NEW ISSUE-BOOK ENTRY ONLY **RATINGS: See "RATINGS" herein**

Subject to compliance by the Public Building Commission of Chicago (the "Commission") and the Chicago Transit Authority (the "CTA") with certain covenants, in the opinions of Chapman and Cutler LLP and Pugh, Jones, Johnson & Quandt, P.C., Co-Bond Counsel, under present law, interest on the Bonds is excludable from gross income of the owners thereof for federal income tax purposes and is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations, but such interest is taken into account in computing an adjustment used in determining the federal alternative minimum tax for certain corporations. See the heading "TAX EXEMPTION" herein. Interest on the Bonds is not exempt from present Illinois income taxes.

$91,340,000
PUBLIC BUILDING COMMISSION OF CHICAGO
BUILDING REFUNDING REVENUE BONDS
SERIES 2006
(CHICAGO TRANSIT AUTHORITY)

Dated: Date of Issuance **Due: March 1, as set forth below**

The Bonds will be issued as fully registered bonds and will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Bonds. Individual purchases will be made in book-entry form only. The Bonds are issuable in denominations of $5,000 principal amount and integral multiples thereof. Principal of, redemption premium, if any, and interest on the Bonds are payable by Amalgamated Bank of Chicago, as Trustee, Paying Agent and Registrar (the "Trustee" or "Bond Registrar"), to DTC, which will remit such principal, redemption premium, if any, and interest to DTC's Participants for payment to the Beneficial Owners of the Bonds, as described in this Official Statement. Interest is payable on March 1 and September 1 of each year, with the first interest payment date being March 1, 2007.

The Bonds maturing on March 1 of the years 2018 to 2022, inclusive, are subject to optional redemption prior to maturity as described under the heading "THE BONDS – Redemption of Bonds Prior to Maturity" herein.

Payment of the principal of and interest on the Bonds when due will be insured by a financial guaranty insurance policy to be issued by Ambac Assurance Corporation (the "Bond Insurer") simultaneously with the delivery of the Bonds.

Ambac

The Bonds are payable from annual lease payments to be made by the CTA to the Commission and other funds held by the Trustee pursuant to the Bond Resolution described herein. The lease payments are a general obligation of the CTA payable from any lawfully available funds of the CTA. The CTA has no taxing power. The Bonds are not secured by any interest in the Leased Property described herein.

The Bonds are offered when, as and if issued and accepted by the Underwriters and subject to prior sale, withdrawal or modification of the offer without any notice, and to the issuance of approving legal opinions by Chapman and Cutler LLP, Chicago, Illinois and Pugh, Jones, Johnson & Quandt, P.C., Chicago, Illinois, Co-Bond Counsel. Certain legal matters will be passed upon for the Commission by Neal & Leroy, L.L.C., Chicago, Illinois and for the CTA by Eugene Munin, its Interim General Counsel. Certain legal matters will be passed upon for the Underwriters by their Co-Counsel, Perkins Coie LLP, Chicago, Illinois and Burris, Wright, Slaughter & Tom, LLC, Chicago, Illinois. It is expected that the Bonds will be available for delivery through the facilities of DTC on or about October 25, 2006.

Siebert Brandford Shank & Co., LLC **Cabrera Capital Markets**

Loop Capital Markets, LLC **M R Beal & Company**

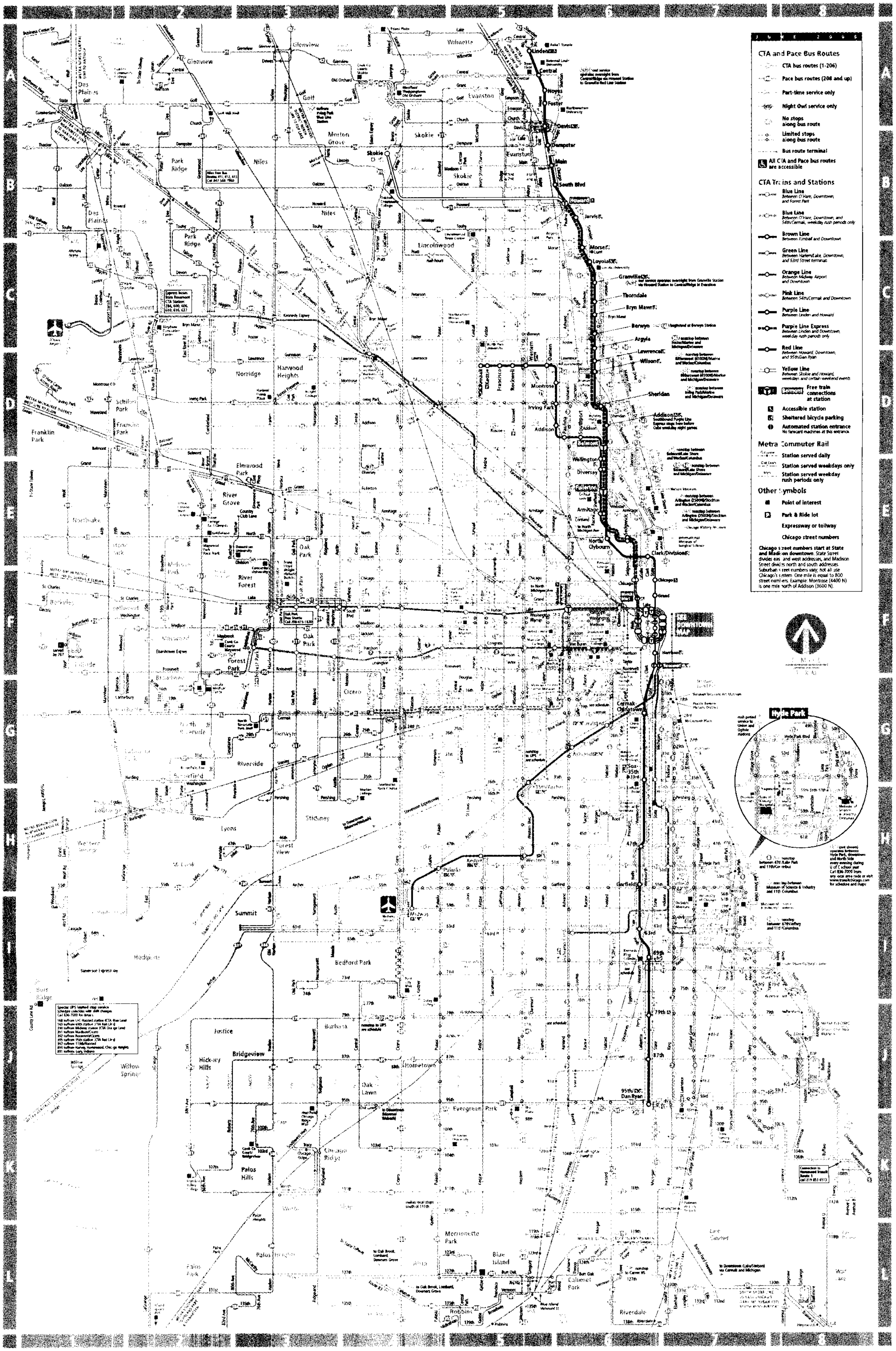
October 17, 2006

$91,340,000
PUBLIC BUILDING COMMISSION OF CHICAGO
BUILDING REFUNDING REVENUE BONDS
SERIES 2006
(CHICAGO TRANSIT AUTHORITY)

Maturity (March 1)	Principal Amount	Interest Rate	Yield	CUSIP[1] Number
2007	$2,375,000	4.50%	3.54%	167664YS4
2008	1,790,000	4.00	3.58	167664YT2
2009	1,880,000	4.00	3.62	167664YU9
2010	1,955,000	4.00	3.66	167664YV7
2011	2,035,000	4.00	3.70	167664YW5
2012	2,115,000	4.00	3.75	167664YX3
2013	2,205,000	4.00	3.80	167664YY1
2014	2,295,000	4.25	3.85	167664YZ8
2015	2,405,000	5.00	3.88	167664ZA2
2016	2,530,000	5.00	3.95	167664ZB0
2017	2,660,000	5.00	4.01	167664ZC8
2018	2,785,000	4.25	4.08*	167664ZD6
2019	2,915,000	5.00	4.12*	167664ZE4
2020	3,065,000	5.00	4.16*	167664ZF1
2021	3,225,000	5.00	4.20*	167664ZG9
2022	3,390,000	5.00	4.23*	167664ZH7
2023	3,565,000	5.25	4.20	167664ZJ3
2024	3,760,000	5.25	4.23	167664ZK0
2025	3,960,000	5.25	4.25	167664ZL8
2026	4,175,000	5.25	4.26	167664ZM6
2027	4,400,000	5.25	4.28	167664ZN4
2028	4,635,000	5.25	4.30	167664ZP9
2029	4,890,000	5.25	4.31	167664ZQ7
2030	5,150,000	5.25	4.33	167664ZR5
2031	5,430,000	5.25	4.34	167664ZS3
2032	5,720,000	5.25	4.35	167664ZT1
2033	6,030,000	5.25	4.36	167664ZU8

*Yield to March 1, 2017 call date.

1 CUSIP numbers have been assigned by an organization not affiliated with either the Commission or the CTA and are included solely for the convenience of holders of the Bonds. Neither the Commission nor the CTA is responsible for the selection or uses of these CUSIP numbers, nor is any representation made as to their correctness on the Bonds or as indicated above.


JUNE 2006
CTA and Pace Bus Routes
CTA bus routes (1-206)
Pace bus routes (208 and up)
Part-time service only
Night Owl service only
No stops along bus route
Limited stops along bus route
Bus route terminal
All CTA and Pace bus routes are accessible
CTA Tr: ins and Stations
Blue Line
Between O'Hare, Downtown, and Forest Park
Blue Line
Between O'Hare, Downtown, and 54th/Cermak, weekday rush periods only
Brown Line
Between Kimball and Downtown
Green Line
Between Harlem/Lake, Downtown, and 63rd Street terminals
Orange Line
Between Midway Airport and Downtown
Pink Line
Between 54th/Cermak and Downtown
Purple Line
Between Linden and Howard
Purple Line Express
Between Linden and Downtown, weekday rush periods only
Red Line
Between Howard, Downtown, and 95th/Dan Ryan
Yellow Line
Between Skokie and Howard, weekdays and certain weekend events
Free train connections at station
Accessible station
Sheltered bicycle parking
Automated station entrance
No farecard machines at this entrance
Metra :ommuter Rail
Station served daily
Station served weekdays only
Station served weekday rush periods only
Other :ymbols
Point of interest
Park & Ride lot
Expressway or tollway
Chicago street numbers
Chicago street numbers start at State and Madison downtown. State Street divides east and west addresses, and Madison Street divides north and south addresses. Suburban street numbers vary; not all use Chicago's system. One mile is equal to 800 street numbers. Example: Montrose (4400 N) is one mile north of Addison (3600 N).
Glenview
Wilmette
Evanston
Des Plaines
Park Ridge
Niles
Morton Grove
Skokie
Lincolnwood
Linden
Central
Noyes
Foster
Davis
Dempster
Main
South Blvd
Howard
Jarvis
Morse
Loyola
Granville
Thorndale
Bryn Mawr
Berwyn
Argyle
Lawrence
Wilson
Sheridan
Addison
Belmont
Wellington
Diversey
Fullerton
Armitage
North Clybourn
Clark/Division
Chicago
Grand
Rosemont
Norridge
Harwood Heights
Schiller Park
Franklin Park
Elmwood Park
River Grove
Northlake
Oak Park
River Forest
Forest Park
Cicero
Berwyn
North Riverside
Riverside
Brookfield
Lyons
Stickney
Forest View
Summit
Bedford Park
Hodgkins
Justice
Bridgeview
Hickory Hills
Hometown
Oak Lawn
Evergreen Park
Chicago Ridge
Palos Hills
Palos Heights
Palos Park
Merrionette Park
Blue Island
Calumet Park
Riverdale
Robbins
Willow Springs
Burr Ridge
Western
Kedzie
Pulaski
Midway
Cermak-Chinatown
Garfield
47th
35th
63rd
69th
79th
87th
95th/DR Dan Ryan
Hyde Park
SEE DOWNTOWN MAP

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information. No dealer, broker, salesperson or other person has been authorized to give any information or to make any representations other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as statements of the Commission, the CTA, the Trustee, the Bond Insurer or the Underwriters. This Official Statement does not constitute an offer to sell or the solicitation of any offer to buy, nor shall there be any sale of the Bonds by any person, in any jurisdiction in which it is unlawful to make such offer, solicitation or sale. The information set forth herein has been obtained from the Commission, the CTA, the Bond Insurer and from other sources believed to be reliable, but is not guaranteed as to accuracy or completeness by, and is not to be construed to be a representation of, the Underwriters. The information and opinions expressed in this Official Statement are subject to change without notice. Neither the delivery of this Official Statement nor any sale of the Bonds described in this Official Statement shall, under any circumstances, create any implication that there has been no change in the operations or financial condition of the Commission, the CTA or the Bond Insurer since the date of the information in this Official Statement.

This Official Statement should be considered in its entirety. No one factor should be considered less important than any other by reason of its position in this Official Statement. Where statutes, ordinances, reports or other documents are referred to in this Official Statement, reference should be made to such documents for more complete information regarding those matters.

This Official Statement contains certain forward-looking statements and information that are based on the beliefs of the CTA as well as assumptions made by and information currently available to the CTA. When used in this Official Statement, the words "anticipate," "estimate," "expect," "intend," "project," "assume" and similar expressions are intended to identify forward-looking statements. These statements are subject to certain risks, uncertainties and assumptions. If one or more of these risks or uncertainties materialize, or if underlying assumptions prove incorrect, actual results may very materially from those anticipated, expected or projected. Such risks and uncertainties which could affect the amount of revenues received include, among others, changes in political, social and economic conditions, federal, state and local statutory and regulatory initiatives, events relating to security, litigation and various other events, conditions and circumstances, many of which are beyond the control of the CTA.

The Bonds will not be registered under the Securities Act of 1933, as amended. The Bonds will not be listed on any stock or other securities exchange. Neither the Securities and Exchange Commission nor any other Federal, state, municipal or other government entity other than the Commission and the CTA (to the extent described under "Authorization and Certifications" herein) shall have passed upon the accuracy or adequacy of this Official Statement.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME WITHOUT NOTICE.

PUBLIC BUILDING COMMISSION OF CHICAGO

BOARD OF COMMISSIONERS

Richard M. Daley, Chairman
(Mayor, City of Chicago)

Bishop Arthur M. Brazier
(Pastor, Apostolic Church of God)

Adela Cepeda
(President, A.C. Advisory, Inc.)

Dr. Robert B. Donaldson, II
(Governors State University)

Maria Saldana
(President, Chicago Park District)

Cynthia M. Santos
(Commissioner, Metropolitan Water Reclamation District of Greater Chicago)

Samuel Wm. Sax
(Chairman, Financial Relations Inc.)

Michael W. Scott
(Appointee of the Chicago Board of Education)

John H. Stroger
(Appointee of the Cook County Board of Commissioners)

Gerald M. Sullivan
(Appointee of the Mayor of the City of Chicago)

EXECUTIVE DIRECTOR

Montel M. Gayles

CHICAGO TRANSIT AUTHORITY

CHICAGO TRANSIT BOARD

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

OFFICERS

Frank Kruesi, President
Dennis O. Anosike, Senior Vice-President/Treasurer
Eugene Munin, Interim General Counsel
Gregory Longhini, Assistant Secretary

CO-BOND COUNSEL

Chapman and Cutler LLP
Pugh, Jones, Johnson & Quandt, P.C.
Chicago, Illinois

FINANCIAL ADVISOR

Scott Balice Strategies, LLC
Chicago, Illinois

[THIS PAGE INTENTIONALLY LEFT BLANK]

TABLE OF CONTENTS

OFFICIAL STATEMENT
$91,340,000
PUBLIC BUILDING COMMISSION OF CHICAGO
BUILDING REFUNDING REVENUE BONDS
SERIES 2006
(CHICAGO TRANSIT AUTHORITY)

INTRODUCTION

This Official Statement sets forth information in connection with the sale of $91,340,000 aggregate principal amount of Public Building Commission of Chicago, Building Refunding Revenue Bonds, Series 2006 (Chicago Transit Authority) (the "Bonds"). The Bonds are authorized and issued under and pursuant to a resolution adopted by the Board of Commissioners of the Public Building Commission of Chicago (the "Commission") on October 3, 2006 (the "Bond Resolution"). Copies of the Bond Resolution, including the Lease (as defined below), the Escrow Agreement (as defined below), and any other reports or documents referred to herein are available, upon request, from the Public Building Commission of Chicago, Richard J. Daley Center, Room 200, Chicago, Illinois 60602.

Under the Bond Resolution, Amalgamated Bank of Chicago, Chicago, Illinois, is designated as the Trustee for the Bonds. The Bonds are payable from and secured by lease payments (the "Rent") to be made by the Chicago Transit Authority (the "CTA") to the Commission pursuant to a Lease Agreement dated as of March 31, 2003, by and between the Commission and the CTA (the "Original Lease"), as amended by an Amendment to Lease Agreement, dated October 25, 2006 (the "Amendment," the Original Lease, as so amended, the "Lease"), with respect to certain real property located in Chicago, Illinois (the "Site") and the building and facilities (the "Building and Facilities") constructed thereon and certain furniture, fixtures and equipment installed therein (collectively, the "Leased Property"). The Leased Property consists generally of a 12-story office building, together with the Site, which is being used by the CTA as its headquarters. The Bonds are not secured by any interest in the property which constitutes the Leased Property.

The CTA was formed in 1945 primarily for the purpose of acquiring, constructing, owning, operating and maintaining for public service a transportation system in the metropolitan area of Cook County, Illinois and began operating in 1947. Currently, the CTA operates the nation's second largest public transportation system, as measured by unlinked passenger trips. The CTA is one of three separately governed operating entities which provide public mass transportation services to Northeastern Illinois under the Regional Transportation Authority ("RTA"), the other two such entities being the Commuter Rail Division ("Metra") and the Suburban Bus Division ("Pace"). The RTA was established in 1974 and reorganized in 1983 to provide planning, funding and coordination for, and fiscal oversight of, the three operating entities. See "CHICAGO TRANSIT AUTHORITY" and "REGIONAL TRANSPORTATION AUTHORITY."

The Rent (as defined herein) will be in an amount sufficient to pay debt service on the Bonds. See "THE LEASE." The principal of and interest on the Bonds are payable solely and only from the receipts and revenues received by the Commission as a result of the Lease, excluding items described in the next sentence but including interest and other investment earnings on amounts in the Revenue Fund established by the Series 2003 Bond Resolution (collectively, the "Revenues") and are secured by a charge and lien on such Revenues. Revenues do not include the following: (i) amounts payable under additional leases relating to the Site, the Building and Facilities or any supplement to the Lease relating to any bonds of the Commission other than the Bonds, the Series 2003 Bonds and any Additional Bonds (as hereinafter defined), (ii) amounts received by the Trustee in any year in excess of the amounts due during that year under the Lease (after making up any shortfalls from prior years) and (iii) fees and expenses of the Commission and indemnification of the Commission pursuant to the provisions of the Lease.

PURPOSE OF THE SERIES 2003 BONDS

Pursuant to a resolution adopted on March 11, 2003 by the Board of Commissioners of the Commission (the "Series 2003 Bond Resolution"), the Commission issued its Building Revenue Bonds, Series 2003 (Chicago Transit Authority) (the "Series 2003 Bonds") to (i) pay the costs of the Leased Property, (ii) fund certain capitalized interest, (iii) fund a deposit to a bond reserve account for the Series 2003 Bonds (the "2003 Reserve Account") and (iv) pay the costs of issuance of the Series 2003 Bonds. The Bonds are being issued to refund all outstanding Series 2003 Bonds. See "PLAN OF FINANCE" and "ESTIMATED SOURCES AND USES OF FUNDS."

THE BONDS

General Description

The Bonds maturing on March 1 of the years and in the amounts shown on the inside cover page of this Official Statement will bear interest from their date, payable on March 1 and September 1 in each year, at the rates set forth on the inside cover page of this Official Statement. The first interest payment is March 1, 2007.

The Bonds will be dated the date of issuance thereof and will be issued as fully registered book-entry bonds in denominations of $5,000 of principal amount and integral multiples thereof. See "BOOK-ENTRY SYSTEM."

Redemption of Bonds Prior to Maturity

Optional Redemption. The Bonds maturing on March 1 of the years 2018 to 2022, inclusive, are subject to redemption prior to their maturity at the option of the Commission, which shall be exercised upon the written request of the CTA, in whole or in part on any date on or after March 1, 2017 in integral multiples of $5,000, such call to be at par and accrued interest to the date of redemption and without premium. If less than all of the Bonds of a maturity are to be redeemed, Bonds shall be called in any order selected by the Commission (at the request of the CTA) and by lot in the manner provided in the Bond Resolution, such call to be at par and accrued interest to the date of redemption and without premium.

Notice of Redemption. Notice of redemption shall be given by first class mail, postage prepaid, not less than 30 days nor more than 60 days prior to the date fixed for redemption to the registered owners of Bonds or portions of the Bonds to be redeemed at their addresses as shown on the registration books of the Bond Registrar and to the Bond Insurer. As long as DTC is the registered owner of all Bonds, all notices of redemption will be sent to DTC only and the Commission will have no obligation to send any notice of redemption to any Beneficial Owner (as defined below) of Bonds. See **"BOOK-ENTRY SYSTEM."** The failure to mail any such notice or any defect in any such notice as to any Bond shall not affect the validity of the proceedings for the redemption of any other Bonds. When Bonds have been so called for redemption, and funds for such payment, including any applicable premium, have been deposited for such purpose with the Trustee, interest on Bonds so called for redemption shall cease to accrue from and after the redemption date. Unless moneys sufficient to pay the redemption price of the 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 Commission, state that said redemption shall be conditioned 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 Commission shall not redeem the Bonds, and the Bond Registrar shall give notice, in the same manner in which the notice of redemption shall have been given, that such moneys were not so received and that such Bonds will not be redeemed.

In the event of the redemption of less than all of the Bonds of any maturity, the Bond Registrar shall assign to each Bond of that maturity a distinctive number for each $5,000 principal amount of such Bond and shall select by lot from the numbers so assigned as many numbers as, at $5,000 for each number, shall equal the principal amount of such Bonds to be redeemed. The Bonds to be redeemed shall be the Bonds which were assigned numbers so selected, provided that only so much of the principal amount of each Bond shall be redeemed as shall equal $5,000 for each number assigned to it and so selected. See **"BOOK-ENTRY SYSTEM"** for a discussion of partial redemption or purchase of the Bonds when they are in a book-entry only system.

SECURITY FOR THE BONDS

Pledge of Revenues

Under the Bond Resolution, the Commission has pledged and assigned the Revenues to the Trustee as security for the payment of the Bonds, including, without limitation all Rent payable to the Commission from the CTA pursuant to the Lease, and income and profits thereon, and all other money and securities held by the Trustee with respect to the Bonds, including unexpended Bond proceeds. The Revenues are, until paid out, pledged to and charged with and subjected to a lien for the payment of principal of and interest on the Bonds. The Bonds have a claim for payment solely from the Revenues and the money and investments held by the Trustee which are pledged to payment of principal of and interest on the Bonds, and from payments under the Bond Insurance Policy as described below. The Bonds have no claim for payment from any other revenues or funds of the Commission.

THE BONDS ARE NOT SECURED BY ANY INTEREST IN THE PROPERTY WHICH CONSTITUTES THE LEASED PROPERTY.

Rent

Under the Lease, the CTA is obligated to pay Rent to the Commission equal to the debt service on the Bonds (as (a) reduced by amounts to the credit of the 2006 Sinking Fund Account or as (b) increased to make up insufficiencies in the 2006 Sinking Fund Account, as further described under the caption "THE LEASE – Lease Payments"). All Rent received by the Commission from the CTA pursuant to the Lease shall be deposited with the Trustee for deposit in the Revenue Fund established pursuant to the terms of the Bond Resolution and the Series 2003 Bond Resolution.

As long as any of the Bonds, the Series 2003 Bonds or any Additional Bonds are outstanding, the Lease is noncancellable by the CTA and the Commission. Payments shall be made by the CTA on a net basis without deduction, abatement or setoff for any reason or cause whatsoever. The obligation of the CTA to make Lease Payments is unconditional, and is a general obligation of the CTA payable from any lawfully available funds of the CTA. The CTA covenants in the Lease to annually budget and program for the payment of Rent. The CTA will remain obligated to make all Lease Payments regardless of whether the Leased Property is acquired, constructed, improved and rehabilitated and regardless of whether the Leased Property is damaged or destroyed or otherwise not useful for CTA purposes. See "THE LEASE."

Additional Bonds

The Commission covenants that no bonds or other obligations which are payable from the Revenues may be issued so long as any of the Bonds remain outstanding, unless provision has been made for the payment thereof and the obligations of the Commission under the Bond Resolution have been discharged in accordance with the provisions of the Bond Resolution, except upon compliance with one of the following options: (a) Additional Bonds may be issued to refund Bonds, in whole or in part, if the debt service in each year on the refunding bonds does not exceed debt service for such year on the Bonds being refunded, provided that the Rent payable under the Lease has been restated and the Lease has been amended to provide the decrease in debt service on the Bonds caused by such refunding; or (b) Additional Bonds may be issued to refund Bonds in order to restructure debt service on the Bonds or to extend the maturity of the Bonds, provided that the Rent payable under the Lease has been restated and the Lease has been amended to provide for any increase in debt service on the Bonds caused by such refunding. "Additional Bonds" means bonds payable from the Revenues on a parity with the Bonds in order to refund all or a portion of the Bonds, pursuant to the terms of the Bond Resolution. Any Additional Bonds shall not be secured by the amounts on deposit in the 2006 Bond Reserve Account (as hereinafter defined). Nothing in the Bond Resolution prohibits the issuance of bonds or other obligations of the Commission not secured by or payable from the Revenues or any fund or account established in the Bond Resolution.

Bond Insurance

The payment of the principal of and interest on the Bonds when due will be insured by a financial guaranty insurance policy (the "Bond Insurance Policy" or the "Financial Guaranty Insurance Policy") to be issued by Ambac Assurance Corporation (the "Bond Insurer" or "Ambac Assurance") simultaneously with the delivery of the Bonds. See "BOND INSURANCE."

Bonds Not Obligations of the State of Illinois, the City of Chicago, the CTA or the RTA

The Bonds are not obligations of the State of Illinois (the "State"), the City of Chicago (the "City"), the CTA or the RTA and have no claim on the credit of, or any taxes levied for the State, the City or the RTA. The Bonds are payable from lease payments to be made by the CTA but CTA's obligations arise solely under the Lease and neither the State, the City, the CTA nor the RTA is obligated to pay principal of or interest on the Bonds.

BOND INSURANCE

The information under this caption has been furnished by the Bond Insurer for use in this Official Statement. Reference is made to APPENDIX D – "FORM OF FINANCIAL GUARANTY INSURANCE POLICY" for a specimen of the insurance policy of the Bond Insurer. The Commission, the CTA and the Underwriters do not make any representation as to the accuracy or completeness of this information or as to the absence of material adverse changes in this information subsequent to the date hereof.

Payment Pursuant to Financial Guaranty Insurance Policy

Ambac Assurance has made a commitment to issue a Financial Guaranty Insurance Policy relating to the Bonds, effective as of the date of issuance of the Bonds. Under the terms of the Financial Guaranty Insurance Policy, Ambac Assurance will pay to The Bank of New York, in New York, New York, or any successor thereto (the "Insurance Trustee"), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the

Obligor (as such terms are defined in the Financial Guaranty Insurance Policy). Ambac Assurance will make such payments to the Insurance Trustee on the later of the date on which such principal and/or interest becomes Due for Payment or within one business day following the date on which Ambac Assurance shall have received notice of Nonpayment from the Trustee. The insurance will extend for the term of the Bonds and, once issued, cannot be canceled by Ambac Assurance. As used herein and in the Financial Guaranty Insurance Policy, the term "Obligor" means the Commission.

The Financial Guaranty Insurance Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding Bonds, Ambac Assurance will remain obligated to pay the principal of and interest on outstanding Bonds on the originally scheduled interest and principal payment dates, including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the Bonds, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration, except to the extent that Ambac Assurance elects, in its sole discretion, to pay all or a portion of the accelerated principal and interest accrued thereon to the date of acceleration (to the extent unpaid by the Obligor). Upon payment of all such accelerated principal and interest accrued to the acceleration date, Ambac Assurance's obligations under the Financial Guaranty Insurance Policy shall be fully discharged.

In the event the Trustee has notice that any payment of principal of or interest on a Bond that has become Due for Payment and that is made to a holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, non-appealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac Assurance to the extent of such recovery if sufficient funds are not otherwise available.

The Financial Guaranty Insurance Policy does **not** insure any risk other than Nonpayment (as set forth in the Financial Guaranty Insurance Policy). Specifically, the Financial Guaranty Insurance Policy does **not** cover:

1. payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity;

2. payment of any redemption, prepayment or acceleration premium; and

3. nonpayment of principal or interest caused by the insolvency or negligence of the Trustee, Paying Agent or Bond Registrar, if any.

If it becomes necessary to call upon the Financial Guaranty Insurance Policy, payment of principal requires surrender of the Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Bonds to be registered in the name of Ambac Assurance to the extent of the payment under the Financial Guaranty Insurance Policy. Payment of interest pursuant to the Financial Guaranty Insurance Policy requires proof of holder entitlement to interest payments and an appropriate assignment of the holder's right to payment to Ambac Assurance.

Upon payment of the insurance benefits, Ambac Assurance will become the owner of the Bond, appurtenant coupon, if any, or right to payment of the principal of or interest on such Bond and will be fully subrogated to the surrendering holder's rights to payment.

Ambac Assurance Corporation

Ambac Assurance is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin, and is licensed to do business in 50 states, the District of Columbia, the Territory of Guam, the Commonwealth of Puerto Rico and the U.S. Virgin Islands, with admitted assets of approximately $9,599,000,000 (unaudited) and statutory capital of approximately $6,000,000,000 (unaudited) as of June 30, 2006. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., Moody's Investors Service, Inc. and Fitch Ratings have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in the Financial Guaranty Insurance Policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the Obligor.

Ambac Assurance makes no representation regarding the Bonds or the advisability of investing in the Bonds and makes no representation regarding, nor has it participated in the preparation of, this Official Statement other than the information supplied by Ambac Assurance and presented under the heading "BOND INSURANCE."

Available Information

The parent company of Ambac Assurance, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). These reports, proxy statements and other information can be read and copied at the SEC's public reference room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at http://www.sec.gov that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including the Company. These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005.

Copies of Ambac Assurance's financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance's administrative offices is One State Street Plaza, 19th Floor, New York, New York 10004, and its telephone number is (212) 668-0340.

Incorporation of Certain Documents by Reference

The following documents filed by the Company with the SEC (File No. 1-10777) are incorporated by reference in this Official Statement:

The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2005 and filed on March 13, 2006;

The Company's Current Report on Form 8-K dated and filed on April 26, 2006;

The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2006 and filed on May 10, 2006;

The Company's Current Report on Form 8-K dated July 25, 2006 and filed on July 26, 2006;

The Company's Current Report on Form 8-K dated and filed on July 26, 2006; and

The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended June 30, 2006 and filed on August 9, 2006.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in "Available Information."

