

The delivery of the 2008 Bonds is subject to the opinions of Katten Muchin Rosenman LLP, Burke Burns & Pinelli, Ltd. and Gonzalez, Saggio and Harlan, L.L.C., Co-Bond Counsel, as to the validity of the 2008 Bonds. See “LEGAL MATTERS” herein. Interest on the 2008 Bonds is not excludable from gross income for federal income tax purposes. Interest on the 2008 Bonds is not exempt from present Illinois income taxes.



\$1,936,855,000

CHICAGO TRANSIT AUTHORITY

\$1,297,175,000

**Sales and Transfer Tax Receipts Revenue
Bonds, Taxable Series 2008A
(Pension Funding)**

\$639,680,000

**Sales and Transfer Tax Receipts Revenue
Bonds, Taxable Series 2008B
(Retiree Health Care Funding)**

Dated: Date of Issuance

Due: December 1, as shown on the inside cover

The Sales and Transfer Tax Receipts Revenue Bonds, Taxable Series 2008A (Pension Funding) (the “2008A Bonds”) of the Chicago Transit Authority (the “Authority”), are being issued pursuant to the Trust Indenture dated as of July 1, 2008 (the “Master Indenture”) between the Authority and U.S. Bank National Association, as trustee (the “Trustee”), as supplemented by a First Supplemental Indenture dated as of July 1, 2008 between the Authority and the Trustee (the “First Supplemental Indenture”). The Sales and Transfer Tax Receipts Revenue Bonds, Taxable Series 2008B (Retiree Health Care Funding) (the “2008B Bonds”) and, together with the 2008A Bonds, the “2008 Bonds”) of the Authority, are being issued pursuant to the Master Indenture, as supplemented by a Second Supplemental Indenture dated as of July 1, 2008 between the Authority and the Trustee (the “Second Supplemental Indenture” and, together with the First Supplemental Indenture, the “2008 Supplemental Indentures”). The Master Indenture as supplemented by the 2008 Supplemental Indentures is sometimes referred to herein as the “Bond Indenture.”

The 2008 Bonds are deliverable in fully registered form and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). Individual purchases of 2008 Bonds will be made in principal amounts of \$5,000 and integral multiples thereof and will be in book entry form only. Purchasers of 2008 Bonds will not receive bonds representing their beneficial ownership in the 2008 Bonds but will receive a credit balance on the books of their respective DTC Participants or DTC Indirect Participants. The 2008 Bonds will not be transferable or exchangeable except for transfer to another nominee of DTC or as otherwise described herein. Clearance is expected to be available through DTC and also through Clearstream and Euroclear, which will hold omnibus positions on behalf of their participants in the books of their respective depositories. For more information about the global book-entry system, see APPENDIX D.

Interest on the 2008 Bonds, which is payable on June 1 and December 1 of each year, commencing December 1, 2008, and principal on the 2008 Bonds, is payable to Cede & Co. Such interest and principal payments are to be disbursed to the beneficial owners of the 2008 Bonds through their respective DTC Participants or DTC Indirect Participants. The 2008 Bonds are subject to redemption prior to maturity as described herein. See “DESCRIPTION OF THE 2008 BONDS—Redemption.”

The 2008 Bonds are limited obligations of the Authority payable from and secured by a pledge of and lien on (i) the Sales Tax Receipts Fund established under the Master Indenture, subject however to certain parity pledges permitted by the Bond Indenture, (ii) the Transfer Tax Receipts Fund established under the Master Indenture, (iii) all moneys, securities and earnings thereon in all Funds, Sub-Funds, Accounts and Sub-Accounts established under the Bond Indenture, subject however to the right of the Authority to make periodic withdrawals free from the lien of the Bond Indenture, as permitted by the Bond Indenture, and (iv) any and all other moneys and securities furnished from time to time to the Trustee by the Authority or on behalf of the Authority or by any other persons to be held by the Trustee under the terms of the Bond Indenture. The pledge of security for the 2008 Bonds is more fully described under the heading “SECURITY FOR THE 2008 BONDS.” No lien upon any physical properties of the Authority is, or shall ever be, created by the Bond Indenture. The 2008 Bonds do not constitute an indebtedness of the Regional Transportation Authority, the State of Illinois or of any other political subdivision of or any municipality within the State of Illinois, other than the Authority. The Authority has no taxing power.

The maturities, amounts, interest rates and prices of the 2008 Bonds are set forth on the inside cover.

The 2008 Bonds are offered when, as and if issued and received by the Underwriters, subject to the approval of validity thereof by Katten Muchin Rosenman LLP, Burke Burns & Pinelli, Ltd. and Gonzalez, Saggio and Harlan, L.L.C., all of Chicago, Illinois, Co-Bond Counsel. Certain legal matters will be passed upon for the Underwriters by Perkins Coie LLP, Chapman and Cutler LLP, Charity & Associates, P.C. and Golden & Associates, P.C., all of Chicago, Illinois, Co-Underwriters’ Counsel and for the Authority by its General Counsel. The 2008 Bonds are expected to be delivered through the facilities of DTC in New York, New York on or about August 6, 2008.

MORGAN STANLEY
Joint Bookrunner

GOLDMAN, SACHS & CO.

LOOP CAPITAL MARKETS, LLC
Joint Bookrunner

Cabrera Capital Markets, LLC Depfa First Albany Securities LLC Siebert Brandford Shank & Co., LLC

**Citi Estrada Hinojosa & Company, Inc. Grigsby & Associates, Inc. JPMorgan
Ramirez & Co., Inc. Rice Financial Products Company William Blair & Company**

The date of this Official Statement is July 30, 2008.

MATURITIES, AMOUNTS, INTEREST RATES, PRICES AND CUSIP AND ISIN NUMBERS

\$1,936,855,000

CHICAGO TRANSIT AUTHORITY

\$1,297,175,000

SALES AND TRANSFER TAX RECEIPTS REVENUE BONDS, TAXABLE SERIES 2008A (PENSION FUNDING)

\$ 23,935,000	5.118%	Term Bonds due December 1, 2013	Price: 100%	CUSIP*: 167725AA8	ISIN*: US167725AA82
\$ 181,160,000	6.300%	Term Bonds due December 1, 2021	Price: 100%	CUSIP*: 167725AB6	ISIN*: US167725AB65
\$1,092,080,000	6.899%	Term Bonds due December 1, 2040	Price: 100%	CUSIP*: 167725AC4	ISIN*: US167725AC49

\$639,680,000

SALES AND TRANSFER TAX RECEIPTS REVENUE BONDS, TAXABLE SERIES 2008B (RETIREE HEALTH CARE FUNDING)

\$ 11,805,000	5.118%	Term Bonds due December 1, 2013	Price: 100%	CUSIP*: 167725AD2	ISIN*: US167725AD22
\$ 89,335,000	6.300%	Term Bonds due December 1, 2021	Price: 100%	CUSIP*: 167725AE0	ISIN*: US167725AE05
\$ 538,540,000	6.899%	Term Bonds due December 1, 2040	Price: 100%	CUSIP*: 167725AF7	ISIN*: US167725AF79

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APRIL 2018

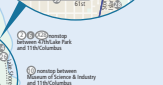
- ### CTA and Pace Bus Routes
- CTA bus routes (1-206)
 - CTA Hyde Park bus routes (170-174 and 192)
 - Pace bus routes (208 and up)
 - Part-time service only
 - Night Owl service only
 - No stops along bus route
 - Limited stops along bus route
 - Bus route terminal
- All CTA and Pace bus routes are accessible

- ### CTA Trains and Stations
- Blue Line: Downtown, Loop, Loop East, Loop West, Loop South, Loop North, Loop East, Loop West, Loop South, Loop North
 - Brown Line: Between O'Hare, Downtown, and Midway
 - Green Line: Between Midway, Downtown, and O'Hare
 - Orange Line: Between Midway Airport and Downtown
 - Pink Line: Between O'Hare and Downtown
 - Purple Line: Between Loop and Loop East
 - Purple Line Express: Between Loop and Loop East, weekday rush periods only
 - Red Line: Between Loop and Loop East, weekday rush periods only
 - Yellow Line: Between Loop and Loop East, weekday rush periods only
- Free train connections at station
- Stations temporarily closed for construction
- Accessible station
- Sheltered bicycle parking
- Automated station entrance for limited accessibility

- ### Metra Commuter Rail
- Station served daily
 - Station served weekday rush periods only

- ### Other Symbols
- Point of interest
 - Park & Ride lot
 - Expressway or highway
 - 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, but use Chicago's system. One mile is equal to 800 street numbers. Example: Midway (8400 N) is one mile north of Addison (8400 N).



Legend

- Blue Line
- Brown Line
- Green Line
- Orange Line
- Pink Line
- Purple Line
- Red Line
- Yellow Line

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CHICAGO TRANSIT AUTHORITY

CHICAGO TRANSIT BOARD

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

OFFICERS

Ron Huberman, President
Dennis O. Anosike, Chief Financial Officer and Treasurer
Karen Rowan, General Counsel
Gregory Longhini, Assistant Secretary

CO-BOND COUNSEL

Katten Muchin Rosenman LLP
Burke Burns & Pinelli, Ltd.
Gonzalez, Saggio and Harlan, L.L.C.
Chicago, Illinois

CO-FINANCIAL ADVISORS TO THE AUTHORITY

Scott Balice Strategies, LLC
Columbia Capital Management, LLC
Chicago, Illinois

In connection with this offering, the Underwriters may overallocate or effect transactions that stabilize or maintain the market prices of the 2008 Bonds at levels above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriters may offer and sell the 2008 Bonds to certain dealers and others at prices lower than the public offering prices stated on the inside cover page of the Official Statement, and such public offering prices may be changed from time to time by the Underwriters.

This Official Statement does not constitute an offer to sell the 2008 Bonds in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction. No dealer, broker, salesman or other person has been authorized by the Authority or the Underwriters to give any information or to make any representation other than that contained herein and, if given or made, such other information or representation must not be relied upon as having been authorized. Neither the delivery of this Official Statement nor the sale of any of the 2008 Bonds implies that the information herein is correct as of any time subsequent to the date hereof. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create the implication that there has been no change in the matters described herein since the date hereof.

This Official Statement is not to be construed as a contract with the purchasers of the 2008 Bonds. All summaries of statutes and documents are made subject to the provisions of such statutes and documents, respectively, and do not purport to be complete statements of any or all of such provisions.

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

This Official Statement contains forecasts, projections and estimates that are based on current expectations or assumptions. If and when included in this Official Statement, the words “expects,” “forecasts,” “projects,” “intends,” “anticipates,” “estimates,” “assumes” and analogous expressions are intended to identify forward-looking statements, and any such statements inherently are subject to a variety of risks and uncertainties that could cause actual results to differ materially from those that have been projected. The Authority disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any changes in the Authority’s expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

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

The 2008 Bonds have not been registered under the Securities Act of 1933, as amended, in reliance upon an exemption contained therein, and have not been registered or qualified under the securities laws of any state.

OVERVIEW

This Overview does not constitute a part of the Official Statement for the issuance and sale by the Chicago Transit Authority of its \$1,297,175,000 aggregate principal amount Sales and Transfer Tax Receipts Revenue Bonds, Taxable Series 2008A (Pension Funding) (the “2008A Bonds”) and \$639,680,000 aggregate principal amount Sales and Transfer Tax Receipts Revenue Bonds, Taxable Series 2008B (Retiree Health Care Funding) (the “2008B Bonds”) and, together with the 2008A Bonds, the “2008 Bonds”) and does not purport to be complete. This Overview is for informational purposes only and is subject to a more complete discussion contained in the Official Statement. Capitalized terms used in this Overview are defined in the Official Statement.

Issuer Chicago Transit Authority (the “Authority” or the “CTA”). The Authority operates the nation’s second largest public transportation system, providing mass transit services to 3.8 million residents within a 356 square mile area covering the City of Chicago and 40 surrounding suburbs. The service area of the Authority has a population of approximately 3.8 million. The Authority carries approximately 80 percent of the public transit riders in the six-county northeastern Illinois region, including the Counties of Cook, DuPage, Kane, Lake, McHenry and Will. Transit services provided by the Authority are part of the regional public mass transportation service system in northeastern Illinois provided through the independent operations of the CTA, Metra (suburban rail) and Pace (suburban bus) (CTA, Metra and Pace referred to collectively, herein as the “Service Boards”). For a detailed description of the Authority and its operations, see “CHICAGO TRANSIT AUTHORITY.”

The Bonds \$1,297,175,000 Sales and Transfer Tax Receipts Revenue Bonds, Taxable Series 2008A (Pension Funding).

\$639,680,000 Sales and Transfer Tax Receipts Revenue Bonds, Taxable Series 2008B (Retiree Health Care Funding).

Ratings Moody’s Investors Service has assigned the 2008 Bonds a rating of “Aa3” and Standard & Poor’s Ratings Service, a division of The McGraw-Hill Companies, Inc. has assigned the 2008 Bonds the municipal rating of “AA+”. See “RATINGS.”

Plan of Finance Proceeds of the 2008A Bonds will be used to (i) make a deposit to the Retirement Plan in the amount of \$1,110,500,000, (ii) capitalize interest on the 2008A Bonds to June 1, 2009, (iii) fund a debt service reserve for the 2008A Bonds, and (iv) pay the costs of issuance of the 2008A Bonds.

Following the deposit to the Retirement Plan described above, the Funded Ratio of the Retirement Plan will be approximately 80%. The Authority is responsible for additional contributions in the future as described in the Official Statement.

Proceeds of the 2008B Bonds will be used to (i) make a deposit to the Health Care Trust in the amount of \$528,800,000, (ii) capitalize interest on the 2008B Bonds to June 1, 2010 (plus an additional amount equal to 11 days of interest on the 2008B Bonds), (iii) fund a debt service reserve for the 2008B Bonds, and (iv) pay the costs of issuance of the 2008B Bonds.

Following the deposit to the Health Care Trust described above, the Health Care Trust will be funded to the level required by law. Thereafter, any required contributions to the Health Care Trust will be made by the beneficiaries of the Health Care Trust in the amounts and at the times determined by the Health Trust Board. The Authority will have no further funding obligation.

See APPENDIX B – “ESTABLISHMENT AND MAINTENANCE OF RETIREMENT PLAN AND HEALTH CARE TRUST” to the Official Statement for a complete discussion of the funding requirements and operation of the Retirement Plan and the Health Care Trust.

**Regional
Transportation
Authority**

The Regional Transportation Authority (the “RTA”) oversees public transportation in northeastern Illinois. The RTA provides funding, planning and fiscal oversight for the CTA, Metra and Pace in part through the imposition of sales taxes throughout the northeastern Illinois region. The RTA Act vests responsibility for operating budget financial oversight in the RTA and responsibility for operations and day-to-day management of rail and bus service in the Service Boards.

**Sources
of Payment**

The principal sources of payment for the 2008 Bonds are (i) the Sales Tax Receipts received by the CTA from the RTA, consisting of the Authority’s share of certain sales, use and occupation taxes imposed by the RTA throughout northeastern Illinois and deposited into the Sales Tax Receipt Fund established under the Master Indenture and (ii) the Transfer Tax Receipts received by the CTA from the City of Chicago (the “City”) pursuant to the terms of an Intergovernmental Agreement between the Authority and the City (the “Intergovernmental Agreement”), consisting of amounts remitted to the Authority by the City representing net collections by the City of a tax on transfers of real property located in the City and deposited into the Transfer Tax Receipts Fund established under the Master Indenture. See “SOURCES OF PAYMENT OF THE 2008 BONDS” in the Official Statement.

**Sales
Tax Receipts**

The Sales Tax Receipts consist of all amounts received by the Authority from the RTA, representing the Authority’s share of (i) RTA Sales Taxes imposed throughout the Northeastern Illinois Transit Region, which includes The Counties of Cook, DuPage, Kane, Lake, McHenry and Will, (ii) Replacement Revenues paid to the RTA by the State and (iii) Public Transportation Fund Revenues paid to or on behalf of the RTA by the State. On a pro forma basis, taking into account the RTA Sales Tax increases discussed under the caption “SOURCES OF PAYMENT OF THE 2008 BONDS—Sales Tax Receipts – RTA Sales Tax,” RTA Sales Tax collections for 2008 are expected to be \$976.1 million. See “HISTORICAL AND PRO FORMA REVENUES—Sales Tax Receipts” in the Official Statement.

**Transfer
Tax Receipts**

The Transfer Tax Receipts consist of amounts remitted by the City directly to the CTA pursuant to the Intergovernmental Agreement representing collections by the City, net of collection fees and costs and refunds, of a supplemental tax of \$1.50 per \$500.00 of the transfer price of title to, or beneficial interest in, real property located in the City. In 2007, historical pro forma Transfer Tax Receipts would have equaled \$82.3 million. By its terms, the Intergovernmental Agreement will not expire prior to the final maturity of the 2008 Bonds. In the Master Indenture, the Authority covenants that it will not modify or amend any provisions of the Intergovernmental Agreement that would materially lessen, postpone or restrict the payment of the Transfer Tax Receipts to the Authority pursuant to the Intergovernmental Agreement. See “HISTORICAL AND PRO FORMA REVENUES—Historical Pro Forma Transfer Tax Receipts” in the Official Statement.

**Security for the
2008 Bonds**

The 2008 Bonds are secured by (i) amounts on deposit from time to time in the Sales Tax Receipts Fund, subject however to certain parity pledges permitted by the Bond Indenture, (ii) amounts on deposit in the Transfer Tax Receipts Fund, (iii) all moneys, securities and earnings thereon in all Funds, Sub-Funds, Accounts and Sub-Accounts established under the Bond Indenture, subject however to the right of the Authority to make periodic withdrawals free from the lien of the Bond Indenture from the Sales Tax Receipts Fund and the Transfer Tax Receipts Fund, as permitted by the Bond Indenture, and (iv) any and all other moneys and securities furnished from time to time to the Trustee by the Authority or on behalf of the Authority or by any other persons to be held by the Trustee under the terms of the Bond Indenture. See “SECURITY FOR THE 2008 BONDS” in the Official Statement.

Each 2008 Supplemental Indenture establishes with the Trustee a separate and segregated Sub-Fund within the Debt Service Fund for the 2008A Bonds and the 2008B Bonds, respectively (each, a “Series Dedicated Sub-Fund”). Moneys on deposit in a Series Dedicated Sub-Fund, and in each Account established therein, shall be held in trust by the Trustee for the sole and exclusive benefit of the Owners of the 2008 Bonds to which such Series Dedicated Sub-Fund relates (the “Related Series 2008 Bonds”) and shall not be used or available for the payment of the other Series of 2008 Bonds or any other Parity Obligations, except as expressly provided in the Bond Indenture. A Debt Service Reserve Account is established within each Series Dedicated Sub-Fund for the Related Series 2008 Bonds to be maintained in an amount equal to the Reserve Requirement, which as of the date of calculation, is an amount equal to fifty percent (50%) of the maximum amount of Principal and interest (exclusive of interest to be paid from capitalized interest) payable on such 2008 Bonds in the then current or any future Bond Year.

Limited Obligation The 2008 Bonds are limited obligations of the Authority payable solely from the sources pledged for their payment in accordance with the Bond Indenture and described under the heading “SECURITY FOR THE 2008 BONDS” in the Official Statement. The 2008 Bonds are not, and shall not constitute an indebtedness of the RTA or the State of Illinois or of any other political subdivision of or municipality within the State, except the Authority. The Retirement Plan and the Health Care Trust being funded with proceeds of the 2008 Bonds do not secure the payment of the principal of and interest on the 2008 Bonds. No lien upon any physical properties of the Authority is or may be created by the Bond Indenture. The Authority has no taxing power.

Pledge and Agreement of State In the Authority Act, the State pledges and agrees with the Owners of the 2008 Bonds that the State will not limit the powers vested in the Authority to pledge and assign its revenues and funds as security for the payment of the 2008 Bonds, or vested in the RTA, so as to materially impair the payment obligations of the Authority under the terms of any contract made by the Authority with the Owners of the 2008 Bonds or materially impair the rights and remedies of the Owners. The pledge and agreement described above does not limit the powers of the RTA to incur additional obligations pursuant to law, which obligations may be payable from moneys that would otherwise be available for transfer to the Authority for deposit into the Sales Tax Receipts Fund.

Interest Payment Dates Interest on each series of the 2008 Bonds will be payable on June 1 and December 1 of each year, commencing December 1, 2008, until maturity or earlier redemption. Interest is computed on the basis of a 360-day year consisting of twelve 30-day months at the rates set forth on the inside cover of the Official Statement.

Redemption The 2008 Bonds of each series are subject to optional redemption prior to maturity at a redemption price determined as described in the Official Statement. See “DESCRIPTION OF THE 2008 BONDS—Redemption.” The 2008A Bonds maturing on December 1 of the years 2013, 2021 and 2040 and the 2008B Bonds maturing on December 1 of the years 2013, 2021 and 2040 are subject to mandatory sinking fund redemption as described in the Official Statement.

Trustee U.S. Bank National Association, Chicago, Illinois, will serve as Trustee and Paying Agent.

Book-Entry Form and Denominations The 2008 Bonds will be issued in fully registered book-entry form in denominations of \$5,000 or any integral multiple thereof.

Tax Matters Interest or amounts treated as interest on the 2008 Bonds is included in gross income for United States federal income tax purposes to the extent described in the Official Statement under the heading “TAX MATTERS.”

Delivery and Clearance	The 2008 Bonds are expected to be available for delivery at DTC in New York, New York and through the Euroclear and Clearstream, Luxembourg, in Europe, on or about August 6, 2008.
Global Offering	The Bonds are offered globally for sale in various jurisdictions in the United States, Europe, Asia and elsewhere where it is lawful to make such offers.
Legal Matters	Certain legal matters will be passed upon for the parties to the financing as set forth on the cover page to the Official Statement.
Additional Information	Additional information may be obtained upon request to Dennis Anosike, Chief Financial Officer and Treasurer, Chicago Transit Authority, 567 West Lake Street, Chicago, Illinois 60661; phone: (312) 681-3400.

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OFFICIAL STATEMENT

\$1,936,855,000

CHICAGO TRANSIT AUTHORITY

\$1,297,175,000

**SALES AND TRANSFER TAX RECEIPTS REVENUE
BONDS, TAXABLE SERIES 2008A
(PENSION FUNDING)**

\$639,680,000

**SALES AND TRANSFER TAX RECEIPTS REVENUE
BONDS, TAXABLE SERIES 2008B
(RETIREE HEALTH CARE FUNDING)**

INTRODUCTION

The purpose of this Official Statement, which includes the cover page and appendices hereto (the "Official Statement"), is to set forth certain information concerning the issuance by the Chicago Transit Authority (the "Authority" or the "CTA") of \$1,297,175,000 aggregate principal amount Sales and Transfer Tax Receipts Revenue Bonds, Taxable Series 2008A (Pension Funding) (the "2008A Bonds") and \$639,680,000 aggregate principal amount Sales and Transfer Tax Receipts Revenue Bonds, Taxable Series 2008B (Retiree Health Care Funding) (the "2008B Bonds" and, together with the 2008A Bonds, the "2008 Bonds"). The 2008A Bonds are being issued pursuant to the Metropolitan Transit Authority Act of the State of Illinois (the "Authority Act"), the Local Government Debt Reform Act of the State of Illinois and an Ordinance adopted by the Chicago Transit Board on June 11, 2008.

The 2008 Bonds are being issued under and secured by the Trust Indenture dated as of July 1, 2008 (the "Master Indenture"), between the Authority and U.S. Bank National Association, Chicago, Illinois, as trustee (the "Trustee"), as supplemented, in the case of the 2008A Bonds, by the First Supplemental Indenture dated as of July 1, 2008 ("First Supplemental Indenture") and, in the case of the 2008B Bonds, by the Second Supplemental Indenture dated as of July 1, 2008 (the "Second Supplemental Indenture" and, together with the First Supplemental Indenture, the "2008 Supplemental Indentures"). The Master Indenture, as supplemented by the 2008 Supplemental Indentures is herein referred to as the "Bond Indenture."

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

PLAN OF FINANCE

The Authority maintains the "Retirement Plan for Chicago Transit Authority Employees" (the "Retirement Plan"), a defined benefit pension plan covering substantially all full-time permanent union and nonunion employees. The funded ratio of the total assets of the Retirement Plan to its actuarially determined liabilities at January 1, 2008, was approximately 38%.

Legislation recently enacted by the Illinois General Assembly (“P.A. 95-0708”) (i) revises the funding requirements of the Retirement Plan, (ii) creates a “Retiree Health Care Trust” (the “Health Care Trust”) to separate the funding of health care benefits for retirees and their dependents and survivors from funding of the retirement system, (iii) authorizes the issuance of the 2008 Bonds by the Authority for the purpose of providing funds to be deposited into the Retirement Plan and the Health Care Trust and (iv) provides additional funding for Authority operations, pension and retiree health care.

The 2008A Bonds are being issued by the Authority (i) to provide funds for deposit into the Retirement Plan, (ii) to pay capitalized interest on the 2008A Bonds, (iii) to make a deposit to the Debt Service Reserve Account established for the 2008A Bonds and (iv) to pay costs of issuance of the 2008A Bonds. It is expected that upon deposit of the proceeds of the 2008A Bonds into the Retirement Plan, the funded ratio of the total assets of the Retirement Plan will increase to approximately 80%.

The 2008B Bonds are being issued by the Authority (i) to provide funds for the establishment of the Health Care Trust, (ii) to pay certain capitalized interest on the 2008B Bonds, (iii) to make a deposit to the Debt Service Reserve Account established for the 2008B Bonds and (iv) to pay costs of issuance of the 2008B Bonds. At the time of funding of the Health Care Trust with proceeds of the 2008B Bonds as described above, the Health Care Trust will be funded to the level required by P.A. 95-0708.

The assets of the Retirement Plan and the Health Care Trust will not serve as security for or be available for the payment of the principal of or interest on the 2008 Bonds.

CHICAGO TRANSIT AUTHORITY

OPERATIONS

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

The Authority is the nation’s second largest public transit system as measured by unlinked passenger trips. The Authority operates public mass transit service, including bus and rail service, in the City and 40 surrounding suburbs. The service area of the Authority has a population of approximately 3.8 million. The Authority carries approximately 80 percent of the public transit riders in the six-county northeastern Illinois region, comprised of The Counties of Cook, DuPage, Kane, Lake, McHenry and Will (the “Northeastern Illinois Transit Region” or the “Region”). The transit services provided by the Authority are part of the regional public mass transportation service system in the Region provided through the independent operations of the

Authority, Metra (suburban rail) and Pace (suburban bus). The Authority, Metra and Pace are referred to collectively herein as the “Service Boards.”

The Authority has approximately 2,100 buses that operate over 154 routes. Authority buses make approximately 24,500 bus trips and provide about one million passenger trips each weekday. The buses serve approximately 12,000 posted bus stops. The Authority’s 1,190 rapid transit cars operate on eight routes. Authority trains make about 2,200 trips and provide approximately 600,000 passenger trips each weekday. These trains serve 144 stations.

FUNDING

The Authority’s current amended budget for 2008 is approximately \$1.210 billion. Approximately 38.3 percent of the operating budget is funded from fare revenues. Another 7.0 percent of the operating budget is funded from contributions from local governments, reduced fare subsidies and other revenue sources (including investment income and advertising and concession revenues). The balance of the operating budget is funded from public funding available through the Regional Transportation Authority (the “RTA”). In 2008, the CTA estimates that it will receive \$622 million from the RTA and, as described herein under “SOURCES OF PAYMENT OF 2008 BONDS,” such moneys are available to pay debt service on the 2008 Bonds. Subsequent to the approval of the current operating budget for 2008, the Illinois General Assembly passed legislation increasing funding for transit purposes, as described under “SOURCES OF PAYMENT OF THE 2008 BONDS—Sales Tax Receipts – *Distribution of RTA Sales Tax, Replacement Revenues and Public Transportation Fund Revenues.*”

The Authority’s capital budget for 2008, as amended, is approximately \$825 million. The capital budget is funded from a combination of Federal, State, local dedicated funds and grants and bond proceeds. The Authority’s five-year capital budget for 2008-2012, as amended, is \$2.3 billion.

ADMINISTRATION

The governing and administrative body of the Authority is the CTA Board consisting of seven members. Three CTA Board members are appointed by the Governor of the State, by and with the advice and consent of the Senate, subject to approval by the Mayor of the City. One of the members appointed by the Governor must be a resident of the metropolitan area outside the City. Four members are appointed by the Mayor with the advice and consent of the City Council, subject to approval by the Governor. The CTA Board elects one of its members as chairman for a maximum term of three years. Each member serves for a seven-year term and until his or her successor has been appointed and qualified; *provided* that, in the case of an appointment to fill a vacancy, the appointed member serves during the remainder of the vacated term and until his or her successor has been appointed and qualified.

The current members of the CTA Board are as follows:

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. Ms. Brown is a Managing Director and the Head of the Central Region for Lehman Brothers, 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 Chicago Children's Museum and Mercy Foundation.

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 expiring in 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.

Henry T. Chandler, Jr., was initially appointed to the CTA Board by Mayor Richard M. Daley in March, 2006, and reappointed by the Mayor in 2008 for a term expiring in September 2014. Mr. Chandler is Board Chair of Access Living of Metropolitan Chicago, a non-residential center dedicated to advocating on behalf of people with disabilities.

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 term expiring in September 2009. 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. Reverend Robinson was initially appointed to the CTA Board by Mayor Richard M. Daley in 2002, and reappointed by the Mayor in 2008, for a term expiring in September 2014. Reverend Robinson has served as Chairman of the Community Bank of Lawndale's Advisory Board, President of the North Lawndale Ministers' Council, and Vice President of the Westside Baptist Ministers' Conference.

Alejandro Silva, Chairman of the Committee on Finance, Audit and Budget, was appointed to the CTA Board by Mayor Richard M. Daley in March 2004. Mr. Silva's term expires in September 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 Global Affairs.

Nicholas C. Zagotta, was appointed to the CTA Board by Governor Rod Blagojevich in May 2004 for a term expiring in September 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:

Ron Huberman, President of the CTA, was appointed in May 2007. Mr. Huberman oversees the day-to-day operations of the second largest transit agency in the country. From 2005 to 2007, Mr. Huberman served as Chief of Staff for Chicago Mayor Richard M. Daley. From 2004 to 2005, Mr. Huberman served as Executive Director of the City of Chicago Office of Emergency Management and Communications (OEMC). Prior to his appointment as Executive Director at OEMC, Mr. Huberman served the Chicago Police Department for nine years, including two years as an Assistant Deputy Superintendent.

Karen A. Rowan, General Counsel of the CTA, was appointed in May 2007. She was named the first female General Counsel to the Chicago Police Department in February 2000. She began her 22-year tenure with the Department as a police officer and retired as the Assistant Deputy Superintendent of the Internal Affairs Division. Ms. Rowan earned a Bachelor of Arts Degree in 1984 from the National College of Education in Evanston, Illinois and a Juris Doctor Degree from Loyola University of Chicago School of Law in 1989. She was admitted to the Illinois Bar in 1989.

Dennis O. Anosike, Chief Financial Officer and 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, is the Assistant Board Secretary of the Chicago Transit Board. Mr. Longhini joined the CTA in 1998. Previously, Mr. Longhini had been a Deputy Commissioner of the Chicago Department of Planning and Development and a Senior Research Associate with the American Planning Association.

THE RTA

The RTA was created by the Regional Transportation Authority Act of the State of Illinois (the "RTA Act") in 1974. The RTA provides funding, planning and fiscal oversight for the CTA, Metra and Pace, the three Service Boards operating regional bus and rail operations in the Region.

Pursuant to P.A. 95-0708, the governing body of the RTA is its Board of Directors which consists of 16 persons. Five directors are appointed by the Mayor of the City with the advice and

* Following the expiration of a term, CTA Board Members continue to serve until reappointment or resignation.

consent of the City Council. Four directors are appointed by the commissioners of the Cook County Board elected from districts in which a majority of the electors reside outside the City. One director is appointed by the President of the Cook County Board, with the advice and consent of the Commissioners of the Cook County Board, selected from districts in which a majority of electors reside outside the City. One director each is appointed by the Chairman or Chief Executive of the County Boards of DuPage, Kane, Lake, McHenry and Will Counties, with the advice and consent of the respective Boards. The Chairman of the Board of the RTA is appointed by 11 members of the Board with at least two votes from each subregion of Chicago, Suburban Cook County and the collar counties. The Chairman and each director serve five-year terms and until his or her successor has been appointed and qualified.

RTA FINANCIAL OVERSIGHT

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

The RTA Board, by the affirmative vote of 12 of its directors, determines whether the results of operations are substantially in accordance with the adopted budget and certifies such to the Governor, the Mayor of the City and the Auditor General of the State. If a Service Board is found not to be substantially in compliance with its budget, the RTA may direct that Service Board to submit a revised budget meeting the mandated criteria. If a Service Board's budget does not meet the criteria, the RTA may not release any funds, other than 75 percent of a Service Board's statutory share of sales tax and Public Transportation Fund revenues to the Service Board. The RTA has never withheld funds from the CTA as the result of a non-compliant budget submittal.

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

FUNDING OF RETIREMENT PLAN AND HEALTH CARE TRUST

The following is a brief summary of certain provisions of the Retirement Plan and the Health Care Trust and the impact of P.A. 95-0708 thereon. For a more complete discussion, see APPENDIX B – "ESTABLISHMENT AND MAINTENANCE OF RETIREMENT PLAN AND HEALTH CARE TRUST." Certain capitalized terms used under this caption are defined in APPENDIX B.

FUNDING OF RETIREMENT PLAN

P.A. 95-0708 requires the Authority, beginning January 18, 2008, to make contributions to the Retirement Plan in an amount equal to 12% of compensation, and the participating employees' required contribution is 6% of compensation. The contribution levels described in the preceding sentence are subject to adjustment as described below. For the period ending December 31, 2040, the amount paid by the Authority in any year with respect to debt service on the 2008 Bonds (other than payments derived from the proceeds of bonds or notes) will be treated as a credit against the amount of required contribution to the Retirement Plan by the Authority for the following year up to an amount not to exceed 6% of compensation paid by the Authority in that following year.

By September 15 of each of the years from 2009 through 2039, on the basis of a report prepared by an enrolled actuary retained by the Retirement Plan, the Retirement Plan Board will be required to determine the estimated funded ratio of the total assets of the Retirement Plan to its total actuarially determined liabilities. If the funded ratio is projected to decline below 60% in any year before 2040, the Retirement Plan Board will also be required to determine the increased contribution required each year as a level percentage of payroll over the years remaining until 2040 so that the funded ratio does not decline below 60%. If the actuarially funded ratio actually declines below 60% in any year prior to 2040, the Retirement Plan Board must also determine the increased contribution required each year as a level percentage of payroll during the years after the then current year so the funded ratio is projected to reach at least 60% no later than 10 years after the then current year. These determinations are required to be included in an annual report to be filed with the Authority, the representatives of its participating employees, the Auditor General of the State of Illinois (the "Auditor General") and the RTA. Within 60 days after receiving the report the Auditor General is required to review the determinations and assumptions, and if the Auditor General finds the determinations and assumptions to be unreasonable in the aggregate, the Auditor General is required to issue a new determination of the funded ratio and the increased contribution required each year so that the funded ratio does not decline below 60%, or in the event of an actual decline below 60%, so the funded ratio is projected to reach 60% by no later than 10 years after the then current year. Two-thirds of the increased contribution is required to be paid by the Authority and one-third by the participating employees.

Beginning in 2040 the minimum annual contribution to the Retirement Plan must be sufficient to bring the funded ratio to 90% of the Retirement Plan's total actuarial liabilities by the end of the year 2059, and beginning in 2060 the minimum contribution must be amounts necessary to maintain the 90% funded ratio. Contributions during both of these periods will be funded two-thirds by the Authority and one-third by the participating employees in accordance with P.A. 95-0708.

See "SOURCES OF PAYMENT FOR THE 2008 BONDS—Mandatory Funding of Authority's Retirement Plan Contributions From Sales Tax Receipts" for a discussion of the diversion by the RTA of Sales Tax Receipts otherwise available for the payment of debt service on the 2008 Bonds to the Retirement Plan in the event the Authority does not make required contributions to the Retirement Plan on a timely basis.

The RTA's role in providing funding, planning and fiscal oversight for the CTA is described under the heading "CHICAGO TRANSIT AUTHORITY—The RTA" and "—RTA Financial Oversight."

ESTABLISHMENT AND FUNDING OF RETIREE HEALTH CARE TRUST

P.A. 95-0708 requires the Authority to separate the funding of health care benefits for retirees and their dependents and survivors from the funding for its retirement system by no later than July 1, 2009. P.A. 95-0708 provides for the establishment of the Health Care Trust, which is solely responsible for providing health care benefits to eligible retirees and their dependents and survivors.

The Health Trust Board is required to establish and maintain an appropriate funding reserve level which must not be less than the amount of incurred and unreported claims plus 12 months of expected claims and administrative expenses (the "Reserve"). The Health Trust Board is required to make an annual assessment of the funding levels of the Health Care Trust and must submit an annual report to the Auditor General providing (a) the actuarial present value of projected benefits expected to be paid to current and future retirees, their dependents and survivors, (b) the actuarial present value of projected contributions and trust income plus assets, (c) the Reserve and (d) an assessment of whether the actuarial present value of projected benefits expected to be paid exceeds or is less than the actuarial present value of projected contributions and trust income plus assets in excess of the Reserve. If the actuarial present value of the projected benefits exceeds the actuarial present value of projected contributions and trust income plus assets in excess of the Reserve, then the report must provide a plan of increases in contribution levels, decreases in benefit levels, or both, which is projected to cure the shortfall within 10 years. If the actuarial present value of the projected benefits expected to be paid is less than the actuarial present value of projected contributions and trust income plus assets in excess of the Reserve, then the report may provide a plan of decreases in contribution levels, increases in benefit levels, or both, to the extent of the surplus.

The aggregate amount of retiree, dependent or survivor contributions to the cost of their health care benefits must not exceed more than 45% of the total cost of such benefits. After the establishment of the Health Care Trust all employees of the Authority will be required to contribute to the Health Care Trust in an amount not less than 3% of compensation.

Following the deposit of 2008B Bond proceeds to the Health Care Trust as described above, the Health Care Trust will be funded to a level not less than the Reserve. Thereafter, any required contributions to the Health Care Trust will be made by the beneficiaries of the Health Care Trust in the amounts and at the times determined by the Health Trust Board. The Authority will have no further funding obligation.

BONDS

Pursuant to the Authority Act and the terms of the Master Indenture:

(i) Bonds, including the 2008A Bonds, may be issued in the original principal amount of not to exceed \$1,348,550,000 for the purpose of funding the Retirement Plan (the “Pension Funding Bonds”); *provided* that no less than \$1,110,500,000 of the proceeds of the Pension Funding Bonds (net of payment of costs of issuance and deposits to debt service funds and accounts related to the Pension Funding Bonds or the hereinafter defined Retiree Health Care Funding Bonds) are required to be deposited into the Retirement Plan; and

(ii) Bonds, including the 2008B Bonds, may be issued in the original principal amount of not to exceed \$639,680,000 for the purpose of funding the Health Care Trust (the “Retiree Health Care Funding Bonds”); *provided* that no less than \$528,800,000 of the proceeds of the Retiree Health Care Funding Bonds (net of payment of costs of issuance and deposits to debt service funds and accounts related to the Retiree Health Care Funding Bonds or the Pension Funding Bonds) are required to be deposited into the Health Care Trust.

DESCRIPTION OF THE 2008 BONDS

GENERAL

Unless otherwise provided with respect to a particular Series of the 2008 Bonds, references to the 2008 Bonds under this caption “DESCRIPTION OF THE 2008 BONDS” should be read as “2008 Bonds of each Series.”

The 2008 Bonds will be dated the date of their issuance and mature at the times and in the principal amounts set forth on the inside cover of this Official Statement. Each 2008 Bond shall bear interest payable on December 1, 2008 and semiannually thereafter on June 1 and December 1 in each year, computed on the basis of a 360-day year consisting of twelve 30-day months.

The 2008 Bonds shall be initially issued in the form of a separate single fully registered 2008A Bond and 2008B Bond for each maturity with the same interest rate. Upon initial issuance, the ownership of each such 2008 Bond shall be registered in the registration books kept by the Trustee in the name of Cede & Co., as nominee of DTC, and except as hereinafter provided, the ownership of all of the outstanding 2008 Bonds shall be registered in the name of Cede & Co., as nominee of DTC. See APPENDIX D – “DTC AND THE BOOK-ENTRY ONLY SYSTEM AND GLOBAL CLEARANCE PROCEDURES.”

REDEMPTION

Optional Redemption

2008A Bonds. Each maturity of the 2008A Bonds shall be subject to redemption prior to maturity at the option of the Authority, as a whole, or in part, and upon notice, all as provided in the First Supplemental Indenture, on any date, at a Redemption Price equal to the greater of: (A) the principal amount of the 2008A Bonds to be redeemed, or (B) the sum of the present values of the remaining scheduled payments of Principal and interest on the 2008A Bonds to be redeemed (exclusive of interest accrued to the date fixed for redemption) discounted to the date of redemption on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate (defined below) plus (a) 30 basis points for the 2008A Bond maturing on December 1, 2013, and (b) 35 basis points for the 2008A Bonds maturing on December 1, 2021 and December 1, 2040, plus in each case, accrued and unpaid interest on the 2008A Bonds being redeemed to the date fixed for redemption.

2008B Bonds. Each maturity of the 2008B Bonds shall be subject to redemption prior to maturity at the option of the Authority, as a whole, or in part, and upon notice, all as provided in the Second Supplemental Indenture, on any date, at a Redemption Price equal to the greater of: (A) the principal amount of the 2008B Bonds to be redeemed, or (B) the sum of the present values of the remaining scheduled payments of Principal and interest on the 2008B Bonds to be redeemed (exclusive of interest accrued to the date fixed for redemption) discounted to the date of redemption on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate (defined below) plus (a) 30 basis points for the 2008B Bond maturing on December 1, 2013, and (b) 35 basis points for the 2008B Bonds maturing on December 1, 2021 and December 1, 2040, plus in each case, accrued and unpaid interest on the 2008B Bonds being redeemed to the date fixed for redemption.

For the purpose of determining the Redemption Price, the following definitions apply:

“Treasury Rate” means, with respect to any redemption date for a particular 2008 Bond, the rate per annum, expressed as a percentage of the principal amount, equal to the semiannual equivalent yield to maturity or interpolated maturity of the Comparable Treasury Issue, assuming that the Comparable Treasury Issue is purchased on the redemption date for a price equal to the Comparable Treasury Price, as calculated by the Designated Investment Banker.

“Comparable Treasury Issue” means, with respect to any redemption date for a particular 2008 Bond, the United States Treasury security or securities selected by the Designated Investment Banker which has an actual or interpolated maturity comparable to the remaining average life of the 2008 Bond to be redeemed, and that would be utilized in accordance with customary financial practice in pricing new issues of debt securities of comparable maturity to the remaining average life of the 2008 Bond to be redeemed.

“Comparable Treasury Price” means, with respect to any redemption date for a particular 2008 Bond, (i) if the Designated Investment Banker receives at least four

Reference Treasury Dealer Quotations, the average of such quotations for such redemption date, after excluding the highest and lowest Reference Treasury Dealer Quotations, or (ii) if the Designated Investment Banker obtains fewer than four Reference Treasury Dealer Quotations, the average of all such quotations.

“Designated Investment Banker” means one of the Reference Treasury Dealers appointed by the Authority.

“Reference Treasury Dealer” means each of the four firms, specified by the Authority from time to time, that are primary United States Government securities dealers in the City of New York (each a “Primary Treasury Dealer”); *provided, however*, that if any of them ceases to be a Primary Treasury Dealer, the Authority will substitute another Primary Treasury Dealer.

“Reference Treasury Dealer Quotations” means, with respect to each Reference Treasury Dealer and any redemption date for a particular 2008 Bond, the average, as determined by the Designated Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Designated Investment Banker by such Reference Treasury Dealer at 3:30 p.m., New York City time, on the third Business Day preceding such redemption date.

Mandatory Redemption

2008A Bonds. The 2008A Bonds maturing on December 1 of the years 2013, 2021 and 2040 (the “2008A Term Bonds”) are Term Bonds subject to mandatory redemption at a Redemption Price of par, on the following dates and in the following principal amounts, each constituting a Sinking Fund Installment for the retirement of the 2008A Term Bonds for a particular maturity as set forth in the following tables, subject to adjustment pursuant to the First Supplemental Indenture:

2013 TERM BONDS		2021 TERM BONDS		2040 TERM BONDS	
YEAR	PRINCIPAL AMOUNT	YEAR	PRINCIPAL AMOUNT	YEAR	PRINCIPAL AMOUNT
2012	\$ 6,710,000	2014	\$18,110,000	2022	\$29,520,000
2013*	17,225,000	2015	19,250,000	2023	31,560,000
		2016	20,460,000	2024	33,735,000
		2017	21,750,000	2025	36,060,000
		2018	23,120,000	2026	38,550,000
		2019	24,575,000	2027	41,210,000
		2020	26,125,000	2028	44,050,000
		2021*	27,770,000	2029	47,090,000
				2030	50,340,000
				2031	53,815,000
				2032	57,525,000
				2033	61,495,000
				2034	65,735,000
				2035	70,270,000
				2036	75,120,000
				2037	80,305,000
				2038	85,840,000
				2039	91,765,000
				2040*	98,095,000

* Final maturity.

2008B Bonds. The 2008B Bonds maturing on December 1 of the years 2013, 2021 and 2040 (the “2008B Term Bonds” and, together with the 2008A Term Bonds, the “2008 Term Bonds”) are Term Bonds subject to mandatory redemption at a Redemption Price of par, on the following dates and in the following principal amounts, each constituting a Sinking Fund Installment for the retirement of the 2008B Term Bonds for a particular maturity as set forth in the following tables, subject to adjustment pursuant to the Second Supplemental Indenture:

2013 TERM BONDS		2021 TERM BONDS		2040 TERM BONDS	
YEAR	PRINCIPAL AMOUNT	YEAR	PRINCIPAL AMOUNT	YEAR	PRINCIPAL AMOUNT
2012	\$ 3,310,000	2014	\$ 8,930,000	2022	\$14,560,000
2013*	8,495,000	2015	9,490,000	2023	15,560,000
		2016	10,090,000	2024	16,635,000
		2017	10,725,000	2025	17,785,000
		2018	11,400,000	2026	19,010,000
		2019	12,120,000	2027	20,320,000
		2020	12,885,000	2028	21,725,000
		2021*	13,695,000	2029	23,220,000
				2030	24,825,000
				2031	26,535,000
				2032	28,370,000
				2033	30,325,000
				2034	32,415,000
				2035	34,655,000
				2036	37,045,000
				2037	39,600,000
				2038	42,330,000
				2039	45,250,000
				2040*	48,375,000

Adjustment of Sinking Fund Installments. In the event of the optional redemption by the Authority of less than all of the 2008 Term Bonds of the same Series of like maturity, the principal amount so redeemed shall be credited pro-rata against the unsatisfied balance of future Sinking Fund Installments for such 2008 Term Bonds and the final maturity amount established with respect to such Term Bonds.

Selection of 2008 Bonds to be Redeemed. If less than all of the 2008 Bonds of the same Series and like maturity and interest rate shall be called for prior redemption, the particular 2008 Bonds or portion of such 2008 Bonds to be redeemed shall be selected pro-rata based upon the aggregate principal amount thereof then Outstanding; *provided, however,* that the portion of any 2008 Bond of a denomination of more than the minimum Authorized Denomination to be

* Final maturity.

redeemed shall be in the principal amount of an Authorized Denomination and that, in selecting portions of 2008 Bonds for redemption, the Trustee shall treat each 2008 Bond as representing that number of 2008 Bonds of said minimum Authorized Denomination which is obtained by dividing the principal amount of such 2008 Bond to be redeemed in part by said minimum Authorized Denomination. The Authority has directed the Trustee to notify DTC that in the event less than all of the 2008 Bonds of the same Series and like maturity and interest rate are to be redeemed, any such redemption shall be on a pro rata basis. The Authority and the Trustee are not making any representation relating to, and do not have any responsibility or obligation with respect to whether DTC will follow the direction to redeem 2008 Bonds on a pro rata basis in the event of a partial redemption, as described above.

Notice of Redemption. When the Trustee shall receive notice from the Authority of its election or direction to redeem 2008 Bonds pursuant to the appropriate 2008 Supplemental Indenture, and when redemption of Bonds is authorized or required pursuant to the appropriate 2008 Supplemental Indenture, the Trustee shall give notice, in the name of the Authority, of the redemption of such 2008 Bonds, which notice shall specify the maturities and interest rates of the 2008 Bonds to be redeemed, the date fixed for redemption and the place or places where amounts due upon such date fixed for redemption will be payable and, if less than all of the 2008 Bonds of the same Series and any like maturity and interest rate are to be redeemed, the letters and numbers or other distinguishing marks of such 2008 Bonds so to be redeemed, and, in the case of 2008 Bonds to be redeemed in part only, such notice shall also specify the respective portions of the principal amount thereof to be redeemed. Such notice shall further state that on such date there shall become due and payable the Redemption Price of each 2008 Bond to be redeemed, or the Redemption Price of the specified portions of the principal thereof in the case of 2008 Bonds to be redeemed in part only, together with interest accrued to the date fixed for redemption, and that from and after such date interest thereon shall cease to accrue and be payable. The Trustee shall mail copies of such notice by first-class mail, postage prepaid, not more than 60 days nor less than 15 days before the date fixed for redemption, to the Owners of the 2008 Bonds to be redeemed at their addresses as shown on the registration books of the Authority maintained by the Registrar. If the Trustee mails notices of redemption as provided in the Bond Indenture, notice shall be conclusively presumed to have been given to all Owners.

With respect to an optional redemption of any 2008 Bonds, unless moneys sufficient to pay the Redemption Price of, and interest on the 2008 Bonds to be redeemed shall have been received by the Trustee prior to the giving of such notice of redemption, such notice may, at the option of the Authority, state that said redemption shall be conditional upon the receipt of such moneys by the Trustee on or prior to the date fixed for redemption. If such moneys are not received, such notice shall be of no force and effect, the Authority shall not redeem such 2008 Bonds and the Trustee shall give notice, in the same manner in which the notice of redemption was given, that such moneys were not so received and that such 2008 Bonds will not be redeemed.

Notice having been given in the manner provided in the appropriate 2008 Supplemental Indenture, the 2008 Bonds or portions thereof so called for redemption shall become due and payable on the date fixed for redemption at the Redemption Price, plus interest accrued and unpaid to such date, and, upon presentation and surrender thereof at any place specified in such

notice, such 2008 Bonds, or portions thereof, shall be paid at the Redemption Price, plus interest accrued and unpaid to such date. If there shall be called for redemption less than all of a 2008 Bond, the Authority shall execute and the Trustee shall authenticate and the appropriate Fiduciary shall deliver, upon the surrender of such 2008 Bond, without charge to the Owner thereof, for the unredeemed balance of the principal amount of the 2008 Bond so surrendered, fully registered 2008 Bonds of like maturity and interest rate in any Authorized Denominations. If, on the date fixed for redemption, moneys for the redemption of all of the 2008 Bonds or portions thereof of like maturity and interest rate to be redeemed, together with interest to such date, shall be held by the Trustee so as to be available therefor on said date and if notice of redemption shall have been given as aforesaid, then, from and after the date fixed for redemption, interest on the 2008 Bonds or portions thereof of such maturity and interest rate so called for redemption shall cease to accrue and become payable. If said moneys shall not be so available on the date fixed for redemption, such 2008 Bonds or portions thereof shall continue to bear interest until paid at the same rate as they would have borne had they not been called for redemption.

BOOK-ENTRY ONLY SYSTEM

The 2008 Bonds shall be initially issued in the form of one or more fully registered 2008A Bond and 2008B Bond certificates for each maturity, in the aggregate principal amount of such maturity, with the same interest rate. Upon initial issuance, the ownership of each such 2008 Bond shall be registered in the registration books kept by the Trustee in the name of Cede & Co., as nominee of DTC, and except as hereinafter provided, the ownership of all of the outstanding 2008 Bonds shall be registered in the name of Cede & Co., as nominee of DTC. See APPENDIX D – “DTC AND THE BOOK-ENTRY ONLY SYSTEM AND GLOBAL CLEARANCE PROCEDURES.”

With respect to 2008 Bonds registered in the name of Cede & Co., as nominee of DTC, the Authority and the Trustee shall have no responsibility or obligation to any DTC Participant or to any person on behalf of whom such a DTC Participant holds an interest in the 2008 Bonds. Without limiting the immediately preceding sentence, the Authority and the Trustee shall have no responsibility or obligation with respect to (i) the accuracy of the records of DTC, Cede & Co. or any DTC Participant with respect to any ownership interest in any 2008 Bond, (ii) the delivery to any DTC Participant or any other Person, other than the Owner of any 2008 Bond, of any notice with respect to such 2008 Bond, (iii) the payment to any DTC Participant or any other Person, other than the Owner of any 2008 Bond, of any amount with respect to Principal or Redemption Price of or interest on such 2008 Bond or (iv) the allocation method for the pro-rata redemption of 2008 Bonds among DTC Participants and the beneficial owners of the 2008 Bonds.

The Authority, the Trustee and each other Paying Agent, if any, shall be entitled to treat and consider the Person in whose name each 2008 Bond is registered as the absolute owner of such 2008 Bond for the purpose of payment of Principal and interest with respect to such 2008 Bond, for the purpose of giving notices of redemption, for the purpose of registering transfers with respect to such 2008 Bond and for all other purposes whatsoever. The Trustee and each other Paying Agent, if any, shall pay all Principal of and interest on the 2008 Bonds only to or

upon the order of the respective Owners thereof, or their respective attorneys duly authorized in writing, and all such payments shall be valid and effective to satisfy and discharge fully the Authority's obligations with respect to payment of Principal of and interest on the 2008 Bonds to the extent of the sum or sums so paid. No Person other than an Owner of a 2008 Bond shall receive a 2008 Bond certificate of the applicable Series evidencing the obligation of the Authority to make payments of Principal of and interest on such 2008 Bonds pursuant to the appropriate 2008 Supplemental Indenture.

TRANSFERS AND EXCHANGES OF 2008 BONDS UPON ABANDONMENT OF BOOK-ENTRY-ONLY SYSTEM

The Owners of the 2008 Bonds have no right to the appointment or retention of a depository for such 2008 Bonds. DTC may resign as securities depository under the conditions provided in the Letter of Representations. In the event of any such resignation, the Authority shall (i) appoint a successor securities depository, qualified to act as such under Section 17(a) of the Securities Exchange Act of 1934, as amended, notify DTC of the appointment of such successor securities depository and transfer or cause the transfer of one or more separate 2008 Bond certificates to such successor securities depository or (ii) notify DTC of the availability through DTC of 2008 Bond certificates and transfer or cause the transfer of one or more separate 2008 Bond certificates to DTC Participants having 2008 Bonds credited to their DTC accounts. In such event, the 2008 Bonds shall no longer be restricted to being registered in the name of Cede & Co., as nominee of DTC, but may be registered in the name of the successor securities depository, or its nominee, or in whatever name or names the DTC Participants receiving 2008 Bonds shall designate, in accordance with the provisions of the appropriate 2008 Supplemental Indenture.

SOURCES AND USES OF FUNDS

The following table sets forth the estimated sources and uses of funds in connection with the issuance of the 2008 Bonds.

<i>SOURCES:</i>	2008A BONDS	2008B BONDS	TOTAL
Principal Amount of the 2008 Bonds	<u>\$1,297,175,000.00</u>	<u>\$ 639,680,000.00</u>	<u>\$1,936,855,000.00</u>
Total Sources	\$1,297,175,000.00	\$ 639,680,000.00	\$1,936,855,000.00
 <i>USES:</i>			
Deposit to Capitalized Interest Accounts ⁽¹⁾	\$ 72,095,273.30	\$ 80,234,188.28	\$ 152,329,461.58
Deposit to Retirement Plan	1,110,500,000.00	-0-	1,110,500,000.00
Deposit to Health Care Trust	-0-	528,800,000.00	528,800,000.00
Deposit to Series Debt Service Reserve Accounts ⁽²⁾	104,866,014.40	25,856,937.30	130,722,951.70
Costs of Issuance ⁽³⁾	<u>9,713,712.30</u>	<u>4,788,874.42</u>	<u>14,502,586.72</u>
Total Uses	\$1,297,175,000.00	\$ 639,680,000.00	\$1,936,855,000.00

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- (1) Funds will be deposited into the Capitalized Interest Account established under each of the 2008 Supplemental Indentures that are expected to be sufficient to provide for the payment of scheduled interest on the 2008A Bonds to June 1, 2009 and on the 2008B Bonds to June 1, 2010 (plus an additional amount equal to 11 days of interest on the 2008B Bonds). All amounts in excess of the amounts necessary for such purpose will be transferred to the applicable Series Interest Account of the Debt Service Fund under the Bond Indenture.
 - (2) The initial deposit to the 2008A Debt Service Reserve Account is in excess of the \$52,433,007.20 Reserve Requirement. The 2008B Debt Service Reserve Account is funded in an amount equal to its Reserve Requirement.
 - (3) Includes Underwriters' Discount.

SOURCES OF PAYMENT OF THE 2008 BONDS

GENERAL

The principal sources of payment for the 2008 Bonds are (i) the Sales Tax Receipts received by the CTA from the RTA and deposited into the Sales Tax Receipt Fund established under the Master Indenture and (ii) the Transfer Tax Receipts received by the CTA from the City pursuant to the terms of the Intergovernmental Agreement dated March 26, 2008 between the Authority and the City (the "Intergovernmental Agreement") and deposited into the Transfer Tax Receipts Fund established under the Master Indenture.

In the Master Indenture, the Authority covenants to comply with all applicable laws, including all provisions of the RTA Act and the Authority Act, in order to be eligible to receive the Sales Tax Receipts and the Transfer Tax Receipts for the payment of the 2008 Bonds and all other Parity Obligations and to facilitate the payment of the Sales Tax Receipts and the Transfer Tax Receipts to the Authority.

SALES TAX RECEIPTS

General. The Sales Tax Receipts include all amounts received by the Authority from the RTA representing the Authority's share of (i) the RTA Sales Tax, (ii) amounts paid to the RTA by the State from transfers to (a) the Regional Transportation Authority Occupation and Use Tax Replacement Fund, (b) the Public Transportation Fund and (c) the Regional Transportation Authority tax fund created under the RTA Act from the County and Mass Transit District Fund (the "RTA County and Mass Transit Fund") and (iii) funds derived by RTA from any other source designated by law as a replacement source of funds for all or a portion of the RTA tax receipts described in clause (i), or the State payments described in clause (ii), above. See "HISTORICAL AND PRO FORMA REVENUES—Sales Tax Receipts" for a discussion of historical collections of RTA Sales Taxes and factors affecting their collection.

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

The RTA Sales Tax, net of applicable retailers' discount, is collected by the State Department of Revenue 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 created under the RTA Act (the "RTA Tax Fund"). Moneys in the RTA Tax Fund are payable monthly, without appropriation, by the State Treasurer on the order of the State Comptroller directly to a trustee appointed pursuant to the RTA Act (the "RTA Trustee"), to serve as security for debt service on all RTA bonds and notes (the "RTA Obligations"). Pursuant to the RTA Act, the RTA adopted a Bond and Note General Ordinance on August 8, 1985 (as supplemented and amended, the "RTA General Ordinance"), which provides, among other things, for the assignment and direct payment of all RTA Sales Taxes to the RTA Trustee with respect to the RTA Obligations. The 2008 Bonds do not constitute RTA Obligations and are not secured by the RTA Sales Tax collections segregated with the RTA Trustee. After the RTA Trustee has made all required deposits and payments with respect to the debt service on RTA Obligations, the RTA Trustee transfers all remaining RTA Sales Tax proceeds to the RTA for its corporate purposes, including distribution to the Authority and the other Service Boards. Pursuant to the RTA Act, the RTA is required to pay to the Authority and the other Service Boards the remainder of the RTA Sales Tax pursuant to distribution ratios in the RTA Act and described in this Official Statement. Then, upon receipt by the Authority of its distribution from the RTA, those proceeds become Sales Tax Receipts.

The RTA is also authorized by the RTA Act to impose certain other taxes which it currently does not impose, including, but not limited to: (i) a tax on the gross receipts from automobile rentals at a rate not to exceed 1% in Cook County and 0.25% in the Collar Counties; (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 RTA Sales Taxes currently imposed by the RTA without additional legislative authority.

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

Replacement Revenues. In an attempt to simplify the rate structures and tax base for sales taxes imposed by the State and local governments, including the RTA, the Illinois General Assembly enacted a sales tax reform act (the "Sales Tax Reform Act"). Effective January 1, 1990, the Sales Tax Reform Act increased the rate for the State Retailers Occupation Tax, State Service Occupation Tax and State Use Taxes (collectively, the "State Sales Tax") and reduced sales tax rates imposed by local governments, including the RTA. At that time, the RTA Sales Tax rate was reduced to its level immediately preceding the increases made by P.A. 95-0708. 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 Tax Fund are not subject to annual appropriation and are paid monthly by the State Treasurer to or on behalf of the RTA.

Public Transportation Fund Revenues. Public Transportation Fund Revenues are amounts paid to or on behalf of the RTA from the Public Transportation Fund in the State Treasury. Pursuant to an irrevocable and continuing appropriation by the Illinois General Assembly, each month the State Comptroller 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 (i) 80% of the proceeds of the Food and Drug Tax, (ii) 75% of the proceeds of the General Sales Tax imposed by the RTA in Cook County, (iii) one-third of the proceeds of the General Sales Tax imposed by the RTA in the Collar Counties, (iv) 25% of the amount deposited in the RTA County and Mass Transit Fund, and (v) 25% of the amounts deposited into the RTA Occupation and Use Tax Replacement Fund from the State and Local Sales Tax Reform Fund.

Pursuant to P.A. 95-0708, the State Comptroller also orders and the State Treasurer shall transfer each month from the State General Revenue Fund to the Public Transportation Fund in the State Treasury an amount equal to 5% of the net revenues from any imposed RTA Sales Tax and 5% of the revenue realized by the Authority from the Transfer Tax Receipts. Beginning in

January 2009, the State Comptroller shall order and the State Treasurer shall transfer each month 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 (i) 20% of the proceeds of the Food and Drug Tax, (ii) 25% of the proceeds of the General Sales Tax imposed by the RTA in Cook County, (iii) one-third of the proceeds of the General Sales Tax imposed by the RTA in the Collar Counties, and (iv) 25% of the revenue realized by the Authority from the Transfer Tax Receipts. Public Transportation Fund Revenues may not be paid to the RTA until the RTA has certified to the Governor, the State Comptroller and the Mayor of the City that it has adopted for that Fiscal Year a budget and two-year financial plan meeting the requirements of the RTA Act. In each year since the RTA has been statutorily required to do so, it has certified that its budget has met the requirements of the RTA Act.

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

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

Distribution of RTA Sales Tax, Replacement Revenues and Public Transportation Fund Revenues. The RTA Sales Taxes, Replacement Revenues and Public Transportation Fund Revenues to be applied to the payment of the 2008 Bonds are distributed to the Authority as described herein. Prior to the effectiveness of the tax increases imposed by P.A. 95-0708, the RTA retained 15 percent of the RTA sales taxes then imposed and passed the remaining 85 percent to the Service Boards according to the following formula that is specified in the RTA Act and summarized in the Table below. In addition to distributions of the additional taxes imposed by P.A. 95-0708, the CTA will continue to receive the statutory distribution summarized in the Table below of the 1% portion of the RTA sales tax rate imposed in Chicago and Cook County. RTA estimates that collections of sales taxes will equal \$766.1 million in 2008, prior to collections of the additional taxes imposed by P.A. 95-0708 and not including the Public Transportation Fund Revenues described below, with CTA’s share equal to approximately \$303.3 million.

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

Additionally, the RTA distributes to the CTA and other Service Boards discretionary operating funds from its 15% retainage of collections of sales taxes imposed at the rates imposed prior to the effectiveness of P.A. 95-0708, after payment of the RTA Obligations, of the historically collected sales taxes and the 25% match from Public Transportation Fund Revenues received from the State on such sales tax collections. RTA's 2008 estimate of its 15% share of the RTA Sales Tax is \$114.9 million and of the Public Transportation Fund Revenues is \$191.5 million. RTA estimates its 2008 distribution of discretionary operating funds to CTA at \$198.1 million. Table III under "HISTORICAL AND PRO FORMA REVENUES" summarizes CTA's share of discretionary operating funds during the period from 1998 through 2008. The CTA anticipates that it will continue to receive discretionary operating funds from the RTA in the future.

P.A. 95-0708 provides the CTA with a broader participation in the Region's sales tax base. The new law provides a .25% increase in the RTA Sales Tax in each of Cook, DuPage, Kane, Lake, McHenry and Will Counties. This new tax is pooled together with the Public Transportation Fund state match on the new tax and an additional 5% Public Transportation Fund state match on all RTA Sales Tax and the Transfer Tax Receipts. A portion of the Public Transportation Fund Revenues will be phased in and fully effective in 2010. Prior to a statutory distribution of these funds (collectively, the "New Regional Sales Tax Receipts") to the Service Boards, funds are first distributed as follows: \$100 million to the ADA paratransit services, \$20 million to the Suburban Community Mobility Fund and \$10 million to Innovation, Coordination and Enhancement Fund. The remaining funds are then divided among the three Service Boards: CTA (48 percent), Metra (39 percent) and Pace (13 percent) according to the statutory formula. For the nine months of 2008 in which the P.A. 95-0708 funding elements are in place, the CTA estimates its share of those funds to be \$57.4 million.

In addition to the New Regional Sales Tax Receipts, P.A. 95-0708 also authorizes the City to enact a new Real Estate Transfer Tax, as described below under "TRANSFER TAX RECEIPTS." The Transfer Tax Receipts and the 25% Public Transportation Fund state match of the Transfer Tax Receipts is distributed to the CTA. In 2008 this revenue is estimated at \$63.0 million. See "SOURCES OF PAYMENT FOR THE 2008 BONDS—Sales Tax Receipts – *RTA Sales Tax*" and "—Transfer Tax Receipts."

MANDATORY FUNDING OF AUTHORITY'S RETIREMENT PLAN CONTRIBUTIONS FROM SALES TAX RECEIPTS

The RTA is required to review continually the Authority's payment of required contributions to the Retirement Plan. Beginning January 1, 2009, if at any time the RTA determines that the Authority's payment of any portion of the required contributions to the Retirement Plan is more than one month overdue, the RTA is required as soon as possible to pay the amount of the overdue contributions to the Retirement Plan Board on behalf of the Authority out of moneys otherwise payable to the Authority, which includes moneys derived from Sales Tax Receipts, and to give notice to the Authority and certain other parties of such payment. Any such diversion by the RTA to the Retirement Plan will reduce the amount of funding available to pay debt service on the 2008 Bonds and may have an adverse impact on the financial condition and operations of the Authority. However, any such diversion of funds by the RTA will not impact the Authority's collection of Transfer Tax Receipts.

IMPACT OF MANDATED LOCAL ASSISTANCE ON AUTHORITY REVENUES

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

TRANSFER TAX RECEIPTS

The Transfer Tax Receipts consist of amounts received by the Authority from the City pursuant to the Intergovernmental Agreement derived from collections by the City of a supplemental tax upon the privilege of transferring title to, or beneficial interest in, real property located in the City. This supplemental tax has been imposed by the City at the rate of \$1.50 per \$500.00 of the transfer price for transfers taking place on or after April 1, 2008.

Pursuant to the Municipal Code of Chicago and the Illinois Municipal Code, the City imposes a tax upon the privilege of transferring title to, or beneficial interest in, real property located in the City (the "Real Estate Transfer Tax" or "RETT"). The base tax is at the rate of \$3.75 per \$500.00 of the transfer price of the real property or the beneficial interest subject to the tax.

In order to provide financial assistance to the Authority, the City has imposed a supplemental Real Estate Transfer Tax at the rate of \$1.50 per \$500.00 of the transfer price for transfers taking place on or after April 1, 2008 (the “City Transfer Tax”). Pursuant to the terms of the Intergovernmental Agreement, the City’s Department of Revenue collects and remits the City Transfer Tax to the Authority on the last business day of the month following the month of collection, net of certain collection fees and costs and refunds. The amount so remitted to the Authority is referred to herein as the “Transfer Tax Receipts.” See “HISTORICAL AND PRO FORMA REVENUES—Historical Pro Forma Transfer Tax Receipts.”

By its terms, the Intergovernmental Agreement will not expire prior to the final maturity of the 2008 Bonds. In the Master Indenture, the Authority pledges for the benefit of the Parity Obligations all of its rights to receive City Transfer Taxes and further covenants that it will not enter into any agreement modifying or amending any of the provisions of the Intergovernmental Agreement if such modification or amendment would materially lessen, postpone or restrict the payment of City Transfer Taxes to the Authority under the provisions of the Intergovernmental Agreement.

SECURITY FOR THE 2008 BONDS

PLEDGE OF SECURITY

In the Master Indenture, the following sources are pledged for the payment of the principal and Redemption Price of, and interest on, the Bonds and the payment of Section 206 Obligations and Section 207 Obligations (all as defined below):

- (i) the Sales Tax Receipts Fund, subject however to the PBC Parity Pledge Rights⁽¹⁾ and any parity pledge of or lien on the Sales Tax Receipts Fund as security for the payment of Corporate Purpose Debt Payments;
- (ii) the Transfer Tax Receipts Fund;
- (iii) all moneys, securities and earnings thereon in all Funds, Sub-Funds, Accounts and Sub-Accounts established under the Master Indenture or any Supplemental Indenture, subject however to the right of the Authority to make periodic withdrawals of moneys not needed for the payment of debt service on the 2008 Bonds from the Sales Tax Receipts Fund, the Transfer Tax Receipts Fund and the Debt Service Fund free from the lien of the Bond Indenture, as permitted by the terms of the Bond Indenture; and
- (iv) any and all other moneys and securities furnished from time to time to the Trustee by the Authority or on behalf of the Authority or by any other persons to be held by the Trustee under the terms of the Bond Indenture.

⁽¹⁾ The Authority entered into a Lease Agreement dated as of March 31, 2003, as amended, with the Public Building Commission of Chicago. The final rental payment under the Lease Agreement is due on February 15, 2033 and the maximum PBC Annual Rent thereunder is approximately \$6,191,000.

“*Bonds*” includes any bond, including any Pension Funding Bond (including the 2008A Bonds), any Retiree Health Care Funding Bond (including the 2008B Bonds) and any Refunding Bond issued under the Master Indenture. “*Section 206 Obligations*” are payment obligations incurred by the Authority to any one or more Swap Providers pursuant to the Master Indenture. “*Section 207 Obligations*” are any obligations incurred by the Authority to reimburse the issuer or issuers of one or more Credit Facilities securing one or more Series of Bonds, including any fees or other amounts payable to the issuer of any such Credit Facilities, whether such obligations are set forth in one or more reimbursement agreements entered into between the Authority and the Credit Bank, or in one or more notes or other evidences of indebtedness executed and delivered by the Authority pursuant thereto, or any combination thereof. See APPENDIX A – “DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—Definition of Certain Terms.”

The Master Indenture provides that Pension Funding Bonds, Retiree Health Care Funding Bonds and Refunding Bonds may be issued under and in accordance with its terms, as summarized in APPENDIX A, “DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – The Indenture—Authorization of Parity Obligations,” “—Pension Funding Bonds,” “—Retiree Health Care Funding Bonds” and “—Refunding Bonds.” In accordance with the requirements of the Master Indenture and the Authority Act applicable to all Bonds, scheduled payments of interest must commence within one year after the Bonds are issued, debt service on the Bonds in 2009 must be 70%, 80% in 2010 and 90% in 2011 of debt service in 2012, with substantially equal debt service beginning in 2012 and each year thereafter, and all Bonds must mature no later than December 31, 2040. Under the Authority Act, “substantially equal” means that debt service in any full year after 2011 is not more than 15% of debt service in any other full year after 2011 during the term of the Bonds.

PLEDGE AND AGREEMENT OF THE STATE

In the Authority Act, the State pledges and agrees with the Owners of the 2008 Bonds that the State will not limit the powers vested in the Authority by the Authority Act to pledge and assign its revenues and funds as security for the payment of the 2008 Bonds, or vested in the RTA by the RTA Act or the Authority Act, so as to materially impair the payment obligations of the Authority under the terms of any contract made by the Authority with the Owners or materially impair the rights and remedies of the Owners until the 2008 Bonds, together with interest and any redemption premium, and all costs and expenses in connection with any action or proceedings by or on behalf of the Owners are fully met and discharged.

The pledge and agreement described above does not limit the powers of the RTA to incur additional obligations pursuant to any lawful act of the General Assembly of the State, which obligations may be payable from moneys that would otherwise be available for transfer to the Authority for deposit into the Sales Tax Receipts Fund.

LIMITED OBLIGATIONS

The 2008 Bonds and all other Parity Obligations are limited obligations of the Authority payable solely from the sources pledged for their payment in accordance with the Bond

Indenture and described above under “Pledge of Security.” The Parity Obligations are not, and shall not constitute an indebtedness of the RTA or the State or of any other political subdivision of or municipality within the State, except the Authority. No lien upon any physical properties of the Authority is or may be created by the Bond Indenture. The Authority has no taxing power.

ESTABLISHMENT OF FUNDS AND ACCOUNTS; DEPOSIT AND APPLICATION OF TAX RECEIPTS

In the Master Indenture, the Authority establishes the Sales Tax Receipts Fund, the Transfer Tax Receipts Fund and the Debt Service Fund, each of which are part of the Trust Estate. The Authority will hold the Sales Tax Receipts Fund and the Transfer Tax Receipts Fund and the Trustee will hold the Debt Service Fund. Subject to use and application in accordance with the Bond Indenture, all of the moneys and securities held in the Sales Tax Receipts Fund, the Transfer Tax Receipts Fund and the Debt Service Fund are pledged as security for the payment of the principal of, redemption premium, if any, and interest on, the Parity Obligations and are subject to the lien of the Bond Indenture.

For a graphical representation of the deposit and application of the Sales Tax Receipts, the Transfer Tax Receipts and other sources pledged to the payment of the 2008 Bonds. See “Flow of Funds” below.

Deposit and Application of Tax Receipts

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

The Authority covenants and agrees to withdraw from the Transfer Tax Receipts Fund and pay to the Trustee for deposit into the Debt Service Fund, not later than the 20th day of each calendar month, the lesser of (i) the entire sum then held in the Transfer Tax Receipts Fund or (ii) the sum required to make all of the Sub-Fund Deposits and Other Required Deposits to be disbursed from the Debt Service Fund in that calendar month pursuant to the Bond Indenture.

Subject to the parity claims described in the following two paragraphs, the Authority covenants and agrees to withdraw from the Sales Tax Receipts Fund and pay into the Debt Service Fund, immediately after any payment to the Trustee described above and in any event not later than the 20th day of each calendar month, the remaining sum required (after taking into account the payments (if any) made to the Trustee in that month from the Transfer Tax Receipts Fund) to make all of the Sub-Fund Deposits and Other Required Deposits to be disbursed from the Debt Service Fund in that calendar month pursuant to the Bond Indenture.

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

interest payment date and (ii) in the case of principal, 12 months prior to the principal payment date.

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

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

Disbursements from Debt Service Fund

The moneys in the Debt Service Fund shall be disbursed and applied by the Trustee as required to make the deposits on the dates and in the amounts provided by a Supplemental Indenture creating a Series of Bonds, or by an instrument creating Section 206 Obligations or Section 207 Obligations, which in the case of the 2008 Bonds is described below.

Creation of Dedicated Sub-Fund. Each 2008 Supplemental Indenture establishes with the Trustee a separate and segregated Sub-Fund within the Debt Service Fund related to a particular Series of 2008 Bonds (the “Series Dedicated Sub-Fund”). Moneys on deposit in the Series Dedicated Sub-Fund, and in each Account established therein as hereinafter provided, shall be held in trust by the Trustee for the sole and exclusive benefit of the Owners of the 2008 Bonds to which such Series Dedicated Sub-Fund relates (the “Related Series 2008 Bonds”) and shall not be used or available for the payment of the other Series of 2008 Bonds or any other Parity Obligations, except as expressly provided in the Bond Indenture.

Creation of Dedicated Sub-Fund Accounts. Each 2008 Supplemental Indenture establishes with the Trustee separate Accounts within the related Series Dedicated Sub-Fund, designated as follows:

(i) *Capitalized Interest Account:* an Account to be designated the “Capitalized Interest Account” (the “Capitalized Interest Account”);

(ii) *Costs of Issuance Account:* an Account to be designated the “Costs of Issuance Account” (the “Costs of Issuance Account”);

(iii) *Debt Service Reserve Account:* an Account to be designated the “Debt Service Reserve Account” (the “Debt Service Reserve Account”);

(iv) *Principal Account:* an Account to be designated the “Principal Account” (the “Principal Account”); and

(v) *Interest Account:* an Account to be designated the “Interest Account” (the “Interest Account”).

Deposits into Dedicated Sub-Fund and Accounts. On the 25th day of each month, commencing August 25, 2008 (each such date a “Deposit Date”) there shall be deposited into the appropriate Series Dedicated Sub-Fund from amounts on deposit in the Debt Service Fund an amount equal to the aggregate of the amounts described in the following paragraph, which amounts shall have been calculated by the Trustee on the fifth day of each month (such aggregate amount with respect to any Deposit Date being referred to herein as the “Series Deposit Requirement”).

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

(i) for deposit into the Interest Account, an amount equal to the lesser of (A) one-sixth of the interest due on the Related 2008 Bonds on the next Interest Payment Date, other than interest payable from the Capitalized Interest Account; or (B) the amount required so that the sum held in the Interest Account, when added to the interest payable from the Capitalized Interest Account on the next Interest Payment Date, will equal the interest due on the Related 2008 Bonds on the next Interest Payment Date;

(ii) commencing on December 25, 2011, for deposit into the Principal Account, an amount equal to the lesser of (A) one-twelfth of the Principal due on the Related 2008 Bonds on the first day of December next ensuing, or (B) the amount required so that the sum then held in the Principal Account will equal the Principal due on the Related 2008 Bonds on the first day of December next ensuing;

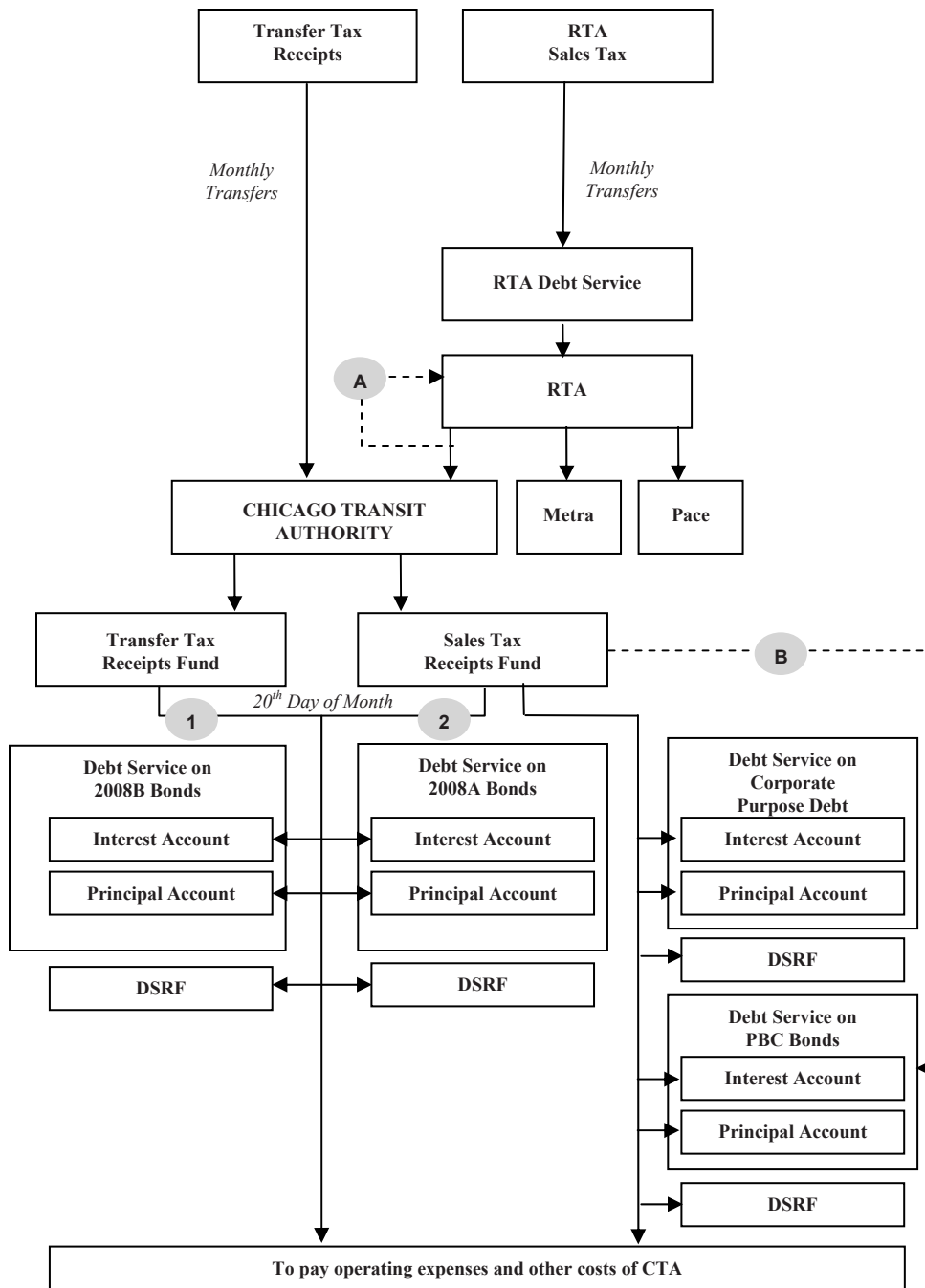
(iii) commencing on the first Deposit Date following any draw of moneys under any Qualified Reserve Account Credit Instrument, to the provider thereof as reimbursement for such draw, any amount specified by the Authority in a Certificate filed with the Trustee prior to such first Deposit Date, which Certificate shall specify the monthly deposit amounts (which shall be substantially equal amounts) to be made pursuant to this clause (iii) in order to fully restore the coverage of the Qualified Reserve Account Credit Instrument within one year of the date of initial draw thereunder; and

(iv) commencing on the first Deposit Date that the amount held in the Debt Service Reserve Account is less than the Reserve Requirement, any amount specified by the Authority in a Certificate filed with the Trustee prior to such first Deposit Date, which Certificate shall specify the monthly deposit amounts (which shall be substantially equal amounts) to be made in order to fully restore the amount held in the Debt Service Reserve Account to the Reserve Requirement within one year of the date of the initial deficiency in the Debt Service Reserve Account.

In addition to the Series Deposit Requirement, there shall be deposited into the Series Dedicated Sub-Fund any other moneys received by the Trustee under and pursuant to the Master Indenture or each 2008 Supplemental Indenture, when accompanied by directions from the person depositing such moneys that such moneys are to be paid into the Series Dedicated Sub-Fund and to one or more accounts in the Series Dedicated Sub-Fund.

Upon calculation by the Trustee of each Series Deposit Requirement, the Trustee shall notify the Authority of the Series Deposit Requirement and the Deposit Date to which it relates together with such supporting documentation and calculations as the Authority may reasonably request. If on any date no Event of Default then exists and there are moneys in the Debt Service Fund in excess of the amounts required to be disbursed as described above, then the Authority, pursuant to the written direction of the Authority expressed in a Certificate filed with the Trustee, may direct the withdrawal of such excess amount free from the lien of the Bond Indenture.

FLOW OF FUNDS



- 1 The CTA covenants to withdraw first from the Transfer Tax Receipts Fund and second, on a parity with amounts needed for any Corporate Purpose Debt, from Sales Tax Receipts Funds the amounts required for debt service in each month.
- 2 Sales Tax Receipts Funds the amounts required for debt service in each month.

A If the CTA's required contribution to the Retirement Plan is more than one month overdue, RTA is required to pay the overdue amount to the Retirement Plan Board out of moneys otherwise payable to CTA.

B In the event PBC pledge rights are in effect, CTA may make monthly allocations on a parity to the debt service fund sufficient to make the next PBC Rent payment.

DEBT SERVICE RESERVE ACCOUNT

A Debt Service Reserve Account is established under each 2008 Supplemental Indenture to be maintained in an amount equal to the applicable Reserve Requirement, which requirement may be satisfied in whole or in part with one or more Qualified Reserve Account Credit Instruments. The “Reserve Requirement” for each Related Series 2008 Bonds means, as of any date of calculation, an amount equal to fifty percent (50%) of the maximum amount of Principal and interest (exclusive of interest to be paid from the Capitalized Interest Account) payable on such Related Series 2008 Bonds in the then current or any future Bond Year.

The initial deposit to the 2008A Debt Service Reserve Account (defined below) is in excess of the Reserve Requirement. Such excess may be withdrawn by the Authority as permitted by the First Supplemental Indenture and as described herein.

Any Supplemental Indenture pursuant to which a Series is issued may establish a Debt Service Reserve Account and a series reserve account requirement with respect thereto. Pursuant to a Supplemental Indenture, the Authority may establish a Consolidated Debt Service Reserve Account and a reserve account requirement with respect to the Consolidated Debt Reserve Account. Any such Supplemental Indenture may provide that the reserve account requirement may be satisfied as a whole or in part with one or more Qualified Reserve Account Credit Instruments.

If at any time a Debt Service Reserve Account holds both a Qualified Reserve Account Credit Instrument and Investment Securities, the Investment Securities shall be liquidated and the proceeds applied for the purposes for which Debt Service Reserve Account moneys may be applied under the related Supplemental Indenture prior to any draw being made on the Qualified Reserve Account Credit Instruments. If a Debt Service Reserve Account holds Qualified Reserve Account Credit Instruments provided by more than one provider, draws shall be made under such Qualified Reserve Account Credit Instruments on a pro-rata basis to the extent of available funds.

If on the Business Day prior to any Interest Payment Date there shall not be a sufficient amount in the Interest Account and the Capitalized Interest Account available to provide for the payment of the interest on the Related Series 2008 Bonds due on such Interest Payment Date, the Trustee shall withdraw from the related Debt Service Reserve Account and pay into the related Interest Account the amount needed to cure such deficiency.

If on the Business Day prior to any Principal Payment Date there shall not be a sufficient amount in a Principal Account to provide for the payment of the Principal on the Related Series 2008 Bonds due on such Principal Payment Date, the Trustee, after making any withdrawal described in the preceding paragraph, shall withdraw from the related Debt Service Reserve Account and pay into the related Principal Account the amount needed to cure such deficiency.

If on any date all withdrawals or payments from the Debt Service Reserve Account established under the First Supplemental Indenture to secure the 2008A Bonds (the “2008A Debt

Service Reserve Account”) required by any other provision of the Bond Indenture or the First Supplemental Indenture shall have been made and no Event of Default then exists under the Bond Indenture, the Trustee, at the direction of the Authority expressed in a Certificate filed with the Trustee, shall withdraw from the 2008A Debt Service Reserve Account the amount of any excess therein over the Reserve Requirement and constituting interest earnings and either (a) deposit such moneys into any one or more of the Funds, Sub-Funds, Accounts or Sub-Accounts maintained under the Bond Indenture or the First Supplemental Indenture or (b) pay such moneys to the Authority free from the lien of the Bond Indenture.

If on any date all withdrawals or payments from the Debt Service Reserve Account established under the Second Supplemental Indenture to secure the 2008B Bonds (the “2008B Debt Service Reserve Account”) required by any other provision of the Bond Indenture or the Second Supplemental Indenture shall have been made and no Event of Default then exists under the Bond Indenture, the Trustee, at the direction of the Authority expressed in a Certificate filed with the Trustee, shall withdraw from the 2008B Debt Service Reserve Account the amount of any excess therein over the Reserve Requirement and either (a) deposit such moneys into any one or more of the Funds, Sub-Funds, Accounts or Sub-Accounts maintained under the Bond Indenture or the Second Supplemental Indenture or (b) pay such moneys to the Authority free from the lien of the Bond Indenture.

With respect to amounts on deposit in the 2008A Debt Service Reserve Account, the First Supplemental Indenture provides that if on any date all withdrawals or payments from the 2008A Debt Service Reserve Account required by any other provisions of the Bond Indenture shall have been made and no Event of Default then exists under the Bond Indenture, then, at the direction of the Authority expressed in a Certificate filed with the Trustee, any amount in the 2008A Debt Service Reserve Account in excess of the applicable Reserve Requirement may be withdrawn from the 2008A Debt Service Reserve Account and pursuant to said direction may be used for any of the following purposes: (1) paid over to the trustees of the Retirement Plan for deposit under the Retirement Plan as a contribution by the Authority in satisfaction of its funding obligation under the Authority Act; (2) deposited into the Interest Account established for the 2008A Bonds or (3) deposited into the Principal Account established for the 2008A Bonds.

At the direction of the Authority expressed in a Certificate filed with the Trustee, moneys in the Debt Service Reserve Account may be withdrawn from the Debt Service Reserve Account and deposited with the Trustee for the payment or defeasance of the Principal or Redemption Price of or the interest on the Related Series 2008 Bonds in accordance with the Bond Indenture, *provided* that immediately after such withdrawal the amount held in the Debt Service Reserve Account equals or exceeds the Reserve Requirement.

REFUNDING BONDS

The Master Indenture authorizes the issuance of Refunding Bonds to refund or advance refund any or all Outstanding Bonds of one or more Series, and any or all Outstanding Section 207 Obligations that constitute bonds or notes within the meaning of Section 12c of the Authority Act, subject to the condition among others, that there be delivered to the Trustee (i) a Certificate stating that the aggregate amount of all Sales Tax Receipts and Transfer Tax Receipts

received by the Authority for any period of 12 consecutive calendar months out of the 18 calendar months next preceding the date of issuance of such Series were at least equal to 200% of the Maximum Annual Coverage Requirement as of the time immediately following the issuance of such Series, or (ii) a Certificate evidencing that for the then current and each future Bond Year, the Annual Debt Service Requirements for each such Bond Year on account of all Bonds and Section 207 Obligations Outstanding as of the time immediately after the issuance of such Refunding Bonds does not exceed the Annual Debt Service Requirements for the corresponding Bond Year on account of all the Bonds and Section 207 Obligations Outstanding as of the time immediately prior to the issuance of such Refunding Bonds.

In applying the tests described in the preceding paragraph, (1) if any of the Bonds Outstanding immediately prior to or after the issuance of the Refunding Bonds to be issued constitute Optional Tender Bonds or Variable Rate Bonds, the provisions described in APPENDIX A – “DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—The Indenture—Variable Interest Rates” and “—Optional Tender Bonds and Variable Rate Bonds” shall be applied in determining the Annual Debt Service Requirements of such Bonds and of any Outstanding Section 207 Obligations and (2) if any Corporate Purpose Debt Obligation outstanding immediately prior to or after the issuance of the Refunding Bonds bears interest at variable rates, then the provisions described in APPENDIX A – “DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—The Indenture—Variable Interest Rates” and “—Optional Tender Bonds and Variable Rate Bonds” shall be applied in determining the Annual Coverage Requirement as if said Corporate Purpose Debt Obligation was a Bond.

CORPORATE PURPOSE DEBT OBLIGATIONS

In the Master Indenture, the Authority reserves the right to issue Corporate Purpose Debt Obligations under the terms and conditions described therein. “Corporate Purpose Debt Obligations” are defined in the Master Indenture as any bond, note, installment contract, financing contract, lease or other evidence of indebtedness (other than a Parity Obligation or the PBC Lease) that is payable from or secured by a pledge of or lien on the Sales Tax Receipts Fund on a parity with any lien on or pledge of the Sales Tax Receipts Fund granted by the Master Indenture as security for the payment of Parity Obligations. Corporate Purpose Debt Obligations are not issued under or secured by the Bond Indenture and are not entitled to the statutory protection against State action described above under “Pledge and Agreement of the State.”

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

the Annual Coverage Requirement for the corresponding Bond Year as of the time immediately prior to the issuance of such Corporate Purpose Debt Obligation. In applying the foregoing tests, (i) if any of the Bonds Outstanding immediately after the issuance of the Corporate Purpose Debt Obligations to be issued constitute Optional Tender Bonds or Variable Rate Bonds, the Annual Debt Service Requirements of such Bonds and of any Outstanding Section 207 Obligations will be determined as described in APPENDIX A – “DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—The Indenture—Variable Interest Rates” and “—Optional Tender Bonds and Variable Rate Bonds” and (ii) if any Corporate Purpose Debt Obligation outstanding immediately prior to or after the issuance of the Corporate Purpose Debt Obligation bears interest at variable rates, then the Annual Coverage Requirement will be determined described in APPENDIX A – “DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—The Indenture—Variable Interest Rates” and “—Optional Tender Bonds and Variable Rate Bonds.”

INVESTMENT OF BOND INDENTURE FUNDS

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

LIMITATIONS ON BONDHOLDER REMEDIES

There is no provision for the acceleration of the maturity of the 2008 Bonds if an Event of Default occurs under the Bond Indenture.

ANNUAL DEBT SERVICE REQUIREMENTS FOR THE 2008 BONDS

The following table sets forth the debt service requirements for the 2008 Bonds:

PERIOD ENDING DECEMBER 1	PRINCIPAL	INTEREST ⁽¹⁾	TOTAL
2008	\$ -0-	\$ 41,964,404.67	\$ 41,964,404.67
2009	-0-	131,366,832.00	131,366,832.00
2010	-0-	131,366,832.00	131,366,832.00
2011	-0-	131,366,832.00	131,366,832.00
2012	10,020,000	131,366,832.00	141,386,832.00
2013	25,720,000	130,854,008.40	156,574,008.40
2014	27,040,000	129,537,658.80	156,577,658.80
2015	28,740,000	127,834,138.80	156,574,138.80
2016	30,550,000	126,023,518.80	156,573,518.80
2017	32,475,000	124,098,868.80	156,573,868.80
2018	34,520,000	122,052,943.80	156,572,943.80
2019	36,695,000	119,878,183.80	156,573,183.80
2020	39,010,000	117,566,398.80	156,576,398.80
2021	41,465,000	115,108,768.80	156,573,768.80
2022	44,080,000	112,496,473.80	156,576,473.80
2023	47,120,000	109,455,394.60	156,575,394.60
2024	50,370,000	106,204,585.80	156,574,585.80
2025	53,845,000	102,729,559.52	156,574,559.52
2026	57,560,000	99,014,792.96	156,574,792.96
2027	61,530,000	95,043,728.56	156,573,728.56
2028	65,775,000	90,798,773.86	156,573,773.86
2029	70,310,000	86,260,956.62	156,570,956.62
2030	75,165,000	81,410,269.72	156,575,269.72
2031	80,350,000	76,224,636.36	156,574,636.36
2032	85,895,000	70,681,289.86	156,576,289.86
2033	91,820,000	64,755,393.82	156,575,393.82
2034	98,150,000	58,420,732.00	156,570,732.00
2035	104,925,000	51,649,363.52	156,574,363.52
2036	112,165,000	44,410,587.76	156,575,587.76
2037	119,905,000	36,672,324.42	156,577,324.42
2038	128,170,000	28,400,078.46	156,570,078.46
2039	137,015,000	19,557,630.16	156,572,630.16
2040	<u>146,470,000</u>	<u>10,104,965.32</u>	<u>156,574,965.32</u>
TOTAL	\$1,936,855,000	\$3,024,677,758.59	\$4,961,532,758.59

(1) Scheduled interest on the 2008A Bonds will be funded to June 1, 2009 with proceeds of the 2008A Bonds and scheduled interest on the 2008B Bonds will be funded to June 1, 2010 (plus an additional amount equal to 11 days of interest on the 2008B Bonds) with proceeds of the 2008B Bonds.

HISTORICAL AND PRO FORMA REVENUES

SALES TAX RECEIPTS

RTA Sales Tax Collections. As shown in Table I, collections of RTA Sales Taxes (“RTA Sales Tax Collections”) grew from \$576.7 million in 1998 to approximately \$752.9 million in 2007. On a pro forma basis, taking into account the RTA Sales Tax increases discussed under the caption “SOURCES OF PAYMENT OF THE 2008 BONDS—Sales Tax Receipts – *RTA Sales Tax*,” RTA Sales Tax collections for 2008 are expected to be \$976.1 million. For most of the past two decades, revenues have grown more rapidly in the suburban areas of the Region, attesting to the more rapid population, employment, and income growth in these areas. For the years 1998 through 2007, RTA Sales Tax Collections grew at a compound annual growth rate of approximately 3.0%.

In 2001, the economy went into a recession early in the year. Throughout 2002 and 2003 the economy experienced a slower growth rate than in prior years and, as a result, RTA Sales Tax Collections decreased from \$654 million in 2001 to approximately \$648 million in 2002, representing a decline of 0.9%. RTA Sales Taxes of \$655 million in 2003 were 1.1% greater than RTA Sales Tax Collections for 2002. A return to economic growth resulted in annual growth in Sales Tax Receipts from 2002 through 2007, as shown in Table I.

TABLE I
RTA HISTORICAL
SALES TAX COLLECTIONS
1998-2007⁽¹⁾

YEAR	AMOUNT (MILLIONS)	PERCENT INCREASE/ (DECREASE)
1998	\$576.7	3.82%
1999	613.5	6.38
2000	650.3	5.99
2001	653.5	0.50
2002	647.7	(0.89)
2003	655.0	1.13
2004	675.6	3.15
2005	700.4	3.67
2006	746.8	6.63
2007	752.9	0.82
2008 ⁽²⁾	976.1	29.64

(1) RTA Historical Sales Tax Collections for the years 1998 through 2007 are based on the RTA sales tax imposed prior to the increases imposed by P.A. 95-0708.

(2) Pro Forma.

Source: Chicago Transit Authority.

CTA Sales Tax Receipts. As shown in Table II, the Sales Tax Receipts grew from \$230.6 million in 1998 to approximately \$302.0 million in 2007. On a pro forma basis, taking into account the RTA Sales Tax increases discussed under the caption “SOURCES OF PAYMENT OF THE 2008 BONDS—Sales Tax Receipts – RTA Sales Tax” the Sales Tax Receipts for 2008 are estimated to be \$360.7 million. For the years 1998 through 2007, Sales Tax Receipts grew at a compound annual growth rate of approximately 3.0%.

TABLE II
CTA SALES TAX RECEIPTS
1998-2008⁽¹⁾
(\$ in Millions)

	SALES TAX RECEIPTS FROM CITY OF CHICAGO	SALES TAX RECEIPTS FROM COOK COUNTY	NEW REGIONAL SALES TAX RECEIPTS ⁽²⁾	TOTAL CTA SALES TAX RECEIPTS	PERCENT INCREASE / (DECREASE)
1998	\$150.3	\$ 80.3	\$ -	\$230.6	-
1999	159.8	85.0	-	244.8	6.17%
2000	169.2	90.3	-	259.5	6.02
2001	167.8	91.2	-	258.9	(0.24)
2002	166.1	90.3	-	256.4	(0.99)
2003	168.6	90.9	-	259.5	1.22
2004	174.6	92.8	-	267.3	3.01
2005	182.0	95.2	-	277.2	3.70
2006	196.6	100.9	-	297.5	7.32
2007	201.3	100.8	-	302.0	1.53
2008 ⁽³⁾	200.2	103.1	57.4	360.8	19.45

(1) Sales Tax Receipts for the years 1998 through 2007 are based on the Authority’s distribution of the RTA sales tax prior to the increases imposed by P.A. 95-0708.

(2) Rates effective April 1, 2008, as contained in P.A. 95-0708. Amount represents nine months of projected Regional Sales Tax Increase.

(3) Pro Forma.

Source: Chicago Transit Authority.

Factors Affecting Sales Tax Receipts. The following categories of information represent some of the factors that may affect the actual amount of RTA Sales Tax Collections available for payment to the Authority and Sales Tax Receipts realized by the CTA and available for payment of debt service on the 2008 Bonds. A significant change from historical results in any one of these factors may have a material impact on the availability of Sales Tax Receipts and the ability of the Authority to pay debt service on the 2008 Bonds.

Legislative Action. Although as described under the caption “SECURITY FOR THE BONDS—Pledge and Agreement of the State,” the State has agreed to not limit the powers

vested in the Authority by the Authority Act to pledge and assign its revenues and funds as security for the payment of the 2008 Bonds, the Illinois General Assembly has the authority to amend the provisions of State law governing the RTA Sales Taxes. Changes to the tax base and exemptions could adversely affect the amount of RTA Sales Taxes collected by the RTA and made available to the Authority.

Changes in Economic and Demographic Conditions. Sales tax revenues historically have been sensitive to changes in local, regional and national economic conditions. For example, sales tax revenues have historically declined during economic recessions, when high unemployment adversely affects consumption. Demographic changes in the population of the Region may adversely affect the level of commercial and industrial activity in the Region and could reduce the number and value of taxable transactions and thus reduce the amount of Sales Tax Receipts. Certain demographic statistics related to the Region are included in Tables VI through IX under “— DEMOGRAPHIC TRENDS” below.

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

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

CTA Share of Discretionary Operating Funds. The amounts shown in Table III below represent discretionary operating funds allocated to the CTA at the discretion of the RTA. See “SOURCES OF PAYMENT OF THE 2008 BONDS—Sales Tax Receipts.”

TABLE III
CTA SHARE OF DISCRETIONARY OPERATING FUNDS
1998-2008
(\$ in Millions)

	DISCRETIONARY OPERATING FUNDS
1998	\$146.7
1999	140.0
2000	142.6
2001	160.1
2002	185.3
2003	194.0
2004	174.3
2005	164.4
2006	158.3
2007	162.3
2008	198.1

Source: Chicago Transit Authority.

Historical Pro Forma Transfer Tax Receipts. As described under the caption “SOURCES OF PAYMENT FOR THE 2008 BONDS—Transfer Tax Receipts,” the City Transfer Tax is applicable to transfers taking place on and after April 1, 2008. As a result, information regarding actual Transfer Tax Receipts is unavailable at this time. However, on a historical pro forma basis, based on the City’s actual collections of the Real Estate Transfer Tax, the corresponding amount of the City Transfer Tax that would have been allocated to the Authority as Transfer Tax Receipts is as follows:

TABLE IV
CTA HISTORICAL PRO FORMA TRANSFER TAX RECEIPTS
1998 TO 2007
(\$ in Millions)

YEAR	HISTORICAL PRO FORMA TRANSFER TAX RECEIPTS TO CTA
1998	\$34.9
1999	35.6
2000	40.7
2001	43.2
2002	50.3
2003	58.2
2004	76.3
2005	94.5
2006	96.9
2007	82.3

Source: Chicago Transit Authority, based upon information furnished by the City of Chicago.

Factors that may affect the actual amount of City Transfer Taxes available for payment to the Authority and payment of debt service on the 2008 Bonds include housing market downturns during times of recession. Depressed real estate values could discourage sales or otherwise negatively impact the number and value of real estate transfers. A significant reduction in the number or value of such transfers from historical results may have a material impact on the availability to the Authority of Transfer Tax Receipts.

PRO FORMA DEBT SERVICE COVERAGE

The table below sets forth Pro Forma Debt Service Coverage for the years 2009 through 2014. The Sales Tax Receipts and Transfer Tax Receipts are set forth on an historical pro forma basis using for each year the Sales Tax Receipts and Transfer Tax Receipts for fiscal year 2009, the first full fiscal year of collections following the imposition of the RTA Sales Tax at the rates authorized by P.A. 95-0708 and the imposition of the Real Estate Transfer Tax. The Sales Tax Receipts are divided between the RTA Sales Tax rates applicable prior to the increases contained in P.A. 95-0708 and the increases in rates provided in P.A. 95-0708. See “CHICAGO TRANSIT AUTHORITY—Funding” and “SOURCES OF PAYMENT OF THE 2008 BONDS—Sales Tax Receipts – RTA Sales Tax” and “– Transfer Tax Receipts.”

**TABLE V
PRO FORMA DEBT SERVICE COVERAGE
(\$ in Millions)**

	Fiscal Year Ending December 31		
	2008	2009	2010
Sales Tax Receipts from City of Chicago	\$200.2	\$200.2	\$200.2
Sales Tax Receipts from Cook County	103.1	103.1	103.1
New Regional Sales Tax Receipts ⁽¹⁾	57.4 ⁽²⁾	114.6	131.8
Discretionary Operating Funds	198.1	198.1	198.1
Transfer Tax Receipts	<u>63.0⁽²⁾</u>	<u>94.5</u>	<u>105.0</u>
Total CTA Sales Tax and Transfer Receipts	\$621.9	\$710.5	\$738.2
Annual Debt Service on 2008 Bonds	\$ 42.0	\$131.4	\$131.4
Annual Debt Service Coverage	14.8x	5.4x	5.6x
Maximum Annual Debt Service on 2008 Bonds	\$156.6	\$156.6	\$156.6
Maximum Annual Debt Service Coverage	4.0x	4.5x	4.7x

(1) Pro Forma Sales Tax Receipts resulting from rates increases contained in P.A. 95-0708; 2010 Fiscal Year is first full year of receipts.

(2) Rates effective on April 1, 2008. 2008 Fiscal Year represents nine months of collections.

Source: Chicago Transit Authority.

DEMOGRAPHIC TRENDS

The population of the Northeastern Illinois Transit Region has increased steadily. Between 1990 and 2000, the United States Census Bureau estimates that the Region grew from 7.3 million residents to 8.1 million residents, an increase of 11.2% as shown in Table VI.

TABLE VI
POPULATION TREND BY COUNTY
(in thousands)

COUNTY	1990	% OF TOTAL	2000	% OF TOTAL	% CHANGE
Cook	5,104	70.1	5,377	66.5	5.3
DuPage	786	10.8	904	11.2	15.0
Kane	320	4.4	404	5.0	26.2
Lake	520	7.2	644	7.9	23.8
McHenry	185	2.6	260	3.2	40.5
Will	<u>359</u>	<u>4.9</u>	<u>502</u>	<u>6.2</u>	<u>39.8</u>
Total	7,274	100.0%	8,091	100.0%	11.2%

Source: United States Census Bureau, derived from the decennial censuses.

Employment. Employment totals for 1980, 1990 and 2000 by County are presented in Table VII. The 16.1% employment growth in the Northeastern Illinois Transit Region shown between 1990 and 2000 outpaced the 11.2% population growth recorded by the United States Census Bureau over the past decade. In May 2008 the national unemployment rate was 5.5% compared to 6.4% for the State and the Region, respectively.

TABLE VII
EMPLOYMENT TRENDS BY COUNTY
(in thousands)

COUNTY	1980	% OF TOTAL	1990	% OF TOTAL	2000	% OF TOTAL
Cook	2,913	78.6	3,135	72.5	3,350	66.7
DuPage	289	7.8	509	11.8	709	14.1
Kane	134	3.6	175	4.0	242	4.8
Lake	211	5.7	299	6.9	419	8.3
McHenry	57	1.5	84	1.9	118	2.3
Will	<u>102</u>	<u>2.8</u>	<u>125</u>	<u>2.9</u>	<u>185</u>	<u>3.8</u>
Total	3,706	100.0%	4,327	100.0%	5,023	100.0%

Source: U.S. Department of Commerce-Bureau of Economic Analysis.

Suburban jurisdictions have led the Region in employment growth since 1990. The total employment in the five “collar” counties is approximately 33% of the Region’s total. Cook County now makes up about 67% of the total, compared to 1980, when Cook County made up 79% of the Region’s work force. Employment levels were at 3.7 million for the Region in 1980, 4.3 million in 1990, and at 5.0 million in 2000.

The employment distribution trend in the Region by economic sectors is illustrated in Table VIII. The most dynamic growth has taken place in the service sector, with the biggest loss in the manufacturing sector.

TABLE VIII
EMPLOYMENT DISTRIBUTION BY INDUSTRY
(in thousands)

INDUSTRY	1980	% OF TOTAL	1990	% OF TOTAL	2000	% OF TOTAL
Services	862	23.3	1,273	29.4	1,727	34.4
Retail	573	15.5	666	15.4	730	14.6
Manufacturing	812	21.9	667	15.4	632	12.6
Government	477	12.9	501	11.6	543	10.8
Finance, Insurance, & Real Estate	334	9.0	437	10.1	519	10.1
Wholesale	268	7.2	297	6.9	293	5.8
Transportation and Public Utilities	205	5.5	246	5.7	293	5.8
Construction	144	3.9	204	4.7	247	4.9
Other	<u>31</u>	<u>0.8</u>	<u>36</u>	<u>0.8</u>	<u>49</u>	<u>0.9</u>
Total	3,706	100.0%	4,327	100.0%	5,033	100.0%

Source: U.S. Department of Commerce-Bureau of Economic Analysis.

Income. The Region experienced steady growth in wages and salaries throughout the late 1990s. The income levels of residents of the Region are relatively higher than the nation as a whole. Within the six counties of the Region, per capita income is highest in DuPage and Lake Counties, as illustrated in Table IX.

TABLE IX
REGION PER CAPITA INCOME

COUNTY	1980	1990	2000
Cook	\$11,884	\$22,186	\$33,918
DuPage	13,985	28,067	46,235
Kane	11,410	21,196	30,677
Lake	13,432	29,054	46,203
McHenry	11,558	21,966	33,365
Will	10,564	18,963	29,948

Source: U.S. Department of Commerce-Bureau of Economic Analysis.

LEGAL MATTERS

Legal matters incident to the issuance of the 2008 Bonds are subject to the approving opinions of Katten Muchin Rosenman LLP, Chicago, Illinois, Burke Burns & Pinelli, Ltd., Chicago, Illinois and Gonzalez, Saggio and Harlan, L.L.C., Chicago, Illinois, Co-Bond Counsel (“Co-Bond Counsel”). The proposed form of the opinions to be delivered by Co-Bond Counsel is attached hereto as APPENDIX F. Approval of certain other legal matters will be passed upon for the Authority by its General Counsel, and for the Underwriters by Perkins Coie LLP, Chicago, Illinois, Chapman and Cutler LLP, Chicago, Illinois, Charity & Associates, P.C., Chicago, Illinois and Golden & Associates, P.C., Chicago, Illinois, Co-Underwriters Counsel.

TAX MATTERS

GENERAL

Interest on the 2008 Bonds is not excludable from gross income for federal income tax purposes. In addition, interest on the 2008 Bonds is not exempt from State of Illinois income taxes.

CERTAIN UNITED STATES FEDERAL INCOME TAX CONSEQUENCES

The following is a summary of the principal United States federal income tax consequences of ownership of 2008 Bonds. It deals only with 2008 Bonds held as capital assets by initial purchasers, and not with special classes of holders, such as dealers in securities or currencies, banks, tax-exempt organizations, life insurance companies, persons that hold 2008 Bonds that are a hedge or that are hedged against currency risks or that are part of a straddle or conversion transaction, or persons whose functional currency is not the U.S. dollar. The summary is based on the Internal Revenue Code of 1986, as amended (the “Code”), its legislative history, existing and proposed regulations thereunder, published rulings and court decisions, all as currently in effect and all subject to change at any time, perhaps with retroactive effect.

Prospective purchasers of 2008 Bonds should consult their own tax advisors concerning the consequences, in their particular circumstances, under the Code and the laws of any other taxing jurisdiction, of ownership of 2008 Bonds.

UNITED STATES HOLDERS

Payments of Interest

Interest on the 2008 Bonds will be taxable to a United States Holder (as defined below) as ordinary income at the time it is received or accrued, depending on the holder’s method of accounting for tax purposes in accordance with generally applicable principles.

You are a United States Holder for purposes of this discussion if you are a beneficial owner of a 2008 Bond for U.S. federal income tax law purposes and you are:

- a citizen or resident of the United States;
- a corporation or partnership which is created or organized in or under the laws of the United States or of any political subdivision thereof;
- an estate the income of which is subject to United States federal income taxation regardless of its source; or
- a trust if (1) a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust or (2) the trust was in existence on August 10, 1996 and properly elected to continue to be treated as a U.S. person.

The term “Non-U.S. Holder” refers to any beneficial owner of a 2008 Bond who or which is not a United States Holder.

ORIGINAL ISSUE DISCOUNT

In general, if the excess of a 2008 Bond’s stated redemption price at maturity over its issue price is less than one-quarter of one percent (0.25%) of the 2008 Bond’s stated redemption price at maturity multiplied by the number of complete years to its maturity, then such excess, if any, constitutes de minimis original issue discount. In such case, the 2008 Bond is not considered to be a 2008 Bond issued with original issue discount that is required to be included in income calculated using a constant-yield method without regard to the receipt of cash attributable to such income. Such excess will be treated as gain recognized upon retirement of the 2008 Bond.

SALE AND RETIREMENT OF THE 2008 BONDS

United States Holders of 2008 Bonds will recognize gain or loss on the sale, redemption, retirement or other disposition of such 2008 Bonds. The gain or loss is measured by the difference between the amount realized on the disposition of the 2008 Bond and the United States Holder’s adjusted tax basis in the 2008 Bond. Such gain or loss will be capital gain or loss, except to the extent of accrued market discount not previously included in income, and will be long term capital gain or loss if at the time of disposition such 2008 Bond has been held for more than one year.

UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS FOR NON-U.S. HOLDERS

Withholding Tax on Payments of Principal and Interest on 2008 Bonds. Generally, payments of principal and interest on a 2008 Bond will not be subject to U.S. federal withholding tax, *provided* that in the case of an interest payment:

- you are not a bank to whom the 2008 Bonds would constitute an extension of credit made pursuant to a loan agreement entered into in the ordinary course of your trade or business; and
- either (A) the beneficial owner of the 2008 Bond certifies to the applicable payor or its agent, under penalties of perjury on an IRS Form W-8BEN (or a suitable substitute form), that such owner is not a United States person and provides such owner's name and address or (B) with respect to the 2008 Bonds maturing on December 1, 2013, a securities clearing organization, bank or other financial institution, that holds customers' securities in the ordinary course of its trade or business (a "financial institution") and holds the 2008 Bond, certifies under penalties of perjury that such an IRS Form W-8BEN (or suitable substitute form) has been received from the beneficial owner by it or by a financial institution between it and the beneficial owner and furnishes the payor with a copy thereof.

Except to the extent otherwise provided under an applicable tax treaty, you generally will be taxed in the same manner as a United States Holder with respect to interest and original issue discount payments on a 2008 Bond if such interest and original issue discount is effectively connected with your conduct of a trade or business in the United States. Effectively connected interest and original interest discount received by a corporate Non-U.S. Holder may also, under certain circumstances, be subject to an additional "branch profits tax" at a 30% rate (or, if applicable, a lower treaty rate), subject to certain adjustments. Such effectively connected interest and original issue discount will not be subject to withholding tax if the holder delivers an IRS Form W-8ECI to the payor.

Gain on Disposition of the 2008 Bonds. You generally will not be subject to U.S. federal income tax on gain realized on the sale, exchange or redemption of a 2008 Bond unless:

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

U.S. Federal Estate Tax. A 2008 Bond held by an individual who at the time of death is not a citizen or resident of the United States (as specially defined for U.S. federal estate tax purposes) will not be subject to United States federal estate tax if at the time of the individual's

death, payments with respect to such 2008 Bond would not have been effectively connected with the conduct by such individual of a trade or business in the United States. The United States federal estate tax recently was repealed; however, the repeal does not take effect until 2010. In addition, the legislation repealing the estate tax expires in 2011, and thus the estate tax will be reinstated at that time unless future legislation extends the repeal.

BACKUP WITHHOLDING AND INFORMATION REPORTING

United States Holders. Information reporting will apply to payments of interest made by the State, or the proceeds of the sale or other disposition of the 2008 Bond with respect to certain non-corporate U.S. holders, and backup withholding may apply unless the recipient of such payment supplies a taxpayer identification number, certified under penalties of perjury, as well as certain other information or otherwise establishes an exemption from backup withholding. Any amounts withheld under the backup withholding rules may be allowed as a refund or a credit against that holder's U.S. federal income tax liability provided the required information is furnished to the IRS.

Non-U.S. Holders. Backup withholding and information reporting on Form 1099 will not apply to payments of principal and interest on the 2008 Bonds by the Authority or its agent to a Non-U.S. Holder provided the Non-U.S. Holder provides the certification described above under "United States Federal Income Tax Considerations for Non-U.S. Holders-Withholding Tax on Payments of Principal and Interest on 2008 Bonds" or otherwise establishes an exemption (provided that neither the State nor its agent has actual knowledge that the holder is a United States person or that the conditions of any other exemptions are not in fact satisfied). Interest payments made to a Non-U.S. Holder may, however, be reported to the IRS and to such Non-U.S. Holder on Form 1042-S.

Information reporting and backup withholding generally will not apply to a payment of the proceeds of a sale of 2008 Bonds effected outside the United States by a foreign office of a foreign broker. However, information reporting requirements (but not backup withholding) will apply to a payment of the proceeds of a sale of 2008 Bonds effected outside the United States by a foreign office of a broker if the broker (i) is a United States person, (ii) derives 50 percent or more of its gross income for certain periods from the conduct of a trade or business in the United States, (iii) is a "controlled foreign corporation" as to the United States, or (iv) is a foreign partnership that, at any time during its taxable year is 50 percent or more (by income or capital interest) owned by United States persons or is engaged in the conduct of a U.S. trade or business, unless in any such case the broker has documentary evidence in its records that the holder is a Non-U.S. holder (and has no actual knowledge to the contrary) and certain conditions are met, or the holder otherwise establishes an exemption. Payment by a United States office of a broker of the proceeds of a sale of 2008 Bonds will be subject to both backup withholding and information reporting unless the holder certifies its non-United States status under penalties of perjury or otherwise establishes an exemption.

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

ERISA CONSIDERATIONS

The United States Employee Retirement Income Security Act of 1974, as amended (“ERISA”) imposes certain duties on persons who are fiduciaries of employee benefit plans (as defined in Section 3(3) of ERISA) (“ERISA Plans”). Section 406(a) of ERISA and Section 4975 of the Code prohibit certain transactions (“prohibited transactions”) involving the assets of ERISA Plans or plans described in Section 4975(e)(1) of the Code (together with ERISA Plans, “Plans”) and certain persons (referred to as “Parties-In-Interest” in ERISA and as “Disqualified Persons” in Section 4975 of the Code) having certain relationships to such Plans. A Party In Interest or Disqualified Person who engages in a non-exempt prohibited transaction may be subject to nondeductible excise taxes and other penalties and liabilities under ERISA and/or the Code.

Any of the Underwriters as a result of its own activities or because of the Authority Activities of an affiliate, may be considered a Party-In-Interest or a Disqualified Person with respect to certain Plans. Accordingly, prohibited transactions within the meaning of Section 406 of ERISA and Section 4975 of the Code may arise if 2008 Bonds are acquired by a Plan with respect to which an Underwriter or its affiliate is a Party-In-Interest or Disqualified Person. Certain exemptions from the prohibited transaction rules could be applicable, however, depending in part upon the type of Plan fiduciary making the decision to acquire 2008 Bonds and the circumstances under which such decision is made. Included among these exemptions are PTE 90 1, regarding investments by insurance company pooled separate accounts; PTE 91 38, regarding investments by bank collective investment funds; PTE 84 14, regarding transactions effected by a “qualified professional asset manager”; PTE 96 23, regarding investments by certain in-house asset managers; and PTE 95 60, regarding investments by insurance company general accounts. Even if the conditions specified in one or more of these exemptions are met, the scope of the relief provided by these exemptions might or might not cover all acts which might be construed as prohibited transactions. With the objective of preventing prohibited transactions under ERISA or Section 4975 of the Code in connection with the acquisition of a 2008 Bond by or on behalf of a Plan, each prospective purchaser of a 2008 Bond that is a Plan or is acquiring on behalf of a Plan will be deemed to represent that either (i) no prohibited transactions under ERISA or Section 4975 of the Code will occur in connection with the acquisition of such 2008 Bond or (ii) the acquisition of such 2008 Bond is subject to a statutory or administrative exemption.

Any Plan fiduciary who proposes to cause a Plan to purchase 2008 Bonds should (i) consult with its counsel with respect to the potential applicability of ERISA and the Code to such investments and whether any exemption would be applicable and (ii) determine on its own whether all conditions have been satisfied. Moreover, each Plan fiduciary should determine whether, under the general fiduciary standards of investment prudence and diversification, an investment in the 2008 Bonds is appropriate for the Plan, taking into account the overall investment policy of the Plan and the composition of the Plan’s investment portfolio.

MATERIAL LITIGATION

There is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, regulatory agency, public board or body, pending or, to the knowledge of the Authority, threatened against the Authority in any way affecting the existence of the Authority or the titles of its officers to their respective offices or seeking to restrain or to enjoin the issuance, sale or delivery of the 2008 Bonds, the application of the proceeds thereof in accordance with the Indenture, or the collection or application of Sales Tax Receipts, Transfer Tax Receipts or other moneys to be used as the source of payment of the principal of and interest on the 2008 Bonds, or the pledge thereof, or in any way contesting or affecting the validity or enforceability of the 2008 Bonds, the Bond Indenture or any other agreement entered into in connection therewith, or in any way contesting or affecting the existence or operation of the Retirement Plan or the establishment or operation of the Health Care Trust, or in any way contesting the completeness or accuracy of this Official Statement or the powers of the Authority or its authority with respect to the 2008 Bonds, or the Bond Indenture or any other agreement entered into in connection therewith.

UNDERWRITING

The group of Underwriters listed on the cover hereof (the “Underwriters”), on behalf of which Morgan Stanley & Co. Incorporated and Loop Capital Markets, LLC are acting as representatives, have agreed, subject to certain conditions set forth in a bond purchase agreement relating to the 2008 Bonds (the “Bond Purchase Agreement”), to purchase all, but not less than all, of the 2008 Bonds.

The Underwriters have agreed to purchase the 2008 Bonds at a purchase price of \$1,926,689,489.56 (representing the principal amount of the 2008 Bonds, less an underwriters’ discount of \$10,165,510.44). The initial public offering prices of the 2008 Bonds may be changed from time to time by the Underwriters after the 2008 Bonds have been released for sale. The Bond Purchase Agreement provides that the Underwriters will purchase all of the 2008 Bonds if any are purchased and that the obligations to make such purchases are subject to certain terms and conditions set forth in the Bond Purchase Agreement, including, among others, the approval of certain legal matters by their counsel.

GLOBAL PLAN OF DISTRIBUTION

The 2008 Bonds are offered by the Underwriters for sale in various jurisdictions in the United States, Europe, Asia, and elsewhere where it is lawful to make such offers. Each Underwriter has undertaken that it will not offer, sell, or deliver, directly or indirectly, any of the 2008 Bonds or distribute this Official Statement or any other material relating to the 2008 Bonds, in or from any jurisdiction except under circumstances that will result in compliance with the applicable laws and regulations thereof and not impose any obligations on the Authority except as contained in the Bond Purchase Agreement. Persons who receive this Official Statement are required to comply with all applicable laws and regulations in each country or jurisdiction in

which they purchase, offer, sell, or deliver the 2008 Bonds or have in their possession, distribute, or publish any offering material relating to the 2008 Bonds, in all cases at their own expense.

REFERENCE INFORMATION ABOUT THE 2008 BONDS

The tables on the inside front cover provide information about the 2008 Bonds. The identification numbers for each maturity (such as the CUSIP, ISIN, and Euroclear and Clearstream Common Code numbers) have been obtained from sources the Authority believes to be reliable, but the Authority is not responsible for the correctness of those numbers or other identifying numbers assigned to the 2008 Bonds. The Underwriters have provided the reoffering prices.

RATINGS

Moody's Investors Service has assigned the 2008 Bonds a rating of "Aa3" and Standard & Poor's Ratings Service, a division of The McGraw-Hill Companies, Inc. has assigned the 2008 Bonds the municipal rating of "AA+". There is no assurance that any credit ratings given to the 2008 Bonds will be maintained for any period of time or that the ratings may not be lowered or withdrawn entirely by such rating agencies, if, in their judgment, circumstances so warrant. The Authority does not undertake any responsibility to oppose any downward revision or withdrawal of rating. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the 2008 Bonds. Such ratings reflect only the views of such organizations and an explanation of the significance of such ratings may be obtained from such rating agencies.

CO-FINANCIAL ADVISORS TO THE AUTHORITY

Scott Balice Strategies, LLC and Columbia Capital Management, LLC both of Chicago, Illinois, serve as Co-Financial Advisors to the Authority (the "Authority's Financial Advisors") with respect to the sale of the 2008 Bonds. The Authority's Financial Advisors have not conducted a detailed investigation of the affairs of the Authority to determine the completeness or accuracy of this Official Statement. Because of their limited participation, the Authority's Financial Advisors have not independently verified any of the data contained herein and have no responsibility for the accuracy or completeness thereof.

INDEPENDENT AUDITORS

The financial statements of the Authority as of and for the fiscal year ended December 31, 2007 included in Appendix C to this Official Statement, have been audited by Crowe Chizek and Company LLC, independent auditors, as stated in its report appearing herein.

CONTINUING DISCLOSURE

In order to assist the Underwriters in complying with the requirements of Rule 15c2-12 promulgated by the Securities and Exchange Commission (the "Rule"), the Authority will enter

into a Continuing Disclosure Undertaking for the benefit of the Bondholders (as defined in such agreement) from time to time of the 2008 Bonds. The form of the Continuing Disclosure Undertaking, including therein the nature of the information that the Authority has agreed to supply on an annual basis, is attached to this Official Statement as APPENDIX E. The Authority has not failed to comply with any undertaking under the Rule. See APPENDIX E – “FORM OF CONTINUING DISCLOSURE UNDERTAKING.”

MISCELLANEOUS

This Official Statement is not to be construed as a contract or agreement between the Authority and the purchasers, holders or beneficial owners of any of the 2008 Bonds. All of the summaries of the 2008 Bonds, the Bond Indenture, applicable legislation and other agreements and documents in this Official Statement are made subject to the provisions of the 2008 Bonds and such documents, respectively, and do not purport to be complete statements of any or all of such provisions. Reference is hereby made to such documents on file with the Authority for further information in connection therewith.

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

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

CHICAGO TRANSIT AUTHORITY

By: /s/ Dennis O. Anosike
Its: Chief Financial Officer and Treasurer

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APPENDIX A

DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

DEFINITIONS OF CERTAIN TERMS

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

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

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

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

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

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

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

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

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

“Board” means the Chicago Transit Board.

“Bond” or *“Bonds”* means any bond or bonds, including any Pension Funding Bond, any Retiree Health Care Funding Bond, and any Refunding Bond, authenticated and delivered under and pursuant to the Indenture.

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

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

“Bond Ordinance” means Ordinance Number 008-85 adopted by the Board on June 11, 2008 and entitled: “Ordinance Authorizing the Execution and Delivery of a Master Trust Indenture, a First Supplemental Indenture and a Second Supplemental Indenture Under Which the Chicago Transit Authority May Issue Limited Obligations, Authorizing the Issuance and Sale of Not to Exceed \$1,348,550,000 Sales and Transfer Tax Receipts Revenue Bonds, Taxable Series 2008A (Pension Funding) and Not to Exceed \$639,680,000 Sales and Transfer Tax Receipts Revenue Bonds, Taxable Series 2008B (Retiree Health Care Funding), of the Authority, Providing the Security for the Repayment of Said Bonds and Making of Other Provisions With Respect to Said Bonds.”

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

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

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

“Capital Appreciation Bond” means any Bond the interest on which (i) shall be compounded periodically on certain designated dates, (ii) shall be payable only at maturity or redemption prior to maturity and (iii) shall be determined by subtracting from the Accreted Amount the initial public offering price thereof, all as provided in the Supplemental Indenture

authorizing the issuance of such Capital Appreciation Bond. The term “Capital Appreciation Bond” as used throughout the Indenture also includes any Capital Appreciation and Income Bond prior to the Interest Commencement Date specified therefor.

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

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

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

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

“*Consolidated Debt Service Reserve Account*” means a Debt Service Reserve Account established for the benefit of more than one Series.

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

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

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

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

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

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

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

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

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

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

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

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

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

“*First Supplemental Indenture*” means this First Supplemental Indenture, dated as of July 1, 2008, by and between the Authority and the Trustee, as from time to time amended and supplemented.

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

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

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

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

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

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

“Interest Payment Date” means for purposes of the Indenture, any Payment Date on which any Parity Obligation is payable, and, for purposes of the First Supplemental Indenture and the Second Supplemental Indenture, December 1, 2008 and each June 1 and December 1 thereafter.

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

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

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

- (i) Government Obligations;
- (ii) obligations of any of the following federal agencies, which obligations are fully guaranteed by the full faith and credit of the United States of America:
 - Department of Treasury
 - Commodity Credit Corporation

- Small Business Administration
- U.S. Department of Housing & Urban Development (PHAs)
- Federal Housing Administration
- Public Housing Agencies

(iii) direct obligations of any of the following federal agencies, which obligations are not fully guaranteed by the full faith and credit of the United States of America:

- senior debt obligations issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC)
- obligations of the Resolution Funding Corporation (REFCORP)
- obligations of the Tennessee Valley Authority (TVA)
- senior debt obligations of the Federal Home Loan Bank System
- senior debt obligations of other government sponsored agencies approved by each Bond Insurer

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

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

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

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

premium, if any, on the bonds or other obligations described in this clause (vii) on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate;

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

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

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

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

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

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

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

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

(i) Any Parity Obligations canceled by the Trustee or the Person entitled to payment of any Section 206 Obligation or Section 207 Obligation, as the case may be, at or prior to such date or theretofore delivered to the Trustee or the Authority, as the case may be, for cancellation;

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

(iii) Bonds in lieu of or in substitution for which other Bonds shall have been authenticated and delivered pursuant to the Indenture;

(iv) Parity Obligations deemed to have been paid as provided in the Indenture; and

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

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

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

“*Paying Agent*” means (a) with respect to Bonds, any bank, national banking association or trust company designated by ordinance of the Board or by an Authorized Officer as paying

agent for the Bonds of any Series, and any successor or successors appointed by an Authorized Officer under the Indenture and (b) with respect to a Qualified Swap Agreement, the Swap Provider.

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

“PBC” means the Public Building Commission of Chicago.

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

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

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

“Pension Funding Bond” means any of the \$1,348,550,000 aggregate original principal amount of bonds of the Authority authorized to be issued pursuant to paragraph (b)(1) of Section 12c of the Act, the Bond Ordinance and the Indenture.

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

“Principal” or *“principal”* means (i) with respect to any Capital Appreciation Bond, the Accreted Amount thereof (the difference between the stated amount to be paid at maturity and the Accreted Amount being deemed unearned interest) except as used in the Indenture in connection with the authorization and issuance of Bonds and with the order of priority of payments of Bonds after an event of default, in which case “principal” means the initial public offering price of a Capital Appreciation Bond (the difference between the Accreted Amount and the initial public offering price being deemed interest) but when used in connection with

determining whether the Owners of the requisite principal amount of Bonds then Outstanding have given any request, demand, authorization, direction, notice, consent or waiver or with respect to the Redemption Price of any Capital Appreciation Bond, “principal amount” means the Accreted Amount (ii) with respect to the principal amount of any Current Interest Bond, the principal amount of such Bond payable in satisfaction of a Sinking Fund Installment, if applicable, or at maturity or (iii) with respect to a Section 207 Obligation, the principal amount payable on each repayment date.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

“Reserve Requirement” means, as of the date of calculation, an amount equal to fifty percent (50%) of the maximum amount of Principal and interest (exclusive of interest to be paid from the Capitalized Interest Account) payable on the Related Series 2008 Bonds in the then current or any future Bond Year.

“Retirement Plan” means the Retirement Plan for Chicago Transit Authority Employees maintained under Section 22-101 of the Illinois Pension Code.

“Retiree Health Care Funding Bond” means any of the \$639,680,000 aggregate original principal amount of bonds of the Authority authorized to be issued pursuant to paragraph (b)(2) of the Section 12c of the Act, the Bond Ordinance and the Indenture.

“Retiree Health Care Trust” means the Retiree Health Care Trust maintained under Section 22-101B of the Illinois Pension Code.

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

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

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

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

“Second Supplemental Indenture” means the Second Supplemental Indenture, dated as of July 1, 2008, by and between the Authority and the Trustee, as from time to time amended and supplemented.

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

“*Section 206 Obligations*” means any payment obligations incurred by the Authority to any one or more Swap Providers pursuant to the Indenture.

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

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

“*Series 2008A Bonds*” means the \$1,297,175,000 original principal amount of the Sales and Transfer Tax Receipts Revenue Bonds, Taxable Series 2008A (Pension Funding) of the Authority authorized by the Bond Ordinance and the Indenture.

“*Series 2008B Bonds*” means the \$639,680,000 original principal amount of the Sales and Transfer Tax Receipts Revenue Bonds, Taxable Series 2008B (Retiree Health Care Funding) of the Authority authorized by the Bond Ordinance and the Indenture.

“*Series 2008 Bonds*” means the Series 2008A Bonds together with the Series 2008B Bonds.

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

“*State*” means the State of Illinois.

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

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

“*Subordinated Indebtedness*” means indebtedness permitted to be issued or incurred pursuant to the provisions of the Indenture summarized in this Appendix A under “THE INDENTURE—Subordinated Indebtedness.”

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

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

“Tax Receipts” means the Sales Tax Receipts and the Transfer Tax Receipts.

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

“Transfer Tax Receipts” means all amounts received by the Authority from the City pursuant to the Intergovernmental Agreement and constituting the net receipts, after fees for costs of collection, derived from the City Transfer Tax.

“Transfer Tax Receipts Fund” means the Transfer Tax Receipts Fund held by the Authority and established in the Indenture.

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

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

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

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

THE INDENTURE

The following is a brief summary of the Indenture as supplemented and amended by the First Supplemental Indenture and the Second Supplemental Indenture (as supplemented and amended, the “Indenture”) pursuant to which the Series 2008 Bonds will be issued. This summary does not purport to be complete or definitive, and is qualified in its entirety by reference to the Indenture, copies of which are on file with the Trustee.

AUTHORIZATION OF PARITY OBLIGATIONS

The Indenture authorizes the Authority to issue Bonds to be issued from time to time in one or more Series, for the purpose of (a) providing funding for contributions to the Retirement Plan and the Retiree Health Care Trust, and (b) refunding bonds issued pursuant to 12c of the Act. The Indenture also authorizes the issuance of Section 206 Obligations, in the case where the Authority enters into a Qualified Swap Agreement with a Swap Provider, and Section 207 Obligations, in the case where the Authority uses a Credit Facility in connection with one or more Series of Bonds. The Authority reserves the right in the Indenture to issue Corporate Purpose Debt Obligations.

Pursuant to the Act and the Indenture, the issuance of Bonds, other than Refunding Bonds, is limited to the issuance of (a) Pension Funding Bonds in the original principal amount of not to exceed \$1,348,550,000, and (b) Retiree Health Care Funding Bonds in the aggregate original principal amount of \$639,680,000.

VARIABLE INTEREST RATES

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

OPTIONAL TENDER BONDS AND VARIABLE RATE BONDS

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

PENSION FUNDING BONDS

The Indenture authorizes one or more Series of Pension Funding Bonds for the purposes specified in Section 12c(b)(1) of the Act. Any such Series shall be authenticated and delivered by the Trustee only upon receipt by it (in addition to the documents and moneys required by the Indenture for the issuance of any Series of Bonds) of the following: (1) A Certificate (a) setting forth the original principal amount of all Pension Funding Bonds concurrently issued (including the Bonds of such Series); (b) stating that such original principal amount does not exceed the aggregate original principal amount of \$1,348,550,000; (c) stating that, taking into account the application of the proceeds of sale of all Series of Pension Funding Bonds concurrently issued (including such Series) no less than \$1,110,500,000 of the net proceeds of sale of all such Series will be deposited in the Retirement Plan for Chicago Transit Authority Employees and used only for the purposes required by Section 22-101 of the Illinois Pension Code; (d) confirming that any remaining proceeds of sale of such Series will be used only to pay costs of issuance and make necessary deposits to funds and accounts with respect to debt service for Pension Funding Bonds and Retiree Health Care Funding Bonds; and (e) confirming that, except for Pension Funding Bonds authorized to be issued pursuant to the Indenture, no other bonds or notes have been authorized or issued by the Authority pursuant to Section 12c(b)(1) of the Act; and, (2) an executed copy of the approving report of the Auditor General of the State with respect to the issuance of the Pension Funding Bonds in accordance with Section 12c(b)(4) of the Act and Section 3-2.3(b) of the Illinois State Auditing Act.

RETIREE HEALTH CARE FUNDING BONDS

The Indenture authorizes one or more Series of Retiree Health Care Funding Bonds for the purposes specified in Section 12c(b)(2) of the Act. Any such Series shall be authenticated and delivered by the Trustee only upon receipt by it (in addition to the documents and moneys required by the Indenture for the issuance of any Series of Bonds) of the following: (1) A

Certificate (a) setting forth the original aggregate principal amount of all Retiree Health Care Funding Bonds concurrently issued (including the Bonds of such Series); (b) stating that such original aggregate principal amount does not exceed \$639,680,000; (c) stating that, taking into account the application of the proceeds of sale of all Series of Retiree Health Care Funding Bonds (including such Series), no less than \$528,800,000 of the net proceeds of sale of all such Series will be deposited in the Retiree Health Care Trust (as referred to in Section 12c of the Act) and used only for the purposes required by Section 22-101B of the Illinois Pension Code; (d) confirming that any remaining proceeds of sale of such Series will be used only to pay costs of issuance and make necessary deposits to funds and accounts with respect to debt service for Pension Funding Bonds and Retiree Health Care Funding Bonds; and (e) confirming that, except for Retiree Health Care Funding Bonds authorized to be issued pursuant to the Indenture, no other bonds or notes of the Authority have been authorized or issued by the Authority pursuant to Section 12c(b)(2) of the Act; and, (2) an executed copy of the approving report of the Auditor General of the State with respect to the issuance of the Retiree Health Care Funding Bonds in accordance with Section 12c(b)(4) of the Act and Section 3-2.3(c) of the Illinois State Auditing Act.

REFUNDING BONDS

The Indenture authorizes one or more Series of Refunding Bonds to refund or advance refund any or all Outstanding Bonds of one or more Series, and any or all Outstanding Section 207 Obligations that constitute bonds or notes within the meaning of Section 12c of the Act, to pay costs and expenses incident to the issuance of such Refunding Bonds and to make deposits in any Fund, Sub-Fund, Account or Sub-Account under the Indenture.

Refunding Bonds of a Series shall be authenticated and delivered by the Trustee only upon receipt by it (in addition to the documents, securities and moneys required by the Indenture for the issuance of any Series of Bonds) of: (1) such instructions to the Trustee as necessary to comply with all requirements set forth in the Indenture and summarized below under “— Defeasance” so that the Bonds and Section 207 Obligations to be refunded or advance refunded will be paid or deemed to be paid pursuant to the Indenture; (2) either (i) moneys in an amount sufficient to effect payment of the principal and Redemption Price, if applicable, and interest due and to become due on the Bonds and Section 207 Obligations to be refunded or advance refunded on and prior to the redemption date or maturity date thereof, as the case may be, which moneys shall be held by the Trustee or any of the Paying Agents in a separate account irrevocably in trust for and assigned to the respective Owners of the Bonds or the Persons entitled to payment of the Section 207 Obligations, as the case may be, to be refunded or advance refunded, or (ii) Defeasance Obligations in such principal amounts, of such maturities, and bearing interest at such rates as shall be necessary, together with the moneys, if any, deposited with the Trustee at the same time, to comply with the provisions of the Indenture; (3) (a) a Certificate stating that the aggregate amount of all Sales Tax Receipts and Transfer Tax Receipts received by the Authority for any period of 12 consecutive calendar months out of the 18 calendar months next preceding the date of issuance of such Series were at least equal to 200% of the Maximum Annual Coverage Requirement as of the time immediately following the issuance of such Series, or (b) a Certificate evidencing that for the then current and each future Bond Year, the Annual Debt Service Requirements for each such Bond Year on account of all

Bonds and Section 207 Obligations Outstanding as of the time immediately after the issuance of such Refunding Bonds does not exceed the Annual Debt Service Requirements for the corresponding Bond Year on account of all the Bonds and Section 207 Obligations Outstanding as of the time immediately prior to the issuance of such Refunding Bonds.

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

HEDGING TRANSACTIONS

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

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

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

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

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

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

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

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

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

CREDIT FACILITIES TO SECURE BONDS

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

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

CORPORATE PURPOSE DEBT OBLIGATIONS

The Authority reserves the right to issue Corporate Purpose Debt Obligations upon satisfaction of the requirements set forth in the Indenture. Prior to or concurrently with the issuance of a Corporate Purpose Debt Obligation the Authority shall file with the Trustee a certified copy of all proceedings taken by the Authority to authorize and issue such Corporate Purpose Debt Obligation together with a schedule setting forth the payment date and amount of such Corporate Purpose Debt Payment that the Authority will be obligated to pay under the terms of the Corporate Purpose Debt Obligation.

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

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

SUBORDINATED INDEBTEDNESS

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

SOURCE OF PAYMENT; PLEDGE OF RECEIPTS

The Indenture provides that the Parity Obligations are limited obligations payable solely from (i) the Sales Tax Receipts Fund, subject however to the PBC Parity Pledge Rights and any parity pledge or lien created with respect to Corporate Purpose Debt Obligations, (ii) the Transfer Tax Receipts Fund, and (iii) certain other moneys, securities and funds held by the Trustee pursuant to the Indenture, subject to the right of the Authority to make periodic withdrawals from the Sales Tax Receipts Fund and the Transfer Tax Receipts Fund as permitted by the Indenture. The Parity Obligations do not constitute an indebtedness of the RTA, the State, or any political subdivision of the State, including the City, other than the Authority. No lien upon any physical properties of the Authority is, or shall ever be, created by the Indenture.

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

Pursuant to Section 12c(h) of the Act, the State pledges and agrees with the Owners of the Bonds that the State will not limit the powers vested in the Authority by the Act to pledge and assign its revenues and funds as security for the payment of the Bonds, or vested in the RTA by the RTA Act or the Act, so as to materially impair the payment obligations of the Authority under the terms of any contract made by the Authority with the Owners or materially impair the rights and remedies of the Owners until the Bonds, together with interest and any redemption premium, and all costs and expenses in connection with any action or proceedings by or on behalf of the Owners are fully met and discharged.

Pursuant to the Indenture, the Authority assigns any and all of its rights under the Act to receive the Transfer Tax Receipts for the benefit and security of the Owners of the Bonds, subject to the provisions of the Indenture regarding the use and application of Transfer Tax Receipts.

In addition, all rights under the provisions of the Intergovernmental Agreement to receive City Transfer Taxes are pledged for the benefit and security of the Owners of the Bonds to secure the punctual performance by the Authority of all of its obligations under the terms and provisions of the Indenture and, for said purpose, such rights are assigned to the Trustee, subject however to a right of the Authority, except during periods when it may be in default in the performance of any such obligations, to receive such City Transfer Taxes and apply the same as provided in the Indenture. The Authority will not enter into any agreement modifying or amending any of the provisions of the Intergovernmental Agreement if such modification or

amendment would materially lessen, postpone or restrict the payment of City Transfer Taxes to the Authority under the provisions of the Intergovernmental Agreement.

DEPOSIT AND APPLICATION OF TAX RECEIPTS

Pursuant to the Indenture, the Authority establishes the Sales Tax Receipts Fund and the Transfer Tax Receipts Fund to be held and administered by the Authority. The Indenture also creates the Debt Service Fund to be held and administered by the Trustee. Subject to use and application in accordance with the Indenture, all of the moneys and securities held in the Sales Tax Receipts Fund, the Transfer Tax Receipts Fund and the Debt Service Fund are pledged as security for the payment of the principal of, redemption premium, if any, and interest on, the Parity Obligations and shall be subject to the lien of the Indenture.

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

The Authority covenants and agrees to withdraw from the Transfer Tax Receipts Fund and pay to the Trustee for deposit into the Debt Service Fund, not later than the 20th day of each calendar month, the lesser of (i) the entire sum then held in the Transfer Tax Receipts Fund or (ii) the sum required to make all of the Sub-Fund Deposits and Other Required Deposits to be disbursed from the Debt Service Fund in that calendar month pursuant to the Indenture. Subject to certain provisions of the Indenture summarized in the next paragraph, the Authority covenants and agrees to withdraw from the Sales Tax Receipts Fund and pay into the Debt Service Fund, immediately after any payment to the Trustee from the Transfer Tax Receipts Fund and in any event not later than the 20th day of each calendar month, the remaining sum required (after taking into account the payments (if any) made to the Trustee in that month from the Transfer Tax Receipts Fund) to make all of the Sub-Fund Deposits and Other Required Deposits to be disbursed from the Debt Service Fund in that calendar month pursuant to the Indenture.

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

On any date required by the provisions of a Supplemental Indenture creating a Series of Bonds, or by an instrument creating Section 206 Obligations or Section 207 Obligations, the

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

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

The First Supplemental Indenture creates and establishes with the Trustee a separate and segregated Sub-Fund within the Debt Service Fund (the "Series 2008A Dedicated Sub-Fund"). Moneys on deposit in the Series 2008A Dedicated Sub-Fund and in each Account established therein are to be held in trust by the Trustee for the sole and exclusive benefit of the Owners of the Series 2008A Bonds and shall not be used or available for the payment of any other Parity Obligations, except as expressly provided in the Indenture.

The Second Supplemental Indenture creates and establishes with the Trustee a separate and segregated Sub-Fund within the Debt Service Fund (the "Series 2008B Dedicated Sub-Fund"). Moneys on deposit in the Series 2008B Dedicated Sub-Fund and in each Account established therein are to be held in trust by the Trustee for the sole and exclusive benefit of the Owners of the Series 2008B Bonds and shall not be used or available for the payment of any other Parity Obligations, except as expressly provided in the Indenture.

DEPOSITS INTO THE SERIES 2008A DEDICATED SUB-FUND AND ACCOUNTS

On the 25th day of each month, commencing August 25, 2008 (each such date referred to herein as the "Deposit Date") there shall be deposited into the Series 2008A Dedicated Sub-Fund from amounts on deposit in the Debt Service Fund an amount equal to the aggregate of the amounts set forth in the following paragraph, which amounts shall have been calculated by the Trustee on the 5th day of each month (such aggregate amount with respect to any Deposit Date being referred to herein as the "Series 2008A Deposit Requirement").

On each Deposit Date the Trustee shall make the following deposits in the following order of priority and if the moneys deposited into the Series 2008A Dedicated Sub-Fund are insufficient to make any required deposit, the deposit shall be made up on the next Deposit Date after required deposits into other Accounts having a higher priority shall have been made in full:

(i) for deposit into the Interest Account, an amount equal to the lesser of (A) one-sixth of the interest due on the Series 2008A Bonds on the next Interest Payment Date, other than interest payable from the Capitalized Interest Account; or (B) the amount required so that the sum held in the Interest Account, when added to the interest payable from the Capitalized Interest Account on the next Interest Payment Date, will equal the interest due on the Series 2008A Bonds on the next Interest Payment Date;

(ii) commencing on December 25, 2011, for deposit into the Principal Account, an amount equal to the lesser of (A) one-twelfth of the Principal due on the Series 2008A Bonds on the first day of December next ensuing, or (B) the amount required so that the sum then held in the Principal Account will equal the Principal due on the Series 2008A Bonds on the first day of December next ensuing;

(iii) commencing on the first Deposit Date following any draw of moneys under any Qualified Reserve Account Credit Instrument, to the provider thereof as reimbursement for such draw, any amount specified by the Authority in a Certificate filed with the Trustee prior to such first Deposit Date, which Certificate shall specify the monthly deposit amounts (which shall be substantially equal amounts) to be made pursuant to this clause (iii) in order to fully restore the coverage of the Qualified Reserve Account Credit Instrument within one year of the date of initial draw thereunder; and

(iv) commencing on the first Deposit Date that the amount held in the Debt Service Reserve Account is less than the Reserve Requirement, any amount specified by the Authority in a Certificate filed with the Trustee prior to such first Deposit Date, which Certificate shall specify the monthly deposit amounts (which shall be substantially equal amounts) to be made pursuant to this clause (iv) in order to fully restore the amount held in the Debt Service Reserve Account to the Reserve Requirement within one year of the date of the initial deficiency in the Debt Service Reserve Account.

In addition to the Series 2008A Deposit Requirement, there shall be deposited into the Series 2008A Dedicated Sub-Fund any other moneys received by the Trustee under and pursuant to the Indenture or the First Supplemental Indenture, when accompanied by directions from the person depositing such moneys that such moneys are to be paid into the Series 2008A Dedicated Sub-Fund and to one or more accounts in the Series 2008A Dedicated Sub-Fund.

Upon calculation by the Trustee of each Series 2008A Deposit Requirement under the Indenture, the Trustee shall notify the Authority of the Series 2008A Deposit Requirement and the Deposit Date to which it relates together with such supporting documentation and calculations as the Authority may reasonably request.

DEPOSITS INTO THE SERIES 2008B DEDICATED SUB-FUND ACCOUNTS

On the 25th day of each month, commencing August 25, 2008 (each such date referred to herein as the “Deposit Date”) there shall be deposited into the Series 2008B Dedicated Sub-Fund from amounts on deposit in the Debt Service Fund an amount equal to the aggregate of the amounts set forth in the following paragraph, which amounts shall have been calculated by the Trustee on the 5th day of each month (such aggregate amount with respect to any Deposit Date being referred to herein as the “Series 2008B Deposit Requirement”).

On each Deposit Date the Trustee shall make the following deposits in the following order of priority and if the moneys deposited into the Series 2008B Dedicated Sub-Fund are insufficient to make any required deposit, the deposit shall be made up on the next Deposit Date after required deposits into other Accounts having a higher priority shall have been made in full:

(i) for deposit into the Interest Account, an amount equal to the lesser of (A) one-sixth of the interest due on the Series 2008B Bonds on the next Interest Payment Date, other than interest payable from the Capitalized Interest Account; or (B) the amount required so that the sum held in the Interest Account, when added to the interest payable from the Capitalized Interest Account on the next Interest Payment Date, will equal the interest due on the Series 2008B Bonds on the next Interest Payment Date;

(ii) commencing on December 25, 2011, for deposit into the Principal Account, an amount equal to the lesser of (A) one-twelfth of the Principal due on the Series 2008B Bonds on the first day of December next ensuing, or (B) the amount required so that the sum then held in the Principal Account will equal the Principal due on the Series 2008B Bonds on the first day of December next ensuing;

(iii) commencing on the first Deposit Date following any draw of moneys under any Qualified Reserve Account Credit Instrument, to the provider thereof as reimbursement for such draw, any amount specified by the Authority in a Certificate filed with the Trustee prior to such first Deposit Date, which Certificate shall specify the monthly deposit amounts (which shall be substantially equal amounts) to be made pursuant to this clause (iii) in order to fully restore the coverage of the Qualified Reserve Account Credit Instrument within one year of the date of initial draw thereunder; and

(iv) commencing on the first Deposit Date that the amount held in the Debt Service Reserve Account is less than the Reserve Requirement, any amount specified by the Authority in a Certificate filed with the Trustee prior to such first Deposit Date, which Certificate shall specify the monthly deposit amounts (which shall be substantially equal amounts) to be made pursuant to this clause (iv) in order to fully restore the amount held in the Debt Service Reserve Account to the Reserve Requirement within one year of the date of the initial deficiency in the Debt Service Reserve Account.

In addition to the Series 2008B Deposit Requirement, there shall be deposited into the Series 2008B Dedicated Sub-Fund any other moneys received by the Trustee under and pursuant to the Indenture or the Second Supplemental Indenture, when accompanied by directions from

the person depositing such moneys that such moneys are to be paid into the Series 2008B Dedicated Sub-Fund and to one or more accounts in the Series 2008B Dedicated Sub-Fund.

Upon calculation by the Trustee of each Series 2008B Deposit Requirement under the Indenture, the Trustee shall notify the Authority of the Series 2008B Deposit Requirement and the Deposit Date to which it relates together with such supporting documentation and calculations as the Authority may reasonably request.

COVENANT AGAINST PLEDGE OF REVENUES

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

ANNUAL AUDIT

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

EVENTS OF DEFAULT

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

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

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

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

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

APPLICATION OF FUNDS AFTER DEFAULT

The Authority covenants that if an Event of Default shall happen and shall not have been remedied, the Authority, upon demand of the Trustee, shall pay over or cause to be paid over to the Trustee (i) the Sales Tax Receipts Fund and the Transfer Tax Receipts Fund, and (ii) all Tax Receipts for deposit as promptly as practicable after receipt thereof.

During the continuance of an Event of Default, but at all times subject to equitable distribution of the Sales Tax Receipts Fund for the payment of the PBC Annual Rent, if then subject to the PBC Parity Pledge Rights, and for the payment of Corporate Purpose Debt Payments, the Trustee shall apply the moneys held in the Sales Tax Receipts Fund and the Transfer Tax Receipts Fund as follows and in the following order:

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

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

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

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

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

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

REMEDIES

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

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

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

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

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

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

RESTRICTION ON OWNERS' ACTION

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

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

RIGHTS OF CREDIT BANK OR BOND INSURER

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

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

SUPPLEMENTAL INDENTURES

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

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

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

POWERS OF AMENDMENT

Except for Supplemental Indentures described under the caption “SUPPLEMENTAL INDENTURES” above, any modification or amendment of the Indenture and of the rights and obligations of the Authority and of the Owners of the Bonds under the Indenture, in any particular, may be made by a Supplemental Indenture with the written consent given as provided in the Indenture (i) of the Owners of at least a majority in principal amount of the Bonds Outstanding at the time such consent is given, and (ii) in case less than all of the several Series of Bonds then outstanding are affected by the modification or amendment, of the Owners of at least a majority in principal amount of the Bonds of each Series so affected and Outstanding at the time such consent is given; *provided, however*, that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any specified like Series and maturity remain Outstanding, the consent of the Owners of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under the Indenture. No such modification or amendment shall permit a change in the terms of redemption or maturity of the principal of any Outstanding Bonds, or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof or in the rate of interest thereon without the consent of the Owner of such Bond, or shall reduce the percentages or otherwise affect the classes of Bonds the consent of the Owners of which is required to effect any such modification or amendment, or shall change or modify any of the rights or obligations of any Fiduciary without its written assent thereto.

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

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

CONSENT OF OWNERS

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

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

DEFEASANCE

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

Bonds or interest installments for the payment or redemption of which moneys shall have been set aside and held in trust by the Trustee at or prior to their maturity or redemption date

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

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

The Authority may purchase with any available funds any Bonds deemed to be paid in accordance with the provisions of the Indenture summarized under this caption. Bonds for

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

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

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

RIGHTS OF BOND INSURERS

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

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APPENDIX B

ESTABLISHMENT AND MAINTENANCE OF RETIREMENT PLAN AND HEALTH CARE TRUST

EXISTING RETIREMENT PLAN OF AUTHORITY

The CTA maintains a trusted, single-employer, defined benefit pension plan covering substantially all full-time permanent union and nonunion employees. The Retirement Plan is governed by the terms of the employees' collective bargaining agreements and by the provisions of P.A. 95-0708. The CTA also maintains the following separate, single-employer, defined benefit pension plans for selected individuals (collectively, the "Supplemental Plans" and, together with the Retirement Plan, the "Plans"). The Supplemental Plans include: (1) a non-trusted Board Member plan, the Authority Activities of which are included in CTA's financial statements; (2) a non-trusted closed supplemental plan for members who retired or who terminated employment before March 2005, including those who retired pursuant to an early retirement initiative, the activities of which are included in CTA's financial statements, and (3) an open supplemental plan for active employees and members hired before January 18, 2008 and who retire after March 2005 that is trusted and reported in a fiduciary fund. The Supplemental Plans provide benefits in addition to the Retirement Plan to management employees in certain employment classifications and CTA Board members.

The CTA has adopted for the Plans 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 transition.

Substantially all non-temporary, full-time employees hired before January 18, 2008 and who have completed one year of continuous service are covered by the Retirement Plan. For those hired before September 5, 2001, employees who retire at or after age 65 (or at any age after completion of 25 years of continuous service) are entitled to an unreduced annual retirement benefit payable monthly for life, in an amount based upon compensation and credited service (a reduced benefit is available to those who are 55 years old who retire with at least three years of continuous service). For those hired after September 5, 2001, an unreduced annual retirement benefit is available to those who retire at or after age 65, or at age 55 and with 25 years of continuous service (an unreduced benefit is still available to those who are 55 years old who retire with three years of continuous service). Employees hired after January 18, 2008 are entitled to an unreduced retirement benefit at age 64 and 25 years of continuous service (and a reduced benefit at age 55 and 10 years of continuous service). The Retirement Plan also provides death and disability benefits. The Retirement Plan issues a separate stand-alone financial report and is available upon request.

FUNDING STATUS

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

VALUATION DATE (JAN. 1)	COVERED PAYROLL	ACTUARIAL VALUE OF ASSETS	ACTUARIAL ACCRUED LIABILITY (AAL)	UNFUNDED AAL (UAAL)	FUNDED RATIO
2008	\$609,962	\$ 943,801	\$2,485,346	\$1,541,545	38.0%
2007	616,905	1,007,305	2,466,106	1,458,801	40.9
2006	547,532	810,336	2,354,125	1,543,789	34.4
2005	544,442	902,117	2,291,162	1,389,045	39.4
2004	486,626	1,062,399	2,189,666	1,127,267	48.5
2003	480,740	1,190,087	2,085,724	895,637	57.1

Sources: (i) 2003-2006 data from CTA Financial Statements for the year ending December 31, 2006; (ii) 2007-2008 data from the June 4, 2008, report of Gabriel Roeder Smith & Company, actuaries to the Retirement Trust for CTA employees.

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

FUNDING OF RETIREMENT PLAN

P.A. 95-0708 provides for the appointment of an 11-member Board of Trustees of the Retirement Plan (the "Retirement Plan Board") appointed as follows: (i) five trustees appointed by the Authority's Board; (ii) three trustees appointed by an organization representing the highest number of Authority participants; (iii) one trustee appointed by an organization representing the second-highest number of Authority participants; (iv) one trustee appointed by the recognized coalition representatives who are not represented by the organizations described in (ii) and (iii) above; and (v) one trustee selected by the RTA Board of Directors, who is required to be a professional fiduciary with experience in the area of collectively bargained pension plans. Trustees will serve until a successor has been appointed or until resignation, death, incapacity or disqualification.

Beginning January 1, 2009, the Authority is required to make contributions to the Retirement Plan in an amount equal to 12% of compensation, and the participating employees' required contribution is 6% of compensation. The contribution levels described in the preceding sentence are subject to adjustment as described below. For the period ending December 31, 2040, the amount paid by the Authority in any year with respect to debt service on the 2008 Bonds (other than payments derived from the proceeds of bonds or notes) will be treated as a credit against the amount of required contribution to the Retirement Plan by the Authority for the

following year up to an amount not to exceed 6% of compensation paid by the Authority in that following year.

By September 15 of each of the years from 2009 through 2039, on the basis of a report prepared by an enrolled actuary retained by the Retirement Plan, the Retirement Plan Board will be required to determine the estimated funded ratio of the total assets of the Retirement Plan to its total actuarially determined liabilities. If the funded ratio is projected to decline below 60% in any year before 2040, the Retirement Plan Board will also be required to determine the increased contribution required each year as a level percentage of payroll over the years remaining until 2040 so that funded ratio does not decline below 60%. If the actual funded ratio actually declines below 60% in any year prior to 2040, the Retirement Plan Board must also determine the increased contribution required each year as a level percentage of payroll during the years after the then current year so the funded ratio is projected to reach at least 60% no later than 10 years after the then current year. These determinations are required to be included in an annual report to be filed with the Authority, the representatives of its participating employees, the Auditor General and the RTA. Within 60 days after receiving the report the Auditor General is required to review the determinations and assumptions, and if the Auditor General finds the determinations and assumptions to be unreasonable in the aggregate, the Auditor General is required to issue a new determination of the funded ratio and the increased contribution required each year so that the funded ratio does not decline below 60%, or in the event of an actual decline below 60%, so the funded ratio is projected to reach 60% by no later than 10 years after the then current year. Two-thirds of the increased contribution is required to be paid by the Authority and one-third by the participating employees.

Beginning in 2040 the minimum annual contribution to the Retirement Plan must be sufficient to bring the funded ratio to 90% of the Retirement Plan's total actuarial liabilities by the end of the year 2059, and beginning in 2060 the minimum contribution must be amounts necessary to maintain the 90% funded ratio. Contributions during both of these periods will be funded two-thirds by the Authority and one-third by the participating employees in accordance with P.A. 95-0708.

MANDATORY FUNDING OF AUTHORITY'S CONTRIBUTIONS FROM SALES TAX RECEIPTS

The RTA is required to continually review the Authority's payment of required contributions to the Retirement Plan. Beginning January 1, 2009, if at any time the RTA determines that the Authority's payment of any portion of the required contributions to the Retirement Plan is more than one month overdue, the RTA is required as soon as possible to pay the amount of the overdue contributions to the Retirement Plan Board on behalf of the Authority out of moneys otherwise payable to the Authority, which includes moneys derived from Sales Tax Receipts, and to give notice to the Authority and certain other parties of such payment. Any such diversion by the RTA to the Retirement Plan may have a material adverse effect on the Authority's ability to pay debt service on the 2008 Bonds and on the financial condition and operations of the Authority.

ESTABLISHMENT AND FUNDING OF HEALTH CARE TRUST

P.A. 95-0708 requires the Authority to separate the funding of health care benefits for retirees and their dependents and survivors from the funding for its retirement system by no later than July 1, 2009. P.A. 95-0708 provides for the establishment of the Health Care Trust, which is solely responsible for providing health care benefits to eligible retirees and their dependents and survivors. The Board of Trustees of the Retiree Health Care Trust (the "Health Trust Board") will consist of seven members appointed as follows: (i) three trustees appointed by the Authority's Board; (ii) one trustee appointed by an organization representing the highest number of Authority participants; (iii) one trustee appointed by an organization representing the second-highest number of Authority participants; (iv) one trustee appointed by the recognized coalition representatives who are not represented by the organizations described in (ii) and (iii) above; and (v) one trustee selected by the RTA Board of Directors, who is required to be a professional fiduciary with experience in the area of collectively bargained pension plans. Trustees will serve until a successor has been appointed or until resignation, death, incapacity or disqualification.

The Health Trust Board is required to establish and maintain an appropriate funding reserve level which must not be less than the amount of incurred and unreported claims plus 12 months of expected claims and administrative expenses (the "Reserve"). The Health Trust Board is required to make an annual assessment of the funding levels of the Health Care Trust and must submit an annual report to the Auditor General providing (a) the actuarial present value of projected benefits expected to be paid to current and future retirees, their dependents and survivors, (b) the actuarial present value of projected contributions and trust income plus assets, (c) the Reserve and (d) an assessment of whether the actuarial present value of projected benefits expected to be paid exceeds or is less than the actuarial present value of projected contributions and trust income plus assets in excess of the Reserve. If the actuarial present value of the projected benefits exceeds the actuarial present value of projected contributions and trust income plus assets in excess of the Reserve, then the report must provide a plan of increases in contribution levels, decreases in benefit levels, or both, which is projected to cure the shortfall within 10 years. If the actuarial present value of the projected benefits expected to be paid is less than the actuarial present value of projected contributions and trust income plus assets in excess of the Reserve, then the report may provide a plan of decreases in contribution levels, increases in benefit levels, or both, to the extent of the surplus. The Auditor General is required to review the report and plan and issue a determination within 90 days. In the event of a projected shortfall, if the Auditor General determines that the assumptions stated in the report are not unreasonable and that the plan of increases is reasonably expected to cure the shortfall within 10 years, then the Health Trust Board must implement the plan. If the Auditor General determines that the assumptions stated in the report are unreasonable or that the plan is not reasonably projected to cure the shortfall within 10 years, then the Health Trust Board may not implement the plan and the Auditor General will require an alternate report and plan within 45 days after rejection by the Auditor General. The Health Trust Board is required to continue to submit alternate reports and plans until a favorable determination is made by the Auditor General.

The aggregate amount of retiree, dependent or survivor contributions to the cost of their health care benefits must not exceed more than 45% of the total cost of such benefits. After the

establishment of the Health Care Trust all employees of the Authority will be required to contribute to the Health Care Trust in an amount not less than 3% of compensation.

REQUIRED REVIEW OF ESTABLISHMENT OF RETIREMENT PLAN AND HEALTH CARE TRUST

The legal authority to issue the 2008 Bonds is conditioned upon certification of certain facts by the Authority, the Retirement Plan Board and the Health Trust Board and filing with the Auditor General of two reports supporting the issuance of the 2008 Bonds, one with respect to the Retirement Plan and one with respect to the Health Care Trust.

With respect to both the Retirement Plan and the Health Care Trust, the Authority has certified to the Auditor General and the RTA that (a) it is legally authorized to issue the 2008 Bonds, (b) scheduled annual payments of principal and interest on the 2008 Bonds meet the following requirements: not less than 70% in 2009, 80% in 2010, and 90% in 2011, respectively, of scheduled payments or deposits of principal and interest in 2012 and substantially equal beginning in 2012 and each year thereafter, (c) no Bond will mature later than December 31, 2040, (d) after payment of costs of issuance and necessary deposits to debt service funds and accounts, the net 2008 Bond proceeds will be deposited in the Retirement Plan and the Health Care Trust as set forth in said certification, and (e) it has entered into an intergovernmental agreement with the City under which the City will provide financial assistance to the Authority of the net receipts, after fees for costs of collection, from a tax on the privilege of transferring title to real estate in the City in an amount up to \$1.50 per \$500 of value or fraction thereof (the "Real Estate Transfer Tax"), which agreement is for a term expiring no earlier than the final maturity of the 2008 Bonds.

The Retirement Plan Board has certified that the Retirement Plan is operating in accordance with all legal and contractual requirements, that the members of the Retirement Plan Board have been legally appointed and that contribution levels for employees and the Authority have been established according to P.A. 95-0708 and the Illinois Pension Code.

The Health Trust Board has certified that the Health Care Trust has been established, that the members of the Health Trust Board have been legally appointed, that a health care benefit program for eligible retirees and their dependents and survivors has been established, and that contribution levels have been established for retirees, dependents and survivors according to the requirements of P.A. 95-0708 and the Illinois Pension Code.

The Authority has submitted to the Auditor General and the RTA an actuarial report for the Retirement Plan, prepared by Gabriel Roeder Smith & Company setting forth (a) the method of valuation and underlying assumptions, (b) a comparison of debt service on the 2008A Bonds issued for the Retirement Plan to the Retirement Plan's current unfunded actuarial accrued liability amortization schedule, using the projected interest cost of the Bonds as the discount rate to calculate the estimated net present value savings, (c) the amount of the estimated present value savings comparing the true interest cost of the 2008A Bonds issued for the Retirement Plan with the actuarial investment return assumption of the Retirement Plan, and (d) a certification that the net proceeds of the 2008A Bonds issued for the Retirement Plan, together with anticipated earnings on the contributions and deposits, will be sufficient to reasonably conclude on an

actuarial basis that the total retirement assets of the Retirement Plan will not be less than 90% of its liabilities by the end of fiscal year 2059. The Authority has also submitted a financial analysis prepared by an independent advisor that includes a determination that the issuance of the 2008A Bonds for the Retirement Plan is in the best interest of the Retirement Plan for Authority employees and the Authority.

The Authority has also submitted to the Auditor General and the RTA an actuarial report for the Health Care Trust, prepared by The Segal Group setting forth (a) the method of valuation and underlying assumptions, (b) a comparison of the projected interest cost of the 2008B Bonds issued for the Health Care Trust with the actuarial investment return assumption of the Health Care Trust, and (c) a certification that the net proceeds of the 2008B Bonds issued for the Health Care Trust, together with anticipated earnings on the contributions and deposits, will be sufficient to adequately fund the actuarial present value of projected benefits expected to be paid under the Health Care Trust, or a certification of the increases in contribution levels and decreases in benefit levels that would be required to cure any funding shortfall over a period of not more than 10 years. The Authority has also submitted a financial analysis prepared by an independent advisor that includes a determination that the issuance of the 2008B Bonds is in the best interest of the Health Care Trust and the Authority.

The Auditor General has examined the certificates and reports submitted and has submitted a report to the Illinois General Assembly, the Legislative Audit Commission of the State of Illinois, the Governor of the State of Illinois, the RTA and the Authority indicating that the required certifications by the Authority and the Boards of Trustees have been made and that the actuarial reports have been provided, the reports include all required information, and the assumptions underlying the reports appear to comply with all pertinent professional standards.

The Authority may not issue the 2008 Bonds until it receives the report of the Auditor General, and the 2008 Bonds are required to be issued within 120 days after the receipt by the Authority of the report of the Auditor General, which report was received by the Authority on July 17, 2008.

APPENDIX C

FINANCIAL STATEMENTS OF THE CTA

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CHICAGO TRANSIT AUTHORITY

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

December 31, 2007 and 2006
(With Independent Auditors' Report Thereon)

CHICAGO TRANSIT AUTHORITY
Chicago, Illinois

FINANCIAL STATEMENTS
December 31, 2007 and 2006

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Crowe Chizek and Company LLC
Member Horwath International

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 year ended December 31, 2007, which collectively comprise the CTA's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the CTA's management. Our responsibility is to express opinions on these financial statements based on our audit. The financial statements of the CTA as of December 31, 2006, were audited by other auditors whose report dated April 30, 2007, expressed an unqualified opinion on those statements.

We conducted our audit 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 audit 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, 2007, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 28, 2008 on our consideration of the CTA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 14 and the schedules of funding progress and employer contributions on pages 61 through 65 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 audit for the year ended December 31, 2007 was made for the purpose of forming opinions on the basic financial statements taken as a whole. The supplementary information included in the schedule of expenses and revenues - budget and actual for the year ended December 31, 2007 on page 66 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the 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 year ended December 31, 2007. The supplementary information included in the schedule of expenses and revenues - budget and actual for the year ended December 31, 2006 on page 67 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information was subjected to the auditing procedures applied by other auditors whose report dated April 30, 2007 expressed an opinion that such information was fairly stated in all material respects in relation to the basic financial statements taken as a whole for the year ended December 31, 2006.

Crowe Chizek and Company LLC
Crowe Chizek and Company LLC

Chicago, Illinois
April 28, 2008

CHICAGO TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2007 and 2006

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, 2007 and 2006. 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 2007

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

Financial Highlights for 2006

- *Net assets totaled \$1,743,523,000 at December 31, 2006.*
- *Net assets decreased \$103,559,000 in 2006, which compares to a decrease of \$153,572,000 in 2005.*
- *Total net capital assets were \$3,202,171,000 at December 31, 2006, an increase of 7.54% over the balance at December 31, 2005 of \$2,977,603,000.*

The Financial Statements

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

Overview of the Financial Statements for Business-Type Activities

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

(Continued)

CHICAGO TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2007 and 2006

Balance Sheet

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

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

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

Statement of Revenues, Expenses, and Changes in Net Assets

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

Statement of Cash Flows

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

(Continued)

CHICAGO TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2007 and 2006

Notes to Financial Statements

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

Financial Analysis of the CTA's Business-Type Activities

Balance Sheet

The following table reflects a condensed summary of assets, liabilities, and net assets of the CTA as of December 31, 2007, 2006, and 2005:

Table 1

Summary of Assets, Liabilities, and Net Assets
December 31, 2007, 2006, and 2005
(In thousands of dollars)

	2007	2006	2005
Assets:			
Current assets	\$ 496,326	\$ 418,591	\$ 407,698
Restricted assets	1,941,364	2,190,409	2,052,990
Other assets	15,177	16,101	16,390
Capital assets, net	3,445,706	3,202,171	2,977,603
Total assets	\$ 5,898,573	\$ 5,827,272	\$ 5,454,681
Liabilities:			
Current liabilities	\$ 710,765	\$ 501,238	\$ 429,054
Long-term liabilities	3,775,550	3,582,511	3,178,545
Total liabilities	4,486,315	4,083,749	3,607,599
Net assets:			
Invested in capital assets, net of related debt	\$ 2,912,748	\$ 2,933,473	\$ 2,767,809
Restricted for payment of leasehold obligations	37,992	33,017	24,211
Restricted for debt service	32,233	31,379	32,840
Restricted by RTA for operations and capital improvements	5,430	5,818	7,460
Unrestricted (unrestricted)	(1,576,145)	(1,260,164)	(985,238)
Total net assets	1,412,258	1,743,523	1,847,082
Total liabilities and net assets	\$ 5,898,573	\$ 5,827,272	\$ 5,454,681

(Continued)

CHICAGO TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2007 and 2006

Year Ended December 31, 2007

Current assets increased by 18.57% to \$496,326,000. The change in current assets is primarily due to the increase in cash and investments.

Restricted assets decreased by 11.37% to \$1,941,364,000 due to the utilization of bond proceeds during 2007.

Other assets decreased by 5.74% to \$15,177,000 primarily due to the amortization of bond issue costs and decrease in net pension asset.

Capital assets (net) increased by 7.61% to \$3,445,706,000 due to the CTA's capital improvement projects. The CTA's capital improvement projects were funded primarily by the Federal Transit Administration (FTA), the Illinois Department of Transportation (IDOT), the Regional Transportation Authority (RTA), and CTA bonds.

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

Long-term liabilities increased 5.39% to \$3,775,550,000 due primarily to an increase in net pension obligation.

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

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

Unrestricted net assets (deficit), which represent assets available for operations, increased 25.07% over the prior year, primarily due to unfunded pension and postemployment healthcare expense (i.e. increase in the net pension obligation) of \$305,126,000.

(Continued)

CHICAGO TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2007 and 2006

Year Ended December 31, 2006

Current assets increased by 2.67% to \$418,591,000. The change in current assets is primarily due to the increase in grants receivable which is offset by a decrease in cash, investments, and inventory.

Restricted assets increased by 6.69% to \$2,190,409,000 due to the receipt of bond proceeds that were not yet expended at year-end. During 2006, CTA issued Capital Grant Receipts Revenue Bonds, "2006 Project," in the amount of \$275,000,000, along with a premium of \$19,652,000, in anticipation of the receipt of grants from the federal government pursuant to a full funding grant agreement. The bonds were issued to provide funds to finance the costs of capital improvements to the transportation system referred to as the "2006 Project." At December 31, 2006, approximately \$291,000,000 of the proceeds from this bond were unspent.

Other assets decreased by 1.76% to \$16,101,000 primarily due to the amortization of bond issue costs and decrease in net pension asset.

Capital assets (net) increased by 7.54% to \$3,202,171,000 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 increased 16.82% to \$501,238,000 primarily due to an increase in accounts payable and accrued expenses.

Long-term liabilities increased 12.71% to \$3,582,511,000 due primarily to an increase in net pension obligation and the issuance of Capital Grant Receipts Revenue Bonds in 2006.

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 5.99% from the prior year primarily due to capital assets, acquisitions during the year that were funded by capital grants of \$522,040,000, offset by depreciation expense of \$376,910,000.

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 27.90% over the prior year, primarily due to unfunded pension expense (i.e. increase in the net pension obligation) of \$241,202,000.

(Continued)

CHICAGO TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2007 and 2006

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, 2007, 2006, and 2005:

Table 2
Condensed Summary of Revenues, Expenses, and Changes in Net Assets
Years ended December 31, 2007, 2006, and 2005
(In thousands of dollars)

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Operating revenues	\$ 493,350	\$ 493,023	\$ 448,411
Operating expenses:			
Operating expenses	1,412,842	1,344,133	1,216,217
Depreciation	387,738	376,910	360,559
Total operating expenses	<u>1,800,580</u>	<u>1,721,043</u>	<u>1,576,776</u>
Operating loss	(1,307,230)	(1,228,020)	(1,128,365)
Nonoperating revenues/expenses, net	600,051	602,421	576,139
Capital contributions	375,914	522,040	398,654
Change in net assets	<u>(331,265)</u>	<u>(103,559)</u>	<u>(153,572)</u>
Total net assets, beginning of year	<u>1,743,523</u>	<u>1,847,082</u>	<u>2,000,654</u>
Total net assets, end of year	<u>\$ 1,412,258</u>	<u>\$ 1,743,523</u>	<u>\$ 1,847,082</u>

Year Ended December 31, 2007

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

Total operating expenses increased \$79,537,000, or 4.62%. The increase is primarily driven by higher labor, materials, electric power, and fuel expense.

Labor expense increased due to higher healthcare, pension, and workers' compensation expenses. Materials expense increased \$1,028,000 due to increasing commodity prices, higher mileage and the aging life of the fleet. Electric power increased \$5,873,000 due to the end of the decade long rate freeze in Illinois. Fuel expense increased \$13,711,000 due to a higher average cost per gallon due to market driven forces. In 2007, the average fuel price increased \$0.50 to

(Continued)

CHICAGO TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2007 and 2006

\$2.82 per gallon. Other expense increased due to higher utilities, rent and facilities maintenances costs. The provision for injuries and damages decreased by \$10,000,000 due to cost containment initiatives implemented by the CTA such as surveillance cameras and aggressive case management practices.

At the direction of the Illinois General Assembly, on July 1, 2006, the responsibility for providing paratransit service in the region was transitioned to Pace Suburban Bus. As a result, there is no paratransit expense for 2007.

Year Ended December 31, 2006

Operating revenues increased by \$44,612,000, or 9.95%. The revenue increase is primarily due to higher ridership and a higher average fare. The higher average fare is due to the new fare structure which eliminated cash transfers and increased cash and rail transit card fares. Additionally, systemwide ridership increased by 0.5% in 2006.

Total operating expenses increased \$144,267,000, or 9.15%. The increase is primarily driven by higher labor, materials, and fuel expense.

Labor expense increased due to higher wages, pension, and workers' compensation expenses. Materials expense increased \$11,784,000 due to increasing commodity prices, higher mileage and the aging life of the fleet. Fuel expense increased \$11,682,000 due to a higher average cost per gallon due to market driven forces. In 2006, the average fuel price increased \$0.45 to \$2.32 per gallon.

At the direction of the Illinois General Assembly, on July 1, 2006, the responsibility for providing paratransit service in the region was transitioned to Pace Suburban Bus. As a result, paratransit expense declined by \$24,800,000 or 46% over the prior year.

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

(Continued)

CHICAGO TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2007 and 2006

Table 3

Operating Expenses

Years ended December 31, 2007, 2006, and 2005

(In thousands of dollars)

	2007	2006	2005
Labor and fringe benefits	\$ 1,112,290	\$ 1,047,445	\$ 914,034
Materials and supplies	84,178	83,150	71,366
Fuel	71,181	57,470	45,788
Electric power	28,141	22,268	22,909
Purchase of security services	31,363	30,831	31,221
Purchase of paratransit	-	28,415	53,257
Maintenance and repairs, utilities, rent, and other	69,465	48,288	51,069
Operating expense before provisions	1,396,618	1,317,867	1,189,644
Provision for injuries and damages	16,224	26,266	26,573
Provision for depreciation	387,738	376,910	360,559
Total operating expenses	\$ 1,800,580	\$ 1,721,043	\$ 1,576,776

Capital Asset and Debt Administration

Capital Assets

The CTA invested \$6,908,803,000 (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, 2006. Net of accumulated depreciation, the CTA's capital assets at December 31, 2006 totaled \$3,202,171,000 (see Table 4). This amount represents a net increase (including additions and disposals, net of depreciation) of \$224,568,000, or 7.54%, over the December 31, 2005 balance of \$2,977,603,000.

(Continued)

CHICAGO TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2007 and 2006

Table 4
Capital Assets by Funding Source
December 31, 2007, 2006, and 2005
(In thousands of dollars)

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Funding source:			
Federal (FTA)	\$4,766,864	\$ 4,296,228	\$ 3,912,142
State (principally IDOT)	570,408	557,261	527,502
RTA	1,736,990	1,670,859	1,556,002
CTA (generally prior to 1973)	124,854	126,573	126,573
Other	264,248	257,882	243,921
Total capital assets	<u>7,463,364</u>	<u>6,908,803</u>	<u>6,366,140</u>
Accumulated depreciation	<u>4,017,658</u>	<u>3,706,632</u>	<u>3,388,537</u>
Total capital assets, net	<u>\$ 3,445,706</u>	<u>\$ 3,202,171</u>	<u>\$ 2,977,603</u>

The year-over-year increase in capital assets resulted primarily from rolling stock purchases, overhauls of railcars and buses, and the infrastructure improvement projects identified in the 2007 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, 2007, the CTA had \$1,750,421,000 in capital lease obligations outstanding, a 0.5% increase from December 31, 2006. The net pension obligation at December 31, 2007 was \$908,609,000, a 21.5% increase from December 31, 2006. The increase in net pension obligation is primarily due to contributions that are less than the actuarially determined amount. The other postemployment healthcare benefit liability (OPEB) at December 31, 2007 was \$659,729,000 a 28.0% increase from December 31, 2006. The increase in OPEB at December 31, 2007 is due to the rising cost of healthcare.

At December 31, 2006, the CTA had \$1,741,828,000 in capital lease obligations outstanding, a 0.3% increase from December 31, 2005. The net pension obligation at December 31, 2006 was \$748,020,000, and the other postemployment healthcare benefit liability (OPEB) was \$515,374,000, a combined increase of 23.6% from December 31, 2005. The increase in net pension obligation and postemployment healthcare liability is primarily because the CTA contributes to the employee pension plans based on the requirements of union contracts rather than an actuarial determined amount.

(Continued)

CHICAGO TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2007 and 2006

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 a proposed 2008 Annual Budget on November 7, 2007 that includes significant service reductions, fare increases, and layoffs in order to bridge a projected \$158.0 million shortfall. This budget was then submitted to the RTA and approved by the RTA on December 14, 2007. Subsequent to the approval of the "doomsday budget" the Illinois state legislature passed legislation increasing funding to transit. As such, RTA has issued new funding marks to CTA and CTA is in process of amending its budget to cancel the service cuts, fare increase and reflect the new funding. The proposed budget amendment provides for operating expenses of \$1,162,666,234. The proposed operating budget amendment increase of 6.3% over the 2007 actual results is primarily due to higher healthcare, pension, fuel, and power costs. Comparatively, the U.S. City Average Annual Consumer Price Index (CPI) grew by 2.8% for 2007. The primary economic indicators impacting ridership and operating funds is area employment and retail sales. CTA's public funding is primarily based on sales tax. The 2007 annual unemployment rate for the City of Chicago ended the year at 4.9%, compared to 4.5% at the end of 2006. National unemployment also ended the year at 4.8% in December 2007 and 4.6% annual. Employment in the Chicago metropolitan division was 3,934,596 at the end of 2007. This represents an increase of 30,362 jobs since the end of 2006.

CTA renegotiated a five year labor contract for 2007 - 2011 that provides for wage increases of 3.0% in 2007, 2008 and 2009 and 3.5% in 2010 and 2011. The new contract also provides for increased contributions to the pension fund and implements an employee contribution for retiree healthcare.

Budgeted system-generated revenues for 2008 are \$540,835,000 and are lower than the 2007 actual results by \$4,800,000. This projected decrease over 2007 actual revenues is due to implementation of the senior free ride program required by legislation passed in January 2008. CTA will begin offering free rides to senior citizens on March 17, 2008. This program is projected to reduce CTA's revenue in 2008 by \$17,500,000.

(Continued)

CHICAGO TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2007 and 2006

New Legislation

On January 18, 2008, Public Act 95-708 became law. This legislation provides funding for CTA operations, pension and retiree healthcare from four sources: 1) a 0.25 percent increase in the RTA sales tax in each of the six counties, 2) a \$1.50 per \$500 of transfer price increase in the City of Chicago's Real Property Transfer Tax, 3) an additional 5% state match on the real estate transfer tax and all sales tax receipts except for the replacement and use tax, and 4) a 25% state match on the new sales tax and real estate transfer tax. The proceeds from the increase in the RTA sales tax will be used to fund some existing programs such as ADA paratransit services, as well as some new initiatives such as the Suburban Community Mobility Fund and the Innovation, Coordination and Enhancement Fund. The balance of these additional proceeds along with the 5% state match on: existing, additional sales tax and real estate transfer tax; and the state 25% match on the new sales tax will be divided among the CTA (48%), Metra (39%) and Pace (13%) according to the statutory formula. On February 6, 2008, the Chicago City Council authorized an increase in the Real Property Transfer Tax in the amount of \$1.50 per \$500 of transfer price, the proceeds of which (after deducting costs associated with collection) will be entirely directed to the CTA. Additionally the state 25% match on the real estate transfer tax will be entirely directed to CTA as well. After financing debt service for pension and retiree healthcare in the amount of approximately \$124 million annually, and taking into consideration the potential fluctuations in the Real Property Transfer Tax, the combination of these two revenue sources are expected to yield approximately \$104 million annually for CTA operations in the short-term, with a potential for growth as the economy rebounds.

Pursuant to Public Act 94-839, the CTA was required to make contributions to its retirement system in an amount which, together with the contributions of its participants, interest earned on investments and other income, were sufficient to bring the total assets of the retirement system up to 90% of its total actuarial liabilities by the end of fiscal year 2058. This legislation also required the RTA to monitor the payment by the CTA of its required retirement system contributions. If the CTA's contributions were more than one month overdue, the RTA would pay the amount of the overdue contributions directly to the trustee of the CTA's retirement system out of moneys otherwise payable by the RTA to the CTA.

Public Act 95-708 modified this directive slightly and added a number of other requirements. First, a new Retirement Plan Trust will be created to manage the Retirement Plan assets. Second, CTA contributions have been increased from 6% to 12%, and employee contributions have been increased from 3% to 6%. Third, in addition to the requirement that the Retirement Plan be 90% funded by 2059, there is a new requirement that the Retirement Plan be funded at a minimum of 60% by September 15, 2009. Any deviation from the stated projections could result in a directive from the State of Illinois Auditor General to increase the CTA and employee contributions. Fourth, Public Act 95-708 authorized the CTA to issue \$1.349 billion in pension obligation bonds to fund the Retirement Plan. Finally, the legislation provides that CTA will have no future responsibility for retiree healthcare costs after the bond funding.

(Continued)

CHICAGO TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2007 and 2006

Public Act 95-708 also addressed retiree healthcare. In addition to the separation between pension and healthcare that was mandated by Public Act 94-839, Public Act 95-708 provides funding and benefit changes to the retiree healthcare benefits. First, all CTA employees will be required to contribute 3% of their compensation into the new retiree healthcare trust. Second, all employees will be eligible for retiree healthcare, but after January 18, 2008, only those employees who retire at or after the age of 55 with 10 years of continuous service will actually receive the benefit. Third, retiree, dependent and survivor premiums can be raised up to 45% of the premium cost. Finally, the CTA has been given the authorization to issue \$640 million in pension obligation bonds to fund the healthcare trust.

The Chicago Transit Board has not yet approved the issuance of these bonds, however the CTA is preparing for this issuance predicated on the assumption that the bonds will be repaid with the proceeds of the additional funds provided to the CTA from the legislation.

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, 2007 and 2006
(In thousands of dollars)

Assets	<u>2007</u>	<u>2006</u>
Current assets:		
Cash and cash equivalents	\$ 130,802	\$ 27,736
Investments	<u>900</u>	<u>10,914</u>
Total cash, cash equivalents, and investments	<u>131,702</u>	<u>38,650</u>
Grants receivable:		
Due from the RTA	87,809	144,507
Capital improvement projects from federal and state sources	4,974	8,912
Unbilled work in progress	158,725	106,686
Other	<u>1,485</u>	<u>1</u>
Total grants receivable	<u>252,993</u>	<u>260,106</u>
Accounts receivable, net	28,080	37,193
Materials and supplies, net	78,412	77,516
Prepaid expenses and other assets	<u>5,139</u>	<u>5,126</u>
Total current assets	<u>496,326</u>	<u>418,591</u>
Restricted cash and investments:		
Bond proceeds held by trustee	112,557	400,523
Restricted by RTA	20,302	23,201
Restricted for injury and damage reserve	109,057	83,180
Restricted assets for repayment of leasing commitments	<u>1,699,448</u>	<u>1,683,505</u>
Total restricted assets	<u>1,941,364</u>	<u>2,190,409</u>
Other assets:		
Cash and investments held by trustee for supplemental retirement plan	138	96
Bond issue costs	7,192	7,916
Net pension asset	<u>7,847</u>	<u>8,089</u>
Total other assets	<u>15,177</u>	<u>16,101</u>
Capital assets:		
Capital assets not being depreciated:		
Land	119,257	119,419
Construction in process	<u>666,046</u>	<u>694,234</u>
Total capital assets not being depreciated	<u>785,303</u>	<u>813,653</u>
Capital assets being depreciated:		
Land improvements	20,954	19,141
Buildings	1,734,898	1,549,652
Transportation vehicles	2,068,102	1,971,486
Elevated structures, tracks, tunnels, and power system	1,462,301	1,349,446
Signals	864,781	724,628
Other equipment	527,025	480,797
Less accumulated depreciation	<u>(4,017,658)</u>	<u>(3,706,632)</u>
Total capital assets being depreciated, net	<u>2,660,403</u>	<u>2,388,518</u>
Total capital assets, net	<u>3,445,706</u>	<u>3,202,171</u>
Total assets	<u>\$ 5,898,573</u>	<u>\$ 5,827,272</u>

(Continued)

CHICAGO TRANSIT AUTHORITY
Business-Type Activities
Balance Sheets
December 31, 2007 and 2006
(In thousands of dollars)

	<u>2007</u>	<u>2006</u>
Liabilities and Net Assets		
Current liabilities:		
Account payable and accrued expenses	\$ 172,190	\$ 123,719
Accrued payroll, vacation pay, and related liabilities	99,626	98,925
Accrued interest payable	3,480	3,458
Advances, deposits, and other	49,552	9,333
Advances from RTA	20,302	23,201
Deferred passenger revenue	29,273	29,290
Other deferred revenue	2,705	992
Deferred operating assistance	24,602	23,273
Current portion of self-insurance claims	74,795	63,411
Current portion of capital lease obligations	206,765	107,226
Current portion of bonds payable	<u>27,475</u>	<u>18,410</u>
Total current liabilities	<u>710,765</u>	<u>501,238</u>
Long-term liabilities:		
Self-insurance claims, less current portion	117,955	102,432
Capital lease obligations, less current portion	1,543,656	1,634,602
Premium on capital lease obligation	5,721	6,062
Deferred revenue - leasing transactions	37,235	41,497
Bonds payable	461,410	488,885
Premium on bonds payable	36,902	41,060
Accrued pension costs (net pension obligation)	908,609	748,020
Other Post-Employment Healthcare Liability	659,729	515,374
Other long-term liabilities	<u>4,333</u>	<u>4,579</u>
Total long-term liabilities	<u>3,775,550</u>	<u>3,582,511</u>
Total liabilities	<u>4,486,315</u>	<u>4,083,749</u>
Net assets:		
Invested in capital assets, net of related debt	2,912,748	2,933,473
Restricted for payment of leasehold obligations	37,992	33,017
Restricted for debt service	32,233	31,379
Restricted by RTA for future operations and capital improvements	5,430	5,818
Unrestricted (deficit)	<u>(1,576,145)</u>	<u>(1,260,164)</u>
Total net assets	<u>1,412,258</u>	<u>1,743,523</u>
Total liabilities and net assets	<u>\$ 5,898,573</u>	<u>\$ 5,827,272</u>

CHICAGO TRANSIT AUTHORITY
Business-Type Activities
Statements of Revenues, Expenses, and Changes in Net Assets
Years ended December 31, 2007 and 2006
(In thousands of dollars)

	<u>2007</u>	<u>2006</u>
Operating revenues:		
Fare box revenue	\$ 253,987	\$ 276,408
Pass revenue	<u>203,313</u>	<u>185,809</u>
Total fare box and pass revenue	457,300	462,217
Advertising and concessions	23,164	24,402
Other revenue	<u>12,886</u>	<u>6,404</u>
Total operating revenues	<u>493,350</u>	<u>493,023</u>
Operating expenses:		
Labor and fringe benefits	1,112,290	1,047,445
Materials and supplies	84,178	83,150
Fuel	71,181	57,470
Electric power	28,141	22,268
Purchase of security services	31,363	30,831
Purchase of paratransit	-	28,415
Maintenance and repairs, utilities, rent, and other	<u>69,465</u>	<u>48,288</u>
	1,396,618	1,317,867
Provisions for injuries and damages	16,224	26,266
Provision for depreciation	<u>387,738</u>	<u>376,910</u>
Total operating expenses	<u>1,800,580</u>	<u>1,721,043</u>
Operating expenses in excess of operating revenues	<u>(1,307,230)</u>	<u>(1,228,020)</u>
Nonoperating revenues (expenses):		
Public funding from the RTA	548,249	524,056
Reduced-fare subsidies	33,308	29,604
Operating grant revenue	3,740	13,143
Contributions from local government agencies	5,000	5,000
Investment income	16,207	36,079
Gain on sale of assets	27	28
Recognition of leasing transaction proceeds	4,262	4,262
Interest expense on bonds	(15,718)	(14,557)
Interest revenue from leasing transactions	120,795	118,559
Interest expense on leasing transactions	<u>(115,819)</u>	<u>(113,753)</u>
Total nonoperating revenues, net	<u>600,051</u>	<u>602,421</u>
Change in net assets before capital contributions	(707,179)	(625,599)
Capital contributions	<u>375,914</u>	<u>522,040</u>
Change in net assets	(331,265)	(103,559)
Total net assets - beginning of year	<u>1,743,523</u>	<u>1,847,082</u>
Total net assets - end of year	<u>\$ 1,412,258</u>	<u>\$ 1,743,523</u>

See accompanying notes to financial statements.

CHICAGO TRANSIT AUTHORITY
Business-Type Activities
Statements of Cash Flows
Years ended December 31, 2007 and 2006
(In thousands of dollars)

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Cash received from fares	\$ 457,283	\$ 468,319
Payments to employees	(786,524)	(798,078)
Payments to suppliers	(264,857)	(293,570)
Other receipts	<u>87,095</u>	<u>19,616</u>
Net cash flows provided by (used in) operating activities	<u>(507,003)</u>	<u>(603,713)</u>
Cash flows from noncapital financing activities:		
Public funding from the RTA	591,161	500,776
Reduced-fare subsidies	48,423	29,745
Operating grant revenue	3,740	13,143
Contributions from local governmental agencies	<u>5,000</u>	<u>5,000</u>
Net cash flows provided by (used in) noncapital financing activities	<u>648,324</u>	<u>548,664</u>
Cash flows from capital and related financing activities:		
Interest income from assets restricted for payment of leasehold obligations	120,795	118,559
Interest expense on bonds	(19,130)	(19,220)
Decrease in restricted assets for repayment of leasing commitments	(15,943)	(33,737)
Repayment of lease/leaseback obligations	(107,226)	(84,822)
Proceeds from capital leases	-	98,016
Payment of capital lease obligations	-	(4,000)
Payment to escrow agent for refunded capital lease obligations	-	(116,599)
Proceeds from issuance of bonds	-	291,377
Proceeds from other long-term liabilities	(246)	(611)
Repayment of bonds payable	(18,410)	(103,740)
Payments for acquisition and construction of capital assets	(613,772)	(553,908)
Proceeds from the sale of property and equipment	1,075	1,537
Capital grants	<u>326,329</u>	<u>503,832</u>
Net cash flows provided by (used in) capital and related financing activities	<u>(326,528)</u>	<u>96,684</u>
Cash flows from investing activities:		
Purchases of unrestricted investments	(900)	(10,914)
Proceeds from maturity of unrestricted investments	10,914	28,211
Restricted cash and investment accounts:		
Purchases and withdrawals	(11,077,990)	(5,854,660)
Proceeds from maturities and deposits	11,340,042	5,741,689
Investment revenue	<u>16,207</u>	<u>36,079</u>
Net cash flows provided by (used in) investing activities	<u>288,273</u>	<u>(59,595)</u>
Net increase (decrease) in cash and cash equivalents	103,066	(17,960)
Cash and cash equivalents – beginning of year	<u>27,736</u>	<u>45,696</u>
Cash and cash equivalents – end of year	<u>\$ 130,802</u>	<u>\$ 27,736</u>

(Continued)

CHICAGO TRANSIT AUTHORITY
Business-Type Activities
Statements of Cash Flows
Years ended December 31, 2007 and 2006
(In thousands of dollars)

	<u>2007</u>	<u>2006</u>
Reconciliation of expenses in excess of operating revenue to net cash used in operating activities:		
Operating expenses in excess of operating revenue	\$ (1,307,230)	\$ (1,228,020)
Adjustments to reconcile operating expenses in excess of operating revenues to net cash used in operating activities:		
Depreciation	387,738	376,910
(Increase) decrease in assets:		
Accounts receivable	9,113	(10,005)
Materials and supplies	(896)	6,092
Prepaid expenses and other assets	(13)	(262)
Net pension asset	242	42
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	29,581	(2,524)
Accrued payroll, vacation pay, and related liabilities	701	11,050
Self-insurance reserves	26,907	(3,115)
Deferred passenger revenue	(17)	6,102
Other deferred revenue	1,713	207
Advances, deposits, and other	40,219	(1,392)
Accrued pension costs and OPEB	<u>304,939</u>	<u>241,202</u>
Net cash flows used in operating activities	<u>\$ (507,003)</u>	<u>\$ (603,713)</u>
Noncash investing and financing activities:		
Recognition of leasing proceeds	\$ 4,262	\$ 4,262
Decrease in deferred revenue - leasing transactions	(4,262)	(4,262)
Accretion of interest on lease/leaseback obligations	115,819	113,753
Retirement of fully depreciated capital assets	76,962	59,066

CHICAGO TRANSIT AUTHORITY
Fiduciary Activities
Statements of Fiduciary Net Assets
Open Supplemental Retirement Plan
December 31, 2007 and 2006
(In thousands of dollars)

	<u>2007</u>	<u>2006</u>
Assets:		
Contributions from employees	\$ 23	\$ 3
Investments at fair value:		
Short-term investments	808	813
Government agencies	5,653	5,571
Common stock	13,024	12,620
Total investments at fair value	<u>19,485</u>	<u>19,004</u>
Receivables	3	-
Securities lending collateral	11,679	2,127
Total assets	<u>31,190</u>	<u>21,134</u>
Liabilities:		
Accounts payable and other liabilities	55	70
Securities lending collateral obligation	11,679	2,127
Total liabilities	<u>11,734</u>	<u>2,197</u>
Net assets held in trust for pension benefits (an unaudited schedule of funding progress is included on page 50)	<u>\$ 19,456</u>	<u>\$ 18,937</u>

CHICAGO TRANSIT AUTHORITY
Fiduciary Activities
Statements of Changes in Fiduciary Net Assets
Open Supplemental Retirement Plan
Years ended December 31, 2007 and 2006
(In thousands of dollars)

	<u>2007</u>	<u>2006</u>
Additions:		
Contributions:		
Employee	\$ 141	\$ 269
Total contributions	<u>141</u>	<u>269</u>
Investment income:		
Net increase in fair value of investments	369	1,460
Investment income	<u>563</u>	<u>534</u>
Total investment income	<u>932</u>	<u>1,994</u>
Total additions	<u>1,073</u>	<u>2,263</u>
Deductions:		
Benefits paid to participants or beneficiaries	386	250
Trust fees	<u>168</u>	<u>121</u>
Total deductions	<u>554</u>	<u>371</u>
Net increase	519	1,892
Net assets held in trust for pension benefits:		
Beginning of year	<u>18,937</u>	<u>17,045</u>
End of year	<u>\$ 19,456</u>	<u>\$ 18,937</u>

See accompanying notes to financial statements.

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE 1 - ORGANIZATION

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

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

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

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

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

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

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE 1 - ORGANIZATION (Continued)

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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.

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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.

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

Capital Assets: All capital assets are stated at cost. Capital assets are defined as assets which (1) have a useful life of more than one year and a unit cost of more than \$5,000, (2) have a unit cost of \$5,000 or less, but which are part of a network or system conversion, or (3) were purchased with grant money. The cost of maintenance and repairs is charged to operations as incurred. Interest is capitalized on constructed capital assets. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period. Capitalized interest cost is amortized on the same basis as the related asset is depreciated. Capitalized interest expense was \$9,565,000 and \$2,510,000 during the years ended December 31, 2007 and 2006, respectively.

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

Self-insurance: The CTA is self-insured for various risks of loss, including public liability and property damage, workers' compensation, and health benefit claims, as more fully described in note 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.

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

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

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

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

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

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

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

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Recent Pronouncements: 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 is 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 implemented Statement No. 45 beginning with the year ended December 31, 2007.

NOTE 3 - BUDGET AND BUDGETARY BASIS OF ACCOUNTING

The CTA is required under Section 4.01 of the Regional Transportation Authority Act to submit for approval an annual budget to the RTA by November 15 prior to the commencement of each fiscal year. The budget is prepared on a basis consistent with generally accepted accounting principles, except for the exclusion of certain income and expenses. For 2007 and 2006, 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;

(Continued)

CHICAGO TRANSIT AUTHORITY
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2007 and 2006

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

- That the budget provides for sufficient cash balances to pay, with reasonable promptness, costs and expenses when due;
- That the budget provides for the CTA to meet its required system-generated revenue recovery ratio; and
- That the budget is reasonable, prepared in accordance with sound financial practices and complies with such other RTA requirements as the RTA Board of Directors may establish.

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

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

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.

The funding "marks" represent the amount of funds that each Service Board can expect to receive from the RTA and other sources. During 2007, the RTA amended the funding marks and directed the CTA to amend the budget. The amended 2007 funding "marks" include \$83.9 million of capital funding for operations.

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

	2007	2006
Illinois state sales tax allocation	\$ 295,098	\$ 284,636
Public Transportation Fund/RTA discretionary funding/other	253,151	239,420
Total	\$ 548,249	\$ 524,056

Reduced-fare subsidies received from the State of Illinois were \$33,308,000 and \$29,604,000 during the years ended December 31, 2007 and 2006, respectively, for discounted services provided to the elderly, disabled, or student riders.

(Continued)

CHICAGO TRANSIT AUTHORITY
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2007 and 2006

NOTE 5 - CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash, Cash Equivalents, and Investments of the Business-type Activities: Cash, cash equivalents, and investments are reported in the balance sheets of the business-type activities as follows as of December 31, 2007 and 2006 (in thousands):

	<u>2007</u>	<u>2006</u>
Current assets:		
Cash and cash equivalents	\$ 130,802	\$ 27,736
Investments	900	10,914
Restricted cash and investments:		
Bond proceeds held by trustee	112,557	400,523
Restricted by RTA	20,302	23,201
Restricted for injury and damage reserve	109,057	83,180
Other assets:		
Cash and investments for supplemental retirement plan	138	96
Total	<u>\$ 373,756</u>	<u>\$ 545,650</u>

Cash, cash equivalents, and investments of the business-type activities consist of the following as of December 31, 2007 and 2006 (in thousands):

	<u>2007</u>	<u>2006</u>
Investments:		
Certificates of deposit	\$ 4,020	\$ 4,020
Guaranteed investment contracts	44,508	291,377
Money market mutual funds	47,062	34,864
Repurchase agreements	95,935	126,485
U.S. government agencies	93,035	49,589
U.S. Treasury bills	-	10,015
Commercial paper	79,896	39,972
Total investments	<u>364,456</u>	<u>556,322</u>
Deposits with financial institutions	9,300	(10,672)
Total deposits and investments	<u>\$ 373,756</u>	<u>\$ 545,650</u>

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

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

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).

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

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

1. 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.
2. 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, 2007 and 2006 the CTA's bank balances of \$16,085,000 and \$258,000 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:

<u>Instrument type</u>	<u>Term of investment</u>
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.

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

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

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

	Fair value	Investment maturities (by years)	
		Less than 1	1-5
Guaranteed investment contracts	\$ 44,508	\$ 44,508	\$ -
Money market mutual funds	47,062	47,062	-
Repurchase agreements	95,935	99,935	-
U.S. government agencies	93,035	93,035	-
Commercial paper	79,896	79,896	-
Total	<u>\$ 360,436</u>	<u>\$ 364,436</u>	<u>\$ -</u>

As of December 31, 2006, the maturities for the CTA's fixed-income investments are as follows (in thousands):

	Fair value	Investment maturities (by years)	
		Less than 1	1-5
Guaranteed investment contracts	\$ 291,377	\$ 291,377	\$ -
Money market mutual funds	34,864	34,864	-
Repurchase agreements	126,485	126,485	-
U.S. government agencies	49,589	45,600	3,989
U.S. Treasury bills	10,015	10,015	-
Commercial paper	39,972	39,972	-
Total	<u>\$ 552,302</u>	<u>\$ 548,313</u>	<u>\$ 3,989</u>

Credit Risk: Credit risk is the risk that the CTA will not recover its investments due to the failure of the counterparty to fulfill its obligation. As of December 31, 2007, the CTA had the following fixed-income investments which are rated by both Moody's and Standard and Poor's (in thousands):

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

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

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

As of December 31, 2006, 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
Guaranteed investment contracts	\$291,377	\$ -	\$ -	\$ -	\$291,377
Money market mutual funds	34,864	-	-	-	34,864
Repurchase agreements	126,485	53,000	-	-	73,485
U.S. government agencies	49,589	49,589	-	-	-
U.S. Treasury bills	10,015	10,015	-	-	-
Commercial paper	39,972	-	-	39,972	-
Total	<u>\$552,302</u>	<u>\$112,604</u>	<u>\$ -</u>	<u>\$ 39,972</u>	<u>\$399,726</u>

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

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

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, 2007 and 2006 (in thousands):

	2007	2006
Investments, at fair value:		
Short-term investments	\$ 808	\$ 813
Government agency commingled funds	5,653	5,571
Common stock	13,024	12,620
Total	<u>\$ 19,485</u>	<u>\$ 19,004</u>

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

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

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

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

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

<u>Asset class</u>	<u>Allocation</u>
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
	<u>100.00%</u>

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

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

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

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

As of December 31, 2006, the maturities for the Plan's fixed-income investments are as follows (in thousands):

	Fair value	Investment Maturities (in years)	
		Less than 1	1 - 5
Short-term investment funds	\$ 813	\$ 813	\$ -
U.S. government agency commingled funds	5,571	5,571	-
Total	<u>\$ 6,384</u>	<u>\$ 6,384</u>	<u>\$ -</u>

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

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

As of December 31, 2006, the Plan had the following fixed-income investments which are rated by both Moody's and Standard and Poor's (in thousands):

	Fair value	Credit ratings	
		Government Secured	Not Rated
Short-term investment funds	\$ 813	\$ -	\$ 813
U.S. government agency commingled funds	5,571	5,571	-
Total	<u>\$ 6,384</u>	<u>\$ 5,571</u>	<u>\$ 813</u>

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

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

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

Foreign Currency Risk: Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. The Plan's foreign currency risk is limited to its investments in an international equity commingled fund with a fair value of \$1,184,000 and \$1,105,000 as of December 31, 2007 and 2006, respectively.

Securities Lending: The Open Supplemental Plan of the CTA participates in a domestic and international securities lending program whereby securities are loaned to investment brokers/dealers (borrower). Securities loaned are collateralized at 102% of the domestic equity and US dollar-denominated securities that can be loaned and not less than 105% if the borrowed securities if the are denominated in different currencies. The fair value of the securities loaned was approximately \$11,392,000 and \$2,095,000 as of December 31, 2007 and 2006, respectively. The fair value of the associated collateral received was approximately \$11,679,000 and \$2,127,000 as of December 31, 2007 and 2006, respectively.

NOTE 6 - CAPITAL ASSETS

The CTA has capital grant contracts with federal, state, and regional agencies, including the U.S. Department of Transportation, Federal Transit Administration (FTA), the State of Illinois Department of Transportation (IDOT), established under the Transportation Bond Act, and the RTA. Under these contracts, the CTA has acquired rapid-transit cars, buses, and equipment and is constructing, renewing, and improving various portions of track structures and related operating facilities and systems. It is anticipated that the FTA will finance approximately 80% of the total cost of the federal projects, with the balance of the cost being financed principally by IDOT, the RTA, and CTA bonds. Commitments of approximately \$469,782,000 and \$474,283,000 have been entered into for federal and state (including local) capital grant contracts as of December 31, 2007 and 2006, respectively.

The CTA also has additional capital grant contracts, which are 100% funded by the RTA, IDOT, or CTA bonds. Commitments of approximately \$245,801,000 and \$220,062,000 have been entered into for these federal and state (including local) capital grants as of December 31, 2007 and 2006, respectively.

Funding sources for transportation property and equipment of the CTA are as follows as of December 31, 2007 and 2006 (in thousands of dollars):

	2007	2006
Funding source:		
Federal (FTA)	\$ 4,766,864	\$ 4,296,228
State (principally IDOT)	570,408	557,261
RTA	1,736,990	1,670,859
CTA (generally prior to 1973)	124,854	126,573
Other	264,248	257,882
Total	\$ 7,463,364	\$ 6,908,803

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE 6 - CAPITAL ASSETS (Continued)

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

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

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE 6 - CAPITAL ASSETS (Continued)

Changes in capital assets for the year ended December 31, 2006 are as follows (in thousands of dollars):

	Balance at January 1, 2006	Increase	Decrease	Balance at December 31, 2006
Capital assets not being depreciated:				
Land	\$ 104,102	\$ 15,613	\$ (296)	\$ 119,419
Construction in process	378,141	924,757	(608,664)	694,234
Total capital assets not being depreciated	<u>482,243</u>	<u>940,370</u>	<u>(608,960)</u>	<u>813,653</u>
Capital assets being depreciated:				
Land improvements	12,757	6,384	-	19,141
Buildings	1,532,399	21,404	(4,151)	1,549,652
Vehicles	1,855,931	156,058	(40,503)	1,971,486
Elevated structure track	1,314,934	35,710	(1,198)	1,349,446
Signal and communication	712,681	16,584	(4,637)	724,628
Other equipment	455,195	35,663	(10,061)	480,797
Total capital assets being depreciated	<u>5,883,897</u>	<u>271,803</u>	<u>(60,550)</u>	<u>6,095,150</u>
Less accumulated depreciation for:				
Land improvements	10,098	1,783	(358)	11,523
Buildings	606,629	62,111	(3,103)	665,637
Vehicles	1,212,490	171,328	(40,486)	1,343,332
Elevated structure track	744,387	62,854	(981)	806,260
Signal and communication	456,549	34,983	(4,622)	486,910
Other equipment	358,384	43,851	(9,265)	392,970
Total accumulated depreciation	<u>3,388,537</u>	<u>376,910</u>	<u>(58,815)</u>	<u>3,706,632</u>
Total capital assets being depreciated, net	<u>2,495,360</u>	<u>(105,107)</u>	<u>(1,735)</u>	<u>2,388,518</u>
Total capital assets, net	<u>\$ 2,977,603</u>	<u>\$ 835,263</u>	<u>\$ (610,695)</u>	<u>\$ 3,202,171</u>

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE 7 - LONG-TERM OBLIGATIONS

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

	Balance at January 1, 2007	Additions	Reductions	Balance at December 31, 2007	Amount due within one year
Self insurance claims (note 11)	\$ 165,843	\$ 265,066	\$ (238,159)	\$ 192,750	\$ 74,795
Capital lease obligations (note 8)	1,741,828	115,819	(107,226)	1,750,421	206,765
Premium on capital lease obligation	6,062	-	(341)	5,721	-
Deferred revenue - leasing transactions (note 8)	41,497	-	(4,262)	37,235	-
Bonds payable (note 9)	507,295	-	(18,410)	488,885	27,475
Premium on bonds payable	41,060	-	(4,158)	36,902	-
Accrued pension costs (note 10):					
Employees Retirement Plan	729,163	161,429	-	890,592	-
Supplemental Retirement Plans	18,857	-	(840)	18,017	-
Other Postemployment healthcare	515,374	144,355	-	659,729	-
Other	4,579	-	(246)	4,333	-
Total	\$ 3,771,558	\$ 686,669	\$ (373,642)	\$ 4,084,585	\$ 309,035

Changes in long-term obligations for the year ended December 31, 2006 are as follows (in thousands of dollars):

	Balance at January 1, 2006	Additions	Reductions	Balance at December 31, 2006	Amount due within one year
Self insurance claims (note 11)	\$ 168,958	\$ 255,522	\$ (258,637)	\$ 165,843	\$ 63,411
Capital lease obligations (note 8)	1,736,677	205,093	(199,942)	1,741,828	107,226
Premium on capital lease obligation	6,687	6,062	(6,687)	6,062	-
Deferred revenue - leasing transactions (note 8)	45,759	-	(4,262)	41,497	-
Bonds payable (note 9)	336,035	275,000	(103,740)	507,295	18,410
Premium on bonds payable	26,007	19,652	(4,599)	41,060	-
Accrued pension costs (note 10):					
Employees Retirement Plan	755,323	-	(26,160)	729,163	-
Supplemental Retirement Plans	19,606	-	(749)	18,857	-
Other Postemployment healthcare	247,263	268,111	-	515,374	-
Other	5,190	-	(611)	4,579	-
Total	\$ 3,347,505	\$ 1,029,440	\$ (605,387)	\$ 3,771,558	\$ 189,047

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE 8 - CAPITAL LEASE OBLIGATIONS

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

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

The proceeds from the sale of the 2006 bonds are being held in escrow under an escrow refunding agreement and have been invested in United States Treasury obligations. The principal amount of such obligations, together with interest earned thereon, will permit the payment of principal and interest on the refunded bonds up to an including their respective call dates. The refunded bonds are treated in the financial statements as defeased obligations. Accordingly, neither the trust account assets nor the refunded bonds appear in the accompanying financial statements. This refunding decreased debt service payments over the next 27 years by approximately \$388,000, resulting in an economic gain of approximately \$20,404,000. Based upon the requirements of GASB Statement No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Accounts*, the CTA recorded a deferred amount (loss) on refunding of \$2,395,000. This amount is recorded as a component of long-term debt in the accompanying balance sheets.

The bonds are payable from and secured by the lease entered into between the Commission and the CTA and are considered a general obligation of the CTA payable from any lawfully available funds. Bond issue costs and premium related to this transaction are presented as such on the balance sheets. The present value of the future payments to be made by the CTA under the lease of approximately \$88,965,000 is reflected in the accompanying December 31, 2007 balance sheet as a capital lease obligation.

Capital Lease - Lease and Leaseback Transactions: In 2003, CTA entered into a lease and leaseback agreement with a third party pertaining to certain buses, with a book value of \$22,065,000 at December 31, 2007. Under the bus lease agreement, which provides certain cash and tax benefits to the third party, the CTA entered into a long-term lease for applicable assets with a trust, established by the equity investor, in which the trust concurrently leased the respective assets back to the CTA under a sublease. The present value of the future payments to be made by the CTA under the lease of approximately \$15,022,000 is reflected in the accompanying December 31, 2007 balance sheet as a capital lease obligation.

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE 8 - CAPITAL LEASE OBLIGATIONS (Continued)

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 \$35,775,000 at December 31, 2007. 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 \$106,256,000 is reflected in the accompanying December 31, 2007 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 \$25,326,000 at December 31, 2007. 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 \$173,733,000 is reflected in the accompanying December 31, 2007 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 \$254,715,000 at December 31, 2007. 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 \$271,032,000 is reflected in the accompanying December 31, 2007 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 \$50,341,000 at December 31, 2007. The 1997 Agreements, which provide certain cash and tax benefits to the third party, also provide for a trust established by the CTA to lease the facilities to an equity investor trust (the Equity Trust), which would then lease the facilities back to another trust established by the CTA under separate leases (the Leases). The CTA received certain funds as prepayment by the Equity Trust. The funds have been deposited in designated investment accounts sufficient to meet the payments required under the Leases and are recorded as assets restricted for repayment of leasing commitments. The Equity Trust has a security interest in the deposits to guarantee the payments due by the CTA and may take possession of the facilities upon a default by the CTA under the Lease. No other lease payments are required until the end of each lease. The present value of the future payments to be made by the CTA under the leases (net of the payment due from the Equity Trust in 2023 and 2024) of approximately \$32,464,000 is reflected in the accompanying December 31, 2007 balance sheet as a capital lease obligation.

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE 8 - CAPITAL LEASE OBLIGATIONS (Continued)

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 \$54,414,000 at December 31, 2007. 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 \$32,610,000 is reflected in the accompanying December 31, 2007 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, 2007, the total payments due under the 1995 Agreements are recorded as capital lease obligations totaling \$1,030,339,000. The CTA has deposited funds into designated cash and investment accounts sufficient to meet all of its payment obligations throughout the terms of the leases, and recorded such amounts as assets restricted for repayment of leasing commitments.

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

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

* Additions include accretion of interest.

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE 8 - CAPITAL LEASE OBLIGATIONS (Continued)

Changes in capital leases for the year ended December 31, 2006 are as follows (in thousands of dollars):

2006	Beginning balance	Additions*	Principal paid	Ending balance	Interest paid	Due in one year
2003 (Buses)	\$ 24,058	\$ 859	\$ (1,362)	\$ 23,555	\$ 859	\$ 9,373
2002 (Buses)	96,302	4,855	-	101,157	4,855	-
2002 (QTE)	166,251	10,554	(6,928)	169,877	10,554	6,928
1998 (Green)	271,319	18,487	(12,835)	276,971	18,487	24,852
1997 (Garages)	28,081	2,113	-	30,194	2,113	-
1996 (Skokie/Racine)	28,299	2,078	-	30,377	2,078	-
1995 (Pickle)	1,007,247	74,807	(63,697)	1,018,357	74,807	63,698
Total lease/leasebacks	<u>1,621,557</u>	<u>113,753</u>	<u>(84,822)</u>	<u>1,650,488</u>	<u>113,753</u>	<u>104,851</u>
2003 PBC lease	115,120	-	(115,120)	-	5,848	-
2006 PBC lease	-	91,340	-	91,340	-	2,375
Total PBC leases	<u>115,120</u>	<u>91,340</u>	<u>(115,120)</u>	<u>91,340</u>	<u>5,848</u>	<u>2,375</u>
Total capital lease obligation	<u>\$ 1,736,677</u>	<u>\$ 205,093</u>	<u>\$ (199,942)</u>	<u>\$ 1,741,828</u>	<u>\$ 119,601</u>	<u>\$ 107,226</u>

* Additions include accretion of interest.

Future Minimum Lease Payments: As of December 31, 2007, future minimum lease payments for capital leases, in the aggregate, are as follows (in thousands of dollars):

2008	\$ 211,149
2009	95,772
2010	109,211
2011	99,210
2012	98,004
2013 - 2017	1,699,763
2018 - 2022	367,430
2023 - 2027	218,710
2028 - 2032	30,939
2033	<u>6,188</u>
Total minimum lease payments	2,936,376
Less interest	<u>1,185,955</u>
	<u>\$ 1,750,421</u>

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE 9 - BONDS PAYABLE

2003 Series Capital Grant Receipts Revenue Bonds: 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.

During 2006, the CTA redeemed all the outstanding Series 2003 bonds prior to maturity.

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

The Series 2004 bonds bear interest ranging from 3.60% to 5.25%. Interest is payable semiannually on June 1 and December 1 and the bonds mature serially on June 1, 2006 through June 1, 2016.

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	<u>\$ 213,885</u>	<u>\$ 53,636</u>	<u>\$ 267,521</u>

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE 9 - BONDS PAYABLE (Continued)

2006 Series Capital Grant Receipts Revenue Bonds: On November 1, 2006, the CTA issued Capital Grant Receipts Revenue Bonds, "2006 Project," in the amount of \$275,000,000, along with a premium of \$19,652,000, in anticipation of the receipt of grants from the federal government pursuant to a full funding grant agreement. The bonds were issued to provide funds to finance or reimburse the CTA for expenditures relating to a portion of the costs of capital improvements to the Transportation System referred to as the "2006 Project."

The Series 2006 bonds bear interest ranging from 4.0% to 5.0%. Scheduled interest on the 2006 bonds will be funded through June 1, 2007 with bond proceeds and interest earnings thereon. Interest is payable semiannually on June 1 and December 1 and the bonds mature serially on June 1, 2008 through June 1, 2021.

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 8,140	\$ 13,223	\$ 21,363
2009	8,465	12,898	21,363
2010	8,800	12,559	21,359
2011	9,155	12,207	21,362
2012	9,520	11,841	21,361
2013	9,900	11,460	21,360
2014	10,395	10,965	21,360
2015	10,915	10,445	21,360
2016	11,465	9,900	21,365
2017	34,070	9,412	43,482
2018	35,770	7,709	43,479
2019	37,560	5,920	43,480
2020	39,435	4,042	43,477
2021	41,410	2,071	43,481
Total	<u>\$ 275,000</u>	<u>\$ 134,652</u>	<u>\$ 409,652</u>

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE 10 - DEFINED BENEFIT PENSION PLANS

Plan Descriptions

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

Substantially all nontemporary, full-time employees who have completed one year of continuous service are covered by the Employees' Plan. Employees 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 covered payroll for the Employees' Plan for the fiscal years ended December 31, 2007 and 2006 was \$562,567,000 and \$547,532,000, respectively. The Employees' Plan issues a separate stand-alone financial report and is available upon request.

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

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

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE 10 - DEFINED BENEFIT PENSION PLANS (Continued)

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

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

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

Participants in the supplemental retirement plans at December 31, 2006 are as follows:

	<u>Open</u>	<u>Closed</u>	<u>Board</u>
Retirees and beneficiaries currently receiving benefits	15	464	17
Terminated employees entitled to but not yet receiving benefits	9	-	5
Active plan members	129	-	7
Total	<u>153</u>	<u>464</u>	<u>29</u>

The covered payroll for the Open Supplemental Retirement Plan for the fiscal years ended December 31, 2007 and 2006 was \$13,551,000 and \$14,840,000, respectively. The covered payroll for the Board Supplemental Retirement Plan was \$200,000 for the fiscal year ended December 31, 2007 and 2006.

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE 10 - DEFINED BENEFIT PENSION PLANS (Continued)

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):

	<u>Employees' Plan Pension</u>	<u>Open Supplemental</u>	<u>Closed Supplemental</u>	<u>Board Plan</u>
Contribution rates:				
CTA	4.4%	Actuarial	Pay-Go Funding	Pay-Go Funding
Plan members	2.2	None	None	None
Annual pension cost (APC)	\$186,455	\$242	\$2,674	\$274
Actual 2007 contributions:				
CTA	\$25,026	\$0	\$3,504	\$284
Plan members	\$12,513	\$141	\$0	\$6
Actuarial valuation date	January 1, 2007	January 1, 2007	January 1, 2007	January 1, 2007
Actuarial cost method	Projected unit credit	Projected unit credit	Projected unit credit	Projected unit credit
Amortization method	Level dollar	Level dollar	Level dollar	Level dollar
Remaining amortization period	30 years	30 years	14 years	30 years
Asset valuation method	5-year smoothed market	Fair market value	Fair market value	Fair market value
Actuarial assumptions:				
Investment rate of return	9.0%	8.0%	6.0%	6.0%
Projected salary increases	5.5	5.5	N/A	—
Includes inflation at	3.5	3.5	3.5	3.5

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

	<u>Medical Trend Rate</u>	<u>Perscription Trend Rate</u>
Plan year:		
2008	10%	12%
2009	9%	11%
2010	8%	10%
2011	7%	9%
2012	6%	8%
2013	5%	7%
2014	5%	6%
2015 and after	5%	5%

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE 10 - DEFINED BENEFIT PENSION PLANS (Continued)

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, 2007 (in thousands of dollars):

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

The following represents the significant components of the APC and changes in net pension obligation (asset) (NPO) during the year ended December 31, 2006 (in thousands of dollars):

	Employees' Plan	Supplemental Retirement Plans		
	Pension	Open	Closed	Board
Annual required contribution	\$ 183,001	\$ -	\$ 3,474	\$ 276
Interest on NPO	67,979	(650)	1,096	80
Adjustment to ARC	(64,417)	692	(1,822)	(94)
Annual pension cost	186,563	42	2,748	262
Contributions made	23,850	-	3,467	292
Increase (decrease)				
in NPO	162,713	42	(719)	(30)
NPO - December 31, 2005	755,323	(8,131)	18,265	1,341
Adjust allocation of healthcare	(188,873)	-	-	-
NPO - December 31, 2006	\$ 729,163	\$ (8,089)	\$ 17,546	\$ 1,311

The allocation of actuarial value of assets between the retiree healthcare account and the pension account was revised due to the significant spread between the actuarial value of assets and the market value of assets. For the retiree healthcare account an adjustment was made to set the actuarial value of assets to the market value as of December 31, 2006. The reclassification of the GASB 27 balance sheet liability at December 31, 2006, between pension and OPEB benefits was accomplished by the following:

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE 10 - DEFINED BENEFIT PENSION PLANS (Continued)

- Allocate the total actuarial valuation of assets at the beginning of the fiscal year in proportion to the market value of the pension account and retiree healthcare account, starting with fiscal year beginning January 1, 1996.
- Recalculate separate ARCs for pension and OPEB based on the updated actuarial value of assets.
- Update the annual pension/OPEB costs and net pension/OPEB obligation separately for pension and OPEB benefits.

The adjustment reduces the GASB 27 balance sheet liability for pension benefits at December 31, 2006, from \$918 million to \$729 million. The adjustment did not change the total balance sheet liability.

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, 2007	\$ 186,455	\$ 25,026	13.4%	\$ 890,592
	December 31, 2006	156,020	23,850	15.3	729,163
	December 31, 2005	136,083	19,808	14.6	596,994
Open Supplemental Plan	December 31, 2007	\$ 242	\$ -	0.0%	\$ (7,847)
	December 31, 2006	42	-	0.0	(8,089)
	December 31, 2005	1,482	15,708	1,059.9	(8,131)
Closed Supplemental Plan	December 31, 2007	\$ 2,674	\$ 3,504	131.0%	\$ 16,716
	December 31, 2006	2,748	3,467	126.2	17,546
	December 31, 2005	2,236	3,521	157.5	18,265
Board Supplemental Plan	December 31, 2007	\$ 274	\$ 284	103.6%	\$ 1,301
	December 31, 2006	262	292	111.5	1,311
	December 31, 2005	246	286	116.3	1,341

NOTE 11 - POSTEMPLOYMENT HEALTHCARE

Plan Descriptions - OPEB

Employees' Plan – Retiree Healthcare Benefits: The CTA maintains a trusted, single-employer, defined benefit pension plan covering substantially all full-time permanent union and nonunion employees. The Retirement Plan for CTA employees (the Employees' Plan) is governed by the terms of the employees' collective bargaining agreement and is described in detail at Note 10.

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE 11 - POSTEMPLOYMENT HEALTHCARE (Continued)

The Employees' Plan provides death, disability, and health benefits to participants. For financial reporting purposes, the postemployment healthcare benefits are considered, in substance, a postemployment healthcare plan administered by the pension plan. Members are eligible for health benefits if they are in receipt of retirement or disability benefits from the Plan. The Employees' Plan issues a separate stand-alone financial report and is available upon request.

Supplemental Plans - Retiree Healthcare Benefits: Employees of the CTA in certain employment classifications are eligible to participate in the supplemental retirement plan. Only supplemental plan members with bridged service will be eligible for retiree healthcare benefits from the supplemental plan. The benefits are dependent on the amount of bridged service and the amount of service at the CTA that is credited in the Employees Plan. In general, employees with less than 10 years of CTA service will receive healthcare benefits from the supplemental plan only. Employees with more than 10 years of CTA service are eligible for retiree healthcare benefits from the Employees Plan.

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

Funding Policy - OPEB

Employees' Plan - Retiree Healthcare Benefits: The contribution levels are set by the collective bargaining agreement. The collective bargaining agreement in effect during 2006 and 2007 required contributions of six percent and three percent of payroll from the employer and employees, respectively which covers both pension and healthcare benefits. The employer and employee contributions are allocated between pension and healthcare by the plan. The allocation is based on the annual required contribution for pension and healthcare benefits for the fiscal year and is limited by Section 401 (h) of the Internal Revenue Code. For the fiscal year 2007 contribution, approximately 1.6 percent of payroll for the CTA and 0.8 percent of payroll for the employees were allocated to healthcare benefits.

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

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE 11 - POSTEMPLOYMENT HEALTHCARE (Continued)

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

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

The annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2007 and the two preceding years were as follows (dollar amounts in thousands):

Employees Plan:

Fiscal Year Ended	OPEB Cost	Percent OPEB Cost Contributed	Net OPEB Obligation
2007	\$ 152,861	5.7%	\$ 659,507
2006	121,481	9.6	515,374
2005	130,003	8.2	405,594

Supplemental Plan:

Fiscