permitted by State law and will not adversely affect the exclusion from gross income under the Code of interest on the 2011 Bonds.

Depositaries

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

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

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

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

Investment of Certain Moneys

Moneys held in the Debt Service Fund and its Sub-Funds, Accounts and Sub-Accounts shall be invested and reinvested by the Trustee at the oral direction of an Authorized Officer promptly confirmed in writing to the fullest extent practicable in Investment Securities which mature no later than necessary to provide moneys when needed for payments to be made from such Funds, Sub-Funds, Accounts and Sub-Accounts. In the event that no such directions are received by the Trustee, such amounts shall be invested in money market funds described in the definition of Investment Securities, pending receipt of investment directions. The Trustee may make any and all such investments through its own investment department or that of its affiliates or subsidiaries.

Moneys held in two or more Funds, Sub-Funds, Accounts or Sub-Accounts may be jointly invested in one or more Investment Securities, provided that such investment complies with all the terms and conditions of the Indenture relating to the investment of moneys in such Funds, Accounts or Sub-Accounts, as the case may be, and the Authority maintains books and records as to the allocation of such investment as among such Funds, Sub-Funds, Accounts or Sub-Accounts. Investment income from investments held in the various Funds, Sub-Funds, Accounts and Sub-Accounts shall remain in and be a part of the respective Funds, Sub-Funds, Accounts and Sub-Accounts in which such investments are held, except as otherwise provided in the Indenture.

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

Extension of Payment of Bonds

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

Construction of the 2011 Project

The Authority shall include the construction of the 2011 Project (and the payment of the 2011 Bonds from Sales Tax Receipts and other designated funds) in each five year capital improvement program that the Authority prepares and submits to the RTA in accordance with the Regional Transportation Authority Act.

Payment of Lawful Charges

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

Accounts and Reports

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

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

Tax Covenants

The Authority shall not take, or omit to take, any action lawful and within its power to take, which action or omission would cause interest on any 2011 Bond to become subject to federal income taxes in addition to federal income taxes to which interest on such 2011 Bond is subject on the date of original issuance thereof. The Authority shall not permit any of the proceeds of the 2011 Bonds, or any facilities financed with such proceeds, to be used in any manner that would cause any 2011 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 2011 Bonds or other moneys to be invested in any manner that would cause any 2011 Bond to constitute an “arbitrage bond” within the meaning of Section 148 of the Code or a “hedge bond” within the meaning of Section 149(g) of the Code. The Authority shall comply with the provisions of Section 148(f) of the Code relating to the rebate of certain investment earnings at periodic intervals to the United States of America.

Events of Default

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

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

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

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

(d) if a default shall occur in the performance or observance by the Authority of any other of the covenants, agreements or conditions in the Indenture or in the Parity Obligations contained, and such default shall continue for a period of 30 days after written notice thereof to the Authority by the Trustee or after written notice thereof to the Authority and to the Trustee by (a) the Owners of not less than a majority in principal amount of the Outstanding Bonds or (b) the Person entitled to payment under any other Outstanding Parity Obligation; or

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

Application of Funds After Default

The Authority covenants that if an Event of Default shall happen and shall not have been remedied, the Authority, upon demand of the Trustee, shall pay over or cause to be paid over (1) if any Pension and Retirement Debt Obligation is then outstanding, to the 2008 Trustee and (2) if no Pension and Retirement Debt Obligation is then outstanding, to the Trustee (a) the Sales Tax Receipts Fund, and (b) all Sales Tax Receipts for deposit as promptly as practicable after receipt thereof.

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

Moneys paid to the Trustee from the Sales Tax Receipts Fund pursuant to such equitable distribution or otherwise shall be applied as follows and in the following order:

(1) to the payment of the reasonable and proper charges and expenses of the Trustee, including the reasonable fees and expenses of counsel employed by it pursuant to the Indenture;

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

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

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

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

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

Remedies

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

shall deem most effectual to enforce any of its rights or to perform any of its duties under the Indenture.

All rights of action under the Indenture may be enforced by the Trustee without the possession of any of the Parity Obligations or the production thereof in any suit or other proceeding, and any such suit or other proceeding instituted by the Trustee shall be brought in its name.

All actions against the Authority under the Indenture shall be brought in a state or federal court located in the County of Cook, Illinois.

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

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

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

Restriction on Owners' Action

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

manner whatever by its or their action to affect, disturb or prejudice the pledge created by the Indenture or to enforce any right under the Indenture, except in the manner provided in the Indenture; and that all proceedings at law or in equity to enforce any provision of the Indenture shall be instituted, had and maintained in the manner provided in the Indenture and for the equal benefit of all Owners of the Outstanding Bonds, subject only to the provisions of the Indenture summarized under the caption “- Extension of Payment of Bonds” above.

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

Rights of Credit Bank or Bond Insurer

Subject to the provisions of any applicable Supplemental Indenture, any Credit Bank or any Bond Insurer shall be treated as the Owner of Bonds upon which such Credit Bank or Bond Insurer is obligated pursuant to a Credit Facility or Bond Insurance Policy, as applicable, for the purposes of calculating whether or not the Owners of the requisite percentage of Bonds then Outstanding have consented to any request, consent, directive, waiver or other action permitted to be taken by the Owners of the Bonds pursuant to the Indenture; *provided* that such Credit Bank or Bond Insurer shall cease to be so regarded as Owner of such Bonds in the event such Credit Bank or Bond Insurer is in default of its obligations under the applicable Credit Facility or Bond Insurance Policy.

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

Supplemental Indentures

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

- (1) to authorize a Series of Bonds and to specify, determine or authorize any matters and things concerning any such Series which are not contrary to or inconsistent with the Indenture;

- (2) to close the Indenture against, or impose additional limitations or restrictions on, the issuance of Parity Obligations, or of other notes, bonds, obligations or evidences of indebtedness;
- (3) to impose additional covenants or agreements to be observed by the Authority;
- (4) to impose other limitations or restrictions upon the Authority;
- (5) to surrender any right, power or privilege reserved to or conferred upon the Authority by the Indenture;
- (6) to confirm, as further assurance, any pledge of or lien upon the Trust Estate or any other moneys, securities or funds;
- (7) to cure any ambiguity, omission or defect in the Indenture;
- (8) to provide for the appointment of a successor securities depository in the event any Series of Bonds is held in book-entry only form;
- (9) to provide for the establishment of any Debt Service Reserve Account;
- (10) to provide for the appointment of any successor Fiduciary;
- (11) to conform the provisions of the Indenture to the provisions of the Act, the RTA Act, the Code, or other applicable law; and
- (12) to make any other change which, in the judgment of the Trustee, is not to the prejudice of the Trustee, any Bond Insurer, any Swap Provider, any Credit Bank or the Owners.

Powers of Amendment

Except for Supplemental Indentures described under the caption “Supplemental Indentures” above, any modification or amendment of the Indenture and of the rights and obligations of the Authority and of the Owners of the Bonds under the Indenture, in any particular, may be made by a Supplemental Indenture with the written consent given as provided in the Indenture (i) of the Owners of at least a majority in principal amount of the Bonds Outstanding at the time such consent is given, and (ii) in case less than all of the several Series of Bonds then Outstanding are affected by the modification or amendment, of the Owners of at least a majority in principal amount of the Bonds of each Series so affected and Outstanding at the time such consent is given; *provided* that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any specified like Series and maturity remain Outstanding, the consent of the Owners of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under the Indenture. No such modification or amendment shall permit a change in the terms of redemption or maturity of the principal of any Outstanding Bonds, or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof or in the

rate of interest thereon without the consent of the Owner of such Bond, or shall reduce the percentages or otherwise affect the classes of Bonds the consent of the Owners of which is required to effect any such modification or amendment, or shall change or modify any of the rights or obligations of any Fiduciary without its written assent thereto.

A Series shall be deemed to be affected by a modification or amendment of the Indenture if the same adversely affects or diminishes the rights of the Owners of Bonds of such Series. The Trustee may in its discretion determine whether or not the rights of the Owners of Bonds of any particular Series or maturity would be adversely affected or diminished by any such modification or amendment, and its determination shall be binding and conclusive on the Authority and all Owners of the Bonds.

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

Consent of Owners

The Authority may at any time authorize the execution and delivery of a Supplemental Indenture making a modification or amendment permitted by the provisions of the Indenture summarized above under “- Powers of Amendment”, to take effect when and as provided under this caption. Subject to the provisions of the Indenture summarized below under “Rights of Bond Insurers,” the rights of an owner of an Insured Bond to take action pursuant to this paragraph are abrogated and the Bond Insurer may exercise the rights of the owner of any Insured Bond that is entitled to the benefits of a Bond Insurance Policy issued by the Bond Insurer for the purpose of any approval, request, demand, consent, waiver or other instrument of similar purpose pursuant to the provisions of this caption. Upon the authorization of such Supplemental Indenture, a copy thereof shall be delivered to and held by the Trustee for the inspection of the Owners. A copy of such Supplemental Indenture (or summary thereof or reference thereto in form approved by the Trustee) together with a request to Owners for their consent thereto in form satisfactory to the Trustee, shall be mailed to the Owners, but failure to mail such copy and request shall not affect the validity of such Supplemental Indenture when consented to as in this caption provided. Such Supplemental Indenture shall not be effective unless and until, and shall take effect in accordance with its terms when (a) there shall have been filed with the Trustee (i) the written consents of the Owners of the required principal amount of Outstanding Bonds, and (ii) a Counsel’s Opinion stating that the execution and delivery of such Supplemental Indenture has been duly authorized by the Authority in accordance with the provisions of the Indenture, is authorized or permitted by the Indenture and, when effective, will be valid and binding upon the Authority, the Owners and the Trustee, and (b) a notice shall have been mailed as hereinafter provided. A certificate or certificates by the Trustee delivered to the Authority that consents have been given by the Owners of the Bonds described in such certificate or certificates of the Trustee shall be conclusive. Any such consent shall be binding upon the Owner of the Bonds giving such consent and upon any subsequent Owner of such Bonds and of

any Bonds issued in exchange therefor whether or not such subsequent Owner has notice thereof; *provided* that any consent may be revoked by any Owner of such Bonds by filing with the Trustee, prior to the time when the Trustee's written statement hereafter referred to is filed, a written revocation, with proof that such Bonds are held by the signer of such revocation. The fact that a consent has not been revoked may be proved by a certificate of the Trustee to the effect that no revocation thereof is on file with it. Any consent, or revocation thereof, may be delivered or filed prior to any mailing or publication required by the Indenture and shall not be deemed ineffective by reason of such prior delivery or filing. Within 30 days of any date on which the consents on file with the Trustee and not theretofore revoked shall be sufficient under the Indenture, the Trustee shall make and deliver to the Authority a written statement that the consents of the Owners of the required principal amount of Outstanding Bonds have been filed with the Trustee. Such written statement shall be conclusive that such consents have been so filed. Any time thereafter notice, stating in substance that the Supplemental Indenture has been consented to by the Owners of the required principal amount of Outstanding Bonds and will be effective as provided in the Indenture, shall be given by mailing to the Owners (but failure to mail such notice or any defect therein shall not prevent such Supplemental Indenture from becoming effective and binding). The Trustee shall deliver to the Authority proof of the mailing of such notice. A record, consisting of the information required or permitted by the Indenture to be delivered by or to the Trustee, shall be proof of the matters therein stated.

Defeasance

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

obligations of the Authority to the Owners of such Bonds and to the Trustee shall thereupon be discharged and satisfied.

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

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

purchase would result in the Trustee holding less than the moneys and Defeasance Obligations required to be held for the payment of all other Bonds deemed to be paid pursuant to the Indenture.

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

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

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

Rights of Bond Insurers

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

APPENDIX B

AUDITED FINANCIAL STATEMENTS OF THE AUTHORITY

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CHICAGO TRANSIT AUTHORITY

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

December 31, 2010 and 2009
(With Independent Auditors' Report Thereon)

CHICAGO TRANSIT AUTHORITY
Chicago, Illinois

FINANCIAL STATEMENTS
December 31, 2010 and 2009

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Independent Auditors' Report

Chicago Transit Board
Chicago Transit Authority
Chicago, Illinois

We have audited the accompanying financial statements of the business-type and fiduciary activities of the Chicago Transit Authority (CTA) as of and for the years ended December 31, 2010 and 2009, which collectively comprise the CTA's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the CTA's management. Our responsibility is to express opinions on these financial statements based on our audits.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the business-type and fiduciary activities of the CTA as of December 31, 2010 and 2009, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 14 in the Notes to Financial Statements, the CTA adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 53, *Accounting and Reporting for Derivative Instruments*, effective January 1, 2010.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 5, 2011 on our consideration of the CTA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 14 and the schedules of funding progress and employer contributions on pages 72 through 76 are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits for the years ended December 31, 2010 and 2009 were made for the purpose of forming opinions on the basic financial statements taken as a whole. The supplementary information included in the schedules of expenses and revenues – budget and actual for the years ended December 31, 2010 and 2009 on pages 77 and 78 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.


Crowe Horwath LLP

Chicago, Illinois
May 5, 2011

CHICAGO TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2010 and 2009

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, 2010 and 2009. 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 2010

- *Net assets totaled \$1,023,636,000 at December 31, 2010.*
- *Net assets decreased \$323,777,000 in 2010, which compares to a decrease of \$120,094,000 in 2009.*
- *Total net capital assets were \$3,919,828,000 at December 31, 2010, a decrease of 5.76% over the balance at December 31, 2009 of \$4,159,447,000.*

Financial Highlights for 2009

- *Net assets totaled \$1,347,413,000 at December 31, 2009.*
- *Net assets decreased \$120,094,000 in 2009, which compares to an increase of \$55,249,000 in 2008.*
- *Total net capital assets were \$4,159,447,000 at December 31, 2009, an increase of 3.50% over the balance at December 31, 2008 of \$4,018,650,000.*

The Financial Statements

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

Overview of the Financial Statements for Business-Type Activities

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

CHICAGO TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2010 and 2009

Balance Sheet

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

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

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

Statement of Revenues, Expenses, and Changes in Net Assets

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

Statement of Cash Flows

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

CHICAGO TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2010 and 2009

Notes to Financial Statements

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

Financial Analysis of the CTA's Business-Type Activities

Balance Sheet

The following table reflects a condensed summary of assets, liabilities, and net assets of the CTA as of December 31, 2010, 2009, and 2008:

Table 1
Summary of Assets, Liabilities, and Net Assets
December 31, 2010, 2009, and 2008
(In thousands of dollars)

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Assets:			
Current assets	\$ 598,374	\$ 554,510	\$ 544,585
Capital Assets, net	3,919,828	4,159,447	4,018,650
Noncurrent assets	<u>2,364,646</u>	<u>1,928,852</u>	<u>2,289,199</u>
Total assets	<u>\$ 6,882,848</u>	<u>\$ 6,642,809</u>	<u>\$ 6,852,434</u>
Liabilities:			
Current liabilities	\$ 500,418	\$ 549,538	\$ 604,035
Long-term liabilities	<u>5,358,794</u>	<u>4,745,858</u>	<u>4,780,892</u>
Total liabilities	<u>5,859,212</u>	<u>5,295,396</u>	<u>5,384,927</u>
Net assets:			
Invested in capital assets, net of related debt	2,800,054	3,054,994	3,065,848
Restricted for payment of leasehold obligations	39,485	35,917	40,940
Restricted for debt service	58,192	44,802	40,034
Unrestricted (unrestricted)	<u>(1,874,095)</u>	<u>(1,788,300)</u>	<u>(1,679,315)</u>
Total net assets	<u>1,023,636</u>	<u>1,347,413</u>	<u>1,467,507</u>
Total liabilities and net assets	<u>\$ 6,882,848</u>	<u>\$ 6,642,809</u>	<u>\$ 6,852,434</u>

CHICAGO TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2010 and 2009

Year Ended December 31, 2010

Current assets increased by 7.91% to \$598,374,000. The change in current assets is primarily due to an increase in cash and investments, partially offset by a decrease in material and supplies.

Capital assets (net) decreased by 5.76% to \$3,919,828,000 due to an increase in accumulated 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 increased by 22.59% to \$2,364,646,000 primarily due to increased debt activity which resulted in an increase in bond proceeds held by trustee at year end.

Current liabilities decreased 8.94% to \$500,418,000 primarily due to a decrease in accounts payable and accrued expenses. Additionally, the current portion of bonds payable decreased due to the issuance of the 2010 series refunding bonds.

Long-term liabilities increased 12.92% to \$5,358,794,000. The change in long-term liabilities is primarily due to an increase in bonds payable related to new debt issued in 2010.

Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, and reduced by the amount of outstanding indebtedness attributable to the acquisition, construction, or improvement of those assets.

The net asset balances restricted for other purposes include amounts restricted for three distinct purposes. The first restriction is for the assets restricted for future payments on the lease obligations. The second restriction is for the assets restricted for debt service payments.

The deficit in unrestricted net assets, which represent assets available for operations, increased 4.80% over the prior year.

CHICAGO TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2010 and 2009

Year Ended December 31, 2009

Current assets increased by 1.82% to \$554,510,000. The change in current assets is primarily due to an increase in cash and investments, partially offset by a decrease in receivables and materials and supplies.

Capital assets (net) increased by 3.50% to \$4,159,447,000 due to the CTA's investment in capital improvement projects. The CTA's capital improvement projects were funded primarily by the Federal Transit Administration (FTA), the Illinois Department of Transportation (IDOT), the Regional Transportation Authority (RTA), and CTA bonds.

Other non-current assets decreased by 15.74% to \$1,928,852,000 primarily due to a decrease in bond proceeds held by trustee. During 2009, bond proceeds were used to finance capital improvements. Additionally, proceeds from the pension obligation bonds were used during 2009 to fund debt service requirements.

Current liabilities decreased 9.02% to \$549,538,000 primarily due to a decrease in accounts payable and accrued expenses.

Long-term liabilities decreased 0.73% to \$4,745,858,000. The change in long-term liabilities is primarily due to a decrease in capital lease and bond payable obligations, offset by an increase in other long-term liabilities. The increase in other long-term liabilities reflects the loan payable to RTA for \$56.1 million.

Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, and reduced by the amount of outstanding indebtedness attributable to the acquisition, construction, or improvement of those assets.

The net asset balances restricted for other purposes include amounts restricted for three distinct purposes. The first restriction is for the assets restricted for future payments on the lease obligations. The second restriction is for the assets restricted for debt service payments.

The deficit in unrestricted net assets, which represent assets available for operations, increased 6.49% over the prior year.

CHICAGO TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2010 and 2009

Statement of Revenues, Expenses, and Changes in Net Assets

The following table reflects a condensed summary of the revenues, expenses, and changes in net assets (in thousands) for the years ended December 31, 2010, 2009, and 2008:

Table 2

Condensed Summary of Revenues, Expenses, and Changes in Net Assets
Years ended December 31, 2010, 2009, and 2008
(In thousands of dollars)

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Operating revenues	\$ 548,311	\$ 564,514	\$ 510,776
Operating expenses:			
Operating expenses	1,165,499	1,251,197	1,194,390
Depreciation	429,827	398,288	403,248
Total operating expenses	<u>1,595,326</u>	<u>1,649,485</u>	<u>1,597,638</u>
Operating loss	(1,047,015)	(1,084,971)	(1,086,862)
Nonoperating revenues:			
Public funding from the RTA	701,615	626,349	641,832
Interest revenue from leasing transactions	113,539	105,692	118,962
Other nonoperating revenues	54,000	42,093	51,592
Total nonoperating revenues	869,154	774,134	812,386
Nonoperating expenses	<u>(310,348)</u>	<u>(273,087)</u>	<u>(188,795)</u>
Change in net assets before capital contributions	(488,209)	(583,924)	(463,271)
Capital contributions	<u>164,432</u>	<u>463,830</u>	<u>518,520</u>
Change in net assets	(323,777)	(120,094)	55,249
Total net assets, beginning of year	<u>1,347,413</u>	<u>1,467,507</u>	<u>1,412,258</u>
Total net assets, end of year	<u>\$ 1,023,636</u>	<u>\$ 1,347,413</u>	<u>\$ 1,467,507</u>

Year Ended December 31, 2010

Total operating revenues decreased by \$16,203,000, or 2.87% primarily due to decreases in advertising and other revenues. Advertising revenue decreased \$7,606,000 over the prior year due to the 2009 receipt of a termination settlement associated with the outsourced contract. Other revenue decreased \$12,063,000 over the prior year due to one-time revenue generated in 2009.

Farebox and pass revenue increased slightly over the prior year. CTA's average fare increased from \$0.970 in 2009 to \$0.990 in 2010, an increase of approximately 2.06%. The increase in average fare was offset by a 0.8% decline in ridership from 2009 to 2010. CTA's ridership continues to be negatively impacted by the national recession and increased unemployment.

CHICAGO TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2010 and 2009

In 2010, CTA provided approximately 76.0 million free rides, an increase of 1.9 million or 2.61% over 2009. 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.

Total operating expenses decreased \$54,159,000, or 3.28%. The decrease is primarily driven by lower labor, fuel, and power expense. Labor expense decreased \$39,887,000 or 4.41% due to service reductions implemented in February 2010. CTA's workforce was reduced by approximately 10%, or more than 1,000 employees, in order to balance its 2010 budget. Fuel expense decreased \$48,476,000 due to favorable results from the fuel hedging program. In 2010, the average fuel price decreased \$1.84 to \$2.71 per gallon. Electric power decreased \$9,437,000 due to a negotiated electric supply contract that went into effect in January 2010. Materials expense decreased \$7,823,000 due to the replacement of buses well beyond their useful life and rehabilitation of older rail cars. The provision for injuries and damages increased by \$9,425,000 due to increased settlements over the prior year.

Year Ended December 31, 2009

Total operating revenues increased by \$53,738,000, or 10.52% primarily due to increases in farebox and pass revenue. Farebox and pass revenue increased approximately \$34,614,000 or 7.35% over the prior year primarily due to a fare increase that was implemented January 1, 2009. CTA's average fare increased from \$0.895 in 2008 to \$0.970 in 2009, an increase of approximately 8.4%. The increase in average fare was offset by a 1.0% decline in ridership from 2008 to 2009. CTA's ridership was negatively impacted by the national recession and increased unemployment.

In 2009, CTA provided approximately 74.1 million free rides, an increase of 18.0 million or 32.0% over 2008. The Illinois General Assembly passed legislation to allow senior citizens aged 65 and over who live in the RTA service region to take free fixed route public transit rides on CTA, Metra and Pace beginning March 17, 2008. The Chicago City Council passed an ordinance to provide free CTA rides for active military personnel beginning May 1, 2008 and disabled veterans beginning August 1, 2008. The Illinois General Assembly also enacted legislation to require free rides on fixed-route transit to be made available to any Illinois resident who has been enrolled as a person with a disability in the Illinois Circuit Breaker program.

Total operating expenses increased \$51,847,000, or 3.25%. The increase is primarily driven by higher labor expense. Labor expense increased \$50,288,000 or 5.89% due to higher wages for union staff, as well as higher workers compensation, health insurance and pension costs. Materials expense decreased \$12,668,000 due to the replacement of buses well beyond their useful life and rehabilitation of older rail cars. Fuel expense increased \$8,705,000 due to unfavorable results from the fuel hedging program. In 2009, the average fuel price increased \$0.73 to \$4.55 per gallon. Electric power increased \$2,203,000 due to faster speeds on the rail system from the reduction of slow zones. The provision for injuries and damages increased by \$7,679,000 due to increased settlements over the prior year.

CHICAGO TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2010 and 2009

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

Table 3
Operating Revenues and Expenses
Years ended December 31, 2010, 2009, and 2008
(In thousands of dollars)

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Operating Revenues:			
Farebox revenue	\$ 261,987	\$ 266,987	\$ 250,994
Pass revenue	247,192	238,726	220,105
Total farebox and pass revenue	<u>509,179</u>	<u>505,713</u>	<u>471,099</u>
Advertising and concessions	22,609	30,215	27,661
Other revenue	16,523	28,586	12,016
Total operating revenues	<u>\$ 548,311</u>	<u>\$ 564,514</u>	<u>\$ 510,776</u>
Operating Expenses:			
Labor and fringe benefits	\$ 864,039	\$ 903,926	\$ 853,638
Materials and supplies	80,077	87,900	100,568
Fuel	52,063	100,539	91,834
Electric power	28,208	37,645	35,442
Purchase of security services	33,319	32,300	32,382
Other	82,971	73,490	72,808
Operating expense before provisions	1,140,677	1,235,800	1,186,672
Provision for injuries and damages	24,822	15,397	7,718
Provision for depreciation	429,827	398,288	403,248
Total operating expenses	<u>\$ 1,595,326</u>	<u>\$ 1,649,485</u>	<u>\$ 1,597,638</u>

CHICAGO TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2010 and 2009

Capital Asset and Debt Administration

Capital Assets

The CTA invested \$8,909,628,000 (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, 2010. Net of accumulated depreciation, the CTA's capital assets at December 31, 2010 totaled \$3,919,828,000 (see Table 4). This amount represents a net decrease (including additions and disposals, net of depreciation) of \$239,619,000, or 5.76%, over the December 31, 2009 balance.

The CTA invested \$8,756,986,000 (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, 2009. Net of accumulated depreciation, the CTA's capital assets at December 31, 2009 totaled \$4,159,447,000 (see Table 4). This amount represents a net increase (including additions and disposals, net of depreciation) of \$140,797,000, or 3.50%, over the December 31, 2008 balance.

Table 4
Capital Assets by Funding Source
December 31, 2010, 2009, and 2008
(In thousands of dollars)

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Funding source:			
Federal (FTA)	\$ 5,939,524	\$ 5,848,838	\$ 5,404,290
State (principally IDOT)	601,619	605,111	601,976
RTA	1,874,878	1,822,519	1,803,146
CTA (generally prior to 1973)	124,854	124,854	124,854
Other	368,753	355,664	347,245
Total capital assets	<u>8,909,628</u>	<u>8,756,986</u>	<u>8,281,511</u>
Accumulated depreciation	<u>4,989,800</u>	<u>4,597,539</u>	<u>4,262,861</u>
Total capital assets, net	<u><u>\$ 3,919,828</u></u>	<u><u>\$ 4,159,447</u></u>	<u><u>\$ 4,018,650</u></u>

The year-over-year decrease in capital assets resulted primarily from reduced construction activity, an increase in funding used for preventative maintenance and payment of debt service obligations. Additional information on the capital assets can be found in note 6 of the audited financial statements.

CHICAGO TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2010 and 2009

Debt Administration

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

At December 31, 2010, the CTA had \$1,751,559,000 in capital lease obligations outstanding, a slight increase from December 31, 2009. The bonds payable liability increased \$553,465,000 over the prior year due to two new bond issuances during 2010.

At December 31, 2009, the CTA had \$1,750,162,000 in capital lease obligations outstanding, a 1.7% decrease from December 31, 2008. The bonds payable liability decreased \$28,715,000 over the prior year.

Additional information on the debt activity can be found in notes 7, 8, 9 and 10 of the audited financial statements.

2011 Budget and Economic Factors

On November 10, 2010, the CTA Board adopted an annual operating budget for fiscal year 2011. After adoption, the budget was submitted to and approved by the RTA on December 16, 2010. The 2011 budget is balanced at \$1,337,756,000, with no fare increase and no service reductions, representing a 5.2% increase over the 2010 budget.

The economy continues to challenge revenues in the face of increasing expenses. The main drivers of these expenses are increases due to contractual labor agreements for ATU and Craft Coalition employees, adding \$24 million to the budget; increases in healthcare, pension and other benefits totaling approximately \$74 million; and an increase in required payments of the pension obligation bond interest of \$30 million. To combat these increased expenses, management efficiencies were instituted to minimize costs wherever possible. These efficiencies include such measures as hiring control, requiring non-union employees to take six unpaid holidays and up to 12 unpaid furlough days, position elimination and continued use of our fuel and power hedging program.

System-generated revenue in 2011 is projected to be \$612.3 million, which is an increase versus the 2010 budget of 1.9%, or \$11.5 million. The CTA is projecting a corresponding increase in ridership due to holding fares steady, continued growth trends in rail ridership and a conservative projection that regional employment will modestly improve. With the continuation of mandated free rides for seniors, people with disabilities under the state's Circuit Breaker program, active military personnel and disabled veterans, the CTA estimates that it will provide 51 million free rides in 2011. This lost revenue continues to affect the bottom line to the Authority.

The CTA has been provided with a public funding mark for 2011 of \$529.3 million, an increase over the 2010 budget of 6.4%. These marks from the RTA are based on sales tax, Public Transportation Funds (PTF), and the City of Chicago's real estate transfer tax. These revenue sources are dependent on consumer spending and the real estate market. Experts predict that

CHICAGO TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2010 and 2009

2011 will continue to be a difficult year in both areas, as well as for the broader economy as a whole. Consumer confidence remains low while unemployment remains high. Economists are not expecting much of a recovery in the job market in 2011, if any recovery will be seen at all.

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,

CHICAGO TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2010 and 2009

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.

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 Comptroller, P.O. Box 7565, Chicago, IL 60680-7565.

CHICAGO TRANSIT AUTHORITY
Business-Type Activities
Balance Sheets
December 31, 2010 and 2009
(In thousands of dollars)

	<u>2010</u>	<u>2009</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 111,579	\$ 59,542
Cash and cash equivalents restricted for damage reserve	102,361	85,090
Investments	<u>26,999</u>	<u>1,007</u>
Total cash, cash equivalents, and investments	<u>240,939</u>	<u>145,639</u>
Grants receivable:		
Due from the RTA	196,141	205,633
Capital improvement projects from federal and state sources	39	33
Unbilled work in progress	63,991	85,000
Other	<u>1,928</u>	<u>70</u>
Total grants receivable	<u>262,099</u>	<u>290,736</u>
Accounts receivable, net	23,773	19,443
Materials and supplies, net	63,522	92,805
Prepaid expenses and other assets	5,883	5,887
Derivative instrument	<u>2,158</u>	<u>-</u>
Total current assets	<u>598,374</u>	<u>554,510</u>
Noncurrent assets:		
Other noncurrent assets:		
Restricted assets for repayment of leasing commitments	1,604,335	1,588,822
Bond proceeds held by trustee	674,100	250,334
Assets held by trustee for supplemental retirement plans	229	216
Net pension asset - supplemental retirement plans	19,853	20,301
Net pension asset - employee's retirement plan	37,834	44,012
Bond issue costs	<u>28,295</u>	<u>25,167</u>
Total other noncurrent assets	<u>2,364,646</u>	<u>1,928,852</u>
Capital assets:		
Capital assets not being depreciated	<u>535,062</u>	<u>679,791</u>
Capital assets being depreciated	8,374,566	8,077,195
Less accumulated depreciation	<u>(4,989,800)</u>	<u>(4,597,539)</u>
Total capital assets being depreciated, net	<u>3,384,766</u>	<u>3,479,656</u>
Total capital assets, net	<u>3,919,828</u>	<u>4,159,447</u>
Total noncurrent assets	<u>6,284,474</u>	<u>6,088,299</u>
Total assets	<u>\$ 6,882,848</u>	<u>\$ 6,642,809</u>

(Continued)

CHICAGO TRANSIT AUTHORITY
Business-Type Activities
Balance Sheets
December 31, 2010 and 2009
(In thousands of dollars)

	<u>2010</u>	<u>2009</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 98,463	\$ 129,198
Accrued payroll, vacation pay, and related liabilities	101,964	90,717
Accrued interest payable	19,460	13,081
Advances, deposits, and other	9,511	10,032
Deferred passenger revenue	42,779	38,095
Other deferred revenue	4,029	2,507
Deferred operating assistance	30,821	30,583
Deferred inflow - derivatives	2,158	-
Current portion of long-term liabilities	<u>191,233</u>	<u>235,325</u>
Total current liabilities	<u>500,418</u>	<u>549,538</u>
Long-term liabilities:		
Self-insurance claims, less current portion	135,401	124,609
Capital lease obligations, less current portion	1,681,715	1,675,361
Bonds payable, less current portion	3,392,161	2,800,037
Certificates of participation payable, less current portion	61,515	66,887
Net pension obligation - supplemental retirement plans	16,269	16,707
Net other postemployment benefits obligation	2,874	1,666
Other long-term liabilities	<u>68,859</u>	<u>60,591</u>
Total long-term liabilities	<u>5,358,794</u>	<u>4,745,858</u>
Total liabilities	<u>5,859,212</u>	<u>5,295,396</u>
Net assets:		
Invested in capital assets, net of related debt	2,800,054	3,054,994
Restricted for payment of leasehold obligations	39,485	35,917
Restricted for debt service	58,192	44,802
Unrestricted (deficit)	<u>(1,874,095)</u>	<u>(1,788,300)</u>
Total net assets	<u>1,023,636</u>	<u>1,347,413</u>
Total liabilities and net assets	<u>\$ 6,882,848</u>	<u>\$ 6,642,809</u>

CHICAGO TRANSIT AUTHORITY
Business-Type Activities
Statements of Revenues, Expenses, and Changes in Net Assets
Years ended December 31, 2010 and 2009
(In thousands of dollars)

	<u>2010</u>	<u>2009</u>
Operating revenues:		
Fare box revenue	\$ 261,987	\$ 266,987
Pass revenue	<u>247,192</u>	<u>238,726</u>
Total fare box and pass revenue	<u>509,179</u>	<u>505,713</u>
Advertising and concessions	22,609	30,215
Other revenue	<u>16,523</u>	<u>28,586</u>
Total operating revenues	<u>548,311</u>	<u>564,514</u>
Operating expenses:		
Labor and fringe benefits	864,039	903,926
Materials and supplies	80,077	87,900
Fuel	52,063	100,539
Electric power	28,208	37,645
Purchase of security services	33,319	32,300
Maintenance and repairs, utilities, rent, and other	<u>82,971</u>	<u>73,490</u>
	1,140,677	1,235,800
Provisions for injuries and damages	24,822	15,397
Provision for depreciation	<u>429,827</u>	<u>398,288</u>
Total operating expenses	<u>1,595,326</u>	<u>1,649,485</u>
Operating expenses in excess of operating revenues	<u>(1,047,015)</u>	<u>(1,084,971)</u>
Nonoperating revenues (expenses):		
Public funding from the RTA	701,615	626,349
Reduced-fare subsidies	28,245	28,239
Operating grant revenue	9,330	2,521
Contributions from local government agencies	5,000	5,000
Investment income	4,619	1,971
Gain on sale of assets	2,544	100
Recognition of leasing transaction proceeds	4,262	4,262
Interest expense on bonds	(191,568)	(155,745)
Interest revenue from leasing transactions	113,539	105,692
Interest expense on leasing transactions	<u>(118,780)</u>	<u>(117,342)</u>
Total nonoperating revenues, net	<u>558,806</u>	<u>501,047</u>
Change in net assets before capital contributions	<u>(488,209)</u>	<u>(583,924)</u>
Capital contributions	<u>164,432</u>	<u>463,830</u>
Change in net assets	<u>(323,777)</u>	<u>(120,094)</u>
Total net assets – beginning of year	<u>1,347,413</u>	<u>1,467,507</u>
Total net assets – end of year	<u>\$ 1,023,636</u>	<u>\$ 1,347,413</u>

CHICAGO TRANSIT AUTHORITY
Business-Type Activities
Statements of Cash Flows
Years ended December 31, 2010 and 2009
(In thousands of dollars)

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Cash received from fares	\$ 513,863	\$ 510,191
Payments to employees	(823,106)	(846,702)
Payments to suppliers	(300,593)	(376,187)
Other receipts	<u>35,803</u>	<u>65,991</u>
Net cash flows provided by (used in) operating activities	<u>(574,033)</u>	<u>(646,707)</u>
Cash flows from noncapital financing activities:		
Public funding from the RTA	711,345	684,916
Reduced-fare subsidies	28,245	28,239
Operating grant revenue	9,330	2,521
Contributions from local governmental agencies	<u>5,000</u>	<u>5,000</u>
Net cash flows provided by (used in) noncapital financing activities	<u>753,920</u>	<u>720,676</u>
Cash flows from capital and related financing activities:		
Interest income from assets restricted for payment of leasehold obligations	113,539	105,692
Interest expense on bonds	(184,407)	(163,693)
Decrease in restricted assets for repayment of leasing commitments	(15,513)	24,613
Repayment of lease obligations	(117,383)	(147,039)
Proceeds from issuance of bonds	551,500	-
Proceeds from other long-term liabilities	8,525	57,002
Repayment of bonds payable	(5,127)	(33,609)
Repayment of other long-term liabilities	(257)	(274)
Bond issuance costs paid	(6,076)	-
Payments for acquisition and construction of capital assets	(196,348)	(586,812)
Proceeds from the sale of property and equipment	2,544	100
Capital grants	<u>183,576</u>	<u>458,807</u>
Net cash flows provided by (used in) capital and related financing activities	<u>334,573</u>	<u>(285,213)</u>
Cash flows from investing activities:		
Purchases of unrestricted investments	(26,999)	(1,007)
Proceeds from maturity of unrestricted investments	1,007	1,000
Restricted cash and investment accounts:		
Purchases and withdrawals	(909,091)	(249,533)
Proceeds from maturities and deposits	485,312	535,879
Investment revenue	<u>4,619</u>	<u>1,971</u>
Net cash flows provided by (used in) investing activities	<u>(445,152)</u>	<u>288,310</u>
Net increase (decrease) in cash and cash equivalents	69,308	77,066
Cash and cash equivalents – beginning of year	<u>144,632</u>	<u>67,566</u>
Cash and cash equivalents – end of year	<u>\$ 213,940</u>	<u>\$ 144,632</u>

(Continued)

CHICAGO TRANSIT AUTHORITY
Business-Type Activities
Statements of Cash Flows
Years ended December 31, 2010 and 2009
(In thousands of dollars)

	<u>2010</u>	<u>2009</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	\$ (1,047,015)	\$ (1,084,971)
Adjustments to reconcile operating expenses in excess of operating revenues to net cash flows used in operating activities:		
Depreciation	429,827	398,288
(Increase) decrease in assets:		
Accounts receivable	(4,330)	10,319
Materials and supplies	29,283	10,114
Prepaid expenses and other assets	4	(1,461)
Net pension asset	6,626	47,639
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(24,913)	(30,427)
Accrued payroll, vacation pay, and related liabilities	11,247	(4,739)
Self-insurance reserves	18,783	6,578
Deferred passenger revenue	4,684	4,478
Other deferred revenue	1,522	296
Advances, deposits, and other	(521)	(3,425)
Accrued pension costs and OPEB	770	604
Net cash flows used in operating activities	<u>\$ (574,033)</u>	<u>\$ (646,707)</u>
Noncash investing and financing activities:		
Recognition of leasing proceeds	\$ 4,262	\$ 4,262
Decrease in deferred revenue – leasing transactions	(4,262)	(4,262)
Accretion of interest on lease/leaseback obligations	109,970	108,310
Retirement of fully depreciated capital assets	38,955	65,073

CHICAGO TRANSIT AUTHORITY
Fiduciary Activities
Statements of Fiduciary Net Assets
Open Supplemental Retirement Plan
December 31, 2010 and 2009
(In thousands of dollars)

	<u>2010</u>	<u>2009</u>
Assets:		
Contributions from employees	\$ 166	\$ 188
Investments at fair value:		
Short-term investments	6,160	5,861
Government agencies	14,319	4,590
Common stock	14,980	21,782
Total investments at fair value	<u>35,459</u>	<u>32,233</u>
Securities lending collateral	<u>11,031</u>	<u>8,503</u>
Total assets	<u>46,656</u>	<u>40,924</u>
Liabilities:		
Accounts payable and other liabilities	88	77
Securities lending collateral obligation	<u>11,031</u>	<u>8,503</u>
Total liabilities	<u>11,119</u>	<u>8,580</u>
Net assets held in trust for pension benefits (an unaudited schedule of funding progress is included on page 72)	<u>\$ 35,537</u>	<u>\$ 32,344</u>

CHICAGO TRANSIT AUTHORITY
Fiduciary Activities
Statements of Changes in Fiduciary Net Assets
Open Supplemental Retirement Plan
Years ended December 31, 2010 and 2009
(In thousands of dollars)

	<u>2010</u>	<u>2009</u>
Additions:		
Contributions:		
Employee	\$ 572	\$ 2,011
Employer	<u>2,600</u>	<u>7,410</u>
Total contributions	<u>3,172</u>	<u>9,421</u>
Investment income:		
Net increase (decrease) in fair value of investments	2,302	2,499
Investment income	<u>782</u>	<u>187</u>
Total investment income	<u>3,084</u>	<u>2,686</u>
Total additions	<u>6,256</u>	<u>12,107</u>
Deductions:		
Benefits paid to participants or beneficiaries	2,833	1,696
Trust fees	<u>230</u>	<u>273</u>
Total deductions	<u>3,063</u>	<u>1,969</u>
Net increase	3,193	10,138
Net assets held in trust for pension benefits:		
Beginning of year	<u>32,344</u>	<u>22,206</u>
End of year	<u>\$ 35,537</u>	<u>\$ 32,344</u>

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

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.

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 1 - ORGANIZATION (Continued)

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.

The CTA administers supplemental retirement plans that are separate, defined benefit pension plans for selected individuals. The supplemental retirement plans provide benefits to employees of the CTA in certain employment classifications. The supplemental retirement plans consist of the: (1) board member plan, (2) closed supplemental plan for members retired or terminated from employment before March 2005, including early retirement incentive, and (3) open supplemental plan for members retiring or terminating after March 2005. The CTA received qualification under Section 401(a) of the Internal Revenue Code for the supplemental plan and established a qualified trust during 2005 for members retiring after March 2005 (Open Supplemental Retirement Plan). The Open Supplemental Retirement Plan is reported in a fiduciary fund, whereas the activities for the closed and board plans are included in the financial statements of the CTA's business-type activities.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 balance sheet.

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

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

Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the CTA applies Financial Accounting Standards Board pronouncements and Accounting Principles Board opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails, and all of the GASB pronouncements issued subsequently.

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

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

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

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

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

Bond proceeds held by trustee: In 2004, 2006, 2008 and 2010, the CTA issued Capital Grant Receipt Revenue Bonds. The proceeds from each sale were placed in trust accounts restricted for financing the costs of capital improvement projects associated with each issuance.

In 2008, the CTA issued Sales Tax Revenue Bonds to fund the employee retirement plan and to create a retiree health care trust. In 2010, the CTA issued Sales Tax Revenue Build America Bonds to fund the purchase of rail cars, the scheduled rehabilitation of rail cars, and the purchase and installation of replacements and upgrades for rail system components. Project, debt service reserve, and capitalized interest accounts are maintained associated with these issuances.

In 2003, the Public Building Commission of Chicago (PBC) issued revenue bonds for the benefit of the CTA. The proceeds from the sale were placed in trust accounts restricted for financing the costs of acquisition of real property and construction of a building, and facilities, including certain furniture, fixtures, and equipment. The real property, building and facilities, and all furniture, fixtures, and equipment are owned by the PBC and leased to the CTA for use as its headquarters. In 2006, the PBC issued refunding revenue bonds to refund all outstanding Series 2003 bonds.

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

Capital Assets: All capital assets are stated at cost. Capital assets are defined as assets which (1) have a useful life of more than one year and a unit cost of more than \$5,000, (2) have a unit cost of \$5,000 or less, but which are part of a network or system conversion, or (3) were purchased with grant money. The cost of maintenance and repairs is charged to operations as

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

incurred. Interest is capitalized on constructed capital assets. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period.

Capitalized interest cost is amortized on the same basis as the related asset is depreciated. Capitalized interest expense was \$8,982,000 and \$18,397,000 during the years ended December 31, 2010 and 2009, respectively.

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

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

For the year ended December 31, 2010, the CTA implemented GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. It defines an intangible asset's required characteristics, and generally requires that they be treated as capital assets. Implementation of this statement did not have a material affect on the CTA therefore prior periods were not required to be restated. 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.

Self-insurance: The CTA is self-insured for various risks of loss, including public liability and property damage, workers' compensation, and health benefit claims, as more fully described in note 13. A liability for each self-insured risk is provided based upon the present value of the estimated ultimate cost of settling claims using a case-by-case review and historical experience. A liability for claims incurred but not reported is also provided.

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

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 balance sheets.

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

Net Assets: Equity is displayed in three components as follows:

Invested in Capital Assets, Net of Related Debt – This consists of capital assets, net of accumulated depreciation, less the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted – This consists of net assets that are legally restricted by outside parties or by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the CTA's policy to use restricted resources first, and then unrestricted resources when they are needed.

Unrestricted – This consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Retirement Plan: The CTA has a retirement plan for all nontemporary, full-time employees with service greater than one year. Pension expense recorded by the CTA includes a provision for current service costs and the amortization of past service cost over a period of approximately 30 years.

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

Classification of Revenues: The CTA has classified its revenues as either operating or nonoperating. Operating revenues include activities that have the characteristics of exchange transactions, including bus and rail passenger fares, rental fees received from concessionaires, the fees collected from advertisements on CTA property, and miscellaneous operating revenues. Nonoperating revenue includes activities that have the characteristics of nonexchange transactions, such as federal, state, and local grants and contracts.

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Estimates: The preparation of financial statements in conformity with 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 assets or change in net assets.

Implementation of New Accounting Standards: For the year ended December 31, 2010, the CTA implemented Governmental Accounting Standards Board (GASB) Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. It defines an intangible asset's required characteristics, and generally requires that they be treated as capital assets. For additional information, see the *Capital Assets* policy within note 2 above. Implementation of this statement did not have a material affect on the CTA.

For the year ended December 31, 2010, the CTA implemented GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This Statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by governmental entities. Please refer to note 14 for information regarding the impact of this Statement on CTA's financial statements.

New Pronouncements: In November 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. This Statement addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. Common examples of SCAs include long-term arrangements in which a government (the "transferor") engages a company or another government (the "operator") to operate a major capital asset in return for the right to collect fees from users of the capital asset. In these SCAs, the operator generally makes a large up-front payment to the transferor. Alternatively, the operator may build a new capital asset for the transferor and operate it on the transferor's behalf. This Statement is effective for the CTA's financial periods beginning after October 1, 2012.

In November 2010, GASB issued Statement No. 61, *The Financial Reporting Entity - Omnibus - An Amendment of GASB Statements No. 14 and No. 34*. This Statement is designed to improve financial reporting for governmental entities by amending the requirements of GASB Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 34, *Basic Financial*

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Statements-and Management's Discussion and Analysis-for State and Local Governments, to better meet the needs of users and address reporting entity issues that have come to light since GASB 14 and GASB 34 were issued in 1991 and 1999, respectively. This Statement is intended to improve the information presented about the financial reporting entity, which is comprised of a primary government and related entities (component units). In addition, this Statement amends the criteria for blending - reporting component units as if they were part of the primary government - in certain circumstances. This Statement is effective for the CTA's financial periods beginning after October 1, 2012.

In December 2010, GASB issued Statement No. 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

- Financial Accounting Standards Board (FASB) Statements and Interpretations
- Accounting Principles Board Opinions
- Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

Hereinafter, these pronouncements collectively are referred to as the "FASB and AICPA pronouncements." This Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in paragraph 7 of that Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. However, those entities can continue to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements, including this Statement. This Statement is effective for the CTA's financial periods beginning after October 1, 2012.

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 2010 and 2009, 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.

(Continued)

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

The Act requires that expenditures for operations and maintenance in excess of budget cannot be made without approval of the Chicago Transit Board. All annual appropriations lapse at fiscal year-end. The RTA, in accordance with the RTA Act, has approved for budgetary basis presentation the CTA's recognition of the amount of the injury and damage reserve and pension contribution, funded by the RTA in the approved annual budget. Provisions in excess of the approved annual budget that are unfunded are excluded from the recovery ratio calculation.

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 deferred 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.

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

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

The funding “marks” represent the amount of funds that each Service Board can expect to receive from the RTA and other sources. During 2009, the RTA amended the funding marks and directed the CTA to amend the budget. During 2010, no budget amendments were made.

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

		<u>2010</u>	<u>2009</u>
1983 Legislation	Illinois state sales tax allocation	\$ 261,616	\$ 257,749
1983 Legislation	RTA discretionary funding and other	97,648	89,086
2008 Legislation	Illinois state sales tax allocation & PTF	115,575	118,409
2008 Legislation	Real estate transfer tax	22,500	20,000
Other	RTA working cash borrowing	-	56,147
	Subtotal	<u>497,339</u>	<u>541,391</u>
RTA provision	Capital - preventative maintenance	<u>173,000</u>	<u>128,574</u>
	Total budgeted funding	<u>670,339</u>	<u>669,965</u>
Other	Actual receipts in excess of budget	<u>31,276</u>	<u>15,331</u>
	Final public funding	<u><u>\$ 701,615</u></u>	<u><u>\$ 685,296</u></u>

During 2009, the RTA authorized a working cash borrowing in order to address the cash flow needs of the service boards. CTA received approximately \$56,147,000 as a result of this borrowing which is shown as a long term liability in the financial statements. The borrowing was extended in 2011 and is projected to be repaid interest free in 2013.

Reduced-fare subsidies received from the State of Illinois were \$28,245,000 and \$28,239,000 during the years ended December 31, 2010 and 2009, respectively, for discounted services provided to the elderly, disabled, or student riders.

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 5 - CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash, Cash Equivalents, and Investments of the Business-type Activities: Cash, cash equivalents, and investments are reported in the balance sheets of the business-type activities as follows as of December 31, 2010 and 2009 (in thousands of dollars):

	<u>2010</u>	<u>2009</u>
Current assets:		
Cash and cash equivalents	\$ 111,579	\$ 59,542
Restricted for injury and damage reserve	102,361	85,090
Investments	26,999	1,007
Noncurrent assets:		
Bond proceeds held by trustee	674,100	250,334
Held by trustee for supplemental retirement plan	229	216
Total	<u>\$ 915,268</u>	<u>\$ 396,189</u>

Cash, cash equivalents, and investments of the business-type activities consist of the following as of December 31, 2010 and 2009 (in thousands of dollars):

	<u>2010</u>	<u>2009</u>
Investments:		
Certificates of deposit	\$ 4,020	\$ 4,029
Money market mutual funds	53,631	220,467
U.S. government agencies	292,225	79,019
U.S. Treasury bills	338,283	20,811
Commercial paper	213,180	56,947
Total Investments	<u>901,339</u>	<u>381,273</u>
Deposits with financial institutions	<u>13,929</u>	<u>14,916</u>
Total deposits and investments	<u>\$ 915,268</u>	<u>\$ 396,189</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.

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

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

In accordance with the Act and the Investment Policy, CTA invests in the following types of securities:

1. United States Treasury Securities (Bonds, Notes, Certificates of Indebtedness, and Bills). CTA may invest in obligations of the United States government, which are guaranteed by the full faith and credit of the United States of America as to principal and interest.
2. United States Agencies. CTA may invest, bonds, notes, debentures, or other similar obligations of the United States or its agencies. Agencies include: (a) federal land banks, federal intermediate credit banks, banks for cooperative, federal farm credit bank, or other entities authorized to issue debt obligations under the Farm Credit Act of 1971, as amended; (b) federal home loan banks and the federal home loan mortgage corporation; and (c) any other agency created by an act of Congress.
3. Bank Deposits. CTA may invest in interest-bearing savings accounts, interest-bearing certificates of deposit, or interest-bearing time deposits or other investments constituting direct obligations of any bank as defined by the Illinois Banking Act (205 ILCS 5/1 et seq.), provided that any such bank must be insured by the Federal Deposit Insurance Corporation (the FDIC).
4. Commercial Paper. CTA may invest in short-term obligations (commercial paper) of corporations organized in the United States with assets exceeding \$500 million, provided that: (a) such obligations are at the time of purchase at the highest classification established by at least two standard rating services and which mature not later than 180 days from the date of purchase; and (b) such purchases do not exceed 10% of the corporation's outstanding obligations.
5. Mutual Funds. CTA may invest in mutual funds which invest exclusively in United States government obligations and agencies.
6. Discount Obligations. CTA may invest in short-term discount obligations of the Federal National Mortgage Association.
7. Investment Pool. CTA may invest in a Public Treasurers' Investment Pool created under Section 17 of the State Treasurer Act (15 ILCS 505/17).
8. Repurchase Agreements. CTA may invest in repurchase agreements for securities that are authorized investments under the Investment Policy, subject to all of the requirements of the Act, provided that: (a) the securities shall be held by an authorized custodial bank; and (b) each transaction must be entered into under terms of an authorized master repurchase agreement.
9. Investment Certificates. CTA may invest in investment certificates issued by FDIC-insured savings banks or FDIC-insured savings and loan associations.

Custodial Credit Risk: Custodial credit risk for deposits is the risk that in the event of a financial institution failure, the CTA's deposits may not be returned. The CTA's investment policy requires that deposits which exceed the amount insured by the FDIC be collateralized, at the rate of 102% of such deposits, by bonds, notes, certificates of indebtedness, treasury bills or other securities which are guaranteed by the full faith and credit of the 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, 2010 and 2009, the CTA's bank balances were fully insured or collateralized.

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CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

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

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	180 days
U.S. Government obligations	3 years
Federal National Mortgage Assn.	3 years
Mutual funds	n.a.
Investment pool	n.a.

As of December 31, 2010, 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
Money market mutual funds	\$ 53,631	\$ 53,631	\$ -
U.S. government agencies	292,225	292,225	-
U.S. treasury bills	338,293	338,293	-
Commercial paper	213,180	213,180	-
Total	\$ 897,329	\$ 897,329	\$ -

As of December 31, 2009, 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
Money market mutual funds	\$ 220,467	\$ 220,467	\$ -
U.S. government agencies	79,019	79,019	-
U.S. treasury bills	20,811	20,811	-
Commercial paper	56,947	56,947	-
Total	\$ 377,244	\$ 377,244	\$ -

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

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

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, 2010, 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	Not rated
Money market mutual funds	\$ 53,631	\$ -	\$ -	\$ -	\$ 53,631
U.S. government agencies	292,225	248,596	-	-	43,629
U.S. treasury bills	338,293	338,293	-	-	-
Commercial paper	213,180	213,180	-	-	-
Total	<u>\$ 897,329</u>	<u>\$800,069</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 97,260</u>

As of December 31, 2009, 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	Not rated
Money market mutual funds	\$ 220,467	\$ -	\$ -	\$ -	\$ 220,467
U.S. government agencies	79,019	14,013	-	-	65,006
U.S. treasury bills	20,811	20,811	-	-	-
Commercial paper	56,947	56,947	-	-	-
Total	<u>\$ 377,244</u>	<u>\$ 91,771</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 285,473</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.

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CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

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

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 50 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, 2010, the CTA did not have any investments in a single issuer that exceeded 5 percent of the total investment balance. As of December 31, 2009, more than 5 percent of the CTA's investments are in Giro Balanced Funding Corporation commercial paper, Three Pillars Funding, LLC commercial paper, and the Federal Home Loan Bank. These investments are 7.40%, 5.97% and 16.79%, respectively, of the CTA's total investments.

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, 2010 and 2009 (in thousands of dollars):

	<u>2010</u>	<u>2009</u>
Investments, at fair value:		
Short-term investments	\$ 6,160	\$ 5,861
Government agency commingled funds	14,319	4,590
Common stock	14,980	21,782
Total	<u>\$ 35,459</u>	<u>\$ 32,233</u>

Investment Policy: The Employee Retirement Review Committee has been appointed as the fiduciary having responsibility for administering the Open Supplemental Retirement Plan, including the responsibility for allocating the assets of the trust fund among the separate accounts, for monitoring the diversification of the investments of the trust fund, for determining the propriety of investments of the trust fund in foreign securities and of maintaining the custody of foreign investments abroad, for assuring that the plan does not violate any provisions of applicable law limiting the acquisition or holding of certain securities or other property, and for the appointment and removal of an investment fiduciary. The Open Supplemental Retirement Plan is a qualified plan that is not subject to the Public Funds Investment Act.

In March 2005 the Employee Retirement Review Committee engaged a registered investment adviser under the Investment Advisers Act of 1940. The investment adviser is authorized to invest and reinvest the assets of the Open Supplemental Retirement Plan and keep the same invested, without distinction between principal and income, in any property, real, personal or mixed or share or part thereof, or part interest thereof, or part interest therein, wherever situated, and whether or not productive of income, including: capital, common and preferred stock, and short-term investments.

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

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

Interest Rate Risk: Interest rate risk is the risk that the fair value of the Open Supplemental Retirement Plan investments will decrease as a result of an increase in interest rates. The Employee Retirement Review Committee mitigates exposure to changes in interest rates by requiring that the assets of the Trust be invested in accordance with the following asset allocation guidelines:

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

As of December 31, 2010, 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	\$ 6,160	\$ 6,160	\$ -
U.S. government agency commingled funds	14,319	14,319	-
Total	\$ 20,479	\$ 20,479	\$ -

As of December 31, 2009, the maturities for the Plan's fixed-income investments are as follows (in thousands of dollars):

	Fair value	Investment Maturities (in years)	
		Less than 1	1 - 5
Short-term investment funds	\$ 5,861	\$ 5,861	\$ -
U.S. government agency commingled funds	4,590	4,590	-
Total	\$ 10,451	\$ 10,451	\$ -

Credit Risk: Credit risk is the risk that the Open Supplemental Retirement Plan will not recover its investments due to the failure of the counterparty to fulfill its obligation.

As of December 31, 2010, 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	\$ 6,160	\$ -	\$ 6,160
U.S. government agency commingled funds	14,319	14,319	-
Total	\$ 20,479	\$ 14,319	\$ 6,160

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

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

As of December 31, 2009, 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	\$ 5,861	\$ -	\$ 5,861
U.S. government agency commingled funds	4,590	4,590	-
Total	<u>\$ 10,451</u>	<u>\$ 4,590</u>	<u>\$ 5,861</u>

Custodial Credit Risk – Investments: Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Open Supplemental Retirement Plan will not be able to recover the value of its investments or collateral securities that are in the possession of a third party. The investment securities are held in trust pursuant to a written trust agreement.

Foreign Currency Risk: Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. The Plan's foreign currency risk is limited to its investments in an international equity commingled fund with a fair value of \$2,315,000 and \$1,668,000 as of December 31, 2010 and 2009, respectively.

Securities Lending: The Open Supplemental Plan of the CTA participates in a domestic and international securities lending program whereby securities are loaned to investment brokers/dealers (borrower). Securities loaned are collateralized at 102% of the domestic equity and US dollar-denominated securities that can be loaned and not less than 105% of the borrowed securities if they are denominated in different currencies. The fair value of the securities loaned was approximately \$10,758,000 and \$8,250,000 as of December 31, 2010 and 2009, respectively. The fair value of the associated collateral received was approximately \$11,031,000 and \$8,503,000 as of December 31, 2010 and 2009, respectively.

NOTE 6 - CAPITAL ASSETS

The CTA has capital grant contracts with federal, state, and regional agencies, including the U.S. Department of Transportation, Federal Transit Administration (FTA), the State of Illinois Department of Transportation (IDOT), established under the Transportation Bond Act, and the RTA. Under these contracts, the CTA has acquired rapid-transit cars, buses, and equipment and is constructing, renewing, and improving various portions of track structures and related operating facilities and systems. It is anticipated that the FTA will finance approximately 80% of the total cost of the federal projects, with the balance of the cost being financed principally by IDOT, the RTA, and CTA bonds. Commitments of approximately \$202,470,000 and \$255,008,000 have been entered into for federal and state (including local) capital grant contracts as of December 31, 2010 and 2009, respectively.

The CTA also has additional capital grant contracts, which are 100% funded by the RTA, IDOT, or CTA bonds. Commitments of approximately \$283,531,000 and \$125,620,000 have been entered into for these state and local capital grants as of December 31, 2010 and 2009, respectively.

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CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 6 - CAPITAL ASSETS (Continued)

Funding sources for transportation property and equipment of the CTA are as follows as of December 31, 2010 and 2009 (in thousands of dollars):

	<u>2010</u>	<u>2009</u>
Funding source:		
Federal (FTA)	\$ 5,939,524	\$ 5,848,838
State (principally IDOT)	601,619	605,111
RTA	1,874,878	1,822,519
CTA (generally prior to 1973)	124,854	124,854
Other	368,753	355,664
Total	<u>\$ 8,909,628</u>	<u>\$ 8,756,986</u>

Changes in capital assets for the year ended December 31, 2010 are as follows (in thousands of dollars):

	<u>Balance at January 1, 2010</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance at December 31, 2010</u>
Capital assets not being depreciated:				
Land	\$ 118,512	\$ 1,595	\$ (1,387)	\$ 118,720
Construction in process	561,279	188,615	(333,552)	416,342
Total capital assets not being depreciated	<u>679,791</u>	<u>190,210</u>	<u>(334,939)</u>	<u>535,062</u>
Capital assets being depreciated:				
Land improvements	24,304	1,047	-	25,351
Buildings	2,199,614	92,748	(3,537)	2,288,825
Transportation vehicles	2,397,236	40,248	(30,964)	2,406,520
Elevated structure track	1,760,764	108,300	(24)	1,869,040
Signal and communication	1,120,303	73,410	(882)	1,192,831
Other equipment	574,974	19,186	(2,161)	591,999
Total capital assets being depreciated	<u>8,077,195</u>	<u>334,939</u>	<u>(37,568)</u>	<u>8,374,566</u>
Less accumulated depreciation for:				
Land improvements	17,319	1,929	-	19,248
Buildings	889,359	84,243	(3,537)	970,065
Transportation vehicles	1,615,504	153,069	(30,961)	1,737,612
Elevated structure track	987,745	91,261	(24)	1,078,982
Signal and communication	617,589	60,883	(882)	677,590
Other equipment	470,023	38,442	(2,162)	506,303
Total accumulated depreciation	<u>4,597,539</u>	<u>429,827</u>	<u>(37,566)</u>	<u>4,989,800</u>
Total capital assets being depreciated, net	<u>3,479,656</u>	<u>(94,888)</u>	<u>(2)</u>	<u>3,384,766</u>
Total capital assets, net	<u>\$ 4,159,447</u>	<u>\$ 95,322</u>	<u>\$ (334,941)</u>	<u>\$ 3,919,828</u>

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 6 - CAPITAL ASSETS (Continued)

Changes in capital assets for the year ended December 31, 2009 are as follows (in thousands of dollars):

	<u>Balance at January 1, 2009</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance at December 31, 2009</u>
Capital assets not being depreciated:				
Land	\$ 119,938	\$ 48	\$ (1,474)	\$ 118,512
Construction in process	904,892	540,547	(884,160)	561,279
Total capital assets not being depreciated	<u>1,024,830</u>	<u>540,595</u>	<u>(885,634)</u>	<u>679,791</u>
Capital assets being depreciated:				
Land improvements	22,280	2,024	-	24,304
Buildings	1,911,175	290,233	(1,794)	2,199,614
Transportation vehicles	2,184,702	266,011	(53,477)	2,397,236
Elevated structure track	1,570,949	190,099	(284)	1,760,764
Signal and communication	1,012,639	108,391	(727)	1,120,303
Other equipment	554,936	27,369	(7,331)	574,974
Total capital assets being depreciated	<u>7,256,681</u>	<u>884,127</u>	<u>(63,613)</u>	<u>8,077,195</u>
Less accumulated depreciation for:				
Land improvements	15,045	2,274	-	17,319
Buildings	810,779	80,374	(1,794)	889,359
Transportation vehicles	1,515,658	153,323	(53,477)	1,615,504
Elevated structure track	924,573	63,456	(284)	987,745
Signal and communication	559,757	58,559	(727)	617,589
Other equipment	437,049	40,302	(7,328)	470,023
Total accumulated depreciation	<u>4,262,861</u>	<u>398,288</u>	<u>(63,610)</u>	<u>4,597,539</u>
Total capital assets being depreciated, net	<u>2,993,820</u>	<u>485,839</u>	<u>(3)</u>	<u>3,479,656</u>
Total capital assets, net	<u>\$ 4,018,650</u>	<u>\$ 1,026,434</u>	<u>\$ (885,637)</u>	<u>\$ 4,159,447</u>

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 7 - LONG-TERM OBLIGATIONS

Changes in long-term obligations for the year ended December 31, 2010 are as follows (in thousands of dollars):

	Balance at January 1, 2010	Additions	Reductions	Balance at December 31, 2010	Amount due beyond one year	Amount due within one year
Self insurance claims (note 13)	\$ 203,444	\$ 226,465	\$ (207,682)	\$ 222,227	\$ 135,401	\$ 86,826
Capital lease obligations:						
Capital lease obligations (note 8)	1,750,162	109,970	(108,573)	1,751,559	1,652,524	99,035
Premium on capital lease obligation	6,904	-	(481)	6,423	6,423	-
Deferred loss on cap. lease ref. (note 8)	(1,843)	-	162	(1,681)	(1,681)	-
Deferred rev. – leasing trans. (note 8)	28,711	-	(4,262)	24,449	24,449	-
Total capital lease obligations	<u>1,783,934</u>	<u>109,970</u>	<u>(113,154)</u>	<u>1,780,750</u>	<u>1,681,715</u>	<u>99,035</u>
Bonds payable:						
Bonds payable (note 9)	2,794,550	640,715	(87,615)	3,347,650	3,347,650	-
Premium on bonds payable	48,277	7,043	(11,174)	44,146	44,146	-
Deferred gain on bond refunding (note 9)	-	548	(183)	365	365	-
Total bonds payable	<u>2,842,827</u>	<u>648,306</u>	<u>(98,972)</u>	<u>3,392,161</u>	<u>3,392,161</u>	<u>-</u>
Certificates of Participation (note 10)	72,014	-	(5,127)	66,887	61,515	5,372
Net pension obligation (note 11)	16,707	-	(438)	16,269	16,269	-
Net OPEB obligation (note 12)	1,666	1,208	-	2,874	2,874	-
Other long-term liabilities:						
RTA working cash borrowing (note 4)	56,147	-	-	56,147	56,147	-
Other	4,444	8,525	(257)	12,712	12,712	-
Total other long-term liabilities	<u>60,591</u>	<u>8,525</u>	<u>(257)</u>	<u>68,859</u>	<u>68,859</u>	<u>-</u>
Total	<u>\$ 4,981,183</u>	<u>\$ 994,474</u>	<u>\$ (425,630)</u>	<u>\$ 5,550,027</u>	<u>\$ 5,358,794</u>	<u>\$ 191,233</u>

Changes in long-term obligations for the year ended December 31, 2009 are as follows (in thousands of dollars):

	Balance at January 1, 2009	Additions	Reductions	Balance at December 31, 2009	Amount due beyond one year	Amount due within one year
Self insurance claims (note 13)	\$ 196,866	\$ 253,756	\$ (247,178)	\$ 203,444	\$ 124,609	\$ 78,835
Capital lease obligations:						
Capital lease obligations (note 8)	1,779,859	108,310	(138,007)	1,750,162	1,641,589	108,573
Premium on capital lease obligation	7,396	-	(492)	6,904	6,904	-
Deferred loss on cap. lease ref. (note 8)	(2,009)	-	166	(1,843)	(1,843)	-
Deferred rev. – leasing trans. (note 8)	32,973	-	(4,262)	28,711	28,711	-
Total capital lease obligations	<u>1,818,219</u>	<u>108,310</u>	<u>(142,595)</u>	<u>1,783,934</u>	<u>1,675,361</u>	<u>108,573</u>
Bonds payable:						
Bonds payable (note 9)	2,823,265	-	(28,715)	2,794,550	2,751,760	42,790
Premium on bonds payable	54,146	-	(5,869)	48,277	48,277	-
Total bonds payable	<u>2,877,411</u>	<u>-</u>	<u>(34,584)</u>	<u>2,842,827</u>	<u>2,800,037</u>	<u>42,790</u>
Certificates of Participation (note 10)	76,908	-	(4,894)	72,014	66,887	5,127
Net pension obligation (note 11)	17,335	-	(628)	16,707	16,707	-
Net OPEB obligation (note 12)	434	1,232	-	1,666	1,666	-
Other long-term liabilities:						
RTA working cash borrowing (note 4)	-	56,147	-	56,147	56,147	-
Other	3,863	855	(274)	4,444	4,444	-
Total other long-term liabilities	<u>3,863</u>	<u>57,002</u>	<u>(274)</u>	<u>60,591</u>	<u>60,591</u>	<u>-</u>
Total	<u>\$ 4,991,036</u>	<u>\$ 420,300</u>	<u>\$ (430,153)</u>	<u>\$ 4,981,183</u>	<u>\$ 4,745,858</u>	<u>\$ 235,325</u>

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CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 8 - CAPITAL LEASE OBLIGATIONS

Capital Lease – 2008 Bus Lease: During 2008, the CTA entered into a lease-purchase agreement to finance the purchase of 150 sixty foot New Flyer articulated hybrid buses and certain related parts and equipment at an estimated aggregate cost of \$120,522,624. The terms of the agreement allow CTA to lease the buses for 12 years and retain ownership at the conclusion of the lease. Lease payments are due every June 1 and December 1 of each year, beginning on December 1, 2008. The present value of the future payments to be made by the CTA under the lease of approximately \$103,371,000 is reflected in the accompanying December 31, 2010 balance sheet as a capital lease obligation.

Capital Lease – Public Building Commission: In 2003, the Public Building Commission of Chicago (PBC) issued revenue bonds for the benefit of the CTA in the amount of \$119,020,000. The bonds were issued to pay costs associated with the acquisition of real property and construction of a building, and facilities, including certain furniture, fixtures, and equipment. The real property, building and facilities, and all furniture, fixtures, and equipment are owned by the PBC and leased to the CTA for use as its headquarters.

On October 26, 2006, the Public Building Commission of Chicago (PBC) issued Building Refunding Revenue Bonds for the benefit of the CTA in the amount of \$91,340,000. The proceeds of the bonds were used to advance refund the Public Building Commission of Chicago, Series 2003 bonds. The principal amount of the bonds refunded was \$111,120,000.

The proceeds from the sale of the 2006 bonds are being held in escrow under an escrow refunding agreement and have been invested in United States Treasury obligations. The principal amount of such obligations, together with interest earned thereon, will permit the payment of principal and interest on the refunded bonds up to an including their respective call dates. The refunded bonds are treated in the financial statements as defeased obligations. Accordingly, neither the trust account assets nor the refunded bonds appear in the accompanying financial statements. This refunding decreased 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 \$1,681,000 is recorded as a component of long-term debt in the accompanying balance sheets.

The bonds are payable from and secured by the lease entered into between the Commission and the CTA and are considered a general obligation of the CTA payable from any lawfully available funds. Bond issue costs and premium related to this transaction are presented as such on the balance sheets. The present value of the future payments to be made by the CTA under the lease of approximately \$83,340,000 is reflected in the accompanying December 31, 2010 balance sheet as a capital lease obligation.

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CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 8 - CAPITAL LEASE OBLIGATIONS (Continued)

Capital Lease – Lease and Leaseback Transactions: In 2003, CTA entered into a lease and leaseback agreement with a third party pertaining to certain buses, with a book value of \$11,214,000 at December 31, 2010. Under the bus lease agreement, which provides certain cash and tax benefits to the third party, the CTA entered into a long-term lease for applicable assets with a trust, established by the equity investor, in which the trust concurrently leased the respective assets back to the CTA under a sublease. The present value of the future payments to be made by the CTA under the lease of approximately \$16,686,000 is reflected in the accompanying December 31, 2010 balance sheet as a capital lease obligation.

During 2002, CTA entered into two lease and leaseback agreements with a third party pertaining to certain buses (lots 1 and 2), with a book value of \$16,383,000 at December 31, 2010. Under the bus lease agreements, which provide certain cash and tax benefits to the third party, the CTA entered into a long-term lease for applicable assets with a trust, established by the equity investor, in which the trust concurrently leased the respective assets back to the CTA under a sublease. The present value of the future payments to be made by the CTA under the lease of approximately \$121,631,000 is reflected in the accompanying December 31, 2010 balance sheet as a capital lease obligation.

During 2002, CTA entered into a lease and leaseback agreement with a third party pertaining to certain qualified technological equipment (QTE), with a book value of \$7,147,000 at December 31, 2010. Under the QTE lease agreement, which provides certain cash and tax benefits to the third party, the CTA entered into a long-term lease for applicable assets with a trust, established by the equity investor, in which the trust concurrently leased the respective assets back to the CTA under a sublease. The present value of the future payments to be made by the CTA under the lease of approximately \$91,377,000 is reflected in the accompanying December 31, 2010 balance sheet as a capital lease obligation.

During 1998, the CTA entered into a lease and leaseback agreement (the 1998 Agreement) with a third party pertaining to a rail line (green line), with a book value of \$223,719,000 at December 31, 2010. The 1998 Agreement, which provides certain cash and tax benefits to the third party, also provides for a trust established by the CTA to lease the rail line to an equity investor trust (the 1998 Equity Trust), which would then lease the facilities back to another trust established by the CTA under a separate lease (the 1998 Lease). The present value of the future payments to be made by the CTA under the lease of approximately \$182,215,000 is reflected in the accompanying December 31, 2010 balance sheet as a capital lease obligation.

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 8 - CAPITAL LEASE OBLIGATIONS (Continued)

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 \$45,897,000 at December 31, 2010. The 1997 Agreements, which provide certain cash and tax benefits to the third party, also provide for a trust established by the CTA to lease the facilities to an equity investor trust (the Equity Trust), which would then lease the facilities back to another trust established by the CTA under separate leases (the Leases). The CTA received certain funds as prepayment by the Equity Trust. The funds have been deposited in designated investment accounts sufficient to meet the payments required under the Leases and are recorded as assets restricted for repayment of leasing commitments. The Equity Trust has a security interest in the deposits to guarantee the payments due by the CTA and may take possession of the facilities upon a default by the CTA under the Lease. No other lease payments are required until the end of each lease. The present value of the future payments to be made by the CTA under the leases (net of the payment due from the Equity Trust in 2023 and 2024) of approximately \$40,354,000 is reflected in the accompanying December 31, 2010 balance sheet as a capital lease obligation.

In connection with the 1997 Agreements, the CTA also received proceeds of \$11,900,000. The FTA has approved the CTA's right to the benefit received from these transactions. The CTA has elected to defer recognition of the proceeds over the remaining lease term.

During 1996, the CTA entered into similar lease and leaseback agreements (the 1996 Agreements) with a third party pertaining to certain of its facilities, with a book value of \$47,828,000 at December 31, 2010. The 1996 Agreements, which provide certain cash and tax benefits to the third party, also provide for a trust established by the CTA to lease the facilities to an equity investor trust (the 1996 Equity Trust), which would then lease the facilities back to another trust established by the CTA under a separate lease (the 1996 Lease). The present value of the future payments to be made by the CTA under the leases (net of the payment due from the 1996 Equity Trust in 2024) of approximately \$40,343,000 is reflected in the accompanying December 31, 2010 balance sheet as a capital lease obligation.

In connection with the 1996 Agreements, the CTA also received proceeds of \$10,900,000 and agreed to make approximately \$80,000,000 of improvements to one of the facilities. The FTA has approved the CTA's right to the benefit received from these transactions. The CTA has elected to defer recognition of the proceeds over the remaining lease term.

During 1995, the CTA entered into sale/leaseback agreements (the 1995 Agreements) with third parties. The 1995 Agreements provided for the CTA to sell and lease back certain rail equipment totaling \$487,100,000 at cost for a period of nineteen years beginning on the date of the respective transaction. At December 31, 2010, the total payments due under the 1995 Agreements are recorded as capital lease obligations totaling \$1,072,242,000. The CTA has deposited funds into designated cash and investment accounts sufficient to meet all of its payment obligations throughout the terms of the leases, and recorded such amounts as assets restricted for repayment of leasing commitments.

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 8 - CAPITAL LEASE OBLIGATIONS (Continued)

Change in Capital Lease Obligations: Changes in capital leases for the year ended December 31, 2010 are as follows (in thousands of dollars):

<u>2010</u>	<u>Beginning balance</u>	<u>Additions*</u>	<u>Principal paid</u>	<u>Ending balance</u>	<u>Interest paid</u>	<u>Due in one year</u>
2003 (Buses)	\$ 16,112	\$ 574	\$ -	\$ 16,686	\$ 574	\$ 1,255
2002 (Buses)	117,236	5,909	(1,514)	121,631	5,909	767
2002 (QTE)	85,922	5,455	-	91,377	5,455	-
1998 (Green)	201,316	13,712	(32,813)	182,215	13,712	22,304
1997 (Garages)	37,531	2,823	-	40,354	2,823	-
1996 (Skokie/Racine)	37,581	2,762	-	40,343	2,762	-
1995 (Pickle)	1,057,205	78,735	(63,698)	1,072,242	78,735	63,698
Total lease/leasebacks	<u>1,552,903</u>	<u>109,970</u>	<u>(98,025)</u>	<u>1,564,848</u>	<u>109,970</u>	<u>88,024</u>
2006 PBC lease	85,295	-	(1,955)	83,340	4,233	2,035
2008 Bus Lease	111,964	-	(8,593)	103,371	4,844	8,976
Total capital lease obligation	<u>\$ 1,750,162</u>	<u>\$ 109,970</u>	<u>\$ (108,573)</u>	<u>\$ 1,751,559</u>	<u>\$ 119,047</u>	<u>\$ 99,035</u>

* Additions include accretion of interest.

Changes in capital leases for the year ended December 31, 2009 are as follows (in thousands of dollars):

<u>2009</u>	<u>Beginning balance</u>	<u>Additions*</u>	<u>Principal paid</u>	<u>Ending balance</u>	<u>Interest paid</u>	<u>Due in one year</u>
2003 (Buses)	\$ 15,557	\$ 555	\$ -	\$ 16,112	\$ 555	\$ -
2002 (Buses)	111,611	5,625	-	117,236	5,625	1,514
2002 (QTE)	80,793	5,129	-	85,922	5,129	-
1998 (Green)	251,355	14,164	(64,203)	201,316	14,164	32,813
1997 (Garages)	34,906	2,625	-	37,531	2,625	-
1996 (Skokie/Racine)	35,008	2,573	-	37,581	2,573	-
1995 (Pickle)	1,043,264	77,639	(63,698)	1,057,205	77,639	63,698
Total lease/leasebacks	<u>1,572,494</u>	<u>108,310</u>	<u>(127,901)</u>	<u>1,552,903</u>	<u>108,310</u>	<u>98,025</u>
2006 PBC lease	87,175	-	(1,880)	85,295	4,310	1,955
2008 Bus Lease	120,190	-	(8,226)	111,964	5,210	8,593
Total capital lease obligation	<u>\$ 1,779,859</u>	<u>\$ 108,310</u>	<u>\$ (138,007)</u>	<u>\$ 1,750,162</u>	<u>\$ 117,830</u>	<u>\$ 108,573</u>

* Additions include accretion of interest.

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 8 - CAPITAL LEASE OBLIGATIONS (Continued)

Future Minimum Lease Payments: As of December 31, 2010, future minimum lease payments for capital leases, in the aggregate, are as follows (in thousands of dollars):

2011	\$	107,650
2012		106,444
2013		186,066
2014		177,709
2015		100,156
2016 – 2020		1,623,350
2021 – 2025		241,684
2026 – 2030		30,939
2031 – 2035		<u>18,564</u>
Total minimum lease payments		2,592,562
Less interest		<u>841,003</u>
		<u><u>\$ 1,751,559</u></u>

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 bear interest ranging from 3.60% to 5.25%. Interest is payable semiannually on June 1 and December 1 and the bonds mature 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.

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

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>
2011	\$ -	\$ 6,786	\$ 6,786
2012	23,545	6,173	29,718
2013	24,780	4,905	29,685
2014	26,085	3,602	29,687
2015	27,385	2,232	29,617
2016	28,820	757	29,577
Total	<u>\$ 130,615</u>	<u>\$ 24,455</u>	<u>\$ 155,070</u>

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ -	\$ 12,024	\$ 12,024
2012	9,520	11,841	21,361
2013	9,900	11,460	21,360
2014	10,395	10,965	21,360
2015	10,915	10,445	21,360
2016	11,465	9,900	21,365
2017	34,070	9,412	43,482
2018	35,770	7,709	43,479
2019	37,560	5,920	43,480
2020	39,435	4,042	43,477
2021	41,410	2,071	43,481
Total	<u>\$ 240,440</u>	<u>\$ 95,789</u>	<u>\$ 336,229</u>

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 9 - BONDS PAYABLE (Continued)

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>
2011	\$ -	\$ 6,959	\$ -	\$ 5,250	\$ -	\$ 12,209
2012	6,460	6,813	-	5,250	6,460	12,063
2013	6,750	6,515	-	5,250	6,750	11,765
2014	7,060	6,207	-	5,250	7,060	11,457
2015	7,365	5,887	-	5,250	7,365	11,137
2016	7,700	5,529	-	5,250	7,700	10,779
2017	8,085	5,134	-	5,250	8,085	10,384
2018	8,490	4,720	-	5,250	8,490	9,970
2019	8,910	4,274	-	5,250	8,910	9,524
2020	9,380	3,794	-	5,250	9,380	9,044
2021	9,870	3,288	-	5,250	9,870	8,538
2022	10,390	2,757	18,005	5,250	28,395	8,007
2023	10,935	2,197	18,955	4,305	29,890	6,502
2024	11,510	1,608	19,950	3,310	31,460	4,918
2025	12,115	987	20,995	2,262	33,110	3,249
2026	12,750	335	22,095	1,160	34,845	1,495
Total	<u>\$ 137,770</u>	<u>\$ 67,004</u>	<u>\$ 100,000</u>	<u>\$ 74,037</u>	<u>\$ 237,770</u>	<u>\$ 141,041</u>

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 9 - BONDS PAYABLE (Continued)

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.

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ -	\$ 8,649	\$ 8,649
2012	7,395	8,464	15,859
2013	7,765	8,085	15,850
2014	8,150	7,688	15,838
2015	8,560	7,270	15,830
2016	8,990	6,831	15,821
2017	9,440	6,358	15,798
2018	9,935	5,837	15,772
2019	10,480	5,276	15,756
2020	11,055	4,711	15,766
2021	11,610	4,145	15,755
2022	12,190	3,550	15,740
2023	12,800	2,909	15,709
2024	13,470	2,169	15,639
2025	14,280	1,337	15,617
2026	15,135	454	15,589
Total	<u>\$ 161,255</u>	<u>\$ 83,733</u>	<u>\$ 244,988</u>

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 9 - BONDS PAYABLE (Continued)

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

Public Act 94-839 required the CTA to make contributions to its retirement system in an amount which, together with the contributions of its participants, interest earned on investments and other income, were sufficient to bring the total assets of the retirement system up to 90% of its total actuarial liabilities by the end of fiscal year 2058. Additionally, Public Act 94-839 required that the Retirement Plan's pension and retiree health care programs be separated into two distinct trusts by December 31, 2008.

Public Act 95-708 modified this directive slightly and added a number of other requirements. First, a new Retirement Plan Trust will be created to manage the Retirement Plan assets. Second, CTA contributions and employee contributions were increased. Third, in addition to the requirement that the Retirement Plan be 90% funded by 2059, there is a new requirement that the Retirement Plan be funded at a minimum of 60% by September 15, 2009. Any deviation from the stated projections could result in a directive from the State of Illinois Auditor General to increase the CTA and employee contributions. Fourth, Public Act 95-708 authorized the CTA to issue \$1.9 billion in pension obligation bonds to fund the pension and retiree health care. Finally, the legislation provides that CTA will have no future responsibility for retiree healthcare costs after the bond funding. In accordance with Public Act 95-708, all retiree healthcare benefits are to be paid from the newly established Retiree Health Care Trust no earlier than January 1, 2009, but no later than July 1, 2009.

The Series 2008A and 2008B bonds bear interest ranging from 5.1% to 6.8%. Scheduled interest on the 2008A and 2008B bonds will be funded through June 1, 2009 and June 1, 2010, respectively, with bond proceeds and interest earnings thereon. Interest is payable semiannually on June 1 and December 1 and the bonds mature serially on June 1, 2012 through June 1, 2040.

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

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>
2011	\$ -	\$ 131,367	\$ 131,367
2012	10,020	131,367	141,387
2013	25,720	130,854	156,574
2014	27,040	129,538	156,578
2015	28,740	127,834	156,574
2016	30,550	126,024	156,574
2017	32,475	124,099	156,574
2018	34,520	122,053	156,573
2019	36,695	119,878	156,573
2020	39,010	117,566	156,576
2021	41,465	115,109	156,574
2022	44,080	112,496	156,576
2023	47,120	109,455	156,575
2024	50,370	106,205	156,575
2025	53,845	102,730	156,575
2026	57,560	99,015	156,575
2027	61,530	95,044	156,574
2028	65,775	90,799	156,574
2029	70,310	86,261	156,571
2030	75,165	81,410	156,575
2031	80,350	76,225	156,575
2032	85,895	70,681	156,576
2033	91,820	64,755	156,575
2034	98,150	58,421	156,571
2035	104,925	51,649	156,574
2036	112,165	44,411	156,576
2037	119,905	36,672	156,577
2038	128,170	28,400	156,570
2039	137,015	19,558	156,573
2040	146,470	10,105	156,575
Total	<u>\$ 1,936,855</u>	<u>\$ 2,719,981</u>	<u>\$ 4,656,836</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 5.62%. Scheduled interest on the 2010 bonds will be 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, 2010 and 2009

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>
2011	\$ -	\$ 2,179	\$ -	\$ 30,798	\$ -	\$ 32,977
2012	-	2,179	-	30,798	-	32,977
2013	-	2,179	-	30,798	-	32,977
2014	-	2,179	-	30,798	-	32,977
2015	5,715	2,179	-	30,798	5,715	32,977
2016	7,675	1,905	-	30,798	7,675	32,703
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
	<u>\$ 44,645</u>	<u>\$ 15,891</u>	<u>\$ 505,355</u>	<u>\$ 703,181</u>	<u>\$ 550,000</u>	<u>\$ 719,072</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.

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 9 - BONDS PAYABLE (Continued)

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.

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 Statement of Net Assets. 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 \$78,527,992 and resulted in an economic loss (difference between the present values of the debt service payments on the old and new debt) of \$3,099,253. The balance of the defeased debt as of December 31, 2010 was \$44,825,000.

The difference between the reacquisition price and the net carrying amount of the bonds refunded by the Capital Grant Receipts Revenue Bonds, Refunding Series 2010 of \$547,766 was deferred and is being amortized over the 24 months. The deferred amount ending balance for the year ended December 31, 2010 was \$365,177. Amortization of the deferred amount on the refunding was \$182,589 for the year ended December 31, 2010.

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>
2011	\$ -	\$ 3,301	\$ -	\$ 1,386	\$ -	\$ 4,687
2012	-	3,195	-	1,341	-	4,536
2013	-	3,195	-	1,341	-	4,536
2014	-	3,195	-	1,341	-	4,536
2015	-	3,195	-	1,341	-	4,536
2016	-	3,195	-	1,341	-	4,536
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	3,195	13,085	1,341	44,255	4,536
2028	32,725	1,636	13,735	687	46,460	2,323
	<u>\$ 63,895</u>	<u>\$ 56,057</u>	<u>\$ 26,820</u>	<u>\$ 23,529</u>	<u>\$ 90,715</u>	<u>\$ 79,586</u>

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CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

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>
2011	\$ -	\$ 208,699	\$ 208,699
2012	56,940	207,421	264,361
2013	74,915	204,582	279,497
2014	78,730	200,763	279,493
2015	88,680	196,431	285,111
2016-2020	503,275	907,740	1,411,015
2021-2025	542,650	760,306	1,302,956
2026-2030	560,745	587,649	1,148,394
2031-2035	595,005	411,656	1,006,661
2036-2040	846,710	178,410	1,025,120
	<u>\$ 3,347,650</u>	<u>\$ 3,863,657</u>	<u>\$ 7,211,307</u>

NOTE 10 – CERTIFICATES OF PARTICIPATION

In August 2008, the Bank of New York Mellon issued Certificates of Participation (COP) totaling \$78,430,000 on behalf of the CTA with an interest rate of 4.725%. The COPs 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 with the Bank of New York Mellon. The obligation of the CTA to make installment payments is an unconditional obligation of the CTA and is payable from legally available funds. The installment agreement requires the CTA to make annual COP payments to the Bank of New York Mellon which are remitted to the COP holders. Scheduled maturity dates occur at various times through December 1, 2020. The total principal and interest remaining to be paid on the COPs as of December 31, 2010, is \$84,702,000. Principal and interest paid in 2010 was approximately \$8,470,000. As of December 31, 2010, debt service requirements to maturity are as follows (in thousands of dollars):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 5,372	\$ 3,098	\$ 8,470
2012	5,629	2,841	8,470
2013	5,898	2,572	8,470
2014	6,180	2,290	8,470
2015	6,476	1,994	8,470
2016	6,786	1,684	8,470
2017	7,110	1,360	8,470
2018	7,450	1,020	8,470
2019	7,807	663	8,470
2020	8,179	293	8,472
	<u>\$ 66,887</u>	<u>\$ 17,815</u>	<u>\$ 84,702</u>

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CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 11 - DEFINED BENEFIT PENSION PLANS

Plan Descriptions

Employees' Plan: The CTA maintains a trusted, single-employer, defined benefit pension plan covering substantially all full-time permanent union and nonunion employees. The Employees' Retirement Plan (the Employees' Plan) is governed by Illinois state statute (40 ILCS 5/22-101).

Substantially all nontemporary, full-time employees who have completed one year of continuous service are covered by the Employees' Plan. Employees hired prior to September 5, 2001, who retire at or after age 65 (or after completion of 25 years of continuous service with full benefits or at age 55 with reduced benefits) are entitled to an annual retirement benefit payable monthly for life, in an amount based upon compensation and credited service. For those hired after September 5, 2001, but prior to January 18, 2008, benefits will be reduced if they retire before age 65 or with less than a combination of age 55 and 25 years of service. Employees hired after January 18, 2008, are eligible for unreduced pension benefits after attaining age 64 with at least 25 years of service, and reduced pension benefits after attaining age 55 with at least 10 years of service. The minimum age and service requirements do not apply to members on a disability allowance. The covered payroll for the Employees' Plan for the fiscal years ended December 31, 2010 and 2009 was \$567,173,000 and \$578,521,000, respectively. The Employees' Plan issues a separate stand-alone financial report and which is available at <http://www.ctaretirement.org/index.asp>.

Supplemental Plans: The CTA also maintains separate single-employer, defined benefit pension plans for selected individuals. The supplemental retirement plans provide benefits to employees of the CTA in certain employment classifications. The supplemental retirement plans consist of the: (1) board member plan (2) closed supplemental plan for members that retired or terminated employment before March 2005, including early retirement incentive, and (3) open supplemental plan for active employees and members retiring after March 2005. CTA received qualification under Section 401(a) of the Internal Revenue Code for the supplemental plan and established a qualified trust during 2005 for members retiring after March 2005 (Open Supplemental Retirement Plan). The Open Supplemental Retirement Plan is reported in a fiduciary fund, whereas the activities for the closed and board plans are included in the financial statements of the CTA's business-type activities.

Employees of the applicable employment classifications are eligible for retirement benefits based on age and service credit as follows: at age 65; or age 55 with at least 3 years of service credit; or at any age with 25 or more years of service credit. The minimum monthly benefit is equal to one-sixth of one percent of the employee's average annual compensation multiplied by the years of continuous service. Employees are eligible for disability benefits after completion of 10 years of creditable continuous service or 5 years if the disability results from an on the job injury. Death benefits are payable to a designated beneficiary upon death of the retiree. Qualified dependents of the employee are eligible for monthly survivor benefits if the option was selected by the retiree. Any purchased service credit will be included in the determination of retirement benefits.

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CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 11 - DEFINED BENEFIT PENSION PLANS (Continued)

During fiscal year 2008, a Voluntary Termination Program (“VTP”) was adopted which allowed certain active members eligible for Supplemental Plan benefits under the qualified trust to purchase up to five years of “air-time” and the first year of eligibility service if not included in the determination of pension benefits. Members purchase “air-time” and the first year of eligibility service at a rate of six percent of pay. Members were required to make the election within a certain window of time and agree to terminate employment at a date accepted by the Board. Approximately 70 members have elected to participate in the VTP.

For the qualified portion of the Supplemental Plan, the actuarial accrued liabilities increased from \$51.35 million at January 1, 2010, to \$55.71 million at January 1, 2011. The key factors causing the increase in actuarial liabilities include: expected growth, and demographic losses including members retiring earlier than expected.

The CTA funds the Open Supplemental Plan per the actuarial annual required contribution, while funding for the Closed and Board Supplemental Retirement Plans are on a pay-as-you-go basis. Employees are not required to make contributions to the supplemental retirement plans except those related to purchase service credit (approved prior governmental service).

Participants in the supplemental retirement plans at December 31, 2010 are as follows:

	<u>Open</u>	<u>Closed</u>	<u>Board</u>
Retirees and beneficiaries currently receiving benefits	104	419	20
Terminated employees entitled to but not yet receiving benefits	11	8	5
Active plan members	36	-	7
Total	<u>151</u>	<u>427</u>	<u>32</u>

Participants in the supplemental retirement plans at December 31, 2009 are as follows:

	<u>Open</u>	<u>Closed</u>	<u>Board</u>
Retirees and beneficiaries currently receiving benefits	80	424	20
Terminated employees entitled to but not yet receiving benefits	11	8	5
Active plan members	60	-	7
Total	<u>151</u>	<u>432</u>	<u>32</u>

The covered payroll for the Open Supplemental Retirement Plan for the fiscal years ended December 31, 2010 and 2009 was \$4,259,000 and \$7,265,000, respectively. The covered payroll for the Board Supplemental Retirement Plan was \$200,000 for the fiscal years ended December 31, 2010 and 2009.

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CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 11 - DEFINED BENEFIT PENSION PLANS (Continued)

Funding Policy and Annual Pension Cost: 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). Contributions for the supplemental plans are actuarially determined but may be amended by the board of trustees of the Plan. The CTA's annual pension cost for the current year and related information for each plan are as follows (in thousands of dollars):

	<u>Employees' Plan Pension</u>	<u>Open Supplemental</u>	<u>Closed Supplemental</u>	<u>Board Plan</u>
Contribution rates:				
CTA	10.69%	Actuarial	Pay-Go Funding	Pay-Go Funding
Plan members	8.345%	None	None	None
Annual pension cost (APC)	\$63,452	\$3,049	\$2,803	\$347
Actual 2010 contributions:				
CTA	\$57,274	\$2,600	\$3,259	\$329
Plan members	\$45,026	\$0	\$0	\$12
Actuarial valuation date	January 1, 2010	January 1, 2010	January 1, 2010	January 1, 2010
Actuarial cost method	Projected unit credit	Projected unit credit	Projected unit credit	Projected unit credit
Amortization method	Level dollar	Level dollar	Level dollar	Level dollar
Remaining amortization period	30 years - Open	19 years - Closed	11 years - Closed	30 years - Open
Asset valuation method	5-year smoothed market	Fair market value	Fair market value	Fair market value
Actuarial assumptions:				
Investment rate of return	8.75%	7.0%	6.0%	6.0%
Projected salary increases	1.50 - 5.0%	5.5%	N/A	0%
Includes inflation at	1.50 - 4.0%	0%	N/A	N/A

The short-term salary increase and inflation assumptions for the Employees' Plan were updated to reflect the current economic environment, current furlough and salary programs in place, and the pay increases embedded into the current collective bargaining agreements. There were no significant assumption changes for the Supplemental and Board plans from the prior year valuation.

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 11 - DEFINED BENEFIT PENSION PLANS (Continued)

The following represents the significant components of the APC and changes in net pension obligation (asset) (NPO) during the year ended December 31, 2010 (in thousands of dollars):

	Employees' Plan	Supplemental Retirement Plans		
	Pension	Open	Closed	Board
Annual required contribution	\$ 63,451	\$ 2,577	\$ 3,770	\$ 360
Interest on NPO	(3,851)	(1,422)	924	79
Adjustment to ARC	3,852	1,893	(1,891)	(92)
Annual pension cost	63,452	3,048	2,803	347
Contributions made	57,274	2,600	3,259	329
Increase (decrease) in NPO	6,178	448	(456)	18
NPO – December 31, 2009	(44,012)	(20,301)	15,393	1,314
NPO – December 31, 2010	<u>\$ (37,834)</u>	<u>\$ (19,853)</u>	<u>\$ 14,937</u>	<u>\$ 1,332</u>

The following represents the significant components of the APC and changes in net pension obligation (asset) (NPO) during the year ended December 31, 2009 (in thousands of dollars):

	Employees' Plan	Supplemental Retirement Plans		
	Pension	Open	Closed	Board
Annual required contribution	\$ 88,422	\$ 2,410	\$ 3,635	\$ 288
Interest on NPO	(8,433)	(1,246)	962	78
Adjustment to ARC	8,436	1,521	(1,852)	(92)
Annual pension cost	88,425	2,685	2,745	274
Contributions made	36,061	7,410	3,381	266
Increase (decrease) in NPO	52,364	(4,725)	(636)	8
NPO – December 31, 2008	(96,376)	(15,576)	16,029	1,306
NPO – December 31, 2009	<u>\$ (44,012)</u>	<u>\$ (20,301)</u>	<u>\$ 15,393</u>	<u>\$ 1,314</u>

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 11 - DEFINED BENEFIT PENSION PLANS (Continued)

Three-year Trend Information: The following summarizes fund information for the plans (in thousands of dollars):

	<u>Year ended</u>	<u>Annual pension cost (APC)</u>	<u>Actual contributions</u>	<u>Percentage of APC contributed</u>	<u>Net pension (asset)/ obligation</u>
Employees' Plan Pension	December 31, 2010	\$ 63,452	\$ 57,274	90.3%	\$ (37,834)
	December 31, 2009	88,425	36,061	40.8	(44,012)
	December 31, 2008	178,941	1,165,909	651.6	(96,376)
Open Supplemental Plan	December 31, 2010	\$ 3,048	\$ 2,600	85.3%	\$ (19,853)
	December 31, 2009	2,685	7,410	276.0	(20,301)
	December 31, 2008	271	8,000	2,952.0	(15,576)
Closed Supplemental Plan	December 31, 2010	\$ 2,803	\$ 3,259	116.3%	\$ 14,937
	December 31, 2009	2,745	3,381	123.2	15,393
	December 31, 2008	2,772	3,459	124.8	16,029
Board Supplemental Plan	December 31, 2010	\$ 347	\$ 329	94.8%	\$ 1,332
	December 31, 2009	274	266	97.1	1,314
	December 31, 2008	268	263	98.1	1,306

Funded Status and Funding Progress: The following is funded status information for the Employees' Plan – Pension as of January 1, 2010, and the three supplemental plans as of January 1, 2011, the most recent actuarial valuation dates (in thousands of dollars):

	<u>Actuarial valuation date</u>	<u>Actuarial value of assets (a)</u>	<u>Actuarial accrued liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded ratio (a/b)</u>	<u>Covered payroll (c)</u>	<u>Percentage of covered payroll ((b-a)/c)</u>
Employees' Plan - Pension	1/1/2010	\$ 1,936,849	\$ 2,588,462	\$ 651,613	74.8%	\$ 567,173	114.9%
Open Supplemental Plan	1/1/2011	35,626	55,705	20,079	64.0%	4,259	471.4%
Closed Supplemental Plan	1/1/2011	-	32,045	32,045	0.0%	N/A	N/A
Board Supplemental Plan	1/1/2011	47	4,773	4,726	1.0%	200	2363.0%

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

(Continued)

NOTE 12 - 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). 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. Members of the Supplemental Plan with bridged service or service purchased through the Voluntary Termination Program are eligible for Supplemental Healthcare benefits if they retiree 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 and a Supplemental Plan. Board members with greater than five years of service are eligible for healthcare benefits immediately after termination or retirement.

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.

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.

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS (Continued)

The following table shows the components of the annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the net OPEB obligation during the year ended December 31, 2010 (dollar amounts in thousands):

	Supplemental & Board Plans
Annual required contribution	\$ 1,785
Interest on net OPEB obligation	75
Adjustment to ARC	<u>(122)</u>
Annual OPEB cost	1,738
Contributions made	530
Increase (decrease) in net OPEB obligation	1,208
Net OPEB obligation – December 31, 2009	1,666
Net OPEB obligation – December 31, 2010	<u><u>\$ 2,874</u></u>

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, 2009 (dollar amounts in thousands):

	Supplemental & Board Plans
Annual required contribution	\$ 1,645
Interest on net OPEB obligation	19
Adjustment to ARC	<u>(29)</u>
Annual OPEB cost	1,635
Contributions made	404
Increase (decrease) in net OPEB obligation	1,231
Net OPEB obligation – December 31, 2008	435
Net OPEB obligation – December 31, 2009	<u><u>\$ 1,666</u></u>

The annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2010 and the two preceding years were as follows (dollar amounts in thousands):

Supplemental and Board Plan:

<u>Fiscal Year Ended</u>	<u>OPEB Cost</u>	<u>Percent OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2010	\$ 1,738	30.5%	\$ 2,874
2009	1,635	24.6%	1,666
2008	505	57.9%	435

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS (Continued)

Funded Status and Funding Progress - OPEB

Supplemental and Board Plans – Retiree Healthcare Benefits:

As of January 1, 2010 the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits was \$18,967,000, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$18,967,000. The covered payroll (annual payroll of active employees covered by the plan) was \$3,580,000, and the ratio of the UAAL to the covered payroll was 529.8 percent.

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

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, 2009, and January 1, 2010, the projected unit credit cost method was used. The actuarial assumptions included a 4.5 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, reduced by 0.75 percent per year until an ultimate rate of 5.0 percent is reached. Both rates included a 3.5 percent inflation assumption. The Supplemental Plan UAAL is being amortized as a level dollar over a 19 year closed period beginning January 1, 2009. The Board Plan UAAL is amortized as a level dollar open 30-year amortization.

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CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 12 - 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>
2012	8.25%
2013	7.75%
2014	7.25%
2015	6.75%
2016	6.25%
2017	5.75%
2018	5.25%
2019 and after	5.00%

NOTE 13 - RISK MANAGEMENT

The CTA is exposed to various types of risk of loss, including torts; theft of, damage to, or destruction of assets; errors or omissions; job-related illnesses or injuries to employees; natural disasters; and environmental occurrences. Also included are risks of loss associated with providing health, dental, and life insurance benefits to employees and retirees.

The CTA provides health insurance benefits to employees through two fully insured health maintenance organizations and a self-insured comprehensive indemnity/PPO plan. The CTA provides dental insurance benefits through two fully insured dental maintenance organizations and a self-insured dental indemnity plan. The CTA does not purchase stop-loss insurance for its self-insured comprehensive indemnity/PPO plan. The CTA provides life insurance benefits for active and retired employees through an insured life insurance program.

The CTA is also self-insured for general liability, property and casualty, workers' compensation, employee accidents, environmental, business interruption, terrorism, and automotive liability losses arising from automotive liability, property, property-related business interruption, terrorism, employment-related suits, including discrimination and sexual harassment, and management liability of board members, directors, and officers of the CTA.

The RTA provides excess liability insurance to protect the self-insurance programs for general liability and terrorism currently maintained by the CTA. There are two insurance policies in effect from May 8, 2010 to May 8, 2011. The first policy provided \$35,000,000 in excess of the \$15,000,000 self insured retention and \$70,000,000 in the aggregate. The second policy provides \$50,000,000 in excess of the \$50,000,000 self insured retention and \$100,000,000 in the aggregate. In 2010 and 2009, no CTA claim existed that is expected to exceed the \$15,000,000 self insured retention under this insurance policy.

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CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 13 - 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 a maximum of \$47,500,000 from the Fund. 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. In 2010, CTA received a loan of \$8,500,000 from the Joint Self-Insurance Fund to pay an injury and damage claim. No borrowings were made from the Fund in fiscal year 2009.

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 4.0% and 3.0%, respectively. The estimate for workers' compensation claims is adjusted for a current trend rate and discount factor of 6.0% and 3.0%, respectively.

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

	<u>Injury and damage</u>	<u>Group health and dental</u>	<u>Workers' compensation</u>	<u>Total</u>
Balance at January 1, 2009	\$ 83,825	\$ 18,500	\$ 94,541	\$ 196,866
Funded*	20,000	169,234	36,174	225,408
Funding (excess)/deficiency per actuarial requirement	(4,604)	-	32,952	28,348
Payments*	<u>(22,539)</u>	<u>(172,134)</u>	<u>(52,505)</u>	<u>(247,178)</u>
Balance at December 31, 2009	76,682	15,600	111,162	203,444
Funded*	43,000	122,899	55,700	221,599
Funding (excess)/deficiency per actuarial requirement	(18,178)	-	23,044	4,866
Payments*	<u>(28,329)</u>	<u>(123,499)</u>	<u>(55,854)</u>	<u>(207,682)</u>
Balance at December 31, 2010	<u>\$ 73,175</u>	<u>\$ 15,000</u>	<u>\$ 134,052</u>	<u>\$ 222,227</u>

*Group insurance amounts include funding and reimbursement for retiree healthcare

(Continued)

NOTE 13 - 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 14 - ACCOUNTING FOR DERIVATIVES AND HEDGING ACTIVITIES

Fuel related derivative transactions are executed in accordance with the policies established by CTA's Energy Price Risk Management Policy ("the EPRM Policy"). The primary objective of the EPRM Policy is to identify opportunities to manage effectively the CTA's energy commodity costs to acceptable levels, establish guidelines for reporting and monitoring of energy commodity costs where the CTA uses financial instruments to manage price risks and to establish guidelines for the CTA's purchase of fixed price energy from its physical providers under existing contractual relationships with its providers. The Energy Price Risk Management Committee oversees the execution of the EPRM Policy with the assistance of an Energy Advisor.

The EPRM Policy explicitly prohibits the Authority from entering into contracts for more than its annual volume of energy usage. The EPRM Policy goals are to achieve budget objectives and reduce price volatility. Price risk management transactions are not intended to be speculative in nature. The EPRM Policy shall limit the amount and time period for which energy costs may be hedged through either derivative contracts or fixed price purchase contracts, as detailed below:

- Up to 100% of the volume of energy consumed may be hedged for a period of not to exceed 18 months
- Up to 50% of the volume of energy consumed may be hedged for a period of not to exceed 19-24 months
- 0% of volume of energy consumed may be hedged for a period beyond 24 months

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 14 - ACCOUNTING FOR DERIVATIVES AND HEDGING ACTIVITIES (Continued)

In 2010, the CTA used 19.2 million gallons of diesel fuel to operate revenue vehicles. The CTA has entered into heating oil commodity swap contracts to hedge changes in cash flows due to market price fluctuations related to expected purchases of diesel fuel for CTA buses. At December 31, 2010, the CTA's outstanding commodity swaps fair value along with the changes in fair values of commodity swaps held during the year then ended are as follows:

Commodity Swaps							Terms	
Notional Amount (Gallons)	Effective Date	Maturity Date	Fair Value 1/1/2010	Fair Value 12/31/2010	Change in Fair Value	(Per Gallon)		
						Receive	Pay	
Counterparty: J.P. Morgan Chase								
630,000	01/01/10	03/31/10	\$ 31,964	\$ -	\$ (31,964)	Variable	\$ 2.0705	
2,520,000	01/01/10	12/31/10	(2,618,515)	-	2,618,515	Variable	3.2225	
630,000	01/01/10	03/31/10	159,778	-	(159,778)	Variable	1.8675	
504,000	04/01/10	06/30/10	118,761	-	(118,761)	Variable	1.9050	
378,000	04/01/10	06/30/10	10,189	-	(10,189)	Variable	2.1140	
504,000	04/01/10	06/30/10	75,987	-	(75,987)	Variable	1.9900	
378,000	07/01/10	09/30/10	91,204	-	(91,204)	Variable	1.9525	
504,000	07/01/10	09/30/10	(10,773)	-	10,773	Variable	2.2160	
378,000	07/01/10	09/30/10	8,122	-	(8,122)	Variable	2.1730	
126,000	10/01/10	12/31/10	30,443	-	(30,443)	Variable	2.0225	
378,000	10/01/10	12/31/10	(5,805)	-	5,805	Variable	2.2810	
378,000	10/01/10	12/31/10	5,280	-	(5,280)	Variable	2.2515	
378,000	01/01/11	03/31/11	-	59,531	59,531	Variable	2.3875	
378,000	01/01/11	03/31/11	-	116,192	116,192	Variable	2.2375	
504,000	01/01/11	03/31/11	-	192,696	192,696	Variable	2.1625	
756,000	01/01/11	03/31/11	-	141,726	141,726	Variable	2.3575	
504,000	01/01/11	03/31/11	-	117,148	117,148	Variable	2.3125	
252,000	01/01/11	03/31/11	-	32,762	32,762	Variable	2.4150	
252,000	01/01/11	03/31/11	-	53,538	53,538	Variable	2.3325	
504,000	04/01/11	06/30/11	-	152,087	152,087	Variable	2.2440	
504,000	04/01/11	06/30/11	-	96,737	96,737	Variable	2.3540	
504,000	04/01/11	06/30/11	-	133,469	133,469	Variable	2.2810	
504,000	04/01/11	06/30/11	-	111,329	111,329	Variable	2.3250	
378,000	07/01/11	09/30/11	-	109,513	109,513	Variable	2.2880	
378,000	07/01/11	09/30/11	-	70,121	70,121	Variable	2.3925	
378,000	07/01/11	09/30/11	-	95,566	95,566	Variable	2.3250	
378,000	07/01/11	09/30/11	-	82,372	82,372	Variable	2.3600	
378,000	10/01/11	12/31/11	-	103,725	103,725	Variable	2.3425	
378,000	10/01/11	12/31/11	-	64,202	64,202	Variable	2.4475	
378,000	10/01/11	12/31/11	-	87,728	87,728	Variable	2.3850	
378,000	10/01/11	12/31/11	-	76,435	76,435	Variable	2.4150	

(Continued)

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CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 14 - ACCOUNTING FOR DERIVATIVES AND HEDGING ACTIVITIES (Continued)

Commodity Swaps								
Notional Amount (Gallons)	Effective Date	Maturity Date	Fair Value 1/1/2010	Fair Value 12/31/2010	Change in Fair Value	Terms (Per Gallon)		
						Receive	Pay	
Counterparty: Bank of America Merrill Lynch								
756,000	01/04/10	03/31/10	\$ 40,628	\$ -	\$ (40,628)	Variable	\$ 2.0675	
630,000	01/04/10	03/31/10	140,151	-	(140,151)	Variable	1.8987	
630,000	01/04/10	03/31/10	3,946	-	(3,946)	Variable	2.1150	
504,000	04/01/10	06/30/10	22,640	-	(22,640)	Variable	2.0960	
630,000	04/01/10	06/30/10	128,366	-	(128,366)	Variable	1.9369	
378,000	04/01/10	06/30/10	(1,260)	-	1,260	Variable	2.1435	
378,000	07/01/10	09/30/10	24,324	-	(24,324)	Variable	2.1300	
378,000	07/01/10	09/30/10	76,433	-	(76,433)	Variable	1.9917	
378,000	07/01/10	09/30/10	48,815	-	(48,815)	Variable	2.0650	
252,000	10/01/10	12/31/10	18,303	-	(18,303)	Variable	2.1925	
126,000	10/01/10	12/31/10	25,863	-	(25,863)	Variable	2.0591	
378,000	10/01/10	12/31/10	44,366	-	(44,366)	Variable	2.1475	
378,000	10/01/10	03/31/11	-	137,918	137,918	Variable	2.1800	
378,000	01/03/11	03/31/11	-	122,820	122,820	Variable	2.2200	
Total			<u>\$ (1,530,791)</u>	<u>\$ 2,157,615</u>	<u>\$ 3,688,406</u>			

The recording of the change in fair value of the hedging derivative instruments is included on the Balance Sheet as a Deferred Inflow measured at fair market value based on quoted market prices. Related gains and/or losses are deferred on the Balance Sheet until the derivative is settled then recognized as part of Fuel in the Statement of Revenues, Expenses and Changes in Net Assets. The valuation of market changes for contracts entered into and settled resulted in a net increase of \$2,128,879 to the cost of fuel during the fiscal year ended December 31, 2010. Prior year net assets are not restated for the implementation of GASB 53 because the effect on net assets for those prior years is not material.

The CTA follows the recently issued GASB 53, Accounting and Financial Reporting for Derivative Instruments. This GASB provides guidance on the recognition, measurement and disclosure of derivative instruments entered into by state and local governments.

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NOTE 14 - ACCOUNTING FOR DERIVATIVES AND HEDGING ACTIVITIES (Continued)

For accounting purposes, in order to qualify as a hedge, the relationship between the derivative and the underlying asset must result in a hedge that is “effective” in mitigating risk. If the hedge transaction is considered “ineffective” the valuation of the instrument is considered investment income or loss on the Statements of Changes of Revenues, Expenses and in Net Assets. GASB 53 outlines five methods for evaluating hedge effectiveness:

- Critical Terms
- Synthetic Instrument
- Dollar Offset
- Regression Analysis
- Other Quantitative Methods

For purposes of performing effectiveness testing, the CTA can use any or all of the evaluation methods and is not limited to using the same method from period to period. Therefore, if the result of any one prescribed evaluation method indicates the hedge is ineffective the CTA may apply another method to verify effectiveness. The CTA’s commodity swaps have been evaluated using the Regression Analysis method and have been determined to be effective.

The following risks are generally associated with commodity swap agreements:

Credit risk – the risk that the counterparty fails to make required payments or otherwise comply with the terms of the swap agreement. This non-performance would usually result from financial difficulty, but could also occur for physical, legal, or business reasons. This risk is mitigated by establishing minimum credit quality criteria, establishing maximum credit limits, requiring collateral on counterparty downgrade.

The CTA will deem a counterparty as qualified if (a) the counterparty has demonstrated experience in successfully executing derivative contracts with other municipal entities, (b) it indicates a willingness to accept one way collateral should the CTA and its advisors so recommend, and (c)(i) its credit rating by one of three nationally recognized rating agencies is in the AA category and A+ or better by either of the remaining two agencies furnishing such ratings or (ii) its payments pursuant to the derivative contract are unconditionally guaranteed by an entity with credit ratings that satisfy the criteria set forth in (c)(i). The CTA will require that if any qualified counterparty is downgraded and no longer deemed qualified, the contract is subject to the termination provisions in the Master Agreement, unless the additional risk can be mitigated by a substitute guarantor or the contract is collateralized.

A counterparty that does not satisfy the aforementioned rating criteria shall be required to post an appropriate level of collateral as determined by the CTA. Collateral, if and as required by the Master Agreement and any credit support annex, shall be maintained with a mutually agreeable third party or trustee and shall be periodically marked to market by the agent or trustee. Collateral, if and as required, shall generally be provided in a manner satisfactory to CTA that its interests are: (a) perfected, (b) not a matter of preference, and (c) not subject to stay in the event of bankruptcy of the derivative contract counterparty. CTA shall not be required to provide collateral as party to a derivative contract unless it is clearly in the best interest of the CTA.

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 14 - ACCOUNTING FOR DERIVATIVES AND HEDGING ACTIVITIES (Continued)

The credit ratings for each of CTA's counterparties at December 31, 2010 were:

<u>Counterparty</u>	<u>Moody's</u>	<u>Fitch</u>	<u>Standard & Poor's</u>
J.P. Morgan Chase	Aa3	AA-	A+
Bank of America Merrill Lynch	A2	A+	A

CTA's net credit exposure to any single counterparty (or guarantor thereof) generally should not exceed \$50 million. CTA may increase its aggregate position beyond this limit to a particular counterparty if the amount in excess of the limit for that counterparty is fully collateralized. In measuring CTA's aggregate position with a counterparty, a calculation of net offset is permitted in such circumstances as two derivative contracts in which the market values offset one another.

Basis Risk – The risk that there is a mismatch between the variable rate payment received from the swap counterparty and the variable rate paid for diesel fuel purchases. The CTA mitigates this risk by conducting an extensive survey of relevant products and indices, and selecting one that has a strong correlation with the price changes of the cost of diesel fuel. CTA's standard practice is to purchase diesel fuel from oil vendors with pricing determined by industry publications (OPIS pricing). The spot prices published in such publications reflect the weekly delivered price by city and fuel grade. The NYMEX heating oil futures contract has proven to be an effective means of hedging the volatile price of diesel spot prices. Many providers of financial services offer over the counter (OTC) swaps referencing the price of the NYMEX futures heating oil contract.

Termination Risk – The risk that there will be a mandatory early termination of the commodity swap that would result in the CTA either paying or receiving a termination payment. Mandatory terminations generally result when a counterparty or the CTA suffers degraded credit quality, illiquidity, bankruptcy, or failure to perform. The CTA mitigates this risk by establishing minimum credit quality criteria, establishing maximum credit limits, and requiring collateral on counterparty downgrade and employing credit rating surveillance. The CTA seeks to minimize the risks it carries by actively managing its derivative contracts. This will entail frequent monitoring of market conditions by CTA's Energy Advisor and the swap counterparty for emergent opportunities and risks. No termination event has occurred during 2010 or 2009.

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 15 - COMMITMENTS AND CONTINGENCIES

Litigation: The CTA has been named as a defendant in various other legal proceedings arising in the normal course of operations. Although the ultimate outcome of these matters cannot be presently determined, it is the opinion of management of the CTA that resolution of these matters will not have a material adverse impact on the CTA's financial position.

Defeased Debt: On October 26, 2006, the PBC issued Building Refunding Revenue Bonds for the benefit of the CTA in the amount of \$91,340,000. The proceeds of the bonds were used to advance refund the Public Building Commission of Chicago, Series 2003 bonds. The outstanding balance of the defeased debt was \$92,750,000 as of December 31, 2010.

Operating Leases: As of December 31, 2010, future minimum lease payments for operating leases, in the aggregate, are as follows (in thousands of dollars):

2011	\$ 353
2012	242
Total minimum lease payments	<u>\$ 595</u>

Lease Transactions:

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

During 2008, AIG's credit rating was cut amid the U.S. mortgage meltdown and global economic crisis. The rating cut provided the third party investors with the option to require CTA to replace the Payment Undertaker Guarantor. One of the three investors chose to unwind the transaction. One investor entered into a forbearance agreement that allowed CTA to continue to use AIG as long as the rating does not fall below BB by Standard & Poor's and B1 by Moody's. CTA is still in negotiations with one of the investors regarding the replacement of AIG.

In 2002 and 2003, CTA entered into a lease and leaseback agreement with third party investors for buses. CTA entered into an agreement with Financial Security Assurance, Inc. (FSA) to act as the debt payment and strip surety guarantor. FSA's credit rating was downgraded during the 2008 financial crisis. This downgrading allows the private investors the option to require CTA to replace the guarantor. CTA has negotiated with the private investors and they have agreed to forbear from enforcing the provision of the agreements that require replacement of the guarantor.

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NOTE 16 – SUBSEQUENT EVENTS

Senior Free Ride Legislation

In February 2011, Illinois Governor Pat Quinn signed legislation to amend the Seniors Ride Free Program which would subject the participants of the program to a means test. Currently, the program allows all seniors living in the region to ride free on CTA, Metra, and Pace regardless of income. Under the new program, seniors who do not qualify to ride free will pay a reduced fare. The RTA has up to 180 days to implement the means tested program.

REQUIRED SUPPLEMENTARY INFORMATION

CHICAGO TRANSIT AUTHORITY
Required Supplementary Information – Pension
Schedules of Funding Progress (Unaudited)
December 31, 2010
(In thousands of dollars)

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	Percentage of covered payroll ((b-a)/c)
Employees' Plan – Pension:						
1/1/2010	\$ 1,936,849	\$ 2,588,462	\$ 651,613	74.8%	\$ 567,173	114.9%
1/1/2009	1,995,953	2,632,356	636,403	75.8	578,521	110.0
1/1/2008	941,864	2,531,440	1,589,576	37.2	571,314	278.2
1/1/2007	1,007,305	2,466,106	1,458,801	40.8	562,567	259.3
1/1/2006	1,144,669	2,354,125	1,209,456	48.6	547,532	220.9
1/1/2005	1,313,087	2,291,162	978,075	57.3	544,442	179.6
Open Supplemental Plan:						
1/1/2011	\$ 35,626	\$ 55,705	\$ 20,079	64.0%	\$ 4,259	471.4%
1/1/2010	32,345	51,348	19,002	63.0	7,265	261.6
1/1/2009	22,434	36,519	14,085	61.4	11,691	120.5
1/1/2008	19,457	15,974	(3,483)	121.8	13,551	-25.7
1/1/2007	18,937	15,503	(3,434)	122.2	14,840	-23.1
1/1/2006	17,001	10,064	(6,937)	168.9	14,871	-46.6
Closed Supplemental Plan:						
1/1/2011	\$ -	\$ 32,045	\$ 32,045	-%	\$ -	-%
1/1/2010	-	30,696	30,696	-	-	-
1/1/2009	-	31,459	31,459	-	-	-
1/1/2008	-	32,887	32,887	-	-	-
1/1/2007	-	33,104	33,104	-	-	-
1/1/2006	-	34,835	34,835	-	-	-
Board Supplemental Plan:						
1/1/2011	\$ 47	\$ 4,773	\$ 4,726	1.0%	\$ 200	2363.0%
1/1/2010	35	4,246	4,210	0.8	200	2105.1
1/1/2009	45	3,257	3,212	1.4	200	1606.0
1/1/2008	56	3,193	3,137	1.8	200	1568.5
1/1/2007	50	3,312	3,262	1.5	200	1631.0
1/1/2006	47	3,270	3,223	1.4	175	1841.7

CHICAGO TRANSIT AUTHORITY
Required Supplementary Information – Other Postemployment Benefits
Schedules of Funding Progress (Unaudited)
December 31, 2010
(In thousands of dollars)

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	Percentage of covered payroll ((b-a)/c)
Supplemental & Board Plan - Healthcare:						
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
1/1/2007	-	6,796	6,796	-	3,332	204.0

CHICAGO TRANSIT AUTHORITY
Employees' Plan
Required Supplementary Information –
Schedules of Employer Contributions (Unaudited)
December 31, 2010
(In thousands of dollars)

Employees' Plan – Pension		
Year ended	Annual required contribution	Percentage contributed
12/31/10	\$ 63,451	90.3%
12/31/09	88,422	40.8
12/31/08	178,966	651.5
12/31/07	185,944	13.5
12/31/06	153,204	15.6
12/31/05	133,816	14.8

CHICAGO TRANSIT AUTHORITY
Other Postemployment Benefits
Required Supplementary Information –
Schedules of Employer Contributions (Unaudited)
December 31, 2010
(In thousands of dollars)

<u>Supplemental and Board Plans - Healthcare</u>		
<u>Year ended</u>	<u>Annual required contribution</u>	<u>Percentage contributed</u>
12/31/10	\$ 1,785	29.7%
12/31/09	1,645	24.6
12/31/08	508	57.6
12/31/07	556	60.2

CHICAGO TRANSIT AUTHORITY
Supplemental Plans
Required Supplementary Information –
Schedules of Employer Contributions (Unaudited)
December 31, 2010
(In thousands of dollars)

Open Supplemental Plan		
Year ended	Annual required contribution	Percentage contributed
12/31/10	\$ 2,577	100.9%
12/31/09	2,410	307.4
12/31/08	230	3,475.0
12/31/07	200	-
12/31/06	-	-
12/31/05	1,545	1,016.5

Closed Supplemental Plan		
Year ended	Annual required contribution	Percentage contributed
12/31/10	\$ 3,770	86.4%
12/31/09	3,635	93.0
12/31/08	3,599	96.1
12/31/07	3,450	101.6
12/31/06	3,474	99.8
12/31/05	2,439	144.4

Board Supplemental Plan		
Year ended	Annual required contribution	Percentage contributed
12/31/10	\$ 360	91.3%
12/31/09	288	92.4
12/31/08	282	93.3
12/31/07	288	98.8
12/31/06	275	106.0
12/31/05	261	109.7

SUPPLEMENTARY SCHEDULES

CHICAGO TRANSIT AUTHORITY
Schedule of Expenses and Revenues –
Budget and Actual – Budgetary Basis
Year ended December 31, 2010
(In thousands of dollars)

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual – budgetary basis</u>	<u>Variance favorable (unfavorable)</u>
Operating expenses:				
Labor and fringe benefits	\$ 852,081	\$ 852,081	\$ 835,142	\$ 16,939
Materials and supplies	77,724	77,724	80,077	(2,353)
Fuel	63,879	63,879	52,063	11,816
Electric power	38,176	38,176	28,208	9,968
Purchase of security services	33,181	33,181	33,319	(138)
Other	178,004	178,004	167,240	10,764
Provision for injuries and damages	<u>28,000</u>	<u>28,000</u>	<u>43,000</u>	<u>(15,000)</u>
Total operating expenses	<u>1,271,045</u>	<u>1,271,045</u>	<u>1,239,049</u>	<u>31,996</u>
System-generated revenues:				
Fares and passes	521,417	521,417	509,179	(12,238)
Reduced-fare subsidies	32,200	32,200	28,245	(3,955)
Advertising and concessions	22,876	22,876	22,609	(267)
Investment income	1,832	1,832	627	(1,205)
Contributions from local governmental units	5,000	5,000	5,000	-
Other revenue	<u>17,381</u>	<u>17,381</u>	<u>28,397</u>	<u>11,016</u>
Total system-generated revenues	<u>600,706</u>	<u>600,706</u>	<u>594,057</u>	<u>(6,649)</u>
Operating expenses in excess of system-generated revenues	670,339	670,339	644,992	25,347
Public funding from the RTA:				
Operating assistance	580,339	580,339	497,685	(82,654)
Public funding in excess of budget marks	-	-	31,276	31,276
Preventative Maintenance	<u>90,000</u>	<u>90,000</u>	<u>172,654</u>	<u>82,654</u>
	<u>670,339</u>	<u>670,339</u>	<u>701,615</u>	<u>31,276</u>
Change in net assets – budgetary basis	<u>\$ -</u>	<u>\$ -</u>	56,623	<u>\$ 56,623</u>
Reconciliation of budgetary basis to GAAP basis:				
Provision for depreciation			(424,764)	
Pension expense in excess of pension contributions			(7,387)	
Supplemental Retirement			1,129	
Incentive Retirement			405	
Workers Compensation			(23,044)	
Revenue from leasing transactions			4,262	
Provision for injuries and damages			18,178	
Interest expense on bond transactions			(112,362)	
Interest revenue on bond transactions			3,992	
Interest income from sale/leaseback			113,539	
Interest expense from sale/leaseback			(118,780)	
Capital contributions			<u>164,432</u>	
Change in net assets – GAAP basis			<u>\$ (323,777)</u>	
CTA recovery ratio:				
Total operating expenses			\$ 1,239,049	
Less mandated security costs			(33,319)	
Less Pension Obligation Bond debt service			(108,378)	
Plus City of Chicago in-kind services			<u>22,000</u>	
Total operating expenses for recovery ratio calculation (B)			<u>\$ 1,119,352</u>	
Total system-generated revenues				
Plus Senior Free Rides			23,794	
Plus City of Chicago in-kind services			<u>22,000</u>	
Total system-generated revenues for recovery ratio calculation (A)			<u>\$ 639,851</u>	
Recovery ratio (A/B)				57.16%

CHICAGO TRANSIT AUTHORITY
Schedule of Expenses and Revenues –
Budget and Actual – Budgetary Basis
Year ended December 31, 2009
(In thousands of dollars)

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual – budgetary basis</u>	<u>Variance favorable (unfavorable)</u>
Operating expenses:				
Labor and fringe benefits	\$ 887,723	\$ 871,757	\$ 856,468	\$ 15,289
Materials and supplies	94,763	92,326	87,900	4,426
Fuel	102,852	98,163	100,539	(2,376)
Electric power	39,944	40,077	37,645	2,432
Purchase of security services	33,441	32,204	32,300	(96)
Other	132,790	117,407	131,348	(13,941)
Provision for injuries and damages	30,000	20,000	15,397	4,603
Total operating expenses	<u>1,321,513</u>	<u>1,271,934</u>	<u>1,261,597</u>	<u>10,337</u>
System-generated revenues:				
Fares and passes	516,313	529,705	505,713	(23,992)
Reduced-fare subsidies	16,100	16,100	28,239	12,139
Advertising and concessions	40,500	30,549	30,215	(334)
Investment income	6,300	2,000	1,258	(742)
Contributions from local governmental units	5,000	5,000	5,000	-
Other revenue	14,000	18,615	31,207	12,592
Total system-generated revenues	<u>598,213</u>	<u>601,969</u>	<u>601,632</u>	<u>(337)</u>
Operating expenses in excess of system-generated revenues	723,300	669,965	659,965	10,000
Public funding from the RTA:				
Operating assistance	723,300	541,391	541,391	-
Public funding in excess of budget marks	-	-	15,331	15,331
Preventative Maintenance	-	128,574	128,574	-
Total	<u>723,300</u>	<u>669,965</u>	<u>685,296</u>	<u>15,331</u>
Change in net assets – budgetary basis	<u>\$ -</u>	<u>\$ -</u>	25,331	<u>\$ 25,331</u>
Reconciliation of budgetary basis to GAAP basis:				
Prior Year Positive Balance - Lease proceeds			(2,800)	
RTA working cash notes payable			(56,147)	
Provision for depreciation			(394,357)	
Pension expense in excess of pension contributions			(53,596)	
Supplemental Retirement			5,747	
Incentive Retirement			391	
Revenue from leasing transactions			4,262	
Interest expense on bond transactions			(101,818)	
Interest revenue on bond transactions			713	
Interest income from sale/leaseback			105,692	
Interest expense from sale/leaseback			(117,342)	
Capital contributions			463,830	
Change in net assets – GAAP basis			<u>\$ (120,094)</u>	
CTA recovery ratio:				
Total operating expenses			\$ 1,261,597	
Less mandated security costs			(32,300)	
Less Pension Obligation Bond debt service			(43,990)	
Plus City of Chicago in-kind services			22,000	
Total operating expenses for recovery ratio calculation (B)			<u>\$ 1,207,307</u>	
Total system-generated revenues				
Plus Senior Free Rides			\$ 36,100	
Plus City of Chicago in-kind services			22,000	
Total system-generated revenues for recovery ratio calculation (A)			<u>\$ 659,732</u>	
Recovery ratio (A/B)				54.64%

APPENDIX C

FORM OF CONTINUING DISCLOSURE UNDERTAKING

CONTINUING DISCLOSURE UNDERTAKING FOR THE PURPOSE OF PROVIDING CONTINUING DISCLOSURE INFORMATION UNDER SECTION (B)(5) OF RULE 15c2-12

This Continuing Disclosure Undertaking (the “Agreement”) is executed and delivered by the Chicago Transit Authority, a political subdivision, body politic and municipal corporation of the State of Illinois (the “Issuer”), in connection with the issuance by the Issuer of \$476,905,000 aggregate principal amount of Sales Tax Receipts Revenue Bonds, Series 2011 (the “2011 Bonds”). The 2011 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 2011 Bonds are authorized by an ordinance adopted by the Chicago Transit Board on October 13, 2011. The 2011 Bonds are being issued pursuant to the Trust Indenture dated as of March 1, 2010 (the “Master Indenture”), between the Issuer and U.S. Bank National Association, Chicago, Illinois, as trustee (the “Trustee”), as supplemented by that certain Second Supplemental Indenture, dated as of November 1, 2011, between the Authority and the Trustee (the “Second Supplemental Indenture” and together with the Master Indenture, as previously supplemented, the “Indenture”).

In consideration of the issuance of the 2011 Bonds by the Issuer and the purchase of such 2011 Bonds by the beneficial owners thereof, the Issuer covenants and agrees as follows:

1. PURPOSE OF THIS AGREEMENT. This Agreement is executed and delivered by the Issuer as of the date set forth below, for the benefit of the beneficial owners of the 2011 Bonds and in order to assist the Participating Underwriters in complying with the requirements of the Rule (as defined below). The Issuer represents that it will be the only obligated person with respect to the 2011 Bonds at the time the 2011 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 2011 Bonds.

2. DEFINITIONS. The terms set forth below shall have the following meanings in this Agreement, unless the context clearly otherwise requires.

Annual Financial Information means the financial information and operating data described in *Exhibit I*.

Annual Financial Information Disclosure means the dissemination of disclosure concerning Annual Financial Information and the dissemination of the Audited Financial Statements as set forth in Section 4.

Audited Financial Statements means the audited financial statements of the Issuer prepared pursuant to the standards and as described in *Exhibit I*.

Bondholder means any registered owner of any of the 2011 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 2011 Bonds (including persons holding 2011 Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any of the 2011 Bonds for federal income tax purposes.

Commission means the Securities and Exchange Commission.

Dissemination Agent shall mean any dissemination agent designated in writing by the Issuer and that has filed with the Trustee a written acceptance of such designation.

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

Event means one of the sixteen events with respect to the 2011 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 2011 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.

State means the State of Illinois.

Undertaking means the obligations of the Issuer pursuant to Sections 4 and 5.

3. CUSIP NUMBERS. The CUSIP numbers of the 2011 Bonds are as set forth in *Exhibit III* hereto.

4. ANNUAL FINANCIAL INFORMATION DISCLOSURE. The Issuer hereby covenants that it will disseminate its Annual Financial Information and its Audited Financial Statements (in the form and by the dates set forth in *Exhibit I*) to EMMA. The Issuer is required

to deliver such information in such manner and by such time so that such entities receive the information by the dates specified in *Exhibit I*.

If any part of the Annual Financial Information can no longer be generated because the operations to which it is related have been materially changed or discontinued, the Issuer will provide a statement to such effect as part of its Annual Financial Information for the year in which such event first occurs.

If any amendment is made to this Agreement, the Annual Financial Information for the year in which such amendment is made (or in any notice or supplement provided to EMMA) 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 Issuer 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 2011 Bonds or defeasance of any 2011 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 Indenture.

6. DUTY TO UPDATE MSRB OR OTHER ENTITIES. The Issuer 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. If the Commission or the MSRB or other regulatory authority approves or requires that Annual Financial Information and Audited Financial Statements or Significant Events Disclosure be filed with a “central post office”, governmental agency or similar entity in addition to or in lieu of the MSRB, the Issuer will, if required, file Annual Financial Information and Audited Financial Statements or Significant Events Disclosure, as applicable, with such “central post office”, governmental agency or similar entity without the need to amend or supplement this Agreement.

7. CONSEQUENCES OF FAILURE OF THE ISSUER TO PROVIDE INFORMATION. The Issuer 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 Issuer to comply with any provision of this Agreement, the beneficial owner of any Bond may seek mandamus or specific performance by court order, to cause the Issuer to comply with its obligations under this Agreement. Any such action to enforce any provision of this Agreement shall be commenced in the Circuit Court of Cook County, Illinois. A default under this Agreement shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Agreement in the event of any failure of the Issuer to comply with this Agreement shall be an action to compel performance.

8. AMENDMENTS; WAIVER. Notwithstanding any other provision of this Agreement, the Issuer may amend this Agreement, and any provision of this Agreement may be waived, if:

(a) The amendment or waiver is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the Issuer, or type of business conducted;

(b) This Agreement, as amended, or the provision, as waived, would have complied with the requirements of the Rule at the time of the primary offering, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver does not materially impair the interests of the beneficial owners of the 2011 Bonds, as determined either by parties unaffiliated with the Issuer (such as the Trustee or nationally recognized bond counsel), or by an approving vote of Bondholders pursuant to the terms of the Indenture at the time of the amendment.

9. TERMINATION OF UNDERTAKING. The Undertaking of the Issuer shall be terminated hereunder with respect to the 2011 Bonds if the Issuer shall no longer have any legal liability for any obligation on or relating to repayment of such series of the 2011 Bonds under the Indenture. If this Section is applicable, the Issuer 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 Issuer shall, if required, make such dissemination to such central post office, governmental agency or similar entity without the necessity of amending this Agreement.

11. ADDITIONAL INFORMATION. Nothing in this Agreement shall be deemed to prevent the Issuer from providing any other information, using the means of dissemination set forth in this Agreement or any other means of communication, or including any other information in any Annual Financial Information or Audited Financial Statements or notice of occurrence of a Significant Event, in addition to that which is required by this Agreement. If the Issuer chooses to include any information from any document or notice of occurrence of a Significant Event in addition to that which is specifically required by this Agreement, the Issuer shall have no obligation under this Agreement to update such information or include it in any future disclosure or notice of occurrence of a 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 Issuer, the Dissemination Agent, if any, and the beneficial owners of the 2011 Bonds, and shall create no rights in any other person or entity.

13. RECORDKEEPING. The Issuer shall maintain records of all Annual Financial Information Disclosure and 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 Issuer may, from time to time, appoint or engage a Dissemination Agent to assist in carrying out its obligations under this Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. If at any time there is not any other designated Dissemination Agent, the Issuer shall be the Dissemination Agent.

15. ASSIGNMENT. The Issuer shall not transfer its obligations under the Indenture unless the transferee agrees to assume all obligations of the Issuer under this Agreement or to execute an Undertaking under the Rule.

16. GOVERNING LAW. This Agreement shall be governed by the laws of the State.

CHICAGO TRANSIT AUTHORITY

By _____
Name: _____
Title: _____

Date: _____, 2011

Exhibit I

ANNUAL FINANCIAL INFORMATION AND TIMING AND AUDITED FINANCIAL STATEMENTS

“*Annual Financial Information*” means financial information as set forth below. All or a portion of the Annual Financial Information and the Audited Financial Statements as set forth below may be included by reference to other documents, including other official statements (subject to the following sentence), which have been submitted to EMMA or filed with the SEC. If the information included by reference is contained in a final official statement, the final official statement shall have been submitted by the Issuer to EMMA. The Issuer shall clearly identify each such item of information included by reference.

1. Annual Financial Information:

(a) Annual Financial Information means:

(i) The information set forth in the Official Statement with respect to the 2011 Bonds under “HISTORICAL SALES TAX REVENUES,” set forth in Tables I , II and III;

(ii) The information set forth in the Official Statement with respect to the 2011 Bonds under “PRO FORMA DEBT SERVICE COVERAGE;” and

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

(b) Annual Financial Information will be provided to EMMA not more than 210 days after the end of each Fiscal Year (as defined in the Indenture). Audited Financial Statements are expected to be filed as part of the Annual Financial Information on the schedule described in this Part 1. If Audited Financial Statements are not available to be filed as part of the Annual Financial Information at the time the Annual Financial Information is required to be filed, the Annual Financial Information shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement relating to the 2011 Bonds, and the Audited Financial Statements shall be filed in the same manner as the Annual Financial Information promptly after they become available.

2. Audited Financial Statements:

(a) Audited Financial Statements means:

Annual audited financial statements of the Issuer prepared in accordance with the requirements of the Indenture.

(b) Audited Financial Statements shall be provided to EMMA as described in Part 1(b) above.

Exhibit II

EVENTS FOR WHICH SIGNIFICANT EVENTS DISCLOSURE IS REQUIRED

Upon the occurrence of any of the following Events with respect to the 2011 Bonds, the Issuer 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 2011 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 2011 Bonds, or other material events affecting the tax status of the 2011 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 2011 Bonds, if material, the Issuer shall report the Event to the MSRB:

- 11) non-payment related defaults;
- 12) modifications to rights of Owners of the 2011 Bonds;
- 13) bond calls;
- 14) release, substitution, or sale of property securing repayment of the 2011 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

2011 Bonds Maturing December 1	CUSIP¹
2021	16772PAR7
2022	16772PAS5
2023	16772PAT3
2024	16772PAU0
2025	16772PAV8
2026	16772PAW6
2027	16772PAX4
2028	16772PAY2
2029	16772PAZ9
2030	16772PBA3
2031	16772PBB1
2036	16772PBC9
2040	16772PBD7

¹ Copyright 2011, American Bankers Association. CUSIP data herein is provided by CUSIP Global Services LLC, managed on behalf of the American Bankers Association by Standard & Poor's, a subsidiary of The McGraw-Hill Companies, Inc. The CUSIP numbers listed above are being provided solely for the convenience of bondholders only at the time of issuance of the 2011 Bonds and the Issuer does not make any representation with respect to such numbers or undertake any responsibility for their accuracy now or at any time in the future. The CUSIP number is subject to being changed after the issuance of the 2011 Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of the 2011 Bonds.

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APPENDIX D

DTC AND THE BOOK-ENTRY ONLY SYSTEM

The following information concerning DTC has been furnished by DTC for use in this Official Statement. Neither the Authority nor the Underwriters are responsible for its accuracy or completeness.

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the 2011 Bonds. The 2011 Bonds will be issued as fully-registered bonds registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered 2011 Bond will be issued for each maturity of the 2011 Bonds, each in the aggregate principal amount of such maturity and will be deposited with DTC.

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

Purchases of 2011 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2011 Bonds on DTC’s records. The ownership interest of each actual purchaser of each 2011 Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2011 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 2011 Bonds, except in the event that use of the book-entry system for the 2011 Bonds is discontinued.

To facilitate subsequent transfers, all 2011 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 2011 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 2011 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2011 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the 2011 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2011 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the 2011 Bond documents. For example, Beneficial Owners of 2011 Bonds may wish to ascertain that the nominee holding the 2011 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 2011 Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the 2011 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 the 2011 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the 2011 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Authority or the Trustee, as applicable, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to

Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority, or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its 2011 Bonds purchased or tendered, through its Participant, to the tender agent, and shall effect delivery of such 2011 Bonds by causing the Direct Participant to transfer the Participant's interest in the 2011 Bonds, on DTC's records, to the tender agent. The requirement for physical delivery of 2011 Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the 2011 Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered 2011 Bonds to the tender agent's DTC account.

DTC may discontinue providing its services as depository with respect to the 2011 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, 2011 Bonds are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, 2011 Bonds will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Authority believes to be reliable, but the Authority takes no responsibility for the accuracy thereof.

NEITHER THE AUTHORITY NOR THE TRUSTEE HAS ANY RESPONSIBILITY OR OBLIGATION TO THE PARTICIPANTS OR THE BENEFICIAL OWNERS WITH RESPECT TO THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, CEDE & CO. OR ANY PARTICIPANT; THE PAYMENT BY DTC OR ANY PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OR PURCHASE PRICE OF, PREMIUM, IF ANY, OR INTEREST ON THE 2011 BONDS; ANY NOTICE WHICH IS PERMITTED OR REQUIRED TO BE GIVEN TO BENEFICIAL OWNERS UNDER THE INDENTURE; THE SELECTION BY DTC OR ANY PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE 2011 BONDS; OR ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC.

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APPENDIX E

PROPOSED FORM OF OPINIONS OF CO-BOND COUNSEL

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November 4, 2011

The Chicago Transit Board
of the Chicago Transit Authority

Dear Members:

We have examined a record of proceedings relating to the issuance of \$476,905,000 aggregate principal amount of Sales Tax Receipts Revenue Bonds, Series 2011 (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 011-118 adopted by the Chicago Transit Board on October 13, 2011 (the “Bond Ordinance”). The Bonds are issued and secured under the Trust Indenture dated as of March 1, 2010 (the “Indenture”) by and between the Authority and U.S. Bank National Association, as trustee (the “Trustee”), as supplemented by the Second Supplemental Indenture dated as of November 1, 2011 (the “Second Supplemental Indenture”) by and between the Authority and the Trustee. The Bonds are Corporate Purpose Debt Obligations and Parity Obligations under the Indenture.

The Bonds are dated November 4, 2011 and bear interest from their date payable on June 1, 2012 and semiannually thereafter on each June 1 and December 1. The Bonds mature on December 1 in each of the following years in the respective principal amount set opposite each such year in the following table and bear interest at the respective rate of interest per annum set forth opposite such principal amount:

<u>Year</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
2021	\$ 14,090,000	5.00%
2022	14,800,000	5.00
2023	15,540,000	5.25
2024	16,360,000	5.25
2025	17,220,000	5.25
2026	18,120,000	5.25
2027	19,075,000	5.25
2028	20,080,000	5.25
2029	21,135,000	5.25
2030	22,250,000	5.25
2031	23,425,000	5.25
2036	136,940,000	5.25
2040	137,870,000	5.25

The Bonds maturing on or after December 1, 2022 are subject to redemption prior to maturity at the option of the Authority, in such principal amounts and from such maturities as the Authority shall determine and by lot within a single maturity, on December 1, 2021 and on any date thereafter, at a redemption price equal to the principal amount thereof to be redeemed, plus accrued interest to the redemption date.

The Bonds maturing on December 1, 2036 and December 1, 2040 are term bonds subject to mandatory redemption in accordance with the provisions of the Indenture and the Second Supplemental Indenture, in part and by lot, at a redemption price equal to the principal amount thereof to be redeemed, by the application of annual sinking fund installments on December 1 of the years and in the principal amounts set forth in the following tables:

2036 Term Bonds		2040 Term Bonds	
<u>Year</u>	<u>Principal Amount</u>	<u>Year</u>	<u>Principal Amount</u>
2032	\$24,655,000	2037	\$31,860,000
2033	25,950,000	2038	33,540,000
2034	27,315,000	2039	35,305,000
2035	28,755,000		

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 are ratably and equally entitled to the benefits and security of the Indenture, including the pledge of the Trust Estate under the Indenture. The Trust Estate includes (i) the Sales Tax Receipts Fund held by the Authority, subject however to the PBC Parity Pledge Rights (as defined in the Indenture) and the parity pledge and lien created with respect to the Pension and Retirement Debt Obligations (as defined in the Indenture); and (ii) the Debt Service Fund held by the Trustee under the Indenture, subject to the allocation of the Debt Service Fund into dedicated sub-funds, including the Series 2011 Dedicated Sub-Fund established and maintained for the benefit of the Bonds under the Second Supplemental Indenture.

The Act provides that the Bonds are not, and shall not be or become, an indebtedness or obligation of the State of Illinois or any political subdivision of the State (other than the Authority) or of any municipality within the State, nor shall any Bond be or become an indebtedness of the Authority within the purview of any constitutional limitation or provision.

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

1. The Authority has all requisite power and authority under the Constitution and the laws of the State of Illinois to adopt the Bond Ordinance, to enter into the Indenture and the Second Supplemental Indenture, to issue the Bonds thereunder, and to perform all of its obligations under the Bond Ordinance, the Indenture and the Second Supplemental Indenture in those respects.

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

3. The Indenture and the Second Supplemental Indenture have been duly authorized, executed and delivered by the Authority and constitute valid and binding contractual obligations of the Authority enforceable in accordance with their terms.

4. The Bonds have been duly authorized and issued, are the legal, valid and binding limited obligations of the Authority payable from the Series 2011 Dedicated Sub-Fund, are entitled to the benefits and security of the Indenture and the Second Supplemental Indenture, and are enforceable in accordance with their terms.

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

6. Interest on the Bonds is not includable in the gross income of the owners thereof for Federal income tax purposes. If there is continuing compliance with the applicable requirements of the Internal Revenue Code of 1986 (the "Code"), interest on the Bonds will continue to be excluded from the gross income of the owners thereof for Federal income tax purposes. Interest on the Bonds does not constitute an item of tax preference for purposes of computing individual or corporate alternative minimum taxable income. 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.

The Code contains certain requirements that must be satisfied from and after the date hereof in order to preserve the exclusion from gross income for Federal income tax purposes of interest on the Bonds. These requirements relate to the use and investment of the proceeds of the Bonds, the payment of certain amounts to the United States, the security and source of payment of the Bonds and the use and tax ownership of the property financed with the proceeds of the Bonds. The Authority has covenanted in the Second Supplemental Indenture to comply with these requirements.

Interest on the Bonds is not exempt from Illinois income taxes.

In rendering the foregoing opinion, we advise you that the enforceability (but not the validity or binding effect) of the Bonds, the Indenture and the Second Supplemental Indenture (i) may be limited by any applicable bankruptcy, insolvency or other laws affecting the rights or remedies of creditors now or hereafter in effect and (ii) is subject to principles of equity in the event that equitable remedies are sought, either in an action at law or in equity.

Respectfully yours,

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