BOOK-ENTRY SYSTEM

The Depository Trust Company, New York, New York ("DTC"), will act as the initial securities depository for the Bonds. The Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered Bond certificate will be issued for each maturity as shown on the inside cover page hereof, in the principal amount of each such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 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, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation and Emerging Markets Clearing Corporation (NSCC, FICC and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non- U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all 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 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 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 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 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the 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 Trustee and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 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 Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Trustee as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, redemption premium and interest payments on the 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 Commission or 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 Trustee, or the Commission, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, redemption premium and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Commission or the Trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

The Commission may remove DTC or any successor securities depository at any time. If at any time DTC or any successor securities depository resigns, is removed or becomes incapable of acting as a securities depository, then the Commission will appoint a successor securities depository to provide a system of book-entry only transfers for the Bonds, by written notice to the predecessor securities depository directing it to notify its participants of the appointment of a successor securities depository.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to Commission or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The Commission may terminate the system of book-entry only transfers for the Bonds at any time by written notice to the securities depository directing it to notify its Participants of the availability of Bond certificates. In such event, the Commission will issue, and the Trustee will authenticate, register and deliver to the Beneficial Owners of the Bonds, bond certificates in replacement of such Beneficial Owners' beneficial interests in the Bonds, all as shown in the records maintained by the securities depository. If such certificates are issued, the provisions of the Bond Resolution will apply to, among other things, the transfer and exchange of such certificates and the method of payment of principal of and interest on such certificates.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Commission believes to be reliable, but the Commission, the CTA, the Trustee and the Underwriters take no responsibility for the accuracy thereof.

Neither the Commission, the CTA nor the Trustee will have any responsibility or obligation to DTC, any Participants in the book-entry system or the Beneficial Owners with respect to (i) the accuracy of any records maintained by DTC or any Participant; (ii) the payment by DTC or by any Participant of any amount due to any Beneficial Owner in respect of the principal amount or redemption or purchase price of, or interest on, any Bonds; (iii) the delivery of any notice by DTC or any Participant; (iv) the selection of the Beneficial Owners to receive payment in the event of any partial redemption of the Bonds; or (v) any other action taken by DTC or any Participant.

Use of Certain Terms in Other Sections of this Official Statement

In reading this Official Statement it should be understood that, while the Bonds are in the book-entry system, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the Bonds; however, all rights of ownership must be exercised through DTC and the book-entry system.

PLAN OF FINANCE

As described below under "ESTIMATED SOURCES AND USES OF FUNDS," certain proceeds received by the Commission upon the sale of the Bonds, together with certain amounts on deposit in the 2003 Reserve Account, the Sinking Fund Account established under the Series 2003 Bond Resolution (the "2003 Sinking Fund Account") and the Construction Fund established under the Series 2003 Bond Resolution (the "Construction Fund"), will be used to purchase direct obligations of the United States of America (the "Government Obligations"), the principal of which, together with interest thereon, will be sufficient to pay (i) the principal of and interest on the Series 2003 Bonds as the same becomes due to and including March 1, 2013, the earliest optional redemption date for the Series 2003 Bonds (the "Redemption Date") and (ii) the redemption price of the Series 2003 Bonds, being 100 percent of the principal amount thereof, on the Redemption Date.

The Government Obligations will be held in trust in an escrow account (the "Escrow Account") pursuant to an Escrow Agreement between the Commission and Amalgamated Bank of Chicago, as Escrow Agent (the "Escrow Agreement"). The principal of and interest on the Series 2003 Bonds will have a claim for payment solely from amounts held in the Escrow Account. Neither the maturing principal of the Government Obligations nor the interest to be earned thereon will serve as security for or be available for the payment of principal or interest on the Lease or the Bonds.

Upon the issuance of the Bonds and the funding of the Escrow Account as described herein, the Series 2003 Bonds will be defeased and will have no further claims on the Rent paid by the CTA or the revenues of the Commission.

The accuracy and adequacy of (i) the arithmetical computations of the maturing principal of and interest on the Government Obligations to pay, when due, the principal of and interest on the Series 2003 Bonds to and including the Redemption Date, and the redemption price of the Series 2003 Bonds on the Redemption Date as described above and (ii) the computation of the actuarial yields on the Bonds and the Government Obligations will be verified by Crowe Chizek and Company LLC, Indianapolis, Indiana, independent certified public accountants.

Upon the issuance of the Bonds, a deposit will made to a bond reserve account for the Bonds (the "2006 Bond Reserve Account"), as established under the Bond Resolution. See "THE BOND RESOLUTION – Flow of Funds" herein.

LaSalle Bank National Association acted as trustee, bond registrar and paying agent for the Series 2003 Bonds (the "Prior Trustee"). The Prior Trustee has resigned and said resignation shall be effective the date of issuance of the Bonds. By purchasing the Bonds, the Bondholders waive any notice requirements regarding the resignation of the Prior Trustee and the appointment of Amalgamated Bank of Chicago as the trustee, bond registrar and paying agent.

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds, including Bond proceeds, are expected to be applied as follows:

SOURCES:	
Principal Amount of the Bonds	$91,340,000.00
Release of Funds on Deposit in the 2003 Reserve Account, the 2003 Sinking Fund Account and the Construction Fund	24,928,892.29
Original Issue Premium	8,544,047.30
Total Sources	$124,812,939.59
USES:	
Deposit to Escrow Account	$116,598,609.91
Deposit to 2006 Bond Reserve Account	6,346,575.00
Costs of Issuance(1)	1,867,754.68
Total Uses	$124,812,939.59

(1) Includes underwriters' discount and the premium for bond insurance.

PUBLIC BUILDING COMMISSION OF CHICAGO

Organization

The Commission was created pursuant to the Public Building Commission Act in 1956. Six of the eleven members of the Board of Commissioners of the Commission are appointed by the Mayor of the City (sometimes referred to herein as the "Mayor"), with the advice and consent of the City Council. The respective presiding officers of the following governmental entities, with the advice and consent of their respective governing bodies, each appoint one additional member: Cook County, The Forest Preserve District of Cook County, the Board of Education of the City of Chicago, The Metropolitan Water Reclamation District of Greater Chicago and the Chicago Park District.

Board of Commissioners

The current members of the Board of Commissioners of the Commission are shown below. Currently, one vacancy exists on the Board.

Richard M. Daley, Chairman
(Mayor, City of Chicago)

Bishop Arthur M. Brazier (Pastor, Apostolic Church of God)	Adela Cepeda (President, A.C. Advisory, Inc.)	Dr. Robert B. Donaldson, II (Governors State University)
Maria Saldana (President, Chicago Park District)	Cynthia M. Santos (Commissioner, Metropolitan Water Reclamation District of Greater Chicago)	Samuel Wm. Sax (Chairman, Financial Relations Inc.)
Michael W. Scott (Appointee of the Chicago Board of Education)	John H. Stroger (Appointee of the Cook County Board of Commissioners)	Gerald M. Sullivan (Appointee of the Mayor of the City of Chicago)

Administration

Primary administrative responsibility for the day-to-day operation of the Commission rests with its Executive Director. The current Executive Director of the Commission is Mr. Montel M. Gayles, who is supported by an administrative staff of approximately 50 persons. Mr. Gayles was appointed as the Executive Director of the Commission in July, 2004. Previously he served as Chief of Staff for the Chicago Housing Authority and as a Deputy Commissioner for the Chicago Department of Buildings. As a former Assistant Cook County State's Attorney, he brings valuable legal knowledge to the complicated and ever-changing world of construction management.

The Commission's administrative offices are located at the Richard J. Daley Center in Chicago.

Statutory Powers of Commission

The Commission is authorized under the Public Building Commission Act to issue its bonds for the purpose of financing the acquisition, construction, reconstruction, rehabilitation and equipping of buildings and facilities for the use and benefit of governmental bodies within the City and for the purpose of refunding its bonds. The Public Building Commission Act permits buildings and facilities financed by the Commission to be leased to the benefitted governmental body.

Outstanding Commission Debt

Since its organization in 1956, the Commission has issued $2,809,610,031 aggregate principal amount of bonds (currently outstanding in the amount of $307,835,000) to finance or refinance the cost of public buildings and facilities in certain portions of the City for use by various governmental bodies.

In addition to the Leased Properties and other improvements for the benefit of the CTA, among the major buildings and facilities financed by the Commission in prior years are: numerous school improvement projects for the Board of Education of the City of Chicago, the Chicago Cultural Center (City), the Richard J. Daley Center (City and Cook County), Soldier Field Improvements, Lincoln Park Zoo Facilities and McCormick Place Parking Facilities (Chicago Park District), and numerous Community College Facilities (Community College District No. 508).

Special Obligations of Commission

Each series of bonds of the Commission is a special obligation payable solely from and secured by a portion of bond proceeds and the revenues derived from the operation, management or use of the buildings or other facilities acquired or to be acquired by the Commission, which revenues include payments received under one or more separate leases with one or more governmental bodies requiring the payment of lease rentals sufficient to pay debt service on the related series of bonds. Lease rentals made for any series of bonds are not available for the payment of debt service on any other series of bonds, except as may be provided for certain additional leased properties. Bonds of the Commission are payable solely from the revenues pledged therefor and are not an indebtedness of the Commission. Bonds of the Commission are not secured by the property which is the subject of a lease. The Commission is free to issue additional bonds under other resolutions to finance other facilities for the CTA or other governmental bodies, including additional improvements to the Leased Property, which other indebtedness will be separately secured by other leases.

CHICAGO TRANSIT AUTHORITY

Introduction

The Metropolitan Transportation Authority Act (the "CTA Act") authorized the creation of the CTA in 1945 as a political subdivision, body politic and municipal corporation of the State. The CTA 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 CTA became the sole operator of the Chicago transit when it purchased the Chicago Motor Coach System. The CTA was formed primarily for the purpose of operating and maintaining a transportation system in the metropolitan area of Cook County.

Organization and Management

Management. The governing and administrative body of the CTA is its board (the "CTA Board") consisting of seven members. Three CTA Board members are appointed by the Governor of the State, by and with the consent of the Senate, subject to approval by the Mayor of the City. One of the members appointed by the Governor must be a resident of the metropolitan area outside the City. Four members are appointed by the Mayor with the advice and consent of the City Council, subject to approval by the

Governor. The CTA Board elects a Chairman from among its members to serve a three-year term. Each member serves for a seven-year term and until his or her successor has been appointed and qualified.

The current members of the CTA Board are as follows:

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

Henry T. Chandler, Jr. was appointed to the CTA Board by Mayor Richard M. Daley in March 2006. His term expires in 2007. Mr. Chandler is Board Chair of Access Living of Metropolitan Chicago, a non-residential center dedicated to advocating on behalf of people with disabilities.

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

Cynthia A. Panayotovich formerly served as Senior Public Service Administrator in the Illinois Department of Commerce and Community Affairs, the predecessor agency to the Illinois Department of Commerce and Economic Opportunity. Ms. Panayotovich was appointed to the CTA Board by Governor George Ryan in 2002 for a full term continuing through 2007. She previously served as Public Service Administrator and staff assistant to the Deputy Director of the Illinois Bureau of Business Development.

Reverend Charles E. Robinson has been pastor of Holy Starlight M.B. Church in the Lawndale community since 1987. Appointed to the CTA Board by Mayor Daley in 2002 for a term continuing through 2007, Reverend Robinson has served as Chairman of the Community Bank of Lawndale's Advisory Board, President of the North Lawndale Ministers' Council, and Vice President of the Westside Baptist Ministers' Conference.

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

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

The current officers of the Authority are as follows:

Frank Kruesi, *President of the CTA* since 1997, has worked to rebuild service and reverse more than 15 years of declining ridership. Service improvements and customer-friendly initiatives under his stewardship have resulted in ridership gains in five of the last six years. Mr. Kruesi previously served as Assistant Secretary for Transportation Policy for the U.S. Department of Transportation and as Chief Policy Officer for the City of Chicago under Mayor Richard M. Daley. Mr. Kruesi is an affiliated professor of public policy at the University of Chicago, where he teaches at the Irving B. Harris Graduate School of Public Policy.

Eugene Munin, *Interim General Counsel*, was appointed on June 14, 2006, after serving as First Deputy General Counsel of the CTA since October 18, 2004. Prior to joining the CTA, Mr. Munin was the Deputy Budget Director for the City of Chicago's Office of Budget and Management. Mr. Munin holds a B.S. in Accountancy from the University of Illinois, a J.D. from the DePaul University College of Law, an M.B.A. from Northwestern University and an M.P.A. from Harvard University.

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

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

Organizational Structure. The CTA has 5,281 non-STO budgeted positions for 2006. The CTA is comprised of three major divisions, with the majority of its employees in the Transit Operations division.

Labor Relations. The Amalgamated Transit Union ("ATU") Locals 241 and 308 represent approximately 8,300 of the CTA's unionized employees. Fifteen other unions represent another 1,500 craft union employees. Collective bargaining agreements with 16 of the 17 unions expired on December 31, 2003 but remain in effect until a successor agreement is negotiated or arbitrated. The only remaining agreement not expired is for the Ironworkers Local 1 which will expire on May 31, 2007. The current collective bargaining agreement with ATU has been decided by an interest arbitrator. Negotiations or arbitration continues with the CRAFT Coalition (11 separate unions), Teamsters Local 726, IAM/Mechanics Local 701 and IBEW Local 134 Controllers. The terms and conditions of those various collective bargaining agreements will remain in effect until such time as a successor agreement is negotiated or arbitrated.

CTA Transit Services

The CTA is the nation's second largest public transit system as measured by unlinked passenger trips. The CTA operates public mass transit service, including bus and rail service, in the City of Chicago and 40 surrounding suburbs.

The service area of the CTA has a population of approximately 3.8 million. The CTA has approximately 2,100 buses that operate over 154 routes. Buses provide about one million passenger rides on a typical weekday and serve approximately 12,000 posted bus stops. The CTA's 1,190 rapid transit cars operate on eight routes serving 144 stations, making approximately 2,200 train trips on a typical weekday. CTA trains provide about 600,000 passenger rides on a typical weekday. The CTA carries approximately 80 percent of the public transit riders in the six-county Northeastern Illinois region.

Transit services provided by the CTA are part of the regional public mass transportation service system in Northeastern Illinois (the "Regional Transit System") provided through the independent operations of the CTA, Metra and Pace (each of the CTA, Metra and Pace are sometimes referred to herein individually as a "Service Board" and collectively as "Service Boards"). See "THE REGIONAL TRANSPORTATION AUTHORITY" herein.

CTA Capital Asset Base

The CTA's transit system has assets with an approximate book value of $3.0 billion as of December 31, 2005. The composition of CTA's asset base is shown in the following table.

CTA CAPITAL ASSET BASE
(In Millions)

Description	
Land and Land Improvement	$ 106,761
Buildings	925,770
Vehicles	643,441
Elevated Structures, Track, and Tunnels	570,547
Power, Signals, and Communications	256,132
Other Equipment	96,811
Construction in Progress	378,141
Total	$2,977,603

Condition of Physical Plant and Equipment

The CTA operates and maintains a rolling stock fleet of approximately 3,200 revenue vehicles, approximately 450 buildings, and a rapid transit system consisting of approximately 288 miles of track, including yards. The following describes major CTA capital assets and provides a summary of their age, condition and maintenance practices to assure full operability throughout their useful lives. A brief description of the CTA's fixed assets follows:

Bus Fleet. The CTA maintains a fleet of approximately 2,100 buses, with an average age of 9.4 years which operate on approximately 2,529 miles of bus routes. Buses on all 154 bus routes are equipped with ramps or lifts for the mobility impaired making all routes 100 percent ADA accessible.

Maintaining such a large and varying fleet presents a significant challenge to the maintenance staff. Accordingly, a maintenance plan has been implemented that emphasizes planning and execution of work to enhance bus availability and reliability and to prevent in-service failures.

Rapid Transit Car Fleet. The CTA maintains a 1,190 car fleet with an average age of 23 years which operate on approximately 288 route miles.

Rail car maintenance is likewise performed in accordance with a plan that reflects budgetary and resource considerations and scheduling of inspections, servicing and component replacements prior to failure in service. Additionally, major rehabilitation work is undertaken periodically to incorporate technological advancements and to help ensure that the vehicles meet or exceed their life expectancy.

Plant Facilities, Systems, and Equipment. The CTA's plant facilities include eight bus garages, 10 rail car inspection shops, two major vehicle overhaul shop complexes, numerous warehouses, off-street bus turnarounds, facilities maintenance shops, 144 rail stations, 12 rail yards, nine rail terminals, 87.5 miles of elevated structure and approximately 288 miles of track, including yards. These facilities vary in age, from new to almost 100 years old, as well as in their condition, complexity and maintenance needs.

With respect to the rapid transit system, consulting engineering teams have completed a detailed assessment of current infrastructure conditions. This effort has documented the needs of the system and will assist in the development of options for the preservation, rehabilitation and/or replacement of system components.

As with rolling stock, the CTA's plant facilities, systems and equipment are maintained in accordance with a plan that emphasizes safety, availability and reliability, given available resources and budgetary considerations.

CTA Capital Plan

The CTA prepares a capital plan each year which is comprised of capital projects the CTA intends to undertake within a five-year period with respect to renovating and improving the physical infrastructure of its system, subject to available funding. Generally, available funding as used in the capital plan is based on available funding in the current year of the plan and on projected funding receipts for the four "out-years" of the plan. Funding is provided to the CTA for its capital projects from the Federal Transit Administration (the "FTA"), the State of Illinois Department of Transportation and the RTA.

CTA's 2006-2010 $2.2 billion Capital Improvement Program (the "Capital Plan") includes funds to purchase replacement buses and railcars, to continue projects to rehabilitate the Blue Line – Cermak Branch, and to continue major rehabilitations of the Brown Line to expand capacity to accommodate growth in ridership and the Red Line – Dan Ryan Branch. Other projects will upgrade and renew CTA's rail right-of-way, upgrade maintenance facilities, and implement preventive maintenance for CTA's bus and rail fleets and support enchanced security throughout CTA facilities and systems.

Outstanding Obligations

The CTA has entered into several economically defeased lease and leaseback agreements in fiscal years 1995 through 2003. These agreements were entered into with various third parties and pertain to certain assets of the CTA, including rail lines and equipment, rail cars, facilities, buses and qualified technology equipment. Under the lease/leaseback financings, the CTA entered into a long term lease for applicable assets with a trust, established by the equity investor, which trust concurrently leased the respective assets back to the CTA under a sublease. Each sublease contains a fixed date and fixed price purchase option that allows the CTA, at its option, to purchase the assets back from the lessor. At December 31, 2005, the total obligations due under the lease agreements which have been economically defeased was approximately $1.62 billion. These lease/leaseback transactions are more fully described in Note 8(b) of the audited financial statements of the CTA for the years ending December 31, 2004 and 2005 attached to this Official Statement as Appendix B.

The Tax Increase Prevention and Reconciliation Act of 2005, enacted on May 17, 2006 ("TIPRA"), imposes an excise tax on the net income or proceeds of certain types of leasing transactions entered into by tax-exempt entities, including states and their political subdivisions, such as the CTA. Some of the lease/leaseback financings described in the preceding paragraph could be subject to the tax. The United States Department of the Treasury and the Internal Revenue Service expect to issue guidance that will clarify which transactions are subject to the excise tax imposed under TIPRA and the method of calculating the excise tax. The CTA is evaluating the effect of TIPRA and is awaiting such guidance. At this time, the magnitude of the CTA's excise tax liability with respect to the lease/leaseback transactions that are subject to TIPRA is unclear. Accordingly, the CTA is unable to determine at this time whether the application of an excise tax under TIPRA will have a material adverse effect on the CTA's financial results or condition.

The CTA issued and has outstanding $250,000,000 aggregate principal amount of bonds, which are limited obligations of the CTA payable solely from a pledge of a portion of its share of FTA Section 5307 Urbanized Area Formula funds. Proceeds from such bonds are being used to fund a variety of capital improvements. Such Bonds will reach final maturity on June 1, 2016.

The CTA plans to issue during the fourth quarter of 2006 approximately $275,000,000 aggregate principal amount Capital Grant Receipts Revenue Bonds, Series 2006A (Federal Transit Administration Section 5307 Formula Funds), to provide funds for a variety of capital improvements to the CTA's transportation system (the "2006 Grant Bonds"). The 2006 Grant Bonds will not be general obligations of the CTA, but will be limited obligations payable solely from a pledge of certain grant receipts from a portion of its share of FTA Section 5307 Urbanized Area Formula funds. The 2006 Grant Bonds are expected to reach final maturity on or about June 1, 2029.

CTA Ridership Trends

In 2005, total CTA ridership was 492.4 million, constituting approximately a 1.6% increase from the 2001 totals. The following table provides a breakdown of CTA ridership trends since 2001 (including rail cross-platform transfers described below). In 2006, the CTA adopted the National Transit Database (NTD) reporting guidelines to the FTA for ridership. Ridership reported to the FTA is approximately 17% higher than that reported to the RTA due to the inclusion of rail cross-platform transfers that are not captured by fare equipment since the passenger does not have to exit and reenter the station. These transfers are estimated using methodologies consistent with FTA specifications. The CTA believes that the ridership decline in 2003 was due primarily to lower employment levels in the service area.

YEARLY RIDERSHIP UNLINKED PASSENGER TRIPS*

CTA	2001	2002	2003	2004	2005	2006 (Budget)
Bus	301.7	303.3	291.8	294.0	303.2	303.9
Paratransit	1.4	1.5	1.8	2.2	2.4	1.2
Rail	181.7	180.4	181.1	178.7	186.8	184.5
Total CTA**	484.8	485.2	474.7	474.9	492.4	489.6
Percent Change		0.1%	(2.1%)	0.0%	3.7%	

* 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.

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

Litigation

The CTA is involved in numerous lawsuits which arise out of the ordinary course of operating a public mass transit service. While some of the cases pending against the CTA involve claims for substantial monies, none challenge the authority of the CTA to enter into the Lease or make payment of

Rent to the Commission. Upon delivery of the Bonds, the CTA will furnish a certificate to the effect that, among other things, there is no litigation pending in any court against the CTA or to which the CTA is a party seeking to restrain or enjoin the issuance or delivery of the Bonds, or in any way contesting or affecting the validity or enforceability of the Bonds, the Series 2003 Bonds or the Lease, the proceedings or authority under which they are being issued, or the security therefor.

Loss Financing Plan

In 1986, the RTA and the Service Boards established a loss financing plan to fund a joint self-insurance fund (the "Fund") which was initially funded in part with the proceeds of bonds issued by the RTA in 1986. As of December 31, 2005, the Fund had total net assets of $36 million. The purpose of the Fund is to provide a source of funds from which the RTA and the Service Boards, including the CTA, may borrow to pay damages and other claims incurred by them arising out of claims against them for personal injuries, property damage and certain other losses above certain retained limits. Amounts in the Fund are not available to pay debt service on RTA Obligations (as hereinafter defined) or the Bonds.

The Plan is administered by the RTA, CTA, Metra and Pace (the "Participating Entities") utilizing a Fund Manager appointed by the RTA and three Fund Advisors, one appointed by each of the Service Boards.

Financial and Budgetary Information

Sources of Revenues

<u>General</u>

The following are the principal sources of revenues to the CTA for its use in financing and operating its public mass transit system: (i) operating revenues, including farebox receipts, Reduced Fare Reimbursements (as defined below) and local assistance; (ii) Sales Tax Revenues and (iii) RTA discretionary funding which is comprised of Public Transportation Fund Revenues (as defined below) and 15% of the Sales Tax Revenues (as defined below) remaining after RTA budgetary needs.

The following paragraphs describe the CTA's principal sources of revenues. Certain of the CTA's revenues, such as farebox revenues and certain Federal, State and local grants and loans, are coordinated and received directly by the CTA. Other CTA revenues are received, coordinated and distributed by the RTA in its capacity as the financial oversight body for the CTA and the other Service Boards. For example, the RTA has authority to apply for, receive and expend grants, loans and other funds from the Federal, State or local governments, for use by the CTA. Upon receiving funds from any source, the RTA is responsible for distributing such funds for use in the Regional Transit System, including allocating such funds to the CTA and other Service Boards; the RTA Act (as defined under the "REGIONAL TRANSPORTATION AUTHORITY") provides that the RTA must provide to the Service Boards (including the CTA) "any monies received [by the RTA] relating to public transportation services under the jurisdiction of the Service Boards[.]"

<u>Operating Revenues</u>

Revenues generated by CTA operations (the "CTA Operating Revenues") include farebox receipts, revenues from certain other sources, such as investment income, concessions and advertisements, and Reduced Fare Reimbursements (as defined below). CTA Operating Revenues in 2005 were $525.8 million, including $493.8 million from farebox and other sources and $32.0 million of Reduced Fare Reimbursements.

Reduced Fare Reimbursements

The Illinois General Assembly passed legislation in 1989 that provides funds to reimburse the Service Boards, including the CTA, for the cost of providing reduced fares for student, elderly and disabled riders ("Reduced Fare Reimbursements"). The aggregate amount of Reduced Fare Reimbursements received by the CTA is included in the CTA's Operating Revenues.

Local Assistance

The CTA receives an annual statutory transfer of $3.0 million from the City of Chicago and $2.0 million from Cook County, as required by the RTA Act. See "Impact of Mandated Local Assistance on CTA Revenues" below. The aggregate amount of these transfers is included in the CTA's Operating Revenues.

Additional State Assistance

In 2005, the Illinois General Assembly authorized and the Governor approved a $54.3 million grant to fund ADA paratransit and other services. In 2006, CTA anticipates receiving $27.1 million to fund the costs of providing paratransit service through June 30, 2006. The State of Illinois transferred the responsibility to provide paratransit service to Pace effective July 1, 2006 and the CTA no longer provides paratransit service. Assistance of this type is not mandated by law and no assurances can be given that such support will be provided in the future.

Sales Tax Revenues

Sales Tax

The taxes currently imposed by the RTA (collectively, the "Sales Tax") consist of the following: (i) in Cook County, a tax of 1% 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 0.75% in Cook County, and 0.25% in counties within Northeastern Illinois other than Cook County, of the gross receipts from all other taxable retail sales (a "General Sales Tax"); and (iii) a tax of 0.75% on the use in Cook County, and 0.25% on the use in counties within Northeastern Illinois other than in Cook County, 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"). The Food and Drug Tax and the General Sales Tax are also imposed on persons engaged in a sale of service pursuant to which tangible personal property in the form of tangible personal property or in the form of real estate is transferred as incident to a sale of a service (a "Service Occupation Tax").

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% in Cook County and 0.25% in the Counties of DuPage, Kane, Lake, McHenry and Will; (ii) a tax on the sale of motor fuel at a rate not to exceed 5% 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 Sales Taxes currently imposed by the RTA without additional legislative authority.

The proceeds of the Sales Tax, net of retailers' discounts, are collected by the Illinois Department of Revenue and paid to the Treasurer of the State, to be held in trust for the RTA outside the State Treasury in 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 Section 4.04(d) of the RTA Act (the "RTA Trustee"), to serve as security for debt service on all RTA bonds and notes (the "RTA Obligations"). After the RTA Trustee has made all required deposits and payments with respect to the debt service on RTA Obligations, the RTA Trustee must transfer all remaining Sales Tax Revenues to the RTA for its corporate purposes, including distribution to the CTA and the other Service Boards.

"Sales Tax Revenues" means all tax receipts by or on behalf of the RTA from the Sales Taxes, Replacement Revenues (as defined below) or any taxes imposed (including by the State) in lieu of those taxes. Sales Tax Revenues payable to or on behalf of the RTA in 2005 totalled $700.4 million.

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. At that time, the Sales Tax rate was reduced to its present levels. 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. Approximately 12% of the Replacement Revenues are subject to annual appropriation by the Illinois General Assembly. The balance of Replacement Revenues is not subject to annual appropriation. Replacement Revenues in the RTA Occupation and Use Tax Replacement Fund are paid monthly by the State Treasurer to or on behalf of the RTA, subject to such annual appropriation. Replacement Revenues in the RTA Tax Fund are not subject to annual appropriation and are paid monthly by the State Treasurer to or on behalf of the RTA.

The RTA Act and the RTA's General Ordinance provide for the payment of available Replacement Revenues to the RTA Trustee as security for debt service on RTA Obligations. As with the Sales Tax proceeds, Replacement Revenues in excess of amounts required by RTA Ordinance to be deposited with the Trustee to secure RTA Obligations are transferred to the RTA for its corporate purposes, including distribution to the Service Boards in accordance with the distribution ratios set forth in Section 4.01(d) of the RTA Act.

Method of Distribution of Sales Tax Revenues

Section 4.04(d) of the RTA Act provides that in lieu of direct payment by the State Comptroller to the RTA of the Sales Tax Revenues, the RTA may provide by Ordinance for the assignment and direct payment of the Sales Tax Revenues to a corporate trustee appointed by the RTA in connection with the issuance by the RTA of bonds or notes, in order to provide additional security for the payment of such bonds or notes. Pursuant to Section 4.04(d), the RTA adopted a Bond and Note General Ordinance on August 8, 1985 (as supplemented and amended, the "General Ordinance"), which provides, among other things, for the assignment and direct payment of all Sales Tax Revenues to the RTA Trustee with respect to all RTA Obligations. **The Bonds do not constitute RTA Obligations.**

Pursuant to Section 4.04(d) of the RTA Act, after the RTA Trustee has made all deposits or payments required by applicable RTA Ordinances, including the General Ordinance, with respect to securing payment of the debt service on RTA Obligations, the RTA Trustee must transfer all remaining

Sales Tax Revenues to the RTA. Of the Sales Tax Revenues, the RTA withholds 15%, to be deposited into the RTA's general fund and to be used at the RTA's discretion. The RTA is required to pay to the Service Boards the remainder of the Sales Tax Revenues pursuant to distribution ratios in the RTA Act, as follows: (i) an amount equal to 85% of the total proceeds collected within the City of Chicago is allocated and paid to the CTA; (ii) an amount equal to 85% of the total proceeds collected in suburban Cook County is allocated and paid 30% to the CTA, 55% to Metra and 15% to Pace; and (iii) an amount equal to 85% of the total proceeds collected in the five counties in Northeastern Illinois other than Cook County is allocated and paid 70% to Metra and 30% to Pace.

Proceeds of the Sales Tax Revenues which were allocated and payable to the CTA in 2005 totalled \$277.2 million. Between 1996 and 2005, Sales Tax Revenues grew at an annual compound rate of approximately 2.87%.

Public Transportation Fund Revenues

Public Transportation Fund Revenues (the "Public Transportation Fund Revenues") are amounts paid to or on behalf of the RTA from the Public Transportation Fund in the State Treasury. Subject to annual appropriation by the Illinois General Assembly, each month the State Comptroller orders and the State Treasurer transfers from the State General Revenue Fund to the Public Transportation Fund in the State Treasury an amount equal to 25% of the net revenues realized from the Sales Tax, and 25% of the net Replacement Revenues.

Pursuant to the RTA Act and the General Ordinance, the State pays all Public Transportation Fund Revenues to the RTA Trustee as security for debt service on RTA Obligations. Only amounts in excess of the required deposits are transmitted by the RTA Trustee to the RTA for its corporate purposes, including distribution to the CTA and the other Service Boards. However, 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 of Chicago that it has adopted for that fiscal year a budget and financial plan meeting the requirements of the RTA Act. In each year since the enactment of the 1983 Legislation, the RTA has certified that its budget has met the requirements of the RTA Act.

The amounts provided to the Service Boards from Public Transportation Fund Revenues are allocated at the discretion of the RTA in connection with the review and approval of the annual and revised budgets of each Service Board. The allocable amounts of such funds are payable to each Service Board, including the CTA, as soon as may be practicable upon their receipt, provided that (i) the RTA has adopted a balanced budget pursuant to the Act and (ii) the Service Board which is to receive these funds is in compliance with the budget requirements imposed upon the Service Boards by the RTA Act.

In addition, the RTA is required to determine, within six months following the end of each calendar year, whether the Regional Transit System's aggregate Recovery Ratio (as defined below) equals at least 50%. To the extent that this coverage test is not met, the RTA is required to refund the amount of the deficiency in such coverage to the State, and the Public Transportation Fund Revenues paid by the RTA to a Service Board not meeting its Recovery Ratio are reduced in proportion to the amount of the Service Board's deficiency. Since the enactment of the Recovery Ratio requirement, the Regional Transit System has met the coverage tests required by law.

Impact of RTA Budgetary Review on CTA Revenues

The RTA Act requires each Service Board, including the CTA, to submit each year a proposed one-year budget and two-year financial plan to the RTA for approval. See "Proposed Fiscal Year 2007 Annual Budget and Two Year Financial Plan," below. If the RTA finds that a proposed budget and financial plan of a Service Board does not meet certain criteria set forth in Section 4.11 of the RTA Act, the RTA cannot release any funds to that Service Board for the periods covered by such budget and financial plan, except for the Sales Tax Revenues otherwise allocable to such Service Board pursuant to Sections 4.01(d) and 4.01(e) of the RTA Act. Similarly, if the RTA finds, based on quarterly reports of each Service Board of its financial condition and operations submitted to the RTA, that such results are not in accord with the adopted budget of the Service Board, the RTA can require the Service Board to submit a revised budget for RTA review and approval even after the Service Board's original budget was approved by the RTA. If, in such instances, the RTA determines that the Service Board's revised budget does not conform to certain criteria set forth in the RTA Act, the RTA might under certain circumstances be prohibited from releasing any funds to that Service Board, except for the Sales Tax Revenues otherwise allocable to such Service Board pursuant to Sections 4.01(d) and 4.01(e) of the RTA Act.

Thus, under certain circumstances, the RTA can prevent payment of funds to the Service Boards, including the CTA.

The budget and financial plan submitted by the CTA for the current 2006 through 2008 planning period conforms to the marks set by the RTA in September, 2005.

Impact of Mandated Local Assistance on CTA Revenues

The RTA Act requires that no monies be released by the RTA to the CTA in any fiscal year, except for the proceeds of taxes imposed by the RTA and distributed by formula, unless ". . . a unit or units of local government in Cook County (other than the [CTA]) enters or enter into an agreement with the [CTA] to make a monetary contribution for such year of at least $5,000,000 for public transportation." The City of Chicago and Cook County also must continue to provide services to the CTA 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.

Thus, if the mandated local assistance requirements are not met, it is possible that the RTA would withhold revenues otherwise payable to the CTA, except for Sales Tax Revenues allocable to the CTA under Sections 4.01(d) and 4.01(e) of the RTA Act.

Historical Financial Results

Fares

The CTA enacted a cash and rail transit card fare increase effective January 1, 2006. This fare adjustment will help the CTA offset increases in fuel prices and has minimal impact on most daily riders who already pay for fares with passes, transit cards or Chicago Card products described below. The adjustment is also intended to improve operational efficiency and reduce costs by encouraging riders to migrate to automated fare media, which has a much lower processing cost than cash.

The CTA's current fare structure, effective January 1, 2006, is as follows:

Full Fares

Cash	$ 2.00
Full Fare Transit Card-Bus	1.75
Full Fare Transit Card-Rail	2.00
Full Fare Chicago Card/ Chicago Card[1] Plus	1.75
Chicago Card/ Chicago Card Plus Bonus[2]	10% for $20 added
Transit Card, Chicago Card and Chicago Card Plus Transfer[3]	0.25
1-Day Pass	5.00
2-Day Visitor Pass	9.00
3-Day Visitor Pass	12.00
5-Day Visitor Pass	18.00
Full Fare 7-Day Pass	20.00
Full Fare 30-Day Pass	75.00

Reduced Fares

Cash	$ 1.00
Reduced Fare Transit Card (bus and rail)	0.85
Reduced Fare Transit Card/Transit Card Plus Bonus[2]	10% for $20 added
Transit Card Transfer (bus and rail)[3]	0.15
Reduced Fare 30-Day Pass	35.00

1 A Chicago Card is a reloadable stored-value card that has an imbedded microchip that can be read to register fares by the fare equipment when touched to the touchpad on the front of rail station turnstiles and bus fareboxes on all CTA routes and Pace buses. The Chicago Card can be used to pay a full fare at any rail station or on any CTA and most Pace buses. Chicago Card Plus Cards offer the same advantages, but card balances are kept in online accounts and may be increased online.

2 For every $20 purchase, $22 of value is added to the card.

3 A transfer allows two additional rides within two hours of issuance. Transfers will be available to customers using Transit Cards, Chicago Card and Chicago Card Plus only. Transfer cards are no longer issued to customers paying with cash.

CTA Operating Revenues

From 2001 to 2005, total CTA Operating Revenues increased from \$464.9 million to \$525.8 million, calculated on a budgetary basis, or at an average annual compound growth rate of 3.1%. CTA Operating Revenues in 2005 included \$493.8 million from farebox and other sources and \$32.0 million of Reduced Fare Reimbursements.

CTA Operating Expenses

From 2001 through 2005, expenses incurred in CTA operations (the "CTA Operating Expenses") increased from \$883.9 million to \$1,021.4 million, calculated on a budgetary basis, or at an annual compound growth rate of 3.7%. CTA Operating Expenses are classified into eight areas: labor, material, fuel, power, security, paratransit, injuries and damages, and other. Labor currently makes up approximately 70% of CTA Operating Expenses. Within the labor category, wages represent approximately 70% of that total, while fringe benefits (including medical insurance and pension costs) represent the remaining 30%.

Recovery Ratio

Under the RTA Act, the RTA and the Service Boards must collectively recover at least 50% of the Regional Transit System's operating costs through operating revenues. (The ratio of operating revenues to operating expenses with certain adjustments expressed as a percentage is defined herein as the "Recovery Ratio.") It is the RTA's responsibility to ensure that this standard is maintained through the review and approval of each Service Board's budget and Recovery Ratio. CTA's Recovery Ratio has remained above 50% since 1997. The 2004 Recovery Ratio was 54.9%, the 2005 Recovery Ratio was 54.1% and the 2006 budgeted Recovery Ratio is 53.0%. The CTA expects that its Recovery Ratio will be at a level that will secure RTA approval through the 2009 financial plan period.

The CTA's audited financial statements for the years ended December 31, 2004 and 2005 are attached to this Official Statement as Appendix B.

The following table shows a summary of the CTA's financial results for fiscal years 2001 through 2005. The information in the following table differs from the financial information set forth in the audited financial statements because it reflects financial information prepared on a budgetary basis. The CTA is required under Section 4.01 of the Regional Transportation Authority Act to submit an annual budget to the RTA for approval by November 15 prior to the commencement of each fiscal year. The budget is prepared on a basis consistent with generally accepted accounting principles, except for the exclusion of certain income and expenses. These income and expense amounts include the provision for injuries and damage in excess of budget, depreciation expense, incentive retirement compensation payments in excess of expense, pension expense in excess of pension contributions, revenue from leasing transactions and interest income and expense from sale/leaseback transactions. See footnote 3 to the audited financial statements and the Supplementary Schedules attached thereto.

SUMMARY OF CTA FINANCIAL RESULTS*
(In Millions)

	2001	2002	2003	2004	2005
OPERATING REVENUES					
Farebox Revenue	$373.8	$383.9	$367.9	$402.8	$417.4
Reduced Fare Subsidy	32.5	30.2	33.2	31.3	32.0
Other	58.6	64.2	42.2	62.8	76.4
TOTAL	$464.9	$478.3	$443.3	$496.9	$525.8
OPERATING EXPENSES					
Labor	$629.6	$663.6	$667.9	$680.1	$714.3
Material	64.9	67.9	59.2	61.4	71.4
Fuel	23.3	20.1	24.5	30.1	45.8
Power	21.8	21.1	21.1	21.6	22.9
Insurance and Claims	44.0	39.0	17.6	22.0	31.5
Security Services	22.5	24.7	24.8	27.6	31.2
Paratransit	32.3	36.3	42.4	49.0	53.2
Other	45.5	47.0	39.5	46.6	51.1
TOTAL	$883.9	$919.7	$896.8	$938.3	$1,021.4
PUBLIC FUNDING REQUIRED FOR OPERATIONS	($419.0)	($441.4)	($453.5)	($441.4)	($495.6)
RECOVERY RATIO	52.89%	53.97%	51.49%	54.88%	54.07
NON-OPERATING REVENUES					
Public Funding Available Through RTA	$419.0	$441.6	$453.5	$441.6	$495.9
Positive Budget Surplus**	--	0.2	--	0.2	0.2

* The table reflects statutory reporting information and differs from the audited financial statements. See the preceding paragraph explaining certain of these differences.

** On an annual basis, the CTA receives operating assistance (public funding) from the RTA. If an operating budget surplus exists, the funds are earmarked to fund capital projects in later years. For financial statement presentation, the operating budget surplus is classified as deferred operating assistance in the liability section of the balance sheet until such time as it is utilized.

During the calendar year ended December 31, 2005, total CTA Operating Revenues increased approximately 5.8% from the prior year due to ridership increases and other revenues.

Total CTA Operating Expenses for the calendar year ended December 31, 2005 increased 8.9% from the prior year as a result of high labor expenses from wage increases under the union contracts, increased health insurance costs, additional security coverage, and an increase in ridership and average trip cost for paratransit services. Effective July 1, 2006, responsibility to provide paratransit services was transferred to Pace.

CTA continues to strive to maintain improved service levels and to be more efficient in its operations.

The following table presents the CTA's 2005 Budget and Actual Budgetary Basis Results.

CTA 2005 BUDGET AND ACTUAL BUDGETARY BASIS RESULTS
(In Millions)

	2005 Budget	2005 Actual Budgetary Basis Results
OPERATING REVENUES		
Farebox Revenue	$406.9	$417.4
Reduced Fare Subsidy	30.6	32.0
Other	62.7	76.4
TOTAL	$500.2	$525.8
OPERATING EXPENSES		
Labor	$718.5	$714.3
Material	65.3	71.4
Fuel	33.8	45.8
Power	24.5	22.9
Insurance and Claims	19.0	31.5
Security Services	34.8	31.2
Paratransit[1]	52.5	53.2
Other	47.6	51.1
TOTAL[2]	$996.1	$1,021.4
PUBLIC FUNDING REQUIRED FOR OPERATIONS	$495.9	$495.6
PUBLIC FUNDING AVAILABLE THROUGH RTA	$495.9	$495.9
RECOVERY RATIO	53.1%	54.1%

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

2 Columns may not total due to rounding.

The following table presents the CTA's 2006 Budget and Financial Plan for 2007-2008. The 2006 Budget was approved by the RTA on December 16, 2005.

CTA 2006 BUDGET AND 2007 – 2008 FINANCIAL PLAN
(In Millions)

	2006 Budget	2007 Financial Plan	2008 Financial Plan
OPERATING REVENUES			
Farebox Revenue	$426.5	$430.1	$434.4
Reduced Fare Subsidy	30.6	30.6	30.6
Other	55.5	45.3	46.3
TOTAL	$512.6	$506.0	$511.3
OPERATING EXPENSES			
Labor	$748.9	$784.2	$811.3
Material	67.1	67.1	67.5
Fuel	48.0	49.2	50.4
Power	24.5	29.4	29.5
Insurance and Claims	33.0	25.0	30.0
Security Services	35.3	36.2	37.3
Paratransit[1]	29.6	—	—
Other	50.2	50.3	50.3
TOTAL	$1,036.7	$1,041.5	$1,076.2
PUBLIC FUNDING REQUIRED FOR OPERATIONS	$524.1	$535.5	$564.9
PUBLIC FUNDING AVAILABLE THROUGH RTA	$524.1	$535.5	$564.9
RECOVERY RATIO	53.0%	52.2%	51.0%

[1] Effective July 1, 2006, responsibility for providing paratransit services within the CTA's service area was transferred to Pace.

Revenues from fares and passes is projected to increase through the 2006-2008 period due to ridership growth and the implementation of the cash and rail transit card fare increase discussed above under the subcaption "Financial and Budgetary Information – *Historical Financial Results - Fares*. Revenue from fares and passes for 2006 is projected to increase 2.2% to $426.5 million from $417.4 in 2005. In 2007 and 2008, revenue from fares and passes is projected to grow by approximately 1% in each year. Reduced fare subsidy from the State is flat at $30.6 million. All other revenue is projected to decrease substantially to $55.5 million in 2006 and $43.3 million in 2007 due to the elimination of operating grant funding from the FTA for paratransit services that were transferred to Pace effective July 1, 2006. Other revenues will then remain stable in 2008.

CTA Operating Expenses increased 8.9% in 2005 over 2004 results, primarily due to higher labor expenses from wage increases under the union contracts and increased health insurance costs. The projected operating budget for 2006 is $1,036.7 million, which is 1.5% higher than 2005. Expenses of providing paratransit service are expected to decrease from $53.2 million in 2005 to $29.6 million in 2006 and be eliminated entirely beginning in 2007 due to the transition of paratransit services to Pace on July 1, 2006. Purchase of security services will remain a high priority. Expenses for security services are projected to increase by 13.1% in 2006 due to cost of living increases and heightened security.

Proposed Fiscal Year 2007 Annual Budget and Two Year Financial Plan

On October 12, 2006, the CTA published the 2007 Budget Recommendations of Frank Kruesi, the President of the CTA (the "President's 2007 Budget Recommendations"). The President's 2007 Budget Recommendations propose a $1.133 billion budget for 2007 that would maintain current fares and service levels. Due in part to anticipated funding of healthcare and pension contributions and higher energy prices, the proposed budget is $96.5 million, or 9.3 percent, more than the 2006 budget. Without these increased costs, the budget growth would have been 3.2 percent, or the rate of inflation.

The President's 2007 Budget Recommendations project $552.7 million in revenues through fares and other revenue initiatives with an additional $580.5 million in public funding necessary to fulfill the CTA's operating needs and meet retiree pension and healthcare liabilities, which are growing as the result of a recent arbitration award and state law requirements. At present, only $470.3 million of the public funding has been identified. In order to achieve the funding marks adopted by the RTA Board for the CTA on September 14, 2006, the President's 2007 Budget Recommendations anticipate that new transit funding sources will be identified in 2007 to maintain service at current levels. If no additional funding is obtained, the CTA will be required to take actions to balance its operating budget, as mandated by law, which actions may include fare increases or service cuts.

In addition, as part of the President's 2007 Budget Recommendations, the CTA President also made his recommendations for the CTA's 2007-2011 Capital Improvement Plan (the "2007-2011 Capital Plan"). Based on available funding, the proposed 2007-2011 Capital Plan totals $2.7 billion, with $1.0 billion programmed for system expansion, including completing the Brown Line capacity expansion project, and the other $1.7 billion in projects to renew CTA assets, replace the existing fleet and bring the system to a state of good repair. Based on an 18 month assessment, it is estimated in the President's 2007 Budget Recommendations that an $8 billion capital investment is needed in the next five years to allow the CTA to continue to provide safe and reliable service and to meet growing transit needs. In recent years, capital funding shortfalls have resulted in deferred maintenance, delays in infrastructure improvements, and difficulty in planning, financing and implementing multi-year projects. Unlike the past two years, the proposed 2007-2011 Capital Plan does not divert capital funds to help balance the operating budget.

The President's 2007 Budget Recommendations reflect only the President's recommendations to the CTA Board. The CTA's Operating Budget for Fiscal Year 2007 and its financial plan for Fiscal Years 2008 and 2009 must be considered and approved by the CTA Board and then submitted to the RTA for approval, all as described under the heading "CHICAGO TRANSIT AUTHORITY – Financial and Budgetary Information – *Impact of RTA Budgetary Review on CTA Revenues*" herein.

The CTA Board will consider the President's 2007 Budget Recommendations at a November meeting. The Recommendations will also be presented to the Cook County Board in November, as required by the RTA Act. The CTA Board must submit a budget to the RTA by November 15th and the RTA must approve budgets for all Service Boards, including the CTA, by year end.

The CTA's Operating Budget for Fiscal Year 2007, its financial plan for Fiscal Years 2008 and 2009 and the 2007-2011 Capital Plan as finally approved by the CTA Board and the RTA may differ substantially from those contained in the President's 2007 Budget Recommendations.

Pension and Other Post-Employment Benefit Obligations

General

The CTA maintains a trusted, single-employer, defined benefit pension plan covering substantially all full-time permanent union and nonunion employees. The Employees' Retirement Plan (the "Employees' Plan") is governed by the terms of the employees' collective bargaining agreements. The CTA also maintains the following separate, single-employer, defined benefit pension plans for selected individuals (collectively, the "Supplemental Plans" and, together with the Employees' Plan, the "Plans"): (1) a non-trusted Board member plan the activities of which are included in CTA's financial statements; (2) a non-trusted closed supplemental plan for members retiring or terminating employment before March 2005, including early retirement incentive, the activities of which are included in CTA's financial statements, and (3) an open supplemental plan for active employees and members retiring after March 2005 that is trusted and reported in a fiduciary fund. The Supplemental Plans provide benefits in addition to the Employees' Plan to management employees in certain employment classifications and CTA Board members.

Substantially all non-temporary, full-time employees who have completed one year of continuous service are covered by the Employees' Plan. Employees who retire at or after age 65 (or after completion of 25 years of continuous service with full benefits or at age 55 with reduced benefits) are entitled to an annual retirement benefit payable monthly for life, in an amount based upon compensation and credited service. For those hired after September 5, 2001, benefits will be reduced if they retire before age 65 or with less than a combination of age 55 and 25 years of service. The Employees' Plan also provides death, disability and healthcare benefits for employees hired prior to September 5, 2001. The Employees' Plan issues a separate stand-alone financial report and is available upon request.

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

Funding Status

The following summarizes the funding status of the Employees' Plan (in thousands of dollars and unaudited):

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

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

State Mandated Contributions

Pursuant to recently enacted legislation, the CTA is required to make contributions to its retirement system in an amount which, together with the contributions of its participants, interest earned on investments and other income, will meet the cost of maintaining and administering the retirement system in accordance with applicable actuarial recommendations and assumptions and the requirements described below. For fiscal years 2009 through 2058, the required minimum contribution to the retirement system to be made by the CTA for each fiscal year is an amount determined jointly by the CTA and the trustee of the retirement system to be 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. For purposes of determining contributions by the CTA and its actuarial liabilities, contributions and liabilities relating to healthcare benefits are not included. The legislation also requires the CTA to take all actions lawfully available to separate the funding of healthcare benefits for retirees and their dependents and survivors from the funding for its retirement system by January 1, 2009.

The RTA Act requires the RTA to monitor the payment by the CTA of its required retirement system contributions. If the CTA's contributions are more than one month overdue, the RTA is required to 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. Any such diversion of funds may have a material adverse effect on the financial condition and operations of the CTA.

As of January 1, 2006 the Employees' Plan including healthcare is currently underfunded by $2.3 billion, a 34.4% funded ratio. In order to meet the funding obligations described above, the CTA or the retirement system will require additional annual funding or legislative changes. Without receipt of any such funding or legislative changes, the CTA may be forced to take measures, which may include significant service cuts and/or fare increases, to meet this pension contribution obligation. Any such service cuts or fare increases may suppress ridership levels which may have a materially adverse effect on the financial condition and operations of the CTA.

As of January 1, 2006, actuaries for the Employees' Plan project that the Employees' Plan will have sufficient liquidity to fund benefit claims through 2012. This projection does not incorporate effects of the legislation described above.

Early Retirement Program

In 1992, the CTA offered an Incentive Retirement Program (the "1992 Program") to all nonunion employees otherwise eligible to retire under existing CTA retirement plan provisions. The 1992 Program offered increased benefit payouts and elimination of early retirement penalties and is funded as incentive payments are required.

In January 1997, the CTA agreed to a new agreement with certain of its unions. As part of the provisions of the new agreement, the CTA offered a new Incentive Retirement Program (the "1997 Program") to all eligible union employees with 25 years or more of service on or before December 31, 1999. Employees eligible for the 1997 Program had until June 30, 1997 to elect the early retirement option. All costs related to the 1997 Program will be funded by the Employees' Plan.

Other Post-Employment Benefits

In addition to those described above, the CTA provides other post-retirement benefits to various categories of former employees. These costs may be expected to rise substantially in the future. Such other post-employment benefits, other than pension benefits, are referred to as "OPEB." OPEB consists primarily of healthcare benefits, and may include other benefits such as disability benefits and life insurance. Until now, these benefits have generally been administered on a pay-as-you-go basis and have not been reported as a liability on governmental financial statements. However, the CTA's financial statements already include OPEB in its pension liability. An accounting rule, GASB Statement No. 45 ("GASB 45"), recently established by GASB, requires governmental entities, such as the CTA, to account for post-retirement healthcare and other nonpension benefits. Although GASB 45 encourages earlier adoption, implementation by the CTA will be required beginning with the CTA's Fiscal Year commencing January 1, 2007. The CTA does not anticipate a significant impact on its financial reporting of this liability since its liability currently includes OPEB.

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

Under GASB 45, based on actuarial valuation, an annual required contribution ("ARC") will be determined for each governmental entity. The ARC is the sum of (a) the normal cost for the year (the present value of future benefits being earned by current employees) plus (b) amortization of the unfunded accrued liability (benefits already earned by current and former employees but not yet provided for), using an amortization period of not more than 30 years. If a governmental entity contributes an amount less than ARC, a net OPEB obligation will result, which is required to be recorded as a liability on its financial statements.

GASB 45 does not require that the unfunded liability actually be amortized nor that it be advance funded, only that the government entity account for its unfunded accrued liability and compliance in meeting its ARC. The CTA expects to be in compliance with the requirements of GASB 45 by or before the applicable effective date. Actuarial valuation will be required every 2 years for the CTA's plans.

THE REGIONAL TRANSPORTATION AUTHORITY

General

The RTA was created by the Regional Transportation Authority Act (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 CTA; the Commuter Rail Division ("Metra") and Pace.

The governing body of the RTA is its Board of Directors (the "RTA Board") consisting of thirteen persons. Four directors are appointed by the Mayor of the City of Chicago with the advice and consent of the City Council. The Chairman of the CTA is also a member of the RTA Board. Four directors are appointed by the members of the Cook County Board elected from that part of the County not including the City of Chicago. One director is appointed by the Chairman of the DuPage County Board, with the advice and consent of the DuPage County Board, and two directors are appointed by the joint determination of the Chairmen of the County Boards of Kane, Lake, McHenry and Will Counties. The thirteenth member, who is the Chairman of the Board of the RTA, is appointed by the other twelve directors by a three-fourths vote. The Chairman and each appointed director serves for a five-year term and until his or her successor has been appointed and qualified.

The RTA, as an entity exercising financial controls, planning and policy review, maintains a staff of approximately 75 transportation professionals.

RTA Financial Oversight

The RTA Act vests responsibility for operating budget financial oversight in the RTA and responsibility for operations and day-to-day management of rail and bus service in the Service Boards. The RTA's financial oversight responsibility is implemented principally through the operating budget process, in which each Service Board, including the CTA, submits an annual budget and two-year financial plan for approval by the RTA. The Act sets criteria by which proposed budgets and financial plans are to be reviewed by the RTA Board and requires that the Recovery Ratio equal or exceed 50%.

On a quarterly basis, the Service Boards must report their financial condition and results of operations to the RTA. The RTA Board, by the affirmative vote of nine of its Directors, determines whether the results 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 withhold funds, except for such Service Board's share of Sales Tax Revenues, to the Service Board.

The RTA Act also requires the RTA to prepare and adopt each year a 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 that Program.

THE LEASE

The Original Lease was executed in connection with the Series 2003 Bonds. Prior to the delivery of the Bonds, the CTA will enter into the Amendment with the Commission. The Lease relates to the Leased Property which will continue to be owned by the Commission and leased to the CTA for use as CTA's headquarters. See "PURPOSE OF THE SERIES 2003 BONDS." The following is a summary of certain provisions of the Lease. Reference must be made to the Lease itself for a full statement of its provisions.

Lease Payments

Under the Lease, the CTA is obligated to pay to the Commission on or before February 15 of each year in which the Lease is in effect Rent which equals debt service on the Bonds due through and including September 1 of that calendar year. Payments of Rent may be reduced by amounts to the credit of the 2006 Sinking Fund Account, as described herein under the caption "THE BOND RESOLUTION – Flow of Funds." Additional rental payments ("Additional Rent") shall be made by the CTA to increase the balance to the credit of the 2006 Sinking Fund Account to an amount sufficient to pay interest on the Bonds on September 1 of any year. See "THE BOND RESOLUTION – Flow of Funds." Additional Rent is included in the definition of "Rent" wherever "Rent" is referred to in this Official Statement.

The Rent, together with any necessary redemption premium, may be prepaid by the CTA in order to redeem the Bonds or the Series 2003 Bonds prior to maturity. See "LEASE PAYMENT SCHEDULE."

The Rent due under the Lease is a general obligation of the CTA payable from any lawfully available funds. The Bonds are not secured by any interest in the property which constitutes the Leased Property. The CTA has no taxing power. See "SECURITY FOR THE BONDS."

Operation and Maintenance of the Leased Property

The CTA is responsible for the operation, repair and maintenance of the Leased Property, including water, heat, light, electricity, air conditioning, repairs, replacements, janitorial, cleaning, security and caretaking services. The Lease requires the CTA to include the costs of operation and maintenance of the Leased Property in its annual budget, and to furnish the Commission with a copy of the annual budget once it is finalized. The CTA will also pay or reimburse the Commission for all fees and expenses of the Commission and indemnify the Commission from all loss, cost, liability and expenses relating to or arising from the Leased Property.

Net Noncancellable Lease

The Lease provides that it shall be deemed and construed to be a net lease, noncancellable by the CTA so long as any of the Bonds or any Additional Bonds remain outstanding. The CTA is required to pay Rent and all other payments due under the Lease to the Commission free of any deductions and without abatement or setoff for any reason or cause whatsoever.

The obligation of the CTA to pay Rent is unconditional. The CTA will remain obligated to pay all Rent regardless of whether the Leased Property is so acquired, constructed, improved and rehabilitated and regardless of whether the Leased Property is damaged or destroyed or otherwise not useful for CTA purposes. During the term of the Lease however, the Commission shall have no right to repair or alter the Leased Property, or to pledge, mortgage or convey its interest in the Leased Property or any portion, unless agreed to by the CTA. Under the Lease, the CTA agrees to assume any and all liability and risks against physical loss or damage to the Leased Property. The CTA shall carry property insurance on the Leased Property, or self insure, in such amounts as CTA determines in its sole discretion and may use the proceeds of such insurance to repair or rebuild all or a part of the Leased Property, at its option.

Negative Pledge

The CTA agrees that it will not pledge the sales tax revenues it receives from the RTA pursuant to Section 4.01 of the RTA Act to secure its debt on a priority basis with respect to its general obligation to pay Rent and any other payments due under the Lease if the maximum annual debt service on all debt so secured exceeds 75% of the sales tax revenues it received from the RTA pursuant to Section 4.01 of the RTA Act during the CTA's preceding fiscal year, without equally and ratably securing its obligations under the Lease. Notwithstanding the foregoing, the CTA retains the right to pledge any other source of its revenues to the payment of any other obligation on a priority basis with respect to the payments due under the Lease.

Events of Default and Remedies

The CTA will be in default under the Lease if one or more of the following events ("Events of Default") occurs and is continuing, to wit:

(i) Failure by the CTA to make punctual payment of any amount due thereunder;

(ii) The CTA shall fail in the due and punctual performance of any of the other covenants, conditions, agreements or provisions contained therein and such failure shall have continued for a period of 60 days after written notice specifying such failure and requiring the same to be remedied shall have been given to the CTA by the Commission or the Trustee, which may (but need not) give such notice in its discretion, and shall give such notice at the request of the owners of not less than 10% in aggregate principal amount of the Bonds then outstanding; *provided,* that the CTA shall have a longer period as may be reasonably required to remedy such failure if the CTA diligently commences and proceeds to remedy such failure;

(iii) There shall have occurred an Event of Default under the Bond Resolution. See "THE BOND RESOLUTION – Events of Default."

From and after the occurrence and continuation of an Event of Default the Commission and the Trustee will have the following remedies:

(i) By action at law or equity to compel observance by the CTA or by any of its officers, agents and employees of any covenant made by the CTA in the Lease and to compel the CTA and any of its officers, agents and employees to perform any duties required to be performed thereunder and to enjoin the CTA and any of its officers, agents or employees from taking any action in conflict with any covenant thereunder; or

(ii) By action at law or in equity to require the CTA to account as if it were the trustee of an express trust; or

(iii) By action at law or in equity to enjoin any acts or things that may be unlawful or in violation of the rights of the Commission under the Lease; or

(iv) To pursue any other remedy at law or in equity which may now or hereafter be conferred upon the Commission as the lessor of the Leased Property.

Amendments

No amendments to the Lease may be entered into without the consent of the Trustee, except amendments of and modifications to the Site which do not impair the Commission's ownership of the Leased Property or the obligation of the CTA to pay Rent as required by the Lease. The Trustee may, without the consent of any owner of the Bonds or the Series 2003 Bonds, consent to amendments to the Lease of a technical nature which, in the Trustee's judgment, do not adversely affect the rights of the owner of the Bonds or the Series 2003 Bonds. The Lease may also be amended to revise the amount of Rent payments to provide for the payment of any Additional Bonds.

LEASE PAYMENT SCHEDULE

The following table sets forth the Rent required to be made by the CTA with respect to the Lease.

Lease for the Year Ending December 31	Portion of Lease Payment Attributable to Principal Due on Bonds*	Portion of Lease Payment Attributable to Interest Due on Bonds*	Total Rent
2007	$2,375,000.00	$3,794,098.13	$6,169,098.13
2008	1,790,000.00	4,383,837.50	6,173,837.50
2009	1,880,000.00	4,310,437.50	6,190,437.50
2010	1,955,000.00	4,233,737.50	6,188,737.50
2011	2,035,000.00	4,153,937.50	6,188,937.50
2012	2,115,000.00	4,070,937.50	6,185,937.50
2013	2,205,000.00	3,984,537.50	6,189,537.50
2014	2,295,000.00	3,891,668.75	6,186,668.75
2015	2,405,000.00	3,782,775.00	6,187,775.00
2016	2,530,000.00	3,659,400.00	6,189,400.00
2017	2,660,000.00	3,529,650.00	6,189,650.00
2018	2,785,000.00	3,403,968.75	6,188,968.75
2019	2,915,000.00	3,271,912.50	6,186,912.50
2020	3,065,000.00	3,122,412.50	6,187,412.50
2021	3,225,000.00	2,965,162.50	6,190,162.50
2022	3,390,000.00	2,799,787.50	6,189,787.50
2023	3,565,000.00	2,621,456.25	6,186,456.25
2024	3,760,000.00	2,429,175.00	6,189,175.00
2025	3,960,000.00	2,226,525.00	6,186,525.00
2026	4,175,000.00	2,012,981.25	6,187,981.25
2027	4,400,000.00	1,787,887.50	6,187,887.50
2028	4,635,000.00	1,550,718.75	6,185,718.75
2029	4,890,000.00	1,300,687.50	6,190,687.50
2030	5,150,000.00	1,037,137.50	6,187,137.50
2031	5,430,000.00	759,412.50	6,189,412.50
2032	5,720,000.00	466,725.00	6,186,725.00
2033	6,030,000.00	158,287.50	6,188,287.50
Total	$91,340,000.00	$75,709,254.38	$167,049,254.38

* Principal on the Bonds is due on March 1 and interest on the Bonds is due on March 1 and September 1. Rental payments are due on February 15 of each year beginning February 15, 2007 in an amount which, together with certain amounts in the Sinking Fund Account, equal payments due on the Bonds through and including September 1 of the same calendar year.

THE BOND RESOLUTION

The following is a summary of certain provisions of the Bond Resolution. Reference must be made to the Bond Resolution itself for a full statement of its provisions, as well as for the definitions of certain capitalized terms (not otherwise defined herein).

Security for the Bonds

The Bonds are payable solely and only from the Revenues, including the receipts and revenues received by the Commission as a result of the Lease. See "INTRODUCTION" for the definition of Revenues. All such Revenues, including income, interest, and profits thereon, until paid out or transferred as provided by the Bond Resolution, are pledged and subject to a lien for the payment of principal of and interest on the Bonds. The Revenues securing the Bonds and any Additional Bonds are separate and distinct from revenues securing bonds of the Commission of any other series.

Funds and Accounts

The Bond Resolution provides for the creation or continuation of the following funds and accounts in connection with the issuance of the Bonds: (1) the Revenue Fund created by the Series 2003 Bond Resolution, which includes the 2006 Sinking Fund Account and the 2006 Bond Reserve Account, (2) the 2006 Expense Fund and (3) the Construction Fund.

The Bond proceeds will be deposited upon the issuance of the Bonds into the 2006 Bond Reserve Account, the 2006 Expense Fund and the Escrow Account. See "ESTIMATED SOURCES AND USES" herein.

The Trustee shall deposit to the credit of the Escrow Account, created pursuant to the Escrow Agreement, such portion of the principal proceeds of the Bonds as is necessary, together with such money in the 2003 Sinking Fund Account, the 2003 Reserve Account and the Construction Fund as may be advisable for the purpose, to provide for the Refunding of the Series 2003 Bonds, including the payment of such expenses as may be designated, all pursuant to and in accordance with the provisions of the Escrow Agreement.

Funds on deposit in the 2006 Expense Fund shall be used to pay the costs of issuing the Bonds, and any funds remaining in the Expense Fund after payment of all expenses of issuing the Bonds shall be transferred to the 2006 Sinking Fund Account.

All of the funds remaining on deposit in the Construction Fund shall be used and applied to the cost (by payment or reimbursement) of the Leased Property and to provide for the Refunding of the Series 2003 Bonds, subject to the restrictions and transfer provided for in the Bond Resolution and the 2003 Bond Resolution. All interest and any profit or proceeds realized on funds in the Construction Fund shall be credited to the Construction Fund.

The 2006 Sinking Fund Account and the 2006 Bond Reserve Account are created under the Bond Resolution and the Commission covenants and agrees in the Bond Resolution to cause such accounts to be maintained and all moneys credited to such accounts shall be held in trust by the Trustee and applied, used, and withdrawn only for the purposes and as authorized in the Bond Resolution.

So long as any of the Bonds remain outstanding, unless provision has been made for the payment thereof and the obligations of the Commission under the Bond Resolution have been discharged in accordance with the Bond Resolution, all Revenues, including without limitation, Rent derived by the Commission from the Lease, and all income, interest and profits thereon, and all other moneys and securities under the terms of the Bond Resolution paid or to be paid to or held or to be held by the Treasurer, or the Trustee, are, until paid out or transferred as provided by the Bond Resolution, pledged to and charged with and subjected to a lien for the payments of the principal of and interest on all Bonds and Additional Bonds (if any) in accordance with their terms and the provisions of the Bond Resolution and are subjected to a lien and charge in favor of all present and future Bondholders as security for the performance and observance of all the covenants, agreements and conditions in the Bonds and contained in the Bond Resolution for the equal and proportionate benefit, protection and security of all present and future Bondholders of any and all of the Bonds issued and to be issued under the Bond Resolution, without preference, distinction or priority as to lien or otherwise of any one Bond over any other of the Bonds authorized by the Bond Resolution, by reason of priority in time of authorization, issue, sale or negotiation thereof or otherwise. Such pledge of the Revenues is made pursuant to Section 13 of the Local Government Debt Reform Act of the State of Illinois, as amended. Nothing in the Bond Resolution shall prevent the Commission from issuing bonds payable from a supplement to the Lease or another future lease of the same Site and pursuant to a future bond resolution upon compliance with the provisions of the Bond Resolution described in this Official Statement under the heading "SECURITY FOR THE BONDS – Additional Bonds."

Flow of Funds

All Rent received by the Commission from the CTA pursuant to the Lease are to be deposited with the Trustee and credited to the Revenue Fund.

On the business day following the receipt by the Trustee of any Rent paid either from the Commission or directly from the CTA pursuant to the Lease, the Trustee shall transfer funds from said Revenue Fund to the 2006 Sinking Fund Account and the 2006 Bond Reserve Account according to the following provisions:

(a) There shall be credited to the 2006 Sinking Fund Account an amount sufficient to pay the principal of and redemption premium, if any, and interest on the Bonds which will become due the next succeeding March 1 and September 1. All moneys deposited in the 2006 Sinking Fund Account shall be used only for the purpose of paying the principal of and redemption premium, if any, and interest on the Bonds, as the same shall become due (either at maturity or upon redemption prior to maturity), and funds sufficient to pay such maturing principal and redemption premium, if any, or interest, or all, shall be forwarded to the Trustee prior to each current maturity or redemption date of such principal or interest, or both.

(b) After crediting the amount required to be credited to the 2006 Sinking Fund Account, there shall be credited to the 2006 Bond Reserve Account the amount necessary to (i) increase the balance of the 2006 Bond Reserve Account to the Reserve Requirement (taking into account any related Reserve Account Surety Policy [as hereinafter defined]) and (ii) to the extent applicable, provide for the reimbursement of a Reserve Account Surety Policy provider in accordance with the terms of the related Reserve Account Surety Policy. "Reserve Requirement" means, with respect to the Bonds outstanding at any time, an amount equal to the least of (i) the maximum annual debt service requirement for the Bonds on the date of calculation, (ii) 125 percent of the average annual debt service requirement for the Bonds on the date of calculation, (iii) 10 percent of the proceeds of the Bonds, and (iv) the maximum amount that will not adversely affect the tax-exempt status of the Bonds. The Reserve Requirement may be satisfied with one or more Reserve Account Surety Policies. The term "Reserve Account Surety Policy" 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 Aa or better by Moody's Investors Services, Inc., or AA or better by Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., as of the date of issuance thereof to the Commission for the benefit of the owners of the Bonds to satisfy in whole or in part the Reserve Requirement. Any such letter of credit, surety bond or insurance policy 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 2006 Bond Reserve Account may be used. The funds of the 2006 Bond Reserve Account shall be withdrawn from time to time and used to prevent or remedy a default in the payment of the interest on or principal of the Bonds and shall be transferred by the Trustee to the 2006 Sinking Fund Account when no other funds are available for that purpose. In the event funds are withdrawn from the 2006 Bond Reserve Account to prevent or remedy a default in the payment of interest thereon or principal of the Bonds, pursuant to the Lease and in order to remedy such deficiency, the CTA shall transfer moneys in substantially equal monthly installments for a period of 12 months to the Trustee for deposit in the 2006 Bond Reserve Account so that at the end of the 12 month period, the amount credited to the 2006 Bond Reserve Account equals the Reserve Requirement.

(c) On or before February 10 during each year while the Bonds are outstanding (the "February Accounting Date"), the Trustee shall report to the Commission and the CTA the amounts to the credit of the 2006 Sinking Fund Account and the 2006 Bond Reserve Account. If on any February Accounting Date the balance to the credit of the 2006 Bond Reserve Account exceeds the Reserve Requirement, the Trustee shall transfer such excess amount to the 2006 Sinking Fund Account. Pursuant to the Lease the CTA may reduce the amount of the rental payment due on February 15 of any year by the amount then to the credit of the Sinking Fund Account. If on any February Accounting Date amounts to the credit of the 2006 Bond Reserve Account are less than the Reserve Requirement as a result of investment losses attributable to the investment of moneys in the 2006 Bond Reserve Account, pursuant to the Lease, the CTA shall within 30 days transfer moneys to the Trustee for deposit into the 2006 Bond Reserve Account, in an amount sufficient so that the amount to the credit of the Bond Reserve Account equals the Reserve Requirement.

(d) On August 10 during each year while the Bonds are outstanding (the "August Accounting Date"), the Trustee shall report to the Commission and the CTA the amount to the credit of the 2006 Sinking Fund Account. If the amount to the credit of the 2006 Sinking Fund Account on any August Accounting Date is insufficient to provide for the payment of interest on the Bonds on the next succeeding September 1, the CTA shall, pursuant to the Lease, pay Additional Rent in an amount necessary to bring the balance of the 2006 Sinking Fund Account to the amount necessary for such interest payment. If the CTA fails to pay such Additional Rent prior to the next succeeding September 1, the Trustee shall proceed to draw upon the 2006 Bond Reserve Account to make up such insufficiency in the 2006 Sinking Fund Account.

(e) Whenever the amount to the credit of the 2006 Bond Reserve Account, together with the amount to the credit of the Sinking Fund Account is sufficient to pay all outstanding Bonds in accordance with their terms, the funds on deposit to the credit of the 2006 Bond Reserve Account shall be transferred to the 2006 Sinking Fund Account.

Investment of Revenues

Money in the 2006 Sinking Fund Account and the 2006 Bond Reserve Account shall be invested by the Trustee from time to time, in Permitted Investments (investments permitted by applicable Illinois law and in accordance with the Commission's investment policy), at the written direction of the CTA. Such securities shall be sold from time to time without further direction from the Commission whenever funds are needed for the purpose for which said account has been created. All such investments until sold shall be deemed at all times to be a part of the account from the moneys of which they shall have been purchased, except that interest earnings on the 2006 Bond Reserve Account may be transferred to the 2006 Sinking Fund Account as described above. Investments in the 2006 Sinking Fund Account and the 2006 Bond Reserve Account shall be valued at the lower of cost or market. All earnings received on any funds so invested, or profit or loss resulting from the sale of any such investments, shall be credited or charged to the account for which the investment was made. The Board, the Treasurer or the Trustee shall not be liable or responsible for any loss resulting from any such investment.

General Covenants

The Commission has made the following covenants, among others, in the Bond Resolution so long as the Bonds remain outstanding:

Sufficient Rentals. Rentals and other charges will be fixed and established for the Leased Property so that the Revenues of the Commission will be sufficient at all times to pay the principal of and interest on the Bonds as they become due and payable and to meet all other requirements of the Bond Resolution.

The Leased Property. The Commission covenants that it has acquired and owns fee title to the Leased Property acquired and constructed with the proceeds derived from the issuance of the Series 2003 Bonds.

Encumbrances or Sale of Property. The Leased Property will not be sold or mortgaged except in conformity with the Bond Resolution and the Lease.

Federal Taxes. The Commission covenants and agrees that it will take all actions (and avoid taking any actions which are necessary to avoid being taken) so that the interest payable on the Bonds will not be included in gross income for federal income tax purposes under present law.

Records and Audits

Not later than 120 days after the close of each fiscal year, the Commission will cause an audit to be made by an Independent Public Accountant of the books and accounts including a detailed report and financial statements of the Commission's operations, assets and liabilities. Copies of the audit report will be provided to owners of Bonds upon request.

Events of Default

The Commission will be in default under the Bond Resolution if one or more of the following events ("Events of Default") shall happen, to wit:

(i) Failure by the Commission to make due and punctual payment of the principal of any Bond when and as the same shall become due and payable whether by maturity or upon redemption prior to maturity;

(ii) Failure by the Commission to make due and punctual payment of any installment of interest on any Bond when and as such interest installment shall become due and payable;

(iii) Failure by the Commission to make due and punctual payment or satisfaction of any required payments to the 2006 Sinking Fund Account;

(iv) The Commission shall for any reason be rendered incapable of fulfilling its obligations under the Bond Resolution;

(v) Any proceeding shall be instituted, with the consent or acquiescence of the Commission, for the purpose of effecting a composition between the Commission and its creditors or for the purpose of adjusting the claims of such creditors, pursuant to any federal or state statute now or hereafter enacted, if the claims of such creditors are under any circumstances payable from the Revenues of the Leased Property;

(vi) The Commission shall fail in the due and punctual performance of any other of the covenants, conditions, agreements or provisions contained in the Bonds or in the Bond Resolution required on the part of the Commission to be performed, and such failure shall have continued for a period of sixty (60) days after written notice specifying such failure and requiring same to be remedied shall have been given to the Commission by the Trustee, which may (but need not) give such notice in its discretion, and shall at the request of the owners of not less than ten percent (10%) in aggregate principal amount of the Bonds then outstanding; or

(vii) There shall have occurred an Event of Default under the Lease. See "THE LEASE – Events of Default and Remedies."

From and after the date of notice in writing of a default, all of the Revenues and all sums then held or thereafter received by the Treasurer under the Bond Resolution, shall be applied by the Treasurer and, to the extent then held or thereafter received by the Trustee, shall be applied by the Trustee in the following order and, if payment is made upon the Bonds, upon presentation of the several Bonds, and the stamping thereon of the payment if only partially paid, or upon the surrender thereof if fully paid.

First, to the payment of current obligations incurred by the Commission for Administrative Expense, prior to said written notice of default, including all compensation claims and expenses of the Trustee in carrying out the provisions of the Bond Resolution and all other services performed under the Bond Resolution, including reasonable compensation to its agents, attorneys and counsel, and then to the payment of the costs and expenses of the owners of the Bonds in declaring such event of default, including reasonable compensation to their agents, attorneys and counsel;

Second, in case the principal of the Bonds has not matured by their terms, to the payment of the interest in default in the order of the maturity of the installments of such interest, with interest on the overdue installments at the rate specified in the Bonds, such payments to be made ratably to the persons entitled thereto without preference or priority;

Third, in case the principal of the Bonds has not matured by their terms, to the payment of the whole amount then owing and unpaid upon the Bonds for principal and interest, with interest on the overdue principal at the rate of interest specified in the related Bonds and on installments of interest at the rate specified in the Bonds on which such interest is overdue, and in case such moneys are insufficient to pay in full the whole amount so owing and unpaid, to the extent permitted by law, then to the payments so far as may be of such principal and interest without preference or priority of principal over interest, or of interest over principal, or of any installment of interest over any other installment of interest, ratably to the aggregate of such principal and interest.

Subject to any contractual limitations binding upon the owners of any of the Bonds, any owner of Bonds and the Trustee shall have the right, for the equal benefit and protection of all owners of Bonds similarly situated:

(i) By suit at law or proceedings in equity to compel observance by the Commission or by any of its officers, agents and employees of any contract or covenant made by the Commission with the owners of Bonds as provided in the Bond Resolution, and to compel the Commission and any of its officers, agents, and employees, to perform any duties required to be performed for the benefit of the owners of the Bonds as provided by the Bond Resolution and the Public Building Commission Act, and to enjoin the Commission and any of its officers, agents or employees from taking any action in conflict with any contract or covenant with the owners of the Bonds as provided by the Bond Resolution and the Public Building Commission Act;

(ii) By action or suit in equity to require the Commission to account as if it were the trustee of an express trust; or

(iii) By action or suit in equity to enjoin any acts or things which may be unlawful or in violation of the rights of the owners of Bonds.

No remedy conferred by the Bond Resolution upon the Trustee or any owner of Bonds is intended to be exclusive of any other remedy, but each such remedy is cumulative and in addition to every other remedy and may be exercised without exhausting and without regard to any other remedy conferred by the Bond Resolution. No waiver of any default or breach of duty or contract by the owner of any Bond shall extend to or shall affect any subsequent default or breach of duty or contract or shall impair any rights or remedies thereon. No delay or omission of the Trustee or the owner of any Bond to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be waiver of any such default or acquiescence therein. Every right and every remedy conferred upon the Trustee or the owners of Bonds may be enforced and exercised from time to time and as often as may be deemed expedient. In case any suit, action or proceeding to enforce any right or exercise any remedy is brought or taken and then discontinued or abandoned, or is determined adversely to the Trustee or the owners of Bonds, then, and in every such case, the Commission, the Trustee and the owners of Bonds will be restored to their former positions and rights and remedies as if no such suit, action or proceeding had been brought or taken.

Modifications and Amendments

The Bond Resolution may be modified by the Commission at any time, with the consent, in writing, of the registered owners of not less than 66-2/3% of the aggregate principal amount of the outstanding Bonds for substantive amendments. No such modification may extend the maturity of, or reduce the interest rate on any Bond, or alter the rights of the Commission to redeem the Bonds prior to their maturity or otherwise alter or impair the obligation of the Commission to pay principal or interest at the time, place, rate, and currency provided in the Bond Resolution without the express consent of the owner of such Bond or permit the creation by the Commission of any mortgage, change or pledge or lien upon the Leased Property, or upon the Revenues or funds and accounts established by the Bond Resolution, other than the lien and pledge created by the Bond Resolution, or permit the creation of a preference or priority of any Bond or Bonds over any other Bond or Bonds, or reduce the percentage of Bonds required to consent to any such amendment or modification or, without the written assent of the Trustee, modifying any of the rights, immunities or obligations of the Trustee under the Bond Resolution. While the Bonds are in book entry form, a registered owner of a Bond may consent as to all or a portion of the principal amount of the Bond. Any amendment requiring consent of Bond owners requires the approval of the Bond Insurer. The Bond Resolution may be supplemented or amended without the consent of owners of Bonds if the amendments are technical in nature and do not, in the Trustee's judgment, adversely affect or impair the rights of Bond owners. So long as the CTA is not in default under the Lease, no modification or amendment may be made to the Bond Resolution without its written consent.

Rights of the Bond Insurer

Notwithstanding anything to the contrary in the Bond Resolution or the Lease, upon the occurrence and continuance of an Event of Default, the Bond Insurer shall be entitled to control and direct the enforcement of all rights and remedies granted to the Bondholders or the Trustee for the benefit of Bondholders, as long as the Financial Guaranty Insurance Policy is in effect and the Bond Insurer is not in default of its obligation to make payments thereunder. In addition, certain amendments to the Lease or modifications to the Bond Resolution will not be effective without the consent of the Bond Insurer, which shall be in lieu of the consents of the Bondholders; *provided, however,* that the Bond Insurer's consent is required in addition to (rather than in lieu of) the consent of all of the Bondholders for modifications or amendments requiring the consent of all of the Bondholders.

Defeasance

All rights and obligations of the Trustee and the Commission under the Bond Resolution shall terminate and cease to be of further effect, and the Trustee shall execute and deliver all appropriate instruments evidencing and acknowledging the satisfaction of the Bond Resolution, and shall assign and deliver to the CTA any moneys and investments in all funds established under the Bond Resolution (except moneys or investments held by the Trustee in a Rebate Fund or for the payment of principal of, interest on, or premium, if any, on the Bonds) when:

(i) all fees and expenses of the Trustee shall have been paid, or payment thereof shall be provided for, to the satisfaction of the Trustee;

(ii) the Commission shall have performed all its covenants and promises in the Bond Resolution; and

(iii) all Bonds theretofore authenticated and delivered (A) have become due and payable, or (B) are to be called for redemption under arrangements reasonably satisfactory to the Trustee for the giving of notice of redemption by the Trustee at the expense of the Commission, or (C) have been delivered to the Trustee cancelled or for cancellation; and, in the case of (A) and (B) above, there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or Government Securities, the principal of and the interest on which, or the principal on which, when due, will provide moneys which shall be sufficient to pay when due the principal, or redemption price, if applicable, and interest due and to become due on the Bonds on and prior to the redemption date or maturity date thereof, as the case may be, *provided* that no such deposit shall be made if in the opinion of Bond Counsel the interest on the Bonds would become subject to inclusion in the federal gross income of the owners thereof as a result thereof. *"Government Securities"* shall mean bonds, notes, certificates of indebtedness, treasury bills or other securities or obligations of the United States of America, or securities or obligations the prompt payment of principal and interest of which is fully guaranteed by a pledge of the faith and credit of the United States of America.

Any portion of the Bonds (but only in $5,000 increments) may be deemed paid and no longer secured by the Bond Resolution if there is deposited with the Trustee either moneys in an amount which shall be sufficient, or Government Securities, the principal of and the interest on which, when due, will provide moneys which will be sufficient, to pay when due the principal, or redemption price, if applicable, and interest due and to become due on such portion of the Bonds on and prior to the redemption date or maturity date thereof, *provided* that no such deposit shall be made if in the opinion of Bond Counsel the interest on the Bonds would become subject to inclusion in the federal gross income of the Owners thereof as a result thereof.

Bonds or portions thereof the payment of which has been provided for in accordance with the preceding paragraphs shall no longer be deemed outstanding under or secured by the Bond Resolution. The obligation of the Commission with respect to such Bonds shall nevertheless continue but the owners thereof shall thereafter be entitled to payment only from the moneys or Government Securities deposited with the Trustee to provide for the payment of such Bonds.

In the event of a proposed defeasance of all or a portion of the Bonds by the deposit of sufficient moneys or Government Securities, as described above, (i) the Commission shall cause to be delivered to the Trustee a report of an independent firm of recognized certified public accountants addressed to the Trustee verifying the sufficiency of the escrow established to pay such Bonds in full, (ii) the escrow agreement relating thereto shall provide that no substitution of a Government Security shall be permitted except with cash or one or more other Government Securities and upon delivery of a new verification report from an independent firm of recognized certified public accountants confirming the sufficiency of the escrow to pay such Bonds in full after giving effect to such substitution, and (iii) the Commission shall cause to be delivered an opinion of Bond Counsel addressed to the Trustee to the effect that such Bonds are no longer outstanding under the Bond Resolution.

None of the Bonds outstanding under the Bond Resolution may be deemed paid nor may the Bond Resolution be discharged if under any circumstances the interest on such defeased Bond is thereby made subject to inclusion in the federal gross income of the owners thereof.

INDEPENDENT AUDITORS

The financial statements of the Commission as of and for the years ended December 31, 2004 and December 31, 2005, included in Appendix A, and of the CTA as of and for the fiscal years ended December 31, 2004 and December 31, 2005 included in Appendix B to this Official Statement, have been audited by Deloitte & Touche LLP and KMPG LLP, independent auditors, as stated in their reports appearing herein.

CERTAIN LEGAL MATTERS

Certain legal matters incident to the authorization, issuance and sale of the Bonds are subject to the approving legal opinions of Chapman and Cutler LLP, Chicago, Illinois, and Pugh, Jones, Johnson & Quandt, P.C., Chicago, Illinois, as Co-Bond Counsel (the "Co-Bond Counsel") who have been retained by, and act as, Co-Bond Counsel to the Commission. The proposed form of the opinions of Co-Bond Counsel is included as Appendix C. Co-Bond Counsel has not been retained or consulted on disclosure matters and has not undertaken to review or verify the accuracy, completeness or sufficiency of this Official Statement or other offering material relating to the Bonds and assumes no responsibility for the statements or information contained in or incorporated by reference in this Official Statement, except that in their capacity as Co-Bond Counsel, Chapman and Cutler LLP and Pugh, Jones, Johnson & Quandt, P.C. have, at the request of the Underwriters, supplied the form of the Co-Bond Counsel Opinion in Appendix C and the information under the heading "TAX EXEMPTION" and reviewed the statements herein describing the Bond Resolution and the Lease solely to determine whether such information is accurate in all material respects. This review was undertaken solely at the request and for the benefit of the Underwriters and did not include any obligation to establish or confirm factual matters set forth herein.

Certain other legal matters will be passed upon for the Commission by Neal & Leroy, L.L.C., for the CTA by its General Counsel, and for the Underwriters by their Co-Counsel, Perkins Coie LLP, Chicago, Illinois and Burris, Wright, Slaughter & Tom, LLC, Chicago, Illinois.

The various legal opinions to be delivered concurrently with the delivery of the Bonds express the professional judgment of the attorneys rendering the opinions on the legal issues explicitly addressed in those opinions. By rendering a legal opinion, the opinion giver does not undertake to be an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction. Rendering an opinion does not guarantee the outcome of any legal dispute that may arise out of the transaction.

NO LITIGATION

Upon the delivery of the Bonds, the Commission and the CTA will furnish certificates in form satisfactory to Co-Bond Counsel, to the effect that, among other things, there is no litigation pending in any court to restrain or enjoin the issuance or delivery of the Bonds, or in any way contesting the validity or enforceability of the Bonds, the Series 2003 Bonds or the Lease. See "CHICAGO TRANSIT AUTHORITY – Litigation" for a description of pending litigation relating to the CTA. In the opinion of counsel to the CTA, the pending litigation would not affect the validity or enforceability of the Bonds or the Lease.

TAX EXEMPTION

Federal tax law contains a number of requirements and restrictions which apply to the Bonds, including investment restrictions, periodic payments of arbitrage profits to the United States, requirements regarding the proper use of bond proceeds and the facilities financed therewith, and certain other matters. The Commission and the CTA have covenanted to comply with all requirements that must be satisfied in order for the interest on the Bonds to be excludable from gross income for federal income tax purposes. Failure to comply with certain of such covenants could cause interest on the Bonds to become includable in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds.

Subject to compliance by the Commission and the CTA with the above-referenced covenants, under present law, in the opinions of Co-Bond Counsel, interest on the Bonds is excludable from the gross income of the owners thereof for federal income tax purposes and is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations. Interest on the Bonds is taken into account, however, in computing an adjustment used in determining the federal alternative minimum tax for certain corporations.

The Internal Revenue Code of 1986, as amended (the "Code") includes provisions for an alternative minimum tax ("AMT") for corporations in addition to the corporate regular tax in certain cases. The AMT, if any, depends upon the corporation's alternative minimum taxable income ("AMTI"), which is the corporation's taxable income with certain adjustments. One of the adjustment items used in computing the AMTI of a corporation (with certain exceptions) is an amount equal to 75% of the excess of such corporation's "adjusted current earnings" over an amount equal to its AMTI (before such adjustment item and the alternative tax net operating loss deduction). "Adjusted current earnings" would include all tax-exempt interest, including interest on the Bonds.

In rendering their opinions, Co-Bond Counsel will rely upon certifications of the Commission and the CTA with respect to certain material facts within the knowledge of the Commission and the CTA and will rely upon the mathematical computation of the yield on the Bonds and the yield on certain investments by Crowe Chizek and Company LLC, certified public accountants. Co-Bond Counsel's opinions represent their legal judgment based upon their review of the law and the facts that they deem relevant to render such opinions and are not a guarantee of a result.

Ownership of the Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, corporations subject to the branch profits tax, financial institutions, certain insurance companies, certain S corporations, individual recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred (or continued) indebtedness to purchase or carry tax-exempt obligations. Prospective purchasers of the Bonds should consult their tax advisors as to applicability of any such collateral consequences.

The issue price (the "Issue Price") for each maturity of the Bonds is the price at which a substantial amount of such maturity of the Bonds is first sold to the public. The Issue Price of a maturity of the Bonds may be different from the price corresponding to the yield set forth on the inside cover page hereof.

If the Issue Price of a maturity of the Bonds is less than the principal amount payable at maturity, the difference between the Issue Price of each such maturity, if any, of the Bonds (the "OID Bonds") and the principal amount payable at maturity is original issue discount.

For an investor who purchases an OID Bond in the initial public offering at the Issue Price for such maturity and who holds such OID Bond to its stated maturity, subject to the condition that the Commission and the CTA comply with the covenants discussed above, (a) the full amount of original issue discount with respect to such OID Bond constitutes interest which is excludable from the gross income of the owner thereof for federal income tax purposes; (b) such owner will not realize taxable capital gain or market discount upon payment of such OID Bond at its stated maturity; (c) such original issue discount is not included as an item of tax preference in computing the alternative minimum tax for individuals and corporations under the Code, but is taken into account in computing an adjustment used in determining the alternative minimum tax for certain corporations under the Code, as described above; and (d) the accretion of original issue discount in each year may result in an alternative minimum tax liability for corporations or certain other collateral federal income tax consequences in each year even though a corresponding cash payment may not be received until a later year. Based upon the stated position of the Illinois Department of Revenue under Illinois income tax law, accreted original issue discount on such Bonds is subject to taxation as it accretes, even though there may not be a corresponding cash payment until a later year. Owners of OID Bonds should consult their own tax advisors with respect to the state and local tax consequences of original issue discount on such OID Bonds.

Owners of Bonds who dispose of Bonds prior to the stated maturity (whether by sale, redemption or otherwise), purchase Bonds in the initial public offering, but at a price different from the Issue Price or purchase Bonds subsequent to the initial public offering should consult their own tax advisors.

If a Bond is purchased at any time for a price that is less than the Bond's stated redemption price at maturity (the "Revised Issue Price"), the purchaser will be treated as having purchased a Bond with market discount subject to the market discount rules of the Code (unless a statutory *de minimis* rule applies). Accrued market discount is treated as taxable ordinary income and is recognized when a Bond is disposed of (to the extent such accrued discount does not exceed gain realized) or, at the purchaser's election, as it accrues. Such treatment would apply to any purchaser who purchases an OID Bond for a price that is less than its Revised Issue Price. The applicability of the market discount rules may adversely affect the liquidity or secondary market price of such Bond. Purchasers should consult their own tax advisors regarding the potential implications of market discount with respect to the Bonds.

An investor may purchase a Bond at a price in excess of its stated principal amount. Such excess is characterized for federal income tax purposes as "bond premium" and must be amortized by an investor on a constant yield basis over the remaining term of the Bond in a manner that takes into account potential call dates and call prices. An investor cannot deduct amortized bond premium relating to a tax-exempt bond. The amortized bond premium is treated as a reduction in the tax-exempt interest received. As bond premium is amortized, it reduces the investor's basis in the Bond. Investors who purchase a Bond at a premium should consult their own tax advisors regarding the amortization of bond premium and its effect on the Bond's basis for purposes of computing gain or loss in connection with the sale, exchange, redemption or early retirement of the Bond.

There are or may be pending in the Congress of the United States legislative proposals, including some that carry retroactive effective dates, that, if enacted, could alter or amend the federal tax matters referred to above or adversely affect the market value of the Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether, if enacted, it would apply to bonds issued prior to enactment. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal tax legislation. Co-Bond Counsel expresses no opinion regarding any pending or proposed federal tax legislation.

The Internal Revenue Service (the "Service") has an ongoing program of auditing tax-exempt obligations to determine whether, in the view of the Service, interest on such tax-exempt obligations is includible in the gross income of the owners thereof for federal income tax purposes. It cannot be predicted whether or not the Service will commence an audit of the Bonds. If an audit is commenced, under current procedures the Service may treat the Commission as a taxpayer and the Bondholders may have no right to participate in such procedure. The commencement of an audit could adversely affect the market value and liquidity of the Bonds until the audit is concluded, regardless of the ultimate outcome.

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

FINANCIAL ADVISOR

The Commission and the CTA have engaged Scott Balice Strategies, LLC, Chicago, Illinois as Financial Advisor (the "Financial Advisor") in connection with the Commission's issuance and sale of the Bonds. Under the terms of its engagement, the Financial Advisor is not obligated to undertake any independent verification of or assume any responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement.

UNDERWRITING

Siebert Brandford Shank & Co., LLC on behalf of the underwriters set forth on the inside cover page of this Official Statement (collectively, the "Underwriters") has agreed to purchase the Bonds at a purchase price of $99,316,836.95 (which represents the par amount of the Bonds plus an Original Issue Premium of $8,544,047.30 and less an Underwriters' discount of $567,210.35), pursuant to a Bond Purchase Agreement entered into between the Commission and the Underwriters. The Underwriters reserve the right to join with dealers and other Underwriters in offering the Bonds to the public.

The obligation of the Underwriters to accept delivery of the Bonds is subject to various conditions set forth in the Bond Purchase Agreement. The Underwriters are obligated to purchase all of the Bonds if they purchase any of the Bonds.

The Underwriters may offer and sell the Bonds to certain dealers (including depositing the Bonds into investment trusts) and others at prices lower than the public offering prices stated on the inside cover page of this Official Statement. The initial public offering prices may be changed from time to time by the Underwriters.

RATINGS

In connection with the issuance of the Bonds, the Commission has made application to Moody's Investors Service ("Moody's") and Standard & Poor's Rating Group, Inc. ("S&P") for a municipal bond rating. Moody's and S&P are expected to assign the Bonds the ratings of "Aaa" and "AAA," respectively, in each case with the understanding that upon issuance of the Bonds the Financial Guaranty Insurance Policy will be issued by the Bond Insurer. See "BOND INSURANCE" and "SECURITY FOR THE BONDS – Bond Insurance." Moody's and S&P have also assigned the Bonds the underlying ratings of "A2" and "A," respectively. Certain information was supplied by the CTA, the Commission and the Bond Insurer to such rating agencies to be considered in evaluating the Bonds. Such ratings express only the views of the respective rating agencies. An explanation of the significance of each of the ratings may be obtained from the rating agency furnishing the same. There is no assurance that either of such ratings will continue for any given period of time or will not be revised, or withdrawn entirely, by such rating agency if in its judgment, circumstances so warrant. The Underwriters do not undertake any responsibility to bring to the attention of owners of the Bonds any downward revision, suspension or withdrawal of either such rating or to oppose any such revision, suspension or withdrawal. Any such downward revision, suspension or withdrawal of such ratings may have an adverse effect on the market price of the Bonds.

CONTINUING DISCLOSURE

Commission

The Commission has agreed in an undertaking to provide an annual report containing the financial statements of the Commission and to provide notices of the occurrence of certain enumerated events, if material.

The annual report shall be filed with each Nationally Recognized Municipal Securities Information Repository and with the Illinois state information depository, if any (the "SID"), within 210 days after the close of the Commission's fiscal year. The information to be contained in the annual report shall consist of the annual audited financial statements of the Commission and an update of the information contained herein under the heading "PUBLIC BUILDING COMMISSION OF CHICAGO – Outstanding Commission Debt". Each annual audited financial statement will conform to generally accepted accounting principles applicable to governmental units and will be prepared in accordance with standards of the Governmental Accounting Standards Board. If the audited financial statement is not available, then an unaudited financial statement shall be included in the annual report and the audited financial statement shall be filed within 30 days after it becomes available.

The Commission also covenants and agrees in the undertaking, for the benefit of the beneficial owners of the Bonds, to provide timely notice to the Municipal Securities Rulemaking Board and to the SID of any failure of the Commission to file any such annual report within the 210 day period and of the occurrence of any of the following events with respect to the Bonds, if material: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the tax-exempt status of the Bonds; (7) modifications to rights of Bondholders; (8) Bond calls; (9) defeasances; (10) release, substitution or sale of property securing repayment of the Bonds; and (11) rating changes.

The Commission has agreed to the undertakings described under this caption in order to assist participating underwriters of the Bonds and brokers, dealers and municipal securities dealers in complying with the Securities and Exchange Commission Rule 15c2-12(b)(5) promulgated under the Securities Exchange Act of 1934. The Commission has agreed that it will do and perform, or cause to be done or performed, for or on behalf of the Commission, each and every thing necessary to accomplish the undertakings of the Commission contained in the undertaking for so long as Rule 15c2-12(b)(5) is applicable to the Bonds and the Commission remains an "obligated person" under the Rule with respect to the Bonds.

The undertakings of the Commission described above may be amended by the Commission upon 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 obligated person, or type of business conducted, provided that (a) the undertaking, as amended, would have complied with the requirements of Rule 15c2-12(b)(5) 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 (b) in the opinion of nationally recognized bond counsel selected by the Commission, the amendment does not materially impair the interests of the beneficial owners of the Bonds.

CTA

The CTA has agreed, under the Lease and in an undertaking, to provide an annual report containing the financial information and operating data relating to the CTA described herein and to provide notices of the occurrence of certain enumerated events, if material.

The annual report shall be filed with each Nationally Recognized Municipal Securities Information Repository and with the SID within 210 days after the close of the CTA's fiscal year. The information to be contained in the annual report shall consist of the annual audited financial statement of the CTA and an update of the information herein (i) under the subcaptions "Fares," "CTA Operating Revenues," "CTA Operating Expenses" and "Recovery Ratio" (first paragraph only) under the caption "CHICAGO TRANSIT AUTHORITY – Financial and Budgetary Information – Historical Financial Results," (ii) in the tables entitled "Yearly Ridership Unlinked Passenger Trips," "Summary of CTA Financial Results,""CTA 2005 Budget and Estimated Results" and "CTA 2006 Budget and 2007-2008 Financial Plan" and (iii) the information herein under the subcaption "CHICAGO TRANSIT AUTHORITY – Pension and Other Post-Employment Benefit Obligations – Funding Status." Each annual audited financial statement will conform to generally accepted accounting principles applicable to governmental units and will be prepared in accordance with standards of the Governmental Accounting Standards Board. If the audited financial statement is not available, then an unaudited financial statement shall be included in the annual report and the audited financial statement shall be filed within 30 days after it becomes available.

The CTA also covenants and agrees in the Lease, for the benefit of the beneficial owners of the Bonds, to provide timely notice to the Municipal Securities Rulemaking Board and to the Illinois state information depository, if any, of any failure of the CTA to file any such annual report within the 210 day period and of the occurrence of any of the following events with respect to the Bonds, if material: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the tax-exempt status of the Bonds; (7) modifications to rights of Bondholders; (8) Bond calls; (9) defeasances; (10) release, substitution or sale of property securing repayment of the Bonds; and (11) rating changes.

The CTA has agreed to the undertakings described under this caption in order to assist participating underwriters of the Bonds and brokers, dealers and municipal securities dealers in complying with the Securities and Exchange Commission Rule 15c2-12(b)(5) promulgated under the Securities Exchange Act of 1934. The CTA has agreed that it will do and perform, or cause to be done or performed, for or on behalf of the CTA, each and every thing necessary to accomplish the undertakings of the CTA contained in the Lease for so long as Rule 15c2-12(b)(5) is applicable to the Bonds and the CTA remains an "obligated person" under the Rule with respect to the Bonds.

The undertakings of the CTA described above may be amended by the CTA and the Commission upon 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 obligated person, or type of business conducted, provided that (a) the undertaking, as amended, would have complied with the requirements of Rule 15c2-12(b)(5) 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 (b) in the opinion of nationally recognized bond counsel selected by the Commission, the amendment does not materially impair the interests of the beneficial owners of the Bonds.

MISCELLANEOUS

The agreement of the Commission with the owners of the Bonds is fully set forth in the Bond Resolution and the Public Building Commission Act under which the Bonds are issued, and neither any advertisement of the Bonds nor this Official Statement is to be construed as constituting an agreement with the purchasers of the Bonds. So far as any statements are made in this Official Statement involving estimates, projections or matters of opinion, whether or not expressly so stated, they are intended merely as such and not as representations of fact.

CUSIP identification numbers will be printed on the Bonds, but no error in the printing of such numbers shall constitute cause for a failure or refusal by the purchaser of a Bond to accept delivery of any pay for any such Bonds.

The attached Appendices are integral parts of this Official Statement and must be used together with all of the foregoing statements.

AUTHORIZATION AND CERTIFICATIONS

At the time of delivery of the Bonds, the Commission (with respect to the information herein relating to the Commission, the Bonds, including use of proceeds, security therefor and ratings thereof, the Bond Resolution, the Lease, and Continuing Disclosure as it relates to the Commission) and the CTA (with respect to the information herein relating to the CTA, the RTA, the Lease, and Continuing Disclosure as it relates to the CTA) will furnish certificates stating that this Official Statement does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made herein, in light of the circumstances under which they were made, not misleading.

CHICAGO TRANSIT AUTHORITY

By: /s/ Dennis O. Anosike
Senior Vice-President/Treasurer

APPENDIX A

PUBLIC BUILDING COMMISSION OF CHICAGO
FINANCIAL STATEMENTS

[THIS PAGE INTENTIONALLY LEFT BLANK]

Deloitte.

PUBLIC BUILDING COMMISSION • OF CHICAGO

Public Building Commission of Chicago

Basic Financial Statements as of and for the Years Ended December 31, 2005 and 2004 and Independent Auditors' Report

PUBLIC BUILDING COMMISSION OF CHICAGO

TABLE OF CONTENTS

Deloitte.

Deloitte & Touche LLP
111 S. Wacker Drive
Chicago, IL 60606-4301
USA

Tel: +1 312 486 1000
Fax: +1 312 486 1486
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

Members of the Board of Commissioners of the
Public Building Commission of Chicago:

We have audited the accompanying basic financial statements of the Public Building Commission of Chicago (the "Commission") as of December 31, 2005 and 2004, and for the years then ended listed in the foregoing table of contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 Commission'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 opinion.

In our opinion, such basic financial statements present fairly, in all material respects, the financial position of the Public Building Commission of Chicago as of December 31, 2005 and 2004, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the basic financial statements, the Commission adopted the provisions of Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*, and Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* as of and for the year ended December 31, 2005.

The Management's Discussion and Analysis on pages 2 through 5 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Commission's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit such information and we do not express an opinion on it.

Deloitte + Touche LLP

June 22, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of the Public Building Commission of Chicago (the "Commission") provides the following narrative overview and analysis of the Commission's financial performance during the years ended December 31, 2005, 2004, and 2003. Please read it in conjunction with the Commission's financial statements, which follow this section.

INTRODUCTION

The Management's Discussion and Analysis ("MD&A") is an element of the reporting model adopted by the Governmental Accounting Standards Board.

The Commission's financial statements for the years ended December 31, 2005 and 2004, have been prepared using proprietary fund (enterprise fund) accounting that uses the same basis of accounting as private-sector business enterprises. The financial statements reflect that the Commission is operated under one enterprise fund.

OVERVIEW

The Commission was created in 1956 pursuant to Illinois legislation as an independent governmental unit responsible for building and renovating public buildings and facilities for local government branches and agencies in Chicago and Cook County. The Commission's organizing and client agencies include the City of Chicago, the County of Cook, the Chicago Park District, the Chicago Public Schools, the Metropolitan Water Reclamation District, the Cook County Forest Preserve District, the Chicago Public Library, the Chicago Transit Authority, and the City Colleges of Chicago.

The Commission's operating mission is to deliver high quality capital projects on time, on budget, as specified. The Commission's 11 member Board of Commissioners provides oversight and direction for the Commission's activities from land acquisition through the stages of project planning, design and construction. Additionally, the Commission serves as the owning and operating entity for the Richard J. Daley Center ("Daley Center"). The financial statements address the overall financial position and results of these activities and operations.

BASIC FINANCIAL STATEMENTS

The Commission reports on an economic resources measurement focus and an accrual basis of accounting. Revenue is recognized when earned, which generally occurs as project construction expenses are incurred, and expenses are recognized when incurred. The Commission's basic financial statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets, and a Statement of Cash Flows. Notes to the basic financial statements are also included.

The Statement of Net Assets presents information on the assets and liabilities, with the difference reported as total net assets. This statement provides an indication of the assets available to the Commission for project construction, debt service, and administrative operation. The Commission anticipates that assets for project development will fluctuate over time based on the capital programs of its client agencies.

Assets for project development are provided to the Commission directly by the client agencies or from Commission-issued long-term revenue bonds, which are supported by lease agreements with client agencies. Funding received and held by the Commission for project development in excess of expenditures is reported as deferred project revenue. The capital assets of the Commission reflect its role as the owning and operating entity of the Daley Center. The Commission does not capitalize other facilities it builds for client agencies as the ownership of the facilities is transferred back to the client agencies upon completion of the projects or upon expiration of the facility leases between the Commission and client agencies.

The Statement of Revenues, Expenses, and Changes in Net Assets reports the operating revenues and expenses and other revenue and expenses of the Commission for the year with the difference reported as the increase or decrease in net assets for the year. This statement provides an indication of the project development expenditures, the Daley Center operating expenses, Commission administrative operating expenses, and interest income and expense. Project revenues are recognized to the extent of current project expenditures. Future principal and interest on bonds issued by the Commission are to be covered by future lease rental payments from its client agencies.

The Commission does not have authority to levy and collect taxes and relies on fees for project development services provided to client agencies and fixed lease administrative fees to fund its operation. The Commission is limited to providing its services to only governments and agencies. Therefore the Commission anticipates fluctuations in its operating revenues based on the volume of activity requested by client agencies. The Commission anticipates it will continue to serve a significant role in assisting client agencies in the development of new and enhanced public facilities.

The Statement of Cash Flows reports cash and cash equivalent activity for the year resulting from operating activities, capital and related financing activities, and investing activities.

The Notes to the basic financial statements provide required disclosures and other information that are essential to a full understanding of the financial statements.

FINANCIAL INFORMATION

The assets of the Commission exceeded liabilities by approximately $80.2 million at December 31, 2005. Of this amount, $51.3 million is invested in capital assets and $28.9 million is restricted for use by the Daley Center and for Commission operations. The Commission's total net assets increased by $3.6 million and increased by $1.8 million, respectively, for the years ended December 31, 2005 and 2004. The increase in net assets for the year ended December 31, 2005, is attributable to other revenue in the form of fees for project development services, which are recognized upon completion of a project and are therefore anticipated to fluctuate from year to year, offset by depreciation.

The assets of the Commission exceeded liabilities by approximately $76.6 million at December 31, 2004. Of this amount, $51.4 million is invested in capital assets and $25.2 million is restricted for use by the Daley Center and for Commission operations. The Commission's total net assets increased by $1.8 million and decreased by $1 million, respectively, for the years ended December 31, 2004 and 2003. The increase in net assets for the year ended December 31, 2004, is attributable to other revenue in the form of fees for project development services, which are recognized upon completion of a project and are therefore anticipated to fluctuate from year to year, offset by depreciation.

Operating Revenues for 2005 and 2004 were $178.1 million and $369.5 million, respectively. Operating Expenses were $166.7 and $352.9 million, respectively. Both fluctuate based on the volume of construction activity as Operating Revenue includes Project Revenue, which is recognized to the extent of current Construction Costs. Operating Revenue additionally reflects an increase in Other Revenue in the form of fees from project development services recognized and decreased Rental Income Lessees, which includes amounts collected from lessees which will be used for interest expense. Investment income for 2005 and 2004 was $15.2 million and $13.2 million, respectively. The increase is due to increases in cash balances held in the checking and sweep accounts during the year as a result of construction activity.

Operating Revenues for 2004 and 2003 were $369.5 million and $340.1 million, respectively. Operating Expenses were $352.9 and $324.2 million, respectively. Both fluctuate based on the volume of construction activity as Operating Revenue includes Project Revenue, which is recognized to the extent of current Construction Costs. Operating Revenue additionally reflects an increase in Other Revenue in the form of fees from project development services recognized and increased Rental Income Lessees, which includes amounts collected from lessees which will be used for interest expense. Investment income for 2004 and 2003 was $13.2 million and $13.6 million, respectively. The decrease is due to decreases in cash balances held in investments during the year as a result of construction activity.

Summary of Condensed Financial Information at December 31, 2005, 2004, and 2003:

	2005	2004	2003
Total assets	$818,730,279	$974,181,952	$1,207,100,207
Total liabilities	738,511,059	897,605,646	1,132,256,433
Total net assets	$ 80,219,220	$ 76,576,306	$ 74,843,774
Operating revenues	$178,079,729	$369,505,630	$ 340,073,115
Operating expenses	166,709,289	352,969,192	324,192,624
Other income (expense)	(7,727,525)	(14,803,906)	(16,900,977)
Change in net assets	$ 3,642,915	$ 1,732,532	$ (1,020,486)

Capital Assets

At December 31, 2005, the Commission's $51.3 million invested in capital assets is net of accumulated depreciation of $68.2 million. The Commission had $119.5 million of gross capital assets, including the $11.7 million in land for the $71.3 million Daley Center, $31.6 million of building improvements to that structure as well as $4.9 million of construction in process. During 2005, the Commission had capital additions of $4.4 million, which consisted of building improvements for the Daley Center. The Commission's 2006 capital budget for the Daley Center authorizes up to $10.5 million in capital expenditures including $8.8 million for the second phase of sprinkler installation. A summary of changes in capital assets is included in Note 3 to the financial statements.

At December 31, 2004, the Commission's $51.4 million invested in capital assets is net of accumulated depreciation of $65.2 million. The Commission had $116.6 million of gross capital assets, including the $11.7 million in land for the $71.3 million Daley Center, $30.1 million of building improvements to that structure as well as $3.6 million of construction in process. During 2004, the Commission had capital additions of $5.8 million, which consisted of building improvements for the Daley Center. The Commission's 2005 capital budget for the Daley Center authorizes up to $8.9 million in capital expenditures including $5.3 million for the first phase of sprinkler installation. A summary of changes in capital assets is included in Note 3 to the financial statements.

Long-term Debt and Capital Leases Receivable

As of December 31, 2005 and 2004, the Commission had $424.8 million and $511.5 million, respectively, in debt outstanding. No additional long-term debt was incurred in 2005.

As of December 31, 2004 and 2003, the Commission had $511.5 million and $602.5 million, respectively, in debt outstanding. No additional long-term debt was incurred in 2004.

As of December 31, 2005 and 2004, the Commission had $422.5 million and $509.3 million, respectively, in capital leases receivable.

As of December 31, 2004 and 2003, the Commission had $509.3 million and $600.4 million, respectively, in capital leases receivable.

REQUESTS FOR INFORMATION

This financial report is designed to provide the reader with a general overview of the Commission's finances. Questions concerning any of the information provided in this report, or requests for additional financial information should be addressed to the Senior Director of Finance at Richard J. Daley Center, 50 West Washington, Room 200, Chicago, Illinois 60602.

PUBLIC BUILDING COMMISSION OF CHICAGO

STATEMENTS OF NET ASSETS
AS OF DECEMBER 31, 2005 AND 2004

	2005	2004
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 3,218,274	$ 899,218
Due from other governments	5,969,327	5,816,955
Due from other agencies	37,438,250	30,930,233
Other receivables	70,357	256,919
Other current assets	246,778	414,038
Current portion of capital lease receivable	125,705,000	86,805,000
Total current assets	172,647,986	125,122,363
INVESTMENTS:		
United States Treasury obligations	22,407,463	33,742,486
Money market mutual funds	141,504,775	139,168,089
Repurchase agreements	1,185,349	109,289,603
Federal National Mortgage Association	130,606,842	80,055,153
Commercial Paper		10,506,907
Total investments	295,704,429	372,762,238
CAPITAL LEASES RECEIVABLE	296,780,000	422,485,000
CAPITAL ASSETS (DALEY CENTER):		
Land	11,667,688	11,667,688
Building	71,276,903	71,276,903
Building improvements	31,604,848	30,075,858
Construction in progress	4,929,174	3,571,321
Accumulated depreciation	(68,177,044)	(65,209,488)
Total capital assets	51,301,569	51,382,282
OTHER ASSETS	2,296,295	2,430,069
TOTAL ASSETS	$ 818,730,279	$ 974,181,952

See notes to basic financial statements.

PUBLIC BUILDING COMMISSION OF CHICAGO

STATEMENTS OF NET ASSETS
AS OF DECEMBER 31, 2005 AND 2004

LIABILITIES AND NET ASSETS	2005	2004
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 27,675,595	$ 49,937,977
Interest payable	5,883,358	7,680,877
Retained on contracts	20,677,505	27,023,999
Deferred rental income	16,463,084	16,755,748
Current portion of deferred project revenue	38,552,459	7,535,811
Current portion of long-term debt	125,978,426	87,088,428
Total current liabilities	235,230,427	196,022,840
NONCURRENT LIABILITIES:		
Funds held for future lease payments	117,022,176	185,799,081
Long-term debt	306,377,902	432,356,325
Other Liabilities	400,000	
Deferred project revenue	79,480,554	83,427,400
Total noncurrent liabilities	503,280,632	701,582,806
Total liabilities	738,511,059	897,605,646
NET ASSETS:		
Invested in capital assets, net of related debt	51,301,569	51,382,282
Restricted–Daley Center	9,277,951	8,978,063
Restricted–Commission's operations	19,639,700	16,215,961
Total net assets	80,219,220	76,576,306
TOTAL LIABILITIES AND NET ASSETS	$ 818,730,279	$ 974,181,952

See notes to basic financial statements.

PUBLIC BUILDING COMMISSION OF CHICAGO

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	2005	2004
OPERATING REVENUES:		
Project revenue	$ 128,391,233	$ 314,518,301
Rental income—lessees	26,792,127	34,007,882
Rental income—Daley Center	17,274,412	16,316,682
Other revenue	5,621,957	4,662,765
Total operating revenues	178,079,729	369,505,630
OPERATING EXPENSES:		
Construction costs	141,853,947	326,975,453
Maintenance and operations—Daley Center	15,080,004	15,672,982
Administrative expense	6,807,782	7,447,982
Depreciation expense	2,967,556	2,872,775
Total operating expenses	166,709,289	352,969,192
Operating income	11,370,440	16,536,438
OTHER INCOME (EXPENSE):		
Investment income	15,179,712	13,233,987
Other income	364,709	333,079
Interest expense	(23,271,946)	(28,370,972)
Total expenses	(7,727,525)	(14,803,906)
INCREASE IN NET ASSETS	3,642,915	1,732,532
NET ASSETS—Beginning of year	76,576,306	74,843,774
NET ASSETS—End of year	$ 80,219,221	$ 76,576,306

See notes to basic financial statements.

PUBLIC BUILDING COMMISSION OF CHICAGO

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	2005	2004
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES:		
Received for projects	$ 154,761,538	$ 237,111,496
Received for lease and rent payments	130,426,503	141,335,095
Payments for project construction and administration	(191,783,351)	(340,685,815)
Net cash flows provided by operating activities	93,404,690	37,760,776
CASH FLOWS (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES:		
Payments for capital acquisitions	(2,886,843)	(4,058,223)
Principal paid on revenue bonds	(86,649,999)	(91,005,000)
Interest paid on revenue bonds	(24,935,700)	(32,468,579)
Funds held for future lease payments used	(68,776,905)	(71,015,771)
Net cash flows (used in) financing activities	(183,249,447)	(198,547,573)
CASH FLOWS PROVIDED BY INVESTING ACTIVITIES:		
Sales (purchases) of investments—net	76,619,383	148,253,699
Investment income	15,179,712	12,795,560
Other investment income	364,718	333,079
Net cash flows provided by investing activities	92,163,813	161,382,338
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,319,056	595,541
CASH AND CASH EQUIVALENTS—Beginning of year	899,218	303,677
CASH AND CASH EQUIVALENTS—End of year	$ 3,218,274	$ 899,218
RECONCILIATION OF OPERATING LOSS TO CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating income	$ 11,370,440	$ 16,536,438
Adjustments to reconcile:		
Depreciation	2,967,556	2,872,775
Changes in assets and liabilities:		
Capitalized leases receivable	86,805,000	91,150,000
Other receivables	186,562	(95,202)
Other current assets	167,260	(390,086)
Due from other governments	(152,372)	464,509
Due from other agencies	(6,508,017)	(4,817,441)
Accounts payable and accrued expenses	(22,262,383)	5,517,596
Retained on contracts	(6,346,494)	4,283,092
Deferred rent	(292,664)	(603,978)
Deferred project revenue	27,069,802	(77,156,927)
Other liabilities	400,000	
NET CASH FROM OPERATING ACTIVITIES	$ 93,404,690	$ 37,760,776

See notes to basic financial statements.

PUBLIC BUILDING COMMISSION OF CHICAGO

NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Authorizing Legislation—The Public Building Commission of Chicago (the "Commission"), Cook County, Illinois is a municipal corporation and body politic created under the provisions of the Public Building Commission Act of the Illinois Revised Statutes (the "Act"), approved July 5, 1955, as amended. The Commission is authorized and empowered to construct, acquire, or enlarge public improvements, buildings, and facilities to be made available for use by governmental agencies and to issue bonds, which are payable solely from the revenues to be derived from the operation, management, and use of the buildings or other facilities by the Commission or pledged revenues. The Commission has no stockholders or equity holders, and all revenues of the projects shall be paid to the Treasurer of the Commission to be applied in accordance with the provisions of the respective bond resolutions and intergovernmental agreements.

The Act provides authority for the Commission to obtain permanent financing through the issuance of revenue bonds secured by leases with local governments or other users of facilities constructed or acquired by the Commission. The Act also provides authority for the Commission to obtain interim financing by issuing interim notes following the selection of an area or site for a requested project. The Commission has specific authority to accept donations, contributions, capital grants, or gifts.

Pursuant to the Act, the Board of Commissioners has 11 members: six members are appointed by the City of Chicago, and one member each is appointed by the following: Cook County, Chicago Board of Education, Chicago Park District, Metropolitan Water Reclamation District of Greater Chicago, and the Cook County Forest Preserve. The Chairman of the Commission is elected from among the members of the Board. The Mayor of the City of Chicago currently serves as the Chairman.

The accounting and reporting policies of the Commission conform to generally accepted accounting principles as applicable to governmental units in the United States of America. Following is a description of the more significant of these policies.

Reporting Entity—As defined by generally accepted accounting principles established by the Governmental Accounting Standards Board ("GASB"), the financial reporting entity consists of the 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. The accompanying financial statements present only the Commission (the primary government) since the Commission does not have any component units.

Basis of Presentation—The Commission applies all GASB pronouncements for the Commission's proprietary funds, as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Statements and Interpretations of the Financial Accounting Standards Board, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

The accounts of the Commission are organized on the basis of Fund Accounting. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. The Commission maintains the following fund type:

Proprietary Fund—The Commission's operations are accounted for in a single Enterprise Fund. Enterprise funds account for those operations financed and operated in a manner similar to private business enterprises. Under this method of accounting, an economic resources measurement focus and the accrual basis of accounting is used. Revenue is recognized when earned and expenses are recognized when incurred. The basic financial statements include a statement of net assets; a statement of revenues, expenses, and changes in net assets; and a statement of cash flows.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the Commission is funded from bond financed projects and reimbursement projects and payments from lessees. Operating expenses include construction costs, maintenance expenses, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Cash and Cash Equivalents—The Commission presents a statement which classifies cash receipts and payments according to whether they stem from operating, noncapital financing, capital and related financing, or investing activities. Cash and cash equivalents include cash on hand.

Investments—Investments consist primarily of Federal National Mortgage Association ("FNMA") securities and money market (government bonds) mutual funds. Investments with maturity of less than one year are carried at amortized cost plus accrued interest, which approximates fair value. All other investments are carried at fair value. Investments at December 31, 2005 and 2004, consist of \$268,182,943 and \$347,620,211, respectively, restricted for future capital construction and improvements related to Commission projects and for amounts held to cover future debt service principal and interest payments. Other investments at December 31, 2005 and 2004, consist of \$27,521,486 and \$25,142,027, respectively, for use by the Daley Center and for Commission operations.

Capital Leases Receivable—Capital leases receivable, discounted at the effective interest rate of each bond issue, are reflected as assets. The portion of the lease payments attributable to administrative and other period charges is not capitalized as a lease receivable. The corresponding revenue bonds are reflected as liabilities. The current portion of leases receivable at December 31, 2005 and 2004, is \$125,705,000 and \$86,805,000, respectively.

Capital Assets (Daley Center)—The Commission capitalizes assets that it owns and operates with a cost of more than \$1,000 and a useful life greater than one year. Capital assets are recorded at cost. Cost includes major expenditures for improvements and replacements, which extend useful lives or increase capacity and interest cost associated with significant capital additions. Depreciation of capital assets is computed using the straight-line method assuming the following useful lives:

	Years
Building	50
Building improvements	20
Furniture and fixtures	7
Equipment	3–5

The Picasso sculpture that stands on Daley Plaza is an artwork that is held for public exhibition and is to be preserved for future generations. The sculpture is not capitalized or depreciated as a part of the Commission's capital assets.

Other Assets—Costs related to the issuance of the Series 2003 Revenue Bonds. The costs are held as a deferred asset and amortized over the life of the bond. Amortization is recognized as interest expense.

Compensated Absences—All salaried employees of the Commission are granted sick leave with pay at the rate of one working day for each month of service, up to a maximum accumulation of 175 days. In the event of termination, Commission employees are not reimbursed for accumulated sick leave.

All full-time employees of the Commission who have completed one year of service are entitled to vacation leave at varying amounts based on years of service. In the event of termination, an employee is reimbursed for accumulated vacation days up to a maximum accumulation of 40 days.

Long-Term Debt—Long-term debt is recognized as a liability. The total outstanding debt balance is classified as current and noncurrent liabilities based upon whether the amount is payable within a one-year period.

Funds Held for Future Lease Payments—Pursuant to the Bond Resolution for lease payments due under the lease for the 1999 Series C Bonds, the Commission established a trustee held Debt Service Account comprising the following two subaccounts: (i) the Deposit Sub-Account; and (ii) the Payment Sub-Account. Grant revenues pledged from the Board of Education of the City of Chicago received from the State of Illinois and taxes shall be deposited in and transferred between these two Sub-Accounts in conjunction with debt service requirements.

Grant revenues are deposited by the Board of Education into the Deposit Sub-Account and are transferred to the Payment Sub-Account to meet annual debt service requirements subsequent to February 2002. These have been classified as Funds Held for Future Lease Payments. The last deposit into this account was made during 2002. Annual lease payments due from the Board of Education of the City of Chicago are to be offset by amounts held on deposit in the Payment Sub-Account. At the lease payment dates, amounts to reduce the capital lease receivable and to reflect rental income are recorded in the bond funds.

Project Revenue—The Commission receives funding for bond financed projects and reimbursement projects. Project revenue is recognized as the construction costs for the projects are incurred. Amounts received but unspent as of the end of the year are included in deferred project revenue. Fees for project development services are recognized upon completion of a project.

Rental Income—Annual lease rental payments are due on or before December 1 of each year. All rental payments received before December 31 which relate to the following year's administrative expenses and debt service are considered deferred rental income at December 31. Rental income is recognized in the year the related administrative expenses and debt service is incurred.

Net Assets—Net assets invested in capital assets, net of related debt reports the difference between capital assets less both the accumulated depreciation and the outstanding balance of debt, excluding unexpended proceeds, that is directly attributable to the acquisition, construction or improvement of those assets. Net assets other than those invested in capital assets, net of related debt are considered to be restricted under the enabling legislation that established the limited specific purpose of the Commission.

Use of Estimates—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

New Accounting Standards—GASB Statement No. 40, *Deposit and Investment Risk Disclosures,* which updates the custodial credit and disclosure requirements of GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements,* and establishes more comprehensive disclosure requirements, has been adopted by the Commission for year ended December 31, 2005, as discussed in note 2.

GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries,* is effective for financial statements for periods beginning after December 15, 2004. This has been adopted by the Commission for year ended December 31, 2005. This statement has no impact on the Commission's financial statements for year ended December 31, 2005.

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* which establishes standards of accounting and financial reporting for other post employment benefits expenses and assets, note disclosures and required supplementary information, is effective for financial statements for periods beginning after December 15, 2006. The Commission has not yet determined the impact of the adoption of this standard.

GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation,* requires that limitations on the use of net assets imposed by enabling legislation be reported as restricted net assets. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2005.

GASB Statement No. 47, *Accounting for Termination Benefits,* establishes accounting standards for termination benefits and is effective in two parts. For termination benefits provided through an existing defined benefit OPEB plan, the provisions of the Statement should be implemented simultaneously with the requirements of Statement 45. For all other termination benefits, this Statement is effective for financial statements beginning after June 15, 2005.

2. CASH AND INVESTMENTS

As provided by the respective bond resolutions, cash and investments of the Construction and Revenue Funds will be subject to a lien and charge in favor of the bondholders until paid out or transferred. Cash and investments from bond proceeds at December 31, 2005 and 2004, were in custody of the trustees.

Investments are authorized by the Public Funds Investment Act, the Bond Resolutions and the Commission's investment policy. The Commission's investments are limited to various instruments by the Indentures, restricted to one or more of the following:

- Bonds, notes, certificates of indebtedness, Treasury bills, or other securities guaranteed by the full faith and credit of the United States of America as to principal and interest,

- Certain bonds, notes, debentures or other similar obligations of the United States of America or its agencies,

- Short-term discount obligations issued by the Federal National Mortgage Association,

- Interest-bearing savings accounts, interest-bearing certificates of deposit, interest-bearing time deposits, or any other investments constituting direct obligations of any bank as defined by the Illinois Banking Act, and which deposits are insured by the Federal Deposit Insurance Corporation,

- Money market mutual funds registered under the Investment Company Act of 1940 (limited to obligations described in (a) and (b) above and to agreements to repurchase such obligations), and

- Repurchase agreements to acquire securities through banks or trust companies authorized to do business in the State of Illinois.

The Commission's Investment Policy contains the following stated objectives:

- Safety of Principal. Investments of the Commission shall be undertaken in a manner that ensures the preservation of capital in the Total Portfolio.

- Liquidity. The Total Portfolio of the Commission shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated.

- Rate of Return. The Total Portfolio of the Commission shall be designed with the objective of attaining the highest rate of return, consistent with the Commission's investment risk constraints identified herein and with prudent investment principles and cash flow needs.

- Benchmark. An appropriate benchmark shall be established to determine if market yields and performance objectives are being achieved.

- Public Trust. All participants in the investment process shall seek to act responsibly as custodians of the public trust and shall avoid any transactions that might impair public confidence in the Commission.

- Local Consideration. The Commission seeks to promote economic development in the City of Chicago. In accordance with this goal, preference shall be given to any depository institution meeting the requirements defined in this policy, within the City limits whose investment rates are within 0.125% of the rate that could be obtained at an institution outside the city limits. In addition, the Commission shall strongly consider depository institutions that are certified MBE/WBE institutions.

At December 31, 2005 and 2004, the carrying amounts of the Commission's cash deposits were $3,218,274 and $899,218, respectively. The Commission's cash bank balances at December 31, 2005 and 2004, totaled $3,202,678 and $600,002, respectively, of which $100,000 per bank was covered by FDIC insurance.

All securities which have scheduled maturities within one year of the balance sheet date are recorded at amortized cost plus accrued interest, which approximates fair value. All other investments are carried at fair value (see Note 1). The Commission generally holds securities until maturity. An attempt is made within the construction funds to align scheduled maturities with the anticipated construction schedule of the underlying project. However, at times, certain securities are sold by the Commission prior to their scheduled maturities in order to meet construction financing requirements.

	Carrying Amount at December 31, 2005	Maturities Less Than 1 Year
Repurchase agreements	$ 1,185,349	$ 1,185,349
U.S. Treasury obligations	22,407,463	22,407,463
Federal National Mortgage Association	130,606,842	130,606,842
Money market mutual funds	141,504,775	141,504,775
Total	$ 295,704,429	$ 295,704,429

Credit Risk—State law and the Commission's Investment Policy limits investment in commercial paper to the top two ratings issued by at least two standard rating services. As of December 31, 2005, the Commission had no investments in Commercial Paper. As of December 31, 2005, Moody's rated the Commission's investments in money market mutual funds AAA.

Concentration of Credit Risk—As of December 31, 2005, 44.17% of the Commission's total investments are in the Federal National Mortgage Association.

Custodial Risk—As of December 31, 2005, the Commission had invested in Repurchase Agreements. These securities are to be held by a custodial bank, other than the seller of such securities, and must be a member of the Federal Reserve System. The Commission is required to maintain collateral of 102% of the value of the repurchase agreement. The Commission was in compliance with this requirement at December 31, 2005.

	Carrying Amount at December 31, 2004	Maturities Less Than 1 Year
Repurchase agreements	$ 109,289,603	$ 109,289,603
U.S. Treasury obligations	33,742,486	33,742,486
Federal National Mortgage Association	80,055,153	80,055,153
Commercial Paper	10,506,907	10,506,907
Money market mutual funds	139,168,089	139,168,089
Total	$372,762,238	$372,762,238

Credit Risk—State law and the Commission's Investment Policy limits investment in commercial paper to the top two ratings issued by at least two standard rating services. As of December 31, 2004, the Commission's investment in commercial paper was rated A1 Plus by Standard & Poors and P1 by Moody's. As of December 31, 2004, Moody's rated the Commission's investments in money market mutual funds AAA.

Concentration of Credit Risk—The Commission shall at no time hold more than 5% of total investments in any single issuers name. As of December 31, 2004, 21.48% of the Commission's total investments are in the Federal National Mortgage Association.

Custodial Risk—As of December 31, 2004, the Commission had invested in Repurchase Agreements. These securities are to be held by a custodial bank, other than the seller of such securities, and must be a member of the Federal Reserve System. The Commission is required to maintain collateral of 102% of the value of the repurchase agreement. The Commission was in compliance with this requirement at December 31, 2004.

3. CAPITAL ASSETS (DALEY CENTER)

A summary of changes in capital assets follows:

	Balance December 31, 2004	Additions, Transfers In, and Depreciation	Disposals, Adjustments, and Transfers Out	Balance December 31, 2005
Land	$ 11,667,688	$ -	$ -	$ 11,667,688
Building	71,276,903			71,276,903
Building improvements	30,075,858	1,528,989		31,604,847
Construction in progress	3,571,321	2,886,843	(1,528,989)	4,929,175
	116,591,770	4,415,832	(1,528,989)	119,478,613
Accumulated depreciation	(65,209,488)	(2,967,556)		(68,177,044)
Total	$ 51,382,282	$ 1,448,276	$(1,528,989)	$ 51,301,569

	Balance December 31, 2003	Additions, Transfers In, and Depreciation	Disposals, Adjustments, and Transfers Out	Balance December 31, 2004
Land	$ 11,667,688	$ -	$ -	$ 11,667,688
Building	71,276,903			71,276,903
Building improvements	27,813,594	2,262,264		30,075,858
Construction in progress	1,775,372	3,571,321	(1,775,372)	3,571,321
	112,533,557	5,833,585	(1,775,372)	116,591,770
Accumulated depreciation	(62,336,713)	(2,872,775)		(65,209,488)
Total	$ 50,196,844	$ 2,960,810	$(1,775,372)	$ 51,382,282

4. REVENUE BONDS

The summary of long-term debt outstanding at December 31, 2005, is as follows:

	Balance December 31, 2004 (in 000's)	Additions	Reductions	Balance December 31, 2005 (in 000's)
$353,095,000 Series 1993A—Board of Education of the City of Chicago Buildings and Facilities—acquiring sites, constructing, and equipping buildings and facilities, 4.20% to 5.75%	$ 68,630	$ -	$ 8,110	$ 60,520
$20,830,000 Series 1993B—Chicago Park District Park Sites and Facilities—design and constructing for the restoration of Soldier Field Stadium, 5.50% to 6.95% (taxable)	8,955		2,190	6,765
$17,295,000 Series 1998A—Chicago Park District Park Sites and Facilities—building revenue refunding bonds (1993 C), 4.15% to 5.375%	17,295			17,295
$114,480,000 Series 1999B—Board of Education of the City of Chicago Building and Facilities—building revenue refunding bonds (1993A), 5.00% to 5.25%	114,480			114,480
$316,255,000 Series 1999C—Board of Education of the City of Chicago Building and Facilities—acquiring sites, constructing, and equipping buildings and facilities, 4.50% to 5.50%	183,100		72,450	110,650
$119,020,000 Series 2003—Chicago Transit Authority Building and Facilities—for construction of the CTA Headquarters, 5.00% to 5.25%	119,020		3,900	115,120
Total revenue bonds outstanding—December 31, 2005	511,480	$ -	$86,650	424,830
Premium	7,965			7,526
Less current portion	(87,088)			(125,978)
Noncurrent portion	$432,357			$306,378

Interest expense for 2005 and 2004 is $23,138,181 and $28,237,207, respectively, for debt service payments. Amortization of deferred issuance costs of $133,765 and $133,765 is also included in interest expense for 2005 and 2004, respectively. This results in a net interest expense of $23,271,946 and $28,370,972, respectively.

The summary of long-term debt outstanding at December 31, 2004, is as follows:

	Balance December 31, 2003 (in 000's)	Additions	Reductions	Balance December 31, 2004 (in 000's)
$353,095,000 Series 1993A—Board of Education of the City of Chicago Buildings and Facilities—acquiring sites, constructing, and equipping buildings and facilities, 4.20% to 5.75%	$ 89,030	$ -	$20,400	$ 68,630
$20,830,000 Series 1993B—Chicago Park District Park Sites and Facilities—design and constructing for the restoration of Soldier Field Stadium, 5.50% to 6.95% (taxable)	11,000		2,045	8,955
$17,295,000 Series 1998A—Chicago Park District Park Sites and Facilities—building revenue refunding bonds (1993 C), 4.15% to 5.375%	17,295			17,295
$114,480,000 Series 1999B—Board of Education of the City of Chicago Building and Facilities—building revenue refunding bonds (1993A), 5.00% to 5,25%	114,480			114,480
$316,255,000 Series 1999C—Board of Education of the City of Chicago Building and Facilities—acquiring sites, constructing, and equipping buildings and facilities, 4.50% to 5.50%	251,660		68,560	183,100
$119,020,000 Series 2003—Chicago Transit Authority Building and Facilities—for construction of the CTA Headquarters, 5.00% to 5.25%	119,020			119,020
Total revenue bonds outstanding—December 31, 2004	602,485	$ -	$91,005	511,480
Premium	8,403			7,965
Less current portion	(91,443)			(87,088)
Noncurrent portion	$519,445			$432,357

Security for Bonds—As provided by the bond resolutions, the bonds are secured by liens on the revenues derived from leases for the facilities but not by mortgages on the facilities. Under the lease agreements, the lessees are obligated to levy taxes to pay rentals which, together with any other rentals, fees, and charges for use of space in the facilities, will produce revenues at all times sufficient to pay the principal of and the interest on the bonds and maintain the accounts created by the bond resolutions. Title to the properties under such lease agreements will be conveyed to the lessee upon certification by the Secretary and Treasurer of the Commission that all principal, interest, premium, administrative, and other expenses with respect to such revenue bond issue have been paid in full.

		Annual Rentals Due	
Series of	**Leases**	**From**	**To**
1987 B	Community College District No. 508[1]	1987	2006
1988 A	Community College District No. 508[1]	1988	2007
1990 A	Board of Education of the City of Chicago[1]	1990	2019
1990 B	Board of Education of the City of Chicago[1]	1990	2014
1993 A	Board of Education of the City of Chicago[3]	1993	2018
1993 B	Chicago Park District	1997	2007
1996	Community College District No. 508[2]	1997	2007
1998 A	Chicago Park District	1998	2012
1999 B	Board of Education of the City of Chicago	1999	2018
1999 C	Board of Education of the City of Chicago	2001	2005
2001	Board of Education of the City of Chicago[2]	2001	2015
2001 A	Board of Education of the City of Chicago[2]	2002	2018
2003 A	Chicago Transit Authority	2004	2023

[1] Principal and interest portion of lease has been defeased.
[2] Lease payments have been fully defeased.
[3] A portion of principal and interest has been defeased from the 1999 B proceeds.

Except for the Series A of 1993 and Series B of 1999, the final bond principal payment is due in the year subsequent to the last rental payment.

Annual Requirements—The total of principal and interest due on bonds during the next five years and in subsequent five-year periods as of December 31, 2005, are as follows:

Year(s) Ending	Principal	Interest	Total
2006	$ 125,540,000	$ 19,246,430	$ 144,786,430
2007	15,775,000	15,460,532	31,235,532
2008	17,280,000	14,594,466	31,874,466
2009	18,365,000	13,695,269	32,060,269
2010	8,500,000	12,753,181	21,253,181
2011–2015	119,140,000	48,293,665	167,433,665
2016–2020	92,980,000	18,199,125	111,179,125
2021–2025	27,250,000	2,195,813	29,445,813
Total	$ 424,830,000	$ 144,438,481	$ 569,268,481

The total of principal and interest due as of December 31, 2004, are as follows:

Years Ending	Principal	Interest	Total
2005–2023	$511,480,000	$169,374,182	$680,854,182

Defeased Debt—The Commission has refunded all or a portion of various bonds by depositing U.S. Government securities in irrevocable trusts to provide for all future debt service payments on old bonds. As a result, such bonds are considered to be defeased and the liability for these bonds has been removed from the balance sheet. As of December 31, 2005 and 2004, the outstanding balances for refunded bonds are as follows:

	December 31, 2005 Amount Outstanding (in 000's)	December 31, 2004 Amount Outstanding (in 000's)
1986A	$ 9,650	$ 18,475
1987A	200	300
1987B	33,775	47,235
1988A	36,865	44,835
1990A	247,750	247,750
1990B	11,005	11,750
1995A		9,425
Total	$339,245	$379,770

Arbitrage—In accordance with the Internal Revenue Code of 1986, as amended, the Commission is required to rebate excess investment earnings (as defined) to the Federal Government. At December 31, 2005, the Commission has estimated it has no liability pursuant to the arbitrage rebate regulations.

5. CAPITAL LEASES RECEIVABLE

The summary of capital leases receivable at December 31, 2005, is as follows:

	Balance December 31, 2004 (in 000's)	Additions	Reductions	Balance December 31, 2005 (in 000's)
$353,095,000 Series 1993A—Board of Education of the City of Chicago Buildings and Facilities acquiring sites, constructing, and equipping buildings and facilities	$ 68,630	$ -	$ 8,110	$ 60,520
$20,830,000 Series 1993B Chicago Park District Park Sites and Facilities—design and constructing for the restoration of Soldier Field Stadium	6,765		2,345	4,420
$17,295,000 Series 1998A—Chicago Park District Park Sites and Facilities building revenue refunding bonds (1993C)	17,295			17,295
$114,480,000 Series 1999B Board of Education of the City of Chicago Building and Facilities—building revenue refunding bonds (1993A)	114,480			114,480
$316,255,000 Series 1999C Board of Education of the City of Chicago Building and Facilities—acquiring sites, constructing, and equipping buildings and facilities	183,100		72,450	110,650
$119,020,000 Series 2003A—Chicago Transit Authority Building and Facilities constructing, and equipping buildings and facilities	119,020		3,900	115,120
Total capital lease receivable - December 31, 2005	509,290	$ -	$86,805	422,485
Less current portion	(86,805)			(125,705)
Noncurrent portion	$422,485			$296,780

The summary of capital leases receivable at December 31, 2004, is as follows:

	Balance December 31, 2003 (in 000's)	Additions	Reductions	Balance December 31, 2004 (in 000's)
$353,095,000 Series 1993A—Board of Education of the City of Chicago Buildings and Facilities—acquiring sites, constructing, and equipping buildings and facilities	$ 89,030	$ -	$20,400	$ 68,630
$20,830,000 Series 1993B—Chicago Park District Park Sites and Facilities—design and constructing for the restoration of Soldier Field Stadium	8,955		2,190	6,765
$17,295,000 Series 1998A—Chicago Park District Park Sites and Facilities—building revenue refunding bonds (1993C)	17,295			17,295
$114,480,000 Series 1999B—Board of Education of the City of Chicago Building and Facilities—building revenue refunding bonds (1993A)	114,480			114,480
$316,255,000 Series 1999C—Board of Education of the City of Chicago Building and Facilities acquiring sites, constructing, and equipping buildings and facilities	251,660		68,560	183,100
$119,020,000 Series 2003A—Chicago Transit Authority Building and Facilities constructing, and equipping buildings and facilities	119,020			119,020
Total capital lease receivable—December 31, 2004	600,440	$ -	$91,150	509,290
Less current portion	(91,150)			(86,805)
Noncurrent portion	$509,290			$422,485

Future Minimum Lease Payment Receivable—The future minimum lease payment receivables as of December 31, 2005, are as follows:

Year(s) Ending	Principal	Interest and Other	Total Rent Payment
2006	$ 125,705,000	$ 24,022,782	$ 149,727,782
2007	15,175,000	17,274,365	32,449,365
2008	15,370,000	15,580,536	30,950,536
2009	18,365,000	14,843,717	33,208,717
2010	8,500,000	13,574,527	22,074,527
2011–2015	119,140,000	52,837,149	171,977,149
2016–2020	92,980,000	20,347,439	113,327,439
2021–2025	27,250,000	2,195,813	29,445,813
Total	$ 422,485,000	$ 160,676,328	$ 583,161,328

The future minimum lease payment receivables as of December 31, 2004, are as follows:

Year(s) Ending	Principal	Interest and Other	Total Rent Payment
2005	$ 86,805,000	$ 28,718,575	$ 115,523,575
2006–2024	422,485,000	160,676,328	583,161,328
Total	$ 509,290,000	$ 189,394,903	$ 698,684,903

6. RETIREMENT PLAN

On June 21, 1995, the Board of Commissioners of the Commission approved the adoption of the Public Building Commission of Chicago Retirement Plan (the "Plan") for Commission employees meeting certain minimum age and service requirements. Amendments to the Plan were approved November 9, 2004, and made effective January 1, 2005. The Plan, as amended, is a defined contribution plan, which requires the Commission to make quarterly contributions to the Plan to equal an annualized amount of 8.75% of participants' salary. Participants in the Plan vest at a rate of 20% per year after three years, with 100% vesting after seven years from date of hire. Participants must make nonelective contributions, deducted from their compensation, up to 7% based on their annual salary. Certain employees of the Commission are eligible to participate in the City of Chicago Municipal Employee's pension plan. Those employees are excluded from coverage under the Commission Plan.

The amount of covered payroll for those Commission employees participating in the Plan was $2,951,304 and $2,524,032, respectively, for the years ended December 31, 2005 and 2004. The contribution requirement of the Commission for the quarter ended December 31, 2005 and 2004, was $77,209 and $41,381, respectively. The required contribution for 2005 will be paid in 2006.

The Commission's personnel policy provides for certain employer-funded, post-employment benefits to be paid to eligible employees of the Commission. The Commission's payments under the terms of the policy are financed on a pay-as-you-go basis. During 2005 and 2004, the Commission made payments of $126,773 and $113,514, respectively.

7. COMMITMENTS

At December 31, 2005 and 2004, the Commission had commitments for construction contracts and related architects' and consultants' fees of approximately $28 million and $129 million, respectively.

8. LITIGATION

There are several pending lawsuits in which the Commission is a defendant. The Commission has accrued for all losses it deems probable. Pursuant to the advice of legal counsel, management believes that the ultimate outcome of the remaining claims is not expected to have a material impact on the financial statements of the Commission.

* * * * * *

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX B

CHICAGO TRANSIT AUTHORITY
FINANCIAL STATEMENTS

CHICAGO TRANSIT AUTHORITY

Financial Statements and Supplementary Information

December 31, 2005 and 2004

(With Independent Auditors' Report Thereon)

CHICAGO TRANSIT AUTHORITY

Table of Contents

KPMG

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

Independent Auditors' Report

Chicago Transit Board
Chicago Transit Authority
Chicago, Illinois:

We have audited the accompanying financial statements of the business-type and fiduciary activities of the Chicago Transit Authority (CTA) as of and for the years ended December 31, 2005 and 2004, which collectively comprise the CTA's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the CTA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the business-type and fiduciary activities of the CTA as of December 31, 2005 and 2004, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 5, 2006 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.

KPMG

The management's discussion and analysis on pages 3 through 10 and the schedules of funding progress and employer contributions on pages 50 through 52 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, 2005 and 2004 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, 2005 and 2004 on pages 53 and 54 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole for the years ended December 31, 2005 and 2004.

KPMG LLP

Chicago, Illinois
May 5, 2006

CHICAGO TRANSIT AUTHORITY

Management's Discussion and Analysis

December 31, 2005 and 2004

(Unaudited)

Introduction

The following discussion and analysis of the financial performance and activity of the Chicago Transit Authority (CTA) provide an introduction and understanding of the basic financial statements of the CTA for the fiscal years ended December 31, 2005 and 2004. 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 2005

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

Financial Highlights for 2004

- Net assets totaled $2,000,654,000 at December 31, 2004.
- Net assets decreased $38,733,000 in 2004, which compares to a decrease of $89,407,000 in 2003.
- Total net capital assets were $2,977,017,000 at December 31, 2004, an increase of 5.7% over the balance at December 31, 2003 of $2,816,090,000.

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) principles.

Overview of the Financial Statements for Business-Type Activities

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

Balance Sheet

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

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.

Notes to Financial Statements

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

(Continued)

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, 2005, 2004, and 2003:

Table 1

Summary of Assets, Liabilities, and Net Assets

December 31, 2005, 2004, and 2003

(In thousands of dollars)

		2005	2004	2003
Assets:				
Current assets	$	407,698	331,278	335,654
Restricted assets		2,052,990	2,078,122	1,986,510
Other assets		16,390	39,948	39,113
Capital assets, net		2,977,603	2,977,017	2,816,090
Total assets	$	5,454,681	5,426,365	5,177,367
Liabilities:				
Current liabilities	$	429,054	437,741	551,955
Long-term liabilities		3,178,545	2,987,970	2,586,025
Total liabilities		3,607,599	3,425,711	3,137,980
Net assets:				
Invested in capital assets, net of related debt		2,767,809	2,753,262	2,599,650
Restricted for payment of leasehold obligations		24,211	23,525	17,950
Restricted for debt service		32,840	39,225	48,736
Restricted by RTA for operations and capital improvements		7,460	20,890	20,704
Unrestricted (unrestricted)		(985,238)	(836,248)	(647,653)
Total net assets		1,847,082	2,000,654	2,039,387
Total liabilities and net assets	$	5,454,681	5,426,365	5,177,367

Year Ended December 31, 2005

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

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

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

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

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

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

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

Unrestricted net assets (deficit), which represent assets available for operations, increased 17.8% over the prior year.

Year Ended December 31, 2004

Current assets decreased by 1.3% to $331,278,000. The change in current assets is primarily due to the decrease in cash and the decrease in receivable from the RTA.

Restricted assets increased by 4.6% due to the receipt of bond proceeds that were not yet expended at year-end.

Other assets increased by 2.1% to $39,948,000, primarily due to an increase in bond issue costs resulting from the issuance of revenue bonds during 2004.

Capital assets (net) increased by 5.7% to $2,977,017,000 due to the CTA's capital improvement projects. The CTA's capital improvement projects were funded primarily by the Federal Transit Administration (FTA), the Illinois Department of Transportation (IDOT), the Regional Transportation Authority (RTA), and CTA bonds.

Current liabilities decreased 20.7% primarily due to a decrease in the current portion of capital lease obligations. Long-term liabilities increased 15.5% due to an increase in net pension obligation and the issuance of Capital Grant Receipts Revenue Bonds in 2004.

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

(Continued)

improvement of those assets. This category increased 5.9% from the prior year primarily due to capital assets acquisitions during the year that were funded by capital grants of $490,402,000, offset by depreciation expense of $349,162,000.

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

Unrestricted net assets (deficit), which represent assets available for operations, increased 29.1% over the prior year.

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, 2005, 2004, and 2003:

Table 2

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

Years ended December 31, 2005, 2004, and 2003

(In thousands of dollars)

	2005	2004	2003
Operating revenues	$ 448,411	432,619	395,252
Operating expenses:			
Operating expenses	1,216,217	1,125,934	1,022,295
Depreciation	360,559	349,162	367,536
Total operating expenses	1,576,776	1,475,096	1,389,831
Operating loss	(1,128,365)	(1,042,477)	(994,579)
Nonoperating revenues/expenses, net	576,139	513,342	508,137
Capital contributions	398,654	490,402	397,035
Change in net assets	(153,572)	(38,733)	(89,407)
Total net assets, beginning of year	2,000,654	2,039,387	2,128,794
Total net assets, end of year	$ 1,847,082	2,000,654	2,039,387

Year Ended December 31, 2005

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

(Continued)

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

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

Year Ended December 31, 2004

Operating revenues increased by $37,367,000, or 9.5%. In January 2004, CTA implemented a $0.25 fare increase. CTA experienced an increase in ridership and average fares in 2004. Specifically, 2004 systemwide ridership increased by approximately 481,000 trips.

Total operating expenses increased $85,265,000, or 6.1%. The expense increases are primarily driven by higher labor, fuel, and paratransit expenses, offset by a decrease in depreciation expense.

Labor expense increased due to wage rate increases and higher health insurance, pension, and workers' compensation expenses. Fuel expense increased $5,616,000 due to higher consumption and a higher average cost per gallon. Increased trips and inflation led to an increase in paratransit expense of $6,649,000, or 15.7%.

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

Table 3

Operating Expenses

Years ended December 31, 2005, 2004, and 2003

(In thousands of dollars)

		2005	2004	2003
Labor and fringe benefits	$	914,034	867,829	798,042
Materials and supplies		71,366	61,387	59,188
Fuel		45,788	30,093	24,477
Electric power		22,909	21,640	21,058
Purchase of security services		31,221	27,555	24,780
Purchase of paratransit		53,257	48,999	42,350
Maintenance and repairs, utilities, rent, and other		51,069	46,577	39,472
Operating expense before provisions		1,189,644	1,104,080	1,009,367
Provision for injuries and damages		26,573	21,854	12,928
Provision for depreciation		360,559	349,162	367,536
Total operating expenses	$	1,576,776	1,475,096	1,389,831

(Continued)

Capital Asset and Debt Administration

Capital Assets

The CTA invested $6,366,140,000 (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, 2005. Net of accumulated depreciation, the CTA's capital assets at December 31, 2005 totaled $2,977,603,000 (see Table 4). This amount represents a net increase (including additions and disposals, net of depreciation) of $586,000, or 0.02%, over the December 31, 2004 balance of $2,977,017,000.

Table 4

Capital Assets by Funding Source
December 31, 2005, 2004 and 2003
(In thousands of dollars)

	2005	2004	2003
Funding source:			
Federal (FTA)	$ 3,912,142	3,758,513	3,506,162
State (principally IDOT)	527,502	514,200	498,540
RTA	1,556,002	1,463,883	1,266,691
CTA (generally prior to 1973)	126,573	126,573	126,573
Other	243,921	254,819	253,790
Total capital assets	6,366,140	6,117,988	5,651,756
Accumulated depreciation	3,388,537	3,140,971	2,835,666
Total capital assets, net	$ 2,977,603	2,977,017	2,816,090

The year-over-year increase in capital assets resulted primarily from rolling stock purchases, overhauls of railcars and buses, and the infrastructure improvement projects identified in the 2005 portion of the Five-Year Capital Plan.

Debt Administration

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

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

(Continued)

At December 31, 2004, the CTA had $1,723,799,000 in capital lease obligations outstanding, a 3% decrease from December 31, 2003. The net pension obligation at December 31, 2004 was $799,362,000, a 30.4% increase from December 31, 2003. The change in net pension obligation is primarily due to an increase in post-employment health care costs and lower investment returns than anticipated. In October 2004, CTA issued Capital Grant Receipts Revenue Bonds to finance various capital improvement projects in the amount of $250,000,000.

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

Economic Factors and Next Year's Budget

The CTA adopted the 2006 Annual Budget on November 9, 2005. This budget was then submitted to the RTA and approved by the RTA on December 15, 2005. This budget provides for operating expenses of $1,036,685,000. The operating budget increase of 4.1% over the 2005 Annual Budget is primarily due to higher healthcare, fuel, and power costs. Comparatively, the U.S. City Average Annual Consumer Price Index (CPI) grew by 3.4% for 2005. The primary economic indicator impacting ridership and operating funds is area employment. The 2005 annual unemployment rate for the City of Chicago ended the year at 6.2%, compared to a national average of 4.6%. Employment in the Chicago metropolitan region was 3,724,600 at the end of 2005. This represents a loss of 6,500 jobs since the end of 2004.

Budgeted system-generated revenues for 2006 are higher than the 2005 Annual Budget by $12,384,000, or 2.5%. This projected increase over 2005 operating revenues is due to an elimination of paper transfers and a $0.25 increase in cash and rail transit card fares effective January 1, 2006 as well as projected ridership increases.

New Legislation

On May 4, 2006, the Illinois General Assembly approved a bill requiring CTA, beginning in 2009, to achieve a funded ratio of 90% for its employee pension plan by 2058. To meet the proposed funding level of 90%, it is estimated, based on the current actuarial assumptions and the number of employees, that CTA and employees would have to contribute $250.0 million annually to the pension plan. This would be an increase in contributions of approximately $205.0 million annually over the current annual employer and employee combined contributions of approximately $45.0 million. To meet this new required obligation as well as address the funding needed to meet normal operating needs, the CTA would require additional annual funding beginning in 2009. Without additional funding and/or legislative authority to the region, CTA may be forced to implement service cuts and fare increases in order to meet this new pension contribution obligation.

Contacting the CTA's Financial Management

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

CHICAGO TRANSIT AUTHORITY

Business-Type Activities

Balance Sheets

December 31, 2005 and 2004

(In thousands of dollars)

Assets		**2005**	**2004**
Current assets:			
Cash and cash equivalents	$	45,696	1,085
Investments		28,211	29,182
Total cash, cash equivalents, and investments		73,907	30,267
Grants receivable:			
Due from the RTA		120,740	112,481
Capital improvement projects from federal and state sources		11,370	3,285
Unbilled work in progress		85,849	77,666
Other		172	155
Total grants receivable		218,131	193,587
Accounts receivable, net		27,188	16,499
Materials and supplies, net		83,608	85,978
Prepaid expenses and other assets		4,864	4,947
Total current assets		407,698	331,278
Restricted cash and investments:			
Bond proceeds held by trustee		298,720	337,967
Restricted by RTA		32,478	51,982
Restricted for injury and damage reserve		72,024	59,869
Restricted assets for repayment of leasing commitments		1,649,768	1,628,304
Total restricted assets		2,052,990	2,078,122
Other assets:			
Cash and investments held by trustee for supplemental retirement plan		84	30,318
Bond issue costs		8,175	9,630
Net pension asset		8,131	—
Total other assets		16,390	39,948
Capital assets:			
Capital assets not being depreciated:			
Land		104,102	92,761
Construction in process		378,141	213,525
Total capital assets not being depreciated		482,243	306,286
Capital assets being depreciated:			
Land improvements		12,757	10,231
Buildings		1,532,399	1,498,124
Transportation vehicles		1,855,931	1,890,679
Elevated structures, tracks, tunnels, and power system		1,314,934	1,292,633
Signals		712,681	676,826
Other equipment		455,195	443,209
Less accumulated depreciation		(3,388,537)	(3,140,971)
Total capital assets being depreciated, net		2,495,360	2,670,731
Total capital assets, net		2,977,603	2,977,017
Total assets	$	5,454,681	5,426,365

(Continued)

CHICAGO TRANSIT AUTHORITY

Business-Type Activities

Balance Sheets

December 31, 2005 and 2004

(In thousands of dollars)

Liabilities and Net Assets	**2005**	**2004**
Current liabilities:		
Account payable and accrued expenses	$ 79,041	77,913
Accrued payroll, vacation pay, and related liabilities	87,875	82,003
Accrued interest payable	3,357	3,701
Advances, deposits, and other	10,725	15,054
Advances from RTA	32,478	51,982
Deferred passenger revenue	23,188	20,037
Other deferred revenue	785	1,201
Deferred operating assistance	22,645	22,177
Current portion of self-insurance claims	62,432	63,990
Current portion of capital lease obligations	88,823	99,683
Current portion of bonds payable	17,705	—
Total current liabilities	429,054	437,741
Long-term liabilities:		
Self-insurance claims, less current portion	106,526	96,352
Capital lease obligations, less current portion	1,647,854	1,624,116
Premium on capital lease obligation	6,687	7,365
Deferred revenue – leasing transactions	45,759	50,022
Bonds payable	318,330	375,435
Premium on bonds payable	26,007	30,307
Accrued pension costs (net pension obligation)	1,022,192	799,362
Other long-term liabilities	5,190	5,011
Total long-term liabilities	3,178,545	2,987,970
Total liabilities	3,607,599	3,425,711
Net assets:		
Invested in capital assets, net of related debt	2,767,809	2,753,262
Restricted for payment of leasehold obligations	24,211	23,525
Restricted for debt service	32,840	39,225
Restricted by RTA for future operations and capital improvements	7,460	20,890
Unrestricted (deficit)	(985,238)	(836,248)
Total net assets	1,847,082	2,000,654
Total liabilities and net assets	$ 5,454,681	5,426,365

See accompanying notes to financial statements.

CHICAGO TRANSIT AUTHORITY

Business-Type Activities

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended December 31, 2005 and 2004

(In thousands of dollars)

		2005	2004
Operating revenues:			
Fare box revenue	$	303,868	308,221
Pass revenue		113,556	94,547
Total fare box and pass revenue		417,424	402,768
Advertising and concessions		23,963	24,882
Other revenue		7,024	4,969
Total operating revenues		448,411	432,619
Operating expenses:			
Labor and fringe benefits		914,034	867,829
Materials and supplies		71,366	61,387
Fuel		45,788	30,093
Electric power		22,909	21,640
Purchase of security services		31,221	27,555
Purchase of paratransit		53,257	48,999
Maintenance and repairs, utilities, rent, and other		51,069	46,577
		1,189,644	1,104,080
Provisions for injuries and damages		26,573	21,854
Provision for depreciation		360,559	349,162
Total operating expenses		1,576,776	1,475,096
Operating expenses in excess of operating revenues		(1,128,365)	(1,042,477)
Nonoperating revenues (expenses):			
Public funding from the RTA		495,885	441,630
Reduced-fare subsidies		31,961	31,302
Operating grant revenue		26,823	24,530
Contributions from local government agencies		5,000	5,000
Investment income		19,705	3,288
Gain on sale of assets		8,177	389
Recognition of leasing transaction proceeds		4,262	4,262
Interest expense on bonds		(20,360)	(2,635)
Interest revenue from leasing transactions		117,247	121,272
Interest expense on leasing transactions		(112,561)	(115,696)
Total nonoperating revenues, net		576,139	513,342
Change in net assets before capital contributions		(552,226)	(529,135)
Capital contributions		398,654	490,402
Change in net assets		(153,572)	(38,733)
Total net assets – beginning of year		2,000,654	2,039,387
Total net assets – end of year	$	1,847,082	2,000,654

See accompanying notes to financial statements.

CHICAGO TRANSIT AUTHORITY

Business-Type Activities

Statements of Cash Flows

Years ended December 31, 2005 and 2004

(In thousands of dollars)

		2005	2004
Cash flows from operating activities:			
Cash received from fares	$	420,575	402,991
Payments to employees		(685,772)	(703,356)
Payments to suppliers		(302,103)	(280,390)
Other receipts		20,325	53,013
Net cash flows used in operating activities		(546,975)	(527,742)
Cash flows from noncapital financing activities:			
Public funding from the RTA		488,836	450,121
Reduced-fare subsidies		31,219	33,173
Operating grant revenue		26,823	24,530
Contributions from local governmental agencies		5,000	5,000
Net cash flows provided by noncapital financing activities		551,878	512,824
Cash flows from capital and related financing activities:			
Interest income from assets restricted for payment of leasehold obligations		117,247	121,272
Interest expense on leasehold obligations		(112,561)	(115,696)
Interest expense on bonds		(23,549)	(3,672)
Proceeds restricted for repayment of leasing commitments		(21,464)	49,598
Payment for capital lease obligations		12,878	(55,173)
Proceeds from sale of bonds		—	276,713
Proceeds from other long-term liabilities		178	1,610
Redemption of 2003 bonds payable		(39,400)	(81,765)
Bond issue costs		—	(3,462)
Payments for acquisition and construction of capital assets		(358,473)	(492,354)
Proceeds from the sale of property and equipment		9,253	421
Capital grants		377,597	463,260
Net cash flows provided by (used in) capital and related financing activities		(38,294)	160,752
Cash flows from investing activities:			
Purchases of unrestricted investments		(28,211)	(29,182)
Proceeds from maturity of unrestricted investments		59,416	31,092
Restricted cash and investment accounts:			
Purchases and withdrawals		(1,475,288)	(1,947,297)
Proceeds from maturities and deposits		1,502,380	1,773,950
Investment revenue		19,705	3,288
Net cash flows provided by (used in) investing activities		78,002	(168,149)
Net increase (decrease) in cash and cash equivalents		44,611	(22,315)
Cash and cash equivalents – beginning of year		1,085	23,400
Cash and cash equivalents – end of year	$	45,696	1,085

(Continued)

CHICAGO TRANSIT AUTHORITY

Business-Type Activities

Statements of Cash Flows

Years ended December 31, 2005 and 2004

(In thousands of dollars)

		2005	2004
Reconciliation of expenses in excess of operating revenue to net cash used in operating activities:			
Operating expenses in excess of operating revenue	$	(1,128,365)	(1,042,477)
Adjustments to reconcile operating expenses in excess of operating revenues to net cash used in operating activities:			
Depreciation		360,559	349,162
(Increase) decrease in assets:			
Accounts receivable		(10,689)	12,887
Materials and supplies		2,370	(15,841)
Prepaid expenses and other assets		83	317
Net pension asset		(8,131)	—
Increase (decrease) in liabilities:			
Accounts payable and accrued expenses		(3,298)	(8,396)
Accrued payroll, vacation pay, and related liabilities		5,872	(16,225)
Self-insurance reserves		8,616	(3,820)
Deferred passenger revenue		3,151	223
Other deferred revenue		(416)	180
Advances, deposits, and other		443	10,095
Accrued pension costs		222,830	188,779
Other long-term liabilities		—	(2,626)
Net cash flows used in operating activities	$	(546,975)	(527,742)
Noncash investing and financing activities:			
Recognition of leasing proceeds	$	4,262	4,262
Decrease in deferred revenue – leasing transactions		(4,262)	(4,262)
Retirement of fully depreciated capital assets		113,188	43,890

See accompanying notes to financial statements.

CHICAGO TRANSIT AUTHORITY

Fiduciary Activities

Statements of Fiduciary Net Assets

Open Supplemental Retirement Plan

December 31, 2005 and 2004

(In thousands of dollars)

		2005	2004
Assets:			
Contributions from employees	$	27	—
Investments at fair value:			
Short-term investments		395	—
Common stock		11,079	—
Government agencies		5,621	—
Total investments at fair value		17,095	—
Securities lending collateral		419	—
Total assets		17,541	—
Liabilities:			
Accounts payable and other liabilities		77	—
Securities lending collateral obligation		419	—
Total liabilities		496	—
Net assets held in trust for pension benefits (an unaudited schedule of funding progress is included on page 50)	$	17,045	—

See accompanying notes to financial statements.

CHICAGO TRANSIT AUTHORITY

Fiduciary Activities

Statements of Changes in Fiduciary Net Assets

Open Supplemental Retirement Plan

Years ended December 31, 2005 and 2004

(In thousands of dollars)

		2005	2004
Additions:			
Contributions:			
Employer	$	15,786	—
Employee		479	—
Total contributions		16,265	—
Investment income:			
Net increase in fair value of investments		602	—
Investment income		295	—
Total investment income		897	—
Total additions		17,162	—
Deductions:			
Benefits paid to participants or beneficiaries		44	—
Trust fees		73	—
Total deductions		117	—
Net increase		17,045	—
Net assets held in trust for pension benefits:			
Beginning of year		—	—
End of year	$	17,045	—

See accompanying notes to financial statements.

(1) Organization

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

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

Financial Reporting Entity

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

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

2) Fiscal dependency on the primary government.

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

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

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

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

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

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

(b) Cash and Cash Equivalents

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

(c) Investments

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

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

(d) Restricted Assets

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

In 2003 and 2004, the CTA issued Capital Grant Receipt Revenue Bonds. The proceeds from each sale were placed in trust accounts restricted for financing the costs of capital improvement projects associated with each issuance.

In 2003, the Public Building Commission of Chicago (PBC) issued revenue bonds for the benefit of the CTA. The proceeds from the sale were placed in trust accounts restricted for financing the costs of acquisition of real property and construction of a building, and facilities, including certain

(Continued)

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 2003, the CTA reached an agreement with the RTA to provide advance funding of capital projects. Funds received as an advance are restricted for future capital projects, subject to RTA approval.

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

(e) Materials and Supplies

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

(f) Capital Assets

All capital assets are stated at cost. Capital assets are defined as assets which (1) have a useful life of more than one year and a unit cost of more than $5,000, (2) have a unit cost of $5,000 or less, but which are part of a network or system conversion, or (3) were purchased with grant money. The cost of maintenance and repairs is charged to operations as incurred. Interest is capitalized on constructed capital assets. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period. Capitalized interest cost is amortized on the same basis as the related asset is depreciated. Capitalized interest expense was $537,000 and $8,990,000 during the years ended December 31, 2005 and 2004, 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:

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

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

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

(g) ***Self-insurance***

The CTA is self-insured for various risks of loss, including public liability and property damage, workers' compensation, and health benefit claims, as more fully described in note 11. A liability for each self-insured risk is provided based upon the present value of the estimated ultimate cost of settling claims using a case-by-case review and historical experience. A liability for claims incurred but not reported is also provided.

(h) ***Compensated Absences***

Substantially all employees receive compensation for vacations, holidays, illness, and certain other qualifying absences. The number of days compensated for the various categories of absence is based generally on length of service. Vacation leave that has been earned but not paid has been accrued in the accompanying financial statements. Compensation for holidays, illness, and other qualifying absences is not accrued in the accompanying financial statements because rights to such compensation amounts do not accumulate or vest.

Under GASB Statement No. 16, *Accounting for Compensated Absences*, applicable salary-related employer obligations are accrued in addition to the compensated absences liability. This amount is recorded as a portion of the accrued payroll, vacation pay, and related liabilities on the balance sheets.

(i) ***Bond Premiums and Issuance Costs***

Bond premiums and issuance costs are deferred and amortized over the life of the bonds on a straight-line basis.

(j) ***Net Assets***

Equity is displayed in three components as follows:

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

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

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

(Continued)

(k) ***Retirement Plan***

The CTA has a retirement plan for all nontemporary, full-time employees with service greater than one year. Pension expense recorded by the CTA includes a provision for current service costs and the amortization of past service cost over a period of approximately 40 years.

(l) ***Fare Box and Pass Revenues***

Fare box revenues are recorded as revenue at the time services are performed. Pass revenues are recorded as revenue at the time of sale.

(m) ***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.

(n) ***Estimates***

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

(o) ***Reclassifications***

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

(p) ***Recent Pronouncements***

The CTA implemented Governmental Accounting Standards Board (GASB) issued Statement No. 40, *Deposit and Investment Risk Disclosures – an amendment of GASB Statement No. 3* during the year ended December 31, 2005. The implementation of this standard resulted in specific disclosures for credit risk, concentration of credit risk, interest rate risk, and foreign currency risk.

In November 2003, GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This Statement establishes accounting and financial reporting standards for impairment of capital assets. No changes were made to the reported value of capital assets as of December 31, 2005 and 2004 based on CTA's evaluation of this pronouncement.

In July 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes accounting and financial reporting standards for employers that participate in a defined benefit "other postemployment benefit" (OPEB) plan. Specifically, the CTA will be required to measure and disclose an amount for annual OPEB cost on the accrual basis for health and insurance benefits that will be provided to retired CTA employees in future years. The CTA is also required to record a net OPEB obligation, which is defined as the cumulative difference between annual OPEB cost and the employer's contributions to a plan, including the OPEB liability or asset at transition, if any. The CTA is currently evaluating the impact of adopting Statement No. 45. The CTA will implement Statement No. 45 beginning with the year ended December 31, 2007.

(3) Budget and Budgetary Basis of Accounting

The CTA is required under Section 4.01 of the Regional Transportation Authority Act to submit for approval an annual budget to the RTA by November 15 prior to the commencement of each fiscal year. The budget is prepared on a basis consistent with generally accepted accounting principles, except for the exclusion of certain income and expenses. For 2005 and 2004, these amounts include provision for injuries and damage in excess of (or under) budget, depreciation expense, pension expense in excess of pension contributions, revenue from leasing transactions, interest income and expense from sale/leaseback transactions, and capital contributions.

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

The RTA funds the budgets of the service boards rather than the actual operating expenses in excess of system-generated revenue. Favorable variances from budget remain as deferred operating assistance to the CTA, and can be used in future years with RTA approval.

The RTA approves the proposed budget based on a number of criteria:

- That the budget is in balance with regard to anticipated revenues from all sources, including operating subsidies and the costs of providing services and funding operating deficits;
- That the budget provides for sufficient cash balances to pay, with reasonable promptness, costs and expenses when due;
- That the budget provides for the CTA to meet its required system-generated revenue recovery ratio; and
- That the budget is reasonable, prepared in accordance with sound financial practices and complies with such other RTA requirements as the RTA Board of Directors may establish.

The RTA monitors the CTA's performance against the budget on a quarterly basis. If, in the judgment of the RTA, this performance is not substantially in accordance with the CTA's budget for such period, the RTA shall so advise the CTA and the CTA must, within the period specified by the RTA, submit a revised budget to bring the CTA into compliance with the budgetary requirements listed above.

(4) Budgeted Public Funding from the Regional Transportation Authority and the State of Illinois

As discussed in note 1, the Act established the RTA as a regional oversight board and defined the sources of funding to the RTA. Under the Act, each service board is entitled to a portion of the funds collected by the RTA. The allocation of these funds to each service board is based on various methods as defined in the Act. Sales tax is allocated based upon a statutory formula, while discretionary funds are allocated based on the RTA's discretion.

During 2005, the RTA board added $54.3 million in funding to the 2005 "marks" for CTA for the funding of ADA paratransit services and for other costs and services. The funding "marks" represent the amount of funds that each Service Board can expect to receive from the RTA and other sources.

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

		2005	2004
Illinois state sales tax allocation	$	276,308	265,106
Public Transportation Fund/RTA discretionary funding		219,577	176,524
Total	$	495,885	441,630

Reduced-fare subsidies received from the State of Illinois were $31,961,000 and $31,302,000 during the years ended December 31, 2005 and 2004, respectively, for discounted services provided to the elderly, disabled, or student riders.

(5) Cash, Cash Equivalents, and Investments

(a) *Cash, Cash Equivalents, and Investments of the Business-type Activities*

Cash, cash equivalents, and investments are reported in the balance sheets of the business-type activities as follows as of December 31, 2005 and 2004 (in thousands):

		2005	2004
Current assets:			
Cash and cash equivalents	$	45,696	1,085
Investments		28,211	29,182
Restricted cash and investments:			
Bond proceeds held by trustee		298,720	337,967
Restricted by RTA		32,478	51,982
Restricted for injury and damage reserve		72,024	59,869
Other assets:			
Cash and investments for supplemental retirement plan		84	30,318
Total	$	477,213	510,403

Cash, cash equivalents, and investments of the business-type activities consist of the following as of December 31, 2005 and 2004 (in thousands):

		2005	2004
Investments:			
Certificates of deposit	$	4,020	5,020
Money market mutual funds		48,100	39,831
Repurchase agreements		321,558	55,612
U.S. government agencies		50,089	69,808
U.S. Treasury bills		9,943	16,914
Commercial paper		45,422	318,296
Total investments		479,132	505,481
Deposits with financial institutions		(1,919)	4,922
Total deposits and investments	$	477,213	510,403

Investment Policy

CTA investments are made in accordance with the Public Funds Investment Act (30 ILCS 235/1) (the Act) and, as required under the Act, the Chicago Transit Authority Investment Policy (the Investment Policy). The Investment Policy does not apply to the Employees Retirement Plan, which is a separate legal entity. Additionally, the CTA Investment Policy does not apply to the Supplemental Retirement Plan, which is directed by the Employee Retirement Review Committee.

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

1. United States Treasury Securities (Bonds, Notes, Certificates of Indebtedness, and Bills). CTA may invest in obligations of the United States government, which are guaranteed by the full faith and credit of the United States of America as to principal and interest.

2. United States Agencies. CTA may invest, bonds, notes, debentures, or other similar obligations of the United States or its agencies. Agencies include: (a) federal land banks, federal intermediate credit banks, banks for cooperative, federal farm credit bank, or other entities authorized to issue debt obligations under the Farm Credit Act of 1971, as amended; (b) federal home loan banks and the federal home loan mortgage corporation; and (c) any other agency created by an act of Congress.

3. Bank Deposits. CTA may invest in interest-bearing savings accounts, interest-bearing certificates of deposit, or interest-bearing time deposits or other investments constituting direct obligations of any bank as defined by the Illinois Banking Act (205 ILCS 5/1 et seq.), provided that any such bank must be insured by the Federal Deposit Insurance Corporation (the FDIC).

4. Commercial Paper. CTA may invest in short-term obligations (commercial paper) of corporations organized in the United States with assets exceeding $500 million, provided that: (a) such obligations are at the time of purchase at the highest classification established by at least two standard rating services and which mature not later than 180 days from the date of purchase;

and (b) such purchases do not exceed 10% of the corporation's outstanding obligations.

5. Mutual Funds. CTA may invest in mutual funds which invest exclusively in United States government obligations and agencies.
6. Discount Obligations. CTA may invest in short-term discount obligations of the Federal National Mortgage Association.
7. Investment Pool. CTA may invest in a Public Treasurers' Investment Pool created under Section 17 of the State Treasurer Act (15 ILCS 505/17).
8. Repurchase Agreements. CTA may invest in repurchase agreements for securities that are authorized investments under the Investment Policy, subject to all of the requirements of the Act, provided that: (a) the securities shall be held by an authorized custodial bank; and (b) each transaction must be entered into under terms of an authorized master repurchase agreement.
9. Investment Certificates. CTA may invest in investment certificates issued by FDIC-insured savings banks or FDIC-insured savings and loan associations.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of a financial institution failure, the CTA's deposits may not be returned. The CTA's investment policy requires that deposits which exceed the amount insured by the FDIC be collateralized, at the rate of 102% of such deposits, by bonds, notes, certificates of indebtedness, treasury bills or other securities which are guaranteed by the full faith and credit of the U.S. government. As of December 31, 2005, the CTA's bank balances of $1,415,000 were subject to custodial credit risk as they were neither insured nor collateralized.

Interest Rate Risk

Interest rate risk is the risk that the fair value of the CTA's investments will decrease as a result of an increase in interest rates. As a means of limiting its exposure to fair value losses arising from rising interest rates, the Investment Policy limits the term of investments as follows:

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, 2005, the maturities for the CTA's fixed-income investments are as follows (in thousands):

	Fair value	Investment maturities (by years) Less than 1	1-5
Money market mutual funds	$ 48,100	48,100	—
Repurchase agreements	321,558	321,558	—
U.S. government agencies	50,089	48,842	1,247
U.S. Treasury bills	9,943	9,943	—
Commercial paper	45,422	45,422	—
Total	$ 475,112	473,865	1,247

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, 2005, the CTA had the following fixed-income investments which are rated by both Moody's and Standard and Poor's (in thousands):

	Fair value	Credit ratings AAA	AA	A	Not rated
Money market mutual funds	$ 48,100	26,140	3,657	—	18,303
Repurchase agreements	321,558	77,000	244,558	—	—
U.S. government agencies	50,089	50,089	—	—	—
U.S. Treasury bills	9,943	9,943	—	—	—
Commercial paper	45,422	—	—	45,422	—
Total investments	$ 475,112	163,172	248,215	45,422	18,303

In addition, the Investment Policy requires that whenever funds are deposited in a financial institution in an amount which causes the total amount of the Authority's funds deposited with such institution to exceed the amount which is protected by the FDIC, all deposits which exceed the amount insured be collateralized, at the rate of 102% of such deposit, by: bonds, notes, certificates of indebtedness, Treasury bills, or other securities which are guaranteed by the full faith and credit of the United States of America as to principal and interest or, at the rate of 110% of such deposit, by: bonds, notes, debentures, or other similar obligations of agencies of the United States of America.

Custodial Credit Risk – Investments

Custodial credit risk is the risk that, in the event of the failure of the counterparty. CTA will not be able to recover the value of its investments or collateral securities that are in the possession of a third party. The Investment Policy requires that investment securities be held by an authorized custodial bank pursuant to a written custodial agreement.

(b) Cash, Cash Equivalents, and Investments of the Fiduciary Activities

Cash, cash equivalents, and investments are reported in the Fiduciary Fund as follows as of December 31, 2005 and 2004 (in thousands):

		2005	2004
Investments, at fair value:			
Short-term investments	$	395	—
Common stock		11,079	—
Government agencies		5,621	—
Total	$	17,095	—

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.

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

Interest Rate Risk

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

Asset class	Allocation
U.S. large cap equities	50.00%
U.S. small cap equities	10.00
Non-U.S. equities	5.00
U.S. fixed income	35.00
	100.00%

As of December 31, 2005, the maturities for the Plan's fixed-income investments are as follows (in thousands):

			Investment maturities (in years)	
		Fair value	Less than 1	1-5
Short-term investment funds	$	395	395	—
U.S. government agencies commingled fund		5,621	—	5,621
Total	$	6,016	395	5,621

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, 2005, the Plan had the following fixed-income investments which are rated by both Moody's and Standard and Poor's (in thousands):

		Fair value	Credit ratings	
			AAA	Not rated
Short-term investment funds	$	395	395	—
U.S. government commingled bond fund		5,621	—	5,621
Total	$	6,016	395	5,621

Custodial Credit Risk – Investments

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

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. The Plan's foreign currency risk is limited to its investments in an international equity commingled fund with a fair value of $898,000 as of December 31, 2005.

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% if the borrowed securities if the are denominated in different currencies. The fair value of the securities loaned was approximately $408,000 as of December 31, 2005. The fair value of the associated collateral received as of December 31, 2005 was approximately $419,000.

(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 and buses 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 $471,985,000 and $516,367,000 have been entered into for federal and state (including local) capital grant contracts as of December 31, 2005 and 2004, respectively.

The CTA also has additional capital grant contracts, which are 100% funded by the RTA, IDOT, or CTA bonds. Commitments of approximately $243,806,000 and $258,102,000 have been entered into for these federal and state (including local) capital grants as of December 31, 2005 and 2004, respectively.

Funding sources for transportation property and equipment of the CTA are as follows as of December 31, 2005 and 2004 (in thousands of dollars):

		2005	2004
Funding source:			
Federal (FTA)	$	3,912,142	3,758,513
State (principally IDOT)		527,502	514,200
RTA		1,556,002	1,463,883
CTA (generally prior to 1973)		126,573	126,573
Other		243,921	254,819
Total	$	6,366,140	6,117,988

(Continued)

Changes in capital assets for the year ended December 31, 2005 are as follows (in thousands of dollars):

	Balance at January 1, 2005	Increase	Decrease	Balance at December 31, 2005
Capital assets not being depreciated:				
Land	$ 92,761	11,341	—	104,102
Construction in process	213,525	361,341	(196,725)	378,141
Total capital assets not being depreciated	306,286	372,682	(196,725)	482,243
Capital assets being depreciated:				
Land improvements	10,231	2,687	(161)	12,757
Buildings	1,498,124	38,731	(4,456)	1,532,399
Vehicles	1,890,679	49,338	(84,086)	1,855,931
Elevated structure track	1,292,633	23,350	(1,049)	1,314,934
Signal and communication	676,826	39,095	(3,240)	712,681
Other equipment	443,209	33,063	(21,077)	455,195
Total capital assets being depreciated	5,811,702	186,264	(114,069)	5,883,897
Less accumulated depreciation for:				
Land improvements	8,805	1,454	(161)	10,098
Buildings	552,053	60,498	(5,922)	606,629
Vehicles	1,146,271	149,619	(83,400)	1,212,490
Elevated structure track	678,139	66,917	(669)	744,387
Signal and communication	423,797	35,958	(3,206)	456,549
Other equipment	331,906	46,113	(19,635)	358,384
Total accumulated depreciation	3,140,971	360,559	(112,993)	3,388,537
Total capital assets being depreciated, net	2,670,731	(174,295)	(1,076)	2,495,360
Total capital assets, net	$ 2,977,017	198,387	(197,801)	2,977,603

(Continued)

Changes in capital assets for the year ended December 31, 2004 are as follows (in thousands of dollars):

	Balance at January 1, 2004	Increase	Decrease	Balance at December 31, 2004
Capital assets not being depreciated:				
Land	$ 66,505	26,325	(69)	92,761
Construction in process	156,456	510,121	(453,052)	213,525
Total capital assets not being depreciated	222,961	536,446	(453,121)	306,286
Capital assets being depreciated:				
Land improvements	10,231	—	—	10,231
Buildings	1,368,174	133,973	(4,023)	1,498,124
Vehicles	1,796,714	115,957	(21,992)	1,890,679
Elevated structure track	1,218,537	76,189	(2,093)	1,292,633
Signal and communication	639,673	40,454	(3,301)	676,826
Other equipment	395,466	60,154	(12,411)	443,209
Total capital assets being depreciated	5,428,795	426,727	(43,820)	5,811,702
Less accumulated depreciation for:				
Land improvements	7,344	1,461	—	8,805
Buildings	490,764	65,414	(4,125)	552,053
Vehicles	1,038,144	130,078	(21,951)	1,146,271
Elevated structure track	608,325	70,271	(457)	678,139
Signal and communication	395,205	33,767	(5,175)	423,797
Other equipment	295,884	48,171	(12,149)	331,906
Total accumulated depreciation	2,835,666	349,162	(43,857)	3,140,971
Total capital assets being depreciated, net	2,593,129	77,565	37	2,670,731
Total capital assets, net	$ 2,816,090	614,011	(453,084)	2,977,017

(7) Long-term Obligations

Changes in long-term obligations for the year ended December 31, 2005 are as follows (in thousands of dollars):

		Balance at January 1, 2005	Additions	Reductions	Balance at December 31, 2005	Amount due within one year
Self insurance claims (note 11)	$	160,342	241,586	(232,970)	168,958	62,432
Capital lease obligations (note 8)		1,723,799	112,561	(99,683)	1,736,677	88,823
Premium on capital lease obligation		7,365	—	(678)	6,687	—
Deferred revenue – leasing transactions (note 8)		50,022	—	(4,263)	45,759	—
Bonds payable (note 9)		375,435	—	(39,400)	336,035	17,705
Premium on bonds payable		30,307	—	(4,300)	26,007	—
Accrued pension costs (note 10):						
Employees Retirement Plan		767,002	235,584	—	1,002,586	—
Supplemental Retirement Plans		32,360	—	(12,754)	19,606	—
Other		5,011	179	—	5,190	—
Total	$	3,151,643	589,910	(394,048)	3,347,505	168,960

Changes in long-term obligations for the year ended December 31, 2004 are as follows (in thousands of dollars):

		Balance at January 1, 2004	Additions	Reductions	Balance at December 31, 2004	Amount due within one year
Self insurance claims (note 11)	$	164,162	215,657	(219,477)	160,342	63,990
Capital lease obligations (note 8)		1,778,972	115,697	(170,870)	1,723,799	99,683
Premium on capital lease obligation		8,067	—	(702)	7,365	—
Deferred revenue – leasing transactions (note 8)		54,284	—	(4,262)	50,022	—
Bonds payable (note 9)		207,200	250,000	(81,765)	375,435	—
Premium on bonds payable		8,364	26,713	(4,770)	30,307	—
Accrued pension costs (note 10):						
Employees Retirement Plan		578,223	188,779	—	767,002	—
Supplemental Retirement Plan		34,986	—	(2,626)	32,360	—
Other		3,401	1,901	(291)	5,011	—
Total	$	2,837,659	798,747	(484,763)	3,151,643	163,673

(8) Capital Lease Obligations

(a) Capital Lease – Public Building Commission

In 2003, the Public Building Commission of Chicago (PBC) issued revenue bonds for the benefit of the CTA in the amount of $119,020,000. The bonds were issued to pay costs associated with the acquisition of real property and construction of a building, and facilities, including certain furniture, fixtures, and equipment. The real property, building and facilities, and all furniture, fixtures, and equipment are owned by the PBC and leased to the CTA for use as its headquarters. The bonds are payable from and secured by the lease entered into between the Commission and the CTA in March 2003 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 $115,120,000 is reflected in the accompanying December 31, 2005 balance sheet as a capital lease obligation.

(b) Capital Lease – Lease and Leaseback Transactions

In 2003, CTA entered into a lease and leaseback agreement with a third party pertaining to certain buses, with a book value of $29,608,000 at December 31, 2005. 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 $24,058,000 is reflected in the accompanying December 31, 2005 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 $48,363,000 at December 31, 2005. 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 $96,302,000 is reflected in the accompanying December 31, 2005 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 $34,852,000 at December 31, 2005. 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 $166,251,000 is reflected in the accompanying December 31, 2005 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 $289,099,000 at December 31, 2005. 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 $271,319,000 is reflected in the accompanying December 31, 2005 balance sheet as a capital lease obligation.

During 1997, the CTA entered into four lease and leaseback agreements (the 1997 Agreements) with a third party pertaining to certain of its facilities having a book value of $55,860,000 at December 31, 2005. 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 2022 and 2023) of approximately $28,081,000 is reflected in the accompanying December 31, 2005 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 $60,699,000 at December 31, 2005. 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 $28,299,000 is reflected in the accompanying December 31, 2005 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, 2005, the total payments due under the 1995 Agreements are recorded as capital lease obligations totaling $1,007,247,000. The CTA has deposited funds into designated cash and investment accounts sufficient to meet all of its payment obligations throughout the terms of the leases, and recorded such amounts as assets restricted for repayment of leasing commitments.

(c) *Change in Capital Lease Obligations*

Changes in capital leases for the year ended December 31, 2005 are as follows (in thousands of dollars):

2005	Beginning balance	Additions*	Principal paid	Ending balance	Interest paid	Due in one year
2003 (Buses)	$ 24,480	873	(1,295)	24,058	843	1,362
2002 (Buses)	91,682	4,620	—	96,302	4,620	—
2002 (QTE)	162,841	10,338	(6,928)	166,251	10,338	6,928
1998 (Green)	276,350	18,832	(23,863)	271,319	18,832	12,835
1997 (Garages)	26,118	1,963	—	28,081	2,350	—
1996 (Skokie/Racine)	26,361	1,938	—	28,299	1,938	—
1995 (Pickle)	996,947	73,997	(63,697)	1,007,247	73,997	63,698
Total lease/ leasebacks	1,604,779	112,561	(95,783)	1,621,557	112,918	84,823
PBC lease	119,020		(3,900)	115,120	6,045	4,000
Total capital lease obligations	$ 1,723,799	112,561	(99,683)	1,736,677	118,963	88,823

* Additions include accretion of interest.

Changes in capital leases for the year ended December 31, 2004 are as follows (in thousands of dollars):

2004	Beginning balance	Additions*	Principal paid	Ending balance	Interest paid	Due in one year
2003 (Buses)	$ 23,660	843	(23)	24,480	843	1,295
2002 (Buses)	131,486	6,627	(46,431)	91,682	6,627	—
2002 (QTE)	158,386	10,055	(5,600)	162,841	10,055	6,928
1998 (Green)	291,630	19,911	(35,191)	276,350	19,910	23,863
1997 (Garages)	35,587	2,676	(12,145)	26,118	2,676	—
1996 (Skokie/Racine)	31,804	2,339	(7,782)	26,361	2,339	—
1995 (Pickle)	987,399	73,246	(63,698)	996,947	73,246	63,697
Total lease/ leasebacks	1,659,952	115,697	(170,870)	1,604,779	115,696	95,783
PBC lease	119,020	—	—	119,020	—	3,900
Total capital lease obligations	$ 1,778,972	115,697	(170,870)	1,723,799	115,696	99,683

* Additions include accretion of interest.

(d) Future Minimum Lease Payments

As of December 31, 2005, future minimum lease payments for capital leases, in the aggregate, are as follows (in thousands of dollars):

2006	$	94,670
2007		114,742
2008		214,897
2009		99,396
2010		112,976
2011 – 2015		654,032
2016 – 2020		1,612,631
2021 – 2024		240,186
Total minimum lease payments		3,143,530
Less interest		1,406,853
	$	1,736,677

(9) Bonds Payable

On October 20, 2004, the CTA issued Capital Grant Receipts Revenue Bonds, "2004 Project," in the amount of $250,000,000, along with a premium of $26,713,000, in anticipation of the receipt of grants from the federal government pursuant to a full funding grant agreement. The bonds were issued to provide funds to finance or reimburse the CTA for prior expenditures relating to a portion of the costs of capital improvements to the Transportation System referred to as the "2004 Project."

The Series 2004 bonds outstanding as of December 31, 2004 totaling $250,000,000 bear interest ranging from 3.60% to 5.25%. Interest is payable semiannually on June 1 and December 1 and the bonds mature serially on June 1, 2006 through June 1, 2016.

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

		Principal	Interest	Total
2006	$	17,705	12,276	29,981
2007		18,410	11,462	29,872
2008		19,335	10,543	29,878
2009		20,250	9,563	29,813
2010		21,295	8,493	29,788
2011		22,390	7,368	29,758
2012		23,545	6,173	29,718
2013		24,780	4,905	29,685
2014		26,085	3,602	29,687
2015		27,385	2,232	29,617
2016		28,820	757	29,577
Total	$	250,000	77,374	327,374

On March 12, 2003, the CTA issued Capital Grant Receipts Revenue Bonds, Douglas Branch Project, in the amount of $207,200,000, along with a premium of $9,857,000, in anticipation of the receipt of grants from the federal government pursuant to a full funding grant agreement. The bonds were issued to provide funds to finance a portion of the costs of the extensive rehabilitation of eight rail stations and five miles of track, as well as the installation of signal and communications equipment, the traction power system, and various infrastructure improvements that together constitute the Douglas Branch Reconstruction Project.

The Series 2003 bonds outstanding as of December 31, 2005, totaling $86,035,000, bear interest ranging from 4.25% to 5.0%. Interest is payable semiannually on June 1 and December 1, and the bonds mature serially on June 1, 2005 through June 1, 2008.

On March 24, 2005, the Authority deposited with the Trustee, under the Indenture dated February 1, 2003, the sum of $55,392,786, constituting Full Funding Grant Receipts. The Trustee deposited $4,765,748 to the Interest Account and $11,193,944 in the Construction Account. The remaining $39,433,094 of the Full Funding Grant Receipts was deposited in the Redemption Account of the Debt Service Fund. On April 25, 2005, the Authority redeemed $9,200,000 of the following bond principal amounts:

Series	CUSIP number	Maturity		Principal	Interest rate
2003B	167723AC9	June 1, 2006	$	9,200,000	4.00%

On June 1, 2005, the Authority redeemed $30,200,000 of the following bond principal amount:

Series	CUSIP number	Maturity	Principal	Interest rate
2003B	167723AE5	June 1, 2007	$ 30,200,000	5.00%

On May 27, 2004, the Authority deposited with the Trustee, under the Indenture dated February 1, 2003, the sum of $48,918,049, constituting Full Funding Grant Receipts. The Trustee deposited the full amount to the Redemption Account of the Debt Service Fund. On June 28, 2004, the Authority redeemed $48,915,000 of the following bond principal amounts:

Series	CUSIP number	Maturity	Principal	Interest rate
2003A	167723AA3	June 1, 2005	$ 10,000,000	3.75%
2003A	167723ABI	June 1, 2005	28,490,000	4.00
2003A	167723AC9	June 1, 2006	10,425,000	4.00

On September 24, 2004, the Authority deposited with the Trustee, under the Trust Indenture dated February 1, 2003, the sum of $34,737,153, constituting Full Funding Grant Receipts. The Trustee deposited $1,925,325 to the Interest Account and the remaining $32,811,828 of the Full Funding Grant Receipts to the Redemption Account of the Debt Service Fund. On October 25, 2004, the Authority redeemed $32,850,000 of the following bond principal amount:

Series	CUSIP number	Maturity	Principal	Interest rate
2003A	167723AC9	June 1, 2006	$ 32,850,000	4.00%

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

		Principal	Interest	Total
Year ending December 31:				
2006	$	—	3,870	3,870
2007		28,500	3,158	31,658
2008		57,535	1,223	58,758
Total	$	86,035	8,251	94,286

(10) Defined Benefit Pension Plans

(a) *Plan Descriptions*

Employees' Plan

The CTA maintains a trusted, single-employer, defined benefit pension plan covering substantially all full-time permanent union and nonunion employees. The Employees' Retirement Plan (the Employees' Plan) is governed by the terms of the employees' collective bargaining agreement.

Substantially all nontemporary, full-time employees who have completed one year of continuous service are covered by the Employees' Plan. Employees who retire at or after age 65 (or after completion of 25 years of continuous service with full benefits or at age 55 with reduced benefits) are entitled to an annual retirement benefit payable monthly for life, in an amount based upon compensation and credited service. For those hired after September 5, 2001, benefits will be reduced if they retire before age 65 or with less than a combination of age 55 and 25 years of service. The Employees' Plan also provides death, disability, and hospitalization benefits, except that employees hired after September 5, 2001 will not be eligible for retiree health benefits. The covered payroll for the Employees' Plan for the fiscal years ended December 31, 2005 and 2004 was \$506,311,000 and \$508,811,000, respectively. The Employees' Plan issues a separate stand-alone financial report and is available upon request.

Supplemental Plans

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

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

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

Participants in the supplemental retirement plans at December 31, 2005 are as follows:

	Open	Closed	Board
Retirees and beneficiaries currently receiving benefits	5	255	15
Terminated employees entitled to but not yet receiving benefits	—	7	7
Active plan members	141	—	6
Total	146	262	28

Participants in the supplemental retirement plans at December 31, 2004 are as follows:

	Open	Closed	Board
Retirees and beneficiaries currently receiving benefits	—	252	14
Terminated employees entitled to but not yet receiving benefits	—	9	9
Active plan members	—	159	6
Total	—	420	29

The covered payroll for the Open Supplemental Retirement Plan for the fiscal years ended December 31, 2005 and 2004 was $14,871,000 and $15,953,000, respectively. The covered payroll for the Board Supplemental Retirement Plan was $175,000 for each of the fiscal years ended December 31, 2005 and 2004.

(Continued)

(b) *Funding Policy and Annual Pension Cost*

Contribution requirements of the Employees' Plan are governed by collective bargaining agreements. Contributions for the supplemental plans are actuarially determined but may be amended by the board of trustees of the Plan. The CTA's annual pension cost for the current year and related information for each plan are as follows (in thousands of dollars):

		Employees' Plan Pension & Healthcare	Supplemental Plans
Contribution rates:			
CTA		6.0%	Actuarially determined
Plan members		3.0	Actuarially determined
Annual pension cost (APC)	$	281,152	4,048
Actual 2004 contributions:			
CTA	$	30,554	19,973
Plan members		15,014	63
Actuarial valuation date		January 1, 2005	January 1, 2005
Actuarial cost method		Projected unit credit	Projected unit credit
Amortization method		Level dollar	Level dollar
Remaining amortization period		40 (open)	30 (open)
Asset valuation method		5-year smoothed market	Fair market value
Actuarial assumptions:			
Investment rate of return		9.0%	6.0%
Projected salary increases		5.5	5.5
Includes inflation at		3.0	3.5

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

	Medical trend rate	Prescription trend rate
Plan year:		
2006	10%	12%
2007	9	11
2008	8	10
2009	7	9
2010	6	8
2011	6	7
2012 and after	6	6

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

The following represents the significant components of the APC and changes in net pension obligation (asset) (NPO) during the year ended December 31, 2005 (in thousands of dollars):

		Employees' Plan		Supplemental Retirement Plans		
		Pension	Healthcare	Open	Closed	Board
Annual required contribution	$	180,227	97,308	1,623	2,439	266
Interest on NPO		54,166	14,864	366	1,173	83
Adjustment to ARC		(51,328)	(14,085)	(429)	(1,376)	(97)
Annual pension cost		183,065	98,087	1,560	2,236	252
Contributions made		29,591	15,977	15,786	3,521	292
Increase (decrease) in NPO		153,474	82,110	(14,226)	(1,285)	(40)
NPO – December 31, 2004		601,849	165,153	—	25,645	1,381
Transfer to new plan		—	—	6,095	(6,095)	—
NPO – December 31, 2005	$	755,323	247,263	(8,131)	18,265	1,341

The following represents the significant components of the APC and changes in net pension obligation (NPO) during the year ended December 31, 2004 (in thousands of dollars):

		Employees' Plan		Supplemental Plans
		Pension	Healthcare	
Annual required contribution (ARC)	$	153,253	78,603	4,368
Interest on NPO		42,892	9,148	1,597
Adjustment to ARC		(40,645)	(8,669)	(1,873)
Annual pension cost		155,500	79,082	4,092
Contributions made		30,230	15,573	3,688
Increase in NPO		125,270	63,509	404
NPO – December 31, 2003		476,579	101,644	26,622
NPO – December 31, 2004	$	601,849	165,153	27,026

A reconciliation of the balance sheet at December 31, 2004 to amounts presented above (in thousands of dollars):

		Employees' Plan		Supplemental Plans
		Pension	Healthcare	
NPO – December 31, 2004	$	601,849	165,153	27,026
Additional pension accruals		—	—	5,334
Total	$	601,849	165,153	32,360

(c) Three-year Trend Information

The following summarizes fund information for the plans (in thousands of dollars):

	Year ended	Annual pension cost (APC)	Actual contributions	Percentage of APC contributed	Net pension obligation
Employees' Plan Pension	December 31, 2005 $	183,065	29,591	16.2% $	755,323
	December 31, 2004	155,501	30,230	19.4	601,849
	December 31, 2003	119,128	29,196	24.5	476,579
Employees' Plan Healthcare	December 31, 2005 $	98,087	15,977	16.3% $	247,263
	December 31, 2004	79,082	15,573	19.7	165,153
	December 31, 2003	60,364	14,958	24.8	101,644
Open Supplemental Plan	December 31, 2005 $	1,560	15,786	1,011.9% $	(8,504)
	December 31, 2004	*	*	*	*
	December 31, 2003	*	*	*	*
Closed Supplemental Plan	December 31, 2005 $	2,236	3,521	157.5% $	18,265
	December 31, 2004	*	*	*	*
	December 31, 2003	*	*	*	*
Board Supplemental Plan	December 31, 2005 $	252	291	115.5% $	1,341
	December 31, 2004	*	*	*	*
	December 31, 2003	*	*	*	*

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

Total supplemental plans	December 31, 2004 $	4,092	3,688	90.1% $	27,026
	December 31, 2003	4,428	3,060	69.1	26,622

(11) Risk Management

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

The CTA provides health insurance benefits to employees through two fully insured health maintenance organizations and a self-insured comprehensive indemnity/PPO plan. The CTA provides dental insurance benefits through two fully insured dental maintenance organizations and a self-insured dental indemnity plan. The CTA does not purchase stop-loss insurance for its self-insured comprehensive indemnity/PPO plan. The CTA provides life insurance benefits for active and retired employees through an insured life insurance program.

The CTA is also self-insured for general liability, property and casualty, workers' compensation, employee accidents, environmental, business interruption, terrorism, and automotive liability losses arising from automotive liability, property, property-related business interruption, terrorism, employment-related suits, including discrimination and sexual harassment, and management liability of board members, directors, and officers of the CTA.

The RTA provides excess liability insurance to protect the self-insurance programs currently maintained by the CTA. On November 15, 2003, CTA's insurance coverage changed to cover injury and damage claims up to $35,000,000 per occurrence and in the aggregate, with a $15,000,000 deductible. This policy was extended on November 15, 2004 for a one year period. On November 8, 2005, a new policy was established with a self insured retention of $15,000,000 through May 7, 2007. For the period from November 15, 2002 through November 14, 2003, the insurance covered the CTA for claims up to $25,000,000 and in the aggregate, with a $25,000,000 deductible. Prior to November 15, 2002 the insurance covered claims up to $45,000,000 per occurrence and in the aggregate, with a $5,000,000 deductible. In 2005 and 2004, no CTA claim existed that would have been submitted under this insurance policy.

The CTA participates in a Joint Self-Insurance Fund (the Fund) with the RTA that permits the CTA to receive monies necessary to pay injury and damage claims in excess of $2,500,000 per occurrence up to a maximum of $47,500,000 from the Fund. The CTA is obligated to reimburse the Fund for any damages paid plus a floating interest rate that is calculated at 3.23% and 1.76% per annum for the years ended December 31, 2005 and 2004, respectively. However, reimbursement payments, including interest, cannot exceed $3,500,000 in any one year. No borrowings were made from the Fund in fiscal year 2005 or 2004 to pay injury and damage claims.

Self-insured liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. The estimate for injury and damage claims is adjusted for a current trend rate and discount factor of 5.0% and 5.0%, respectively. The estimate for workers' compensation claims is adjusted for a current trend rate and discount factor of 3.0% and 3.0%, respectively.

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

		Injury and damage	Group health and dental	Workers' compensation	Total
Balance at December 31, 2003	$	89,800	25,742	48,620	164,162
Cash funded		22,000	157,566	36,091	215,657
Funding excess per actuarial requirement		(146)	—	—	(146)
Payments		(20,219)	(170,308)	(28,804)	(219,331)
Balance at December 31, 2004		91,435	13,000	55,907	160,342
Cash funded		31,500	173,118	36,968	241,586
Funding excess per actuarial requirement		(4,927)	—	—	(4,927)
Payments		(25,649)	(172,133)	(30,261)	(228,043)
Balance at December 31, 2005	$	92,359	13,985	62,614	168,958

Chapter 70, Paragraph 3605/39 of the Illinois Compiled Statutes requires the CTA to establish an injury and damage reserve in order to provide for the adjustment, defense, and satisfaction of all suits, claims, and causes of action, and the payment and satisfaction of all judgments entered against the CTA for damages caused by injury to or death of any person and for damages to property resulting from the construction, maintenance, and operation of the transportation system. The statute also requires the CTA to separately fund the current year's budgeted provision for the injury and damage reserve. See note 5 regarding cash and investment amounts maintained in this account.

(12) Derivative Financial Instruments

(a) Objective of the Derivative

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

(b) ***Terms***

The CTA entered into commodity swap agreements for NYMEX No. 2 heating oil as shown below. Payment between the swap parties is calculated as the average of the daily settlement price per gallon for the first nearby month of the NYMEX No. 2 heating oil futures contract.

2005 Commodity Swap Agreements:

Effective date	Termination date	Notional quantity per calculation period (gallons)	Total notional quantity (gallons)		Fair value
1/1/2005	12/31/2005	285,000	3,420,000	$	146,006
2/1/2005	1/31/2006	285,000	3,420,000		286,997
3/1/2005	2/28/2006	285,000	3,420,000		231,585
4/1/2005	3/31/2006	285,000	3,420,000		150,720
5/1/2005	4/30/2006	285,000	3,420,000		436,109
11/1/2005	10/31/2006	Variable	4,560,000		(480,021)
11/1/2005	10/31/2006	Variable	12,255,000		(163,419)
				$	607,977

2004 Commodity Swap Agreements:

Effective date	Termination date	Notional quantity per calculation period (gallons)	Total notional quantity (gallons)		Fair value
11/30/2004	11/30/2005	285,000	3,420,000	$	3,622,372

(c) ***Fair Value***

As of December 31, 2005 and 2004, the commodity swaps had a fair value of $607,977 and $3,622,372, respectively, estimated by discounting forward market prices available from exchange trading.

(d) ***Credit Risk***

The CTA is exposed to credit risk in the amount of its fair value. As of December 31, 2005, the swap counterparty's long-term deposit ratings were Aa1 and Aa2 per Moody's Investors Service and AA and AA- by Standard & Poor's. To mitigate the potential for credit risk, if the counterparty's credit quality falls below Aa2/AA, the fair value of the swap will be fully collateralized by the counterparty with cash, U.S. Treasury, or U.S. Agency securities. Collateral is posted with a third-party custodian.

(13) Commitments and Contingencies

(a) Litigation

In April 2003, the CTA was named as a co-defendant in a lawsuit that alleges the Retirement Allowance Committee for the Employees' Retirement Plan breached its fiduciary duties when it approved a $42 million payment in January 2003 and monthly payments thereafter from plan assets to reimburse the CTA for actual healthcare costs paid on behalf of the Plan for retired members from 1995 to present. The combined amount currently alleged totals approximately $60 million. Based on information currently available, management believes there has been no breach of fiduciary duties, breach of contract, or any other alleged illegality and that payments were properly made for the reimbursement of actual health care costs paid by CTA on behalf of retired plan members. Accordingly, no liability has been recorded in the financial statements as of December 31, 2005. However, the ultimate outcome of this claim cannot be determined at this time.

The CTA has been named as a defendant in various other legal proceedings arising in the normal course of operations. Although the ultimate outcome of these matters cannot be presently determined, it is the opinion of management of the CTA that resolution of these matters will not have a material adverse impact on the CTA's financial position.

(b) Defeased Debt

On May 1, 1998, the CTA defeased the capital lease agreement with the Public Building Commission of Chicago (the PBC) for the 901 W. Division facility. The CTA placed approximately $13,600,000 into an irrevocable trust with a third party in order to meet all of its payment obligations throughout the term of the lease. The amount of debt considered defeased as of December 31, 2005 and 2004 was $4,875,000 and $4,255,000, respectively.

(c) Operating Leases

As of December 31, 2005, future minimum lease payments for operating leases, in the aggregate, are as follows (in thousands of dollars):

2006	$	281
2007		281
Total minimum lease payments	$	562

REQUIRED SUPPLEMENTARY INFORMATION

CHICAGO TRANSIT AUTHORITY

Required Supplementary Information –
Schedules of Funding Progress (Unaudited)

December 31, 2005

(In thousands of dollars)

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	Percentage of covered payroll ((b-a)/c)
Employees' Plan – Pension:						
1/1/2005	$ 902,117	2,291,162	1,389,045	39.4%	$ 544,442	255.1%
1/1/2004	1,062,399	2,189,666	1,127,267	48.5	486,626	231.6
1/1/2003	1,190,087	2,085,724	895,637	57.1	480,740	186.3
1/1/2002	1,355,567	2,044,330	688,763	66.3	459,343	149.9
1/1/2001	1,595,609	2,058,999	463,390	77.5	431,703	107.3
1/1/2000	1,494,585	1,871,391	376,806	79.9	424,518	88.8
Employees' Plan – Healthcare:						
1/1/2005	$ 480,147	1,219,457	739,310	39.4%	$ 544,442	135.8%
1/1/2004	518,647	1,068,961	550,314	48.5	486,626	113.1
1/1/2003	536,850	940,873	404,023	57.1	480,740	84.0
1/1/2002	509,160	767,864	258,704	66.3	459,343	56.3
1/1/2001	232,486	299,857	67,371	77.5	431,703	15.6
1/1/2000	227,630	284,888	57,258	79.9	424,518	13.5
Open Supplemental Plan:						
1/1/2006	$ 17,001	10,064	(6,937)	168.9%	$ 14,871	(46.6)%
1/1/2005	*	*	*	*	*	*
1/1/2004	*	*	*	*	*	*
1/1/2003	*	*	*	*	*	*
1/1/2002	*	*	*	*	*	*
1/1/2001	*	*	*	*	*	*
Closed Supplemental Plan:						
1/1/2006	$ —	34,835	34,835	—%	$ —	N/A
1/1/2005	408	45,959	45,551	0.9	15,953	285.5
1/1/2004	301	46,820	46,519	0.6	17,590	264.5
1/1/2003	265	48,372	48,107	0.5	18,685	257.5
1/1/2002	204	47,762	47,558	0.4	17,502	271.7
1/1/2001	253	41,927	41,674	0.6	15,240	273.5
Board Supplemental Plan:						
1/1/2006	$ 47	3,270	3,223	1.4%	$ 175	1,841.7%
1/1/2005	42	3,001	2,959	1.4	175	1,690.9
1/1/2004	55	2,579	2,524	2.1	175	1,442.3
1/1/2003	55	2,369	2,314	2.3	200	1,157.0
1/1/2002	56	2,127	2,071	2.6	200	1,035.5
1/1/2001	50	1,803	1,753	2.8	162	1,082.1

*During the year ended December 31, 2005, the CTA established a qualified trust for members of the supplement retirement plan retiring after March 2005 (Open Supplemental Retirement Plan). With the establishment of the trust, the old supplemental retirement plan was effectively closed and subsequently only includes employees who retired prior to March 2005.

See accompanying independent auditors' report.

CHICAGO TRANSIT AUTHORITY

Employees' Plan

Required Supplementary Information –
Schedules of Employer Contributions (Unaudited)

December 31, 2005

(In thousands of dollars)

Employees' Plan – Pension

Year ended		Annual required contribution	Percentage contributed
12/31/05	$	180,227	16.4%
12/31/04		153,253	19.7
12/31/03		117,305	24.9
12/31/02		61,419	47.9
12/31/01		73,824	48.9
12/31/00		62,517	54.7

Employees' Plan – Healthcare

Year ended		Annual required contribution	Percentage contributed
12/31/05	$	97,308	16.4%
12/31/04		78,603	19.8
12/31/03		60,099	24.9
12/31/02		28,933	47.9
12/31/01		9,619	48.9
12/31/00		8,427	54.7

See accompanying independent auditors' report.

CHICAGO TRANSIT AUTHORITY

Supplemental Plans

Required Supplementary Information –
Schedules of Employer Contributions (Unaudited)

December 31, 2005

(In thousands of dollars)

Open Supplemental Plan

Year ended		Annual required contribution	Percentage contributed
12/31/05	$	1,623	972.4%
12/31/04		*	*
12/31/03		*	*
12/31/02		*	*
12/31/01		*	*
12/31/00		*	*

Closed Supplemental Plan

Year ended		Annual required contribution	Percentage contributed
12/31/05	$	2,439	144.4%
12/31/04		*	*
12/31/03		*	*
12/31/02		*	*
12/31/01		*	*
12/31/00		*	*

Board Supplemental Plan

Year ended		Annual required contribution	Percentage contributed
12/31/05	$	266	109.5%
12/31/04		*	*
12/31/03		*	*
12/31/02		*	*
12/31/01		*	*
12/31/00		*	*

Total Supplemental Plans

Year ended		Annual required contribution	Percentage contributed
12/31/05	$	4,328	452.8%
12/31/04		4,368	86.0
12/31/03		4,690	65.3
12/31/02		4,543	108.6
12/31/01		3,817	96.0
12/31/00		3,575	102.5

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

See accompanying independent auditors' report.

SUPPLEMENTARY SCHEDULES

CHICAGO TRANSIT AUTHORITY

Schedule of Expenses and Revenues –
Budget and Actual – Budgetary Basis

Year ended December 31, 2005

(In thousands of dollars)

		Original budget	Final budget	Actual – budgetary basis	Variance favorable (unfavorable)
Operating expenses:					
Labor and fringe benefits	$	718,537	718,537	714,336	4,201
Materials and supplies		65,334	65,334	71,366	(6,032)
Fuel		33,837	33,837	45,788	(11,951)
Electric power		24,526	24,526	22,909	1,617
Purchase of security services		34,777	34,777	31,221	3,556
Purchase of paratransit services		52,473	52,473	53,257	(784)
Other		47,646	47,646	51,069	(3,423)
Provision for injuries and damages		19,000	19,000	31,500	(12,500)
Total operating expenses		996,130	996,130	1,021,446	(25,316)
System-generated revenues:					
Fares and passes		406,948	406,948	417,424	10,476
Reduced-fare subsidies		30,590	30,590	31,961	1,371
Advertising and concessions		24,313	24,313	23,963	(350)
Investment income		2,949	2,949	5,432	2,483
Contributions from local governmental units		5,000	5,000	5,000	—
Other revenue		30,445	30,445	42,024	11,579
Total system-generated revenues		500,245	500,245	525,804	25,559
Operating expenses in excess of system-generated revenues		495,885	495,885	495,642	243
Public funding from the RTA:					
Operating assistance		495,885	495,885	495,885	—
Change in net assets – budgetary basis	$	—	—	243	243
Reconciliation of budgetary basis to GAAP basis:					
Provision for depreciation				(360,559)	
Supplemental retirement				6,261	
Incentive retirement				651	
Pension expense in excess of pension contributions				(206,610)	
Provision for injury and damage claims				4,927	
Revenue from leasing transactions				4,262	
Interest revenue on bond transactions				14,273	
Interest expense on bond transactions				(20,360)	
Interest income from sale/leaseback				117,247	
Interest expense from sale/leaseback				(112,561)	
Capital contributions				398,654	
Change in net assets – GAAP basis			$	(153,572)	
CTA recovery ratio:					
Total operating expenses			$	1,021,446	
Less mandated security costs				(31,221)	
Plus City of Chicago in-kind services				21,000	
Total operating expenses for recovery ratio calculation (B)			$	1,011,225	
Total system-generated revenues			$	525,804	
Plus City of Chicago in-kind services				21,000	
Total system-generated revenues for recovery ratio calculation (A)			$	546,804	
Recovery ratio (A/B)				54.07%	

See accompanying independent auditors' report.

CHICAGO TRANSIT AUTHORITY

Schedule of Expenses and Revenues –
Budget and Actual – Budgetary Basis

Year ended December 31, 2004

(In thousands of dollars)

	Original budget	Final budget	Actual – budgetary basis	Variance favorable (unfavorable)
Operating expenses:				
Labor and fringe benefits	$ 685,026	685,026	680,081	4,945
Materials and supplies	66,000	66,000	61,387	4,613
Fuel	23,000	23,000	30,093	(7,093)
Electric power	22,000	22,000	21,640	360
Purchase of security services	25,042	25,042	27,555	(2,513)
Purchase of paratransit services	45,113	45,113	48,999	(3,886)
Other	47,245	47,245	46,577	668
Provision for injuries and damages	22,000	22,000	22,000	—
Total operating expenses	935,426	935,426	938,332	(2,906)
System-generated revenues:				
Fares and passes	393,506	393,506	402,768	9,262
Reduced-fare subsidies	32,300	32,300	31,302	(998)
Advertising and concessions	24,250	24,250	24,882	632
Investment income	3,000	3,000	3,051	51
Contributions from local governmental units	5,000	5,000	5,000	—
Other revenue	35,740	35,740	29,888	(5,852)
Total system-generated revenues	493,796	493,796	496,891	3,095
Operating expenses in excess of system-generated revenues	441,630	441,630	441,441	189
Public funding from the RTA:				
Operating assistance	441,630	441,630	441,630	—
Change in net assets – budgetary basis	$ —	—	189	189
Reconciliation of budgetary basis to GAAP basis:				
Provision for depreciation			(272,572)	
Workers' comp			(11,195)	
Pension expense in excess of pension contributions			(176,553)	
Provision for injury and damage claims			146	
Revenue from leasing transactions			4,262	
Interest revenue on bond transactions			237	
Interest expense on bond transactions			(2,635)	
Interest income from sale/leaseback			121,272	
Interest expense from sale/leaseback			(115,696)	
Capital contributions			490,402	
Change in net assets – GAAP basis			$ 37,857	
CTA recovery ratio:				
Total operating expenses			$ 938,332	
Less mandated security costs			4,695	
Less provision for base year security cost			10,200	
Plus City of Chicago in-kind services			22,000	
Total operating expenses for recovery ratio calculation (B)			$ 945,437	
Total system-generated revenues			$ 496,891	
Plus City of Chicago in-kind services			22,000	
Total system-generated revenues for recovery ratio calculation (A)			$ 518,891	
Recovery ratio (A/B)			54.88%	

See accompanying independent auditors' report.

APPENDIX C

PROPOSED FORM OF OPINION OF CO-BOND COUNSEL

[LETTERHEAD OF CHAPMAN AND CUTLER LLP
AND PUGH, JONES, JOHNSON & QUANDT]

[TO BE DATED CLOSING DATE]

We hereby certify that we have examined a certified copy of the proceedings (the *"Proceedings"*) of the Board of Commissioners of the Public Building Commission of Chicago (the *"Commission"*), passed preliminary to the issue by the Commission of its Building Refunding Revenue Bonds, Series 2006 (Chicago Transit Authority) (the *"Bonds"*), in the aggregate principal amount of $91,340,000, issued for the purpose of refunding the outstanding Building Revenue Bonds, Series 2003 (Chicago Transit Authority) of the Commission.

The Bonds are dated the date hereof, are issued in fully registered form in the denomination of $5,000 each and any integral multiple thereof, are numbered from 1 upwards, and become due on March 1 of each of the years and in the amounts, and bear interest at the rates per annum, as follows:

YEAR OF MATURITY	PRINCIPAL AMOUNT	INTEREST RATE
2007	$2,375,000	4.50%
2008	1,790,000	4.00
2009	1,880,000	4.00
2010	1,955,000	4.00
2011	2,035,000	4.00
2012	2,115,000	4.00
2013	2,205,000	4.00
2014	2,295,000	4.25
2015	2,405,000	5.00
2016	2,530,000	5.00
2017	2,660,000	5.00
2018	2,785,000	4.25
2019	2,915,000	5.00
2020	3,065,000	5.00
2021	3,225,000	5.00
2022	3,390,000	5.00
2023	3,565,000	5.25
2024	3,760,000	5.25
2025	3,960,000	5.25
2026	4,175,000	5.25
2027	4,400,000	5.25
2028	4,635,000	5.25
2029	4,890,000	5.25
2030	5,150,000	5.25
2031	5,430,000	5.25
2032	5,720,000	5.25
2033	6,030,000	5.25

Interest is payable on each March 1 and September 1, commencing on March 1, 2007.

The Bonds maturing on March 1 of the years 2018 to 2022, inclusive, are subject to optional redemption at par and accrued interest to the date of redemption without premium on any date on or after March 1, 2017 in whole or in part as provided in the Proceedings.

From such examination, we are of the opinion that the Proceedings show lawful authority for the issue of the Bonds under the laws of the State of Illinois now in force.

We further certify that we have examined the form of bond prescribed for said issue and find the same in due form of law, and in our opinion the Bonds are valid and binding obligations of the Commission, except that the rights of the owners of the Bonds and the enforceability of the Bonds may be limited by bankruptcy, insolvency, moratorium, reorganization and other similar laws affecting creditors' rights and by equitable principles, whether considered at law or in equity, including the exercise of judicial discretion, and are payable by the Commission, both as to principal and interest, solely and only from the payments to be made pursuant to a Lease Agreement dated as of March 31, 2003, as amended by an Amendment to Lease Agreement dated as of October 25, 2006 (together, the *"Lease"*) by and between the Commission, as lessor, and the Chicago Transit Authority (the *"CTA"*), as lessee, and from certain amounts held pursuant to the resolution relating to the Bonds which was adopted by the Board of Commissioners of the Commission on October 3, 2006 (the *"Resolution"*). We are also of the opinion that, assuming the Lease has been duly authorized, executed and delivered by, and is a valid and binding obligation of, the CTA, the Lease is a valid and binding obligation of the Commission, except that the enforceability of the Lease may be limited by bankruptcy, insolvency, moratorium, reorganization and other similar laws affecting creditors' rights and by equitable principles, whether considered at law or in equity, including the exercise of judicial discretion.

It is also our opinion that, subject to the Commission's and the CTA's compliance with certain covenants, under present law, interest on the Bonds is excludable from gross income of the owners thereof for federal income tax purposes and is not included as an item of tax preference in computing the alternative minimum tax for individuals and corporations under the Internal Revenue Code of 1986, as amended, but is taken into account in computing an adjustment used in determining the federal alternative minimum tax for certain corporations. Failure to comply with certain of such Commission and CTA covenants could cause interest on the Bonds to be includable in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds. Ownership of the Bonds may result in other federal tax consequences to certain taxpayers, and we express no opinion regarding any such collateral consequences arising with respect to the Bonds. In rendering our opinion on tax exemption, we have relied on the mathematical computation of the yield on the Bonds and the yield on certain investments by Crowe Chizek and Company LLC, Indianapolis, Indiana, certified public accountants.

We express no opinion herein as to the accuracy, adequacy or completeness of the Official Statement relating to the Bonds.

In rendering this opinion, we have relied upon certifications of the Commission and the CTA with respect to certain material facts within the Commission's and the CTA's knowledge. Our opinion represents our legal judgment based upon our review of the law and the facts that we deem relevant to render such opinion and is not a guarantee of a result. This opinion is given as of the date hereof and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

APPENDIX D

SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY

[THIS PAGE INTENTIONALLY LEFT BLANK]

Ambac

Financial Guaranty Insurance Policy

Ambac Assurance Corporation
One State Street Plaza, 15th Floor
New York, New York 10004
Telephone: (212) 668-0340

Obligor: Policy Number:

Obligations: Premium:

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder's presentation and surrender to the Insurance Trustee of such unpaid Obligations or related coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Obligations and/or coupons and shall be fully subrogated to all of the Holder's rights to payment thereon.

In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance disbursements so made.

In the event that a trustee or paying agent for the Obligations has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from the Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Holder will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

Robert J. Genader
President

AMBAC ASSURANCE CORPORATION
CORPORATE
SEAL
WISCONSIN

Anne G. Gill
Secretary

Effective Date:

Authorized Representative

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Noraida Lauro
Authorized Officer of Insurance Trustee

Form No.: 2B-0012 (1/01)

[THIS PAGE INTENTIONALLY LEFT BLANK]

[THIS PAGE INTENTIONALLY LEFT BLANK]

[THIS PAGE INTENTIONALLY LEFT BLANK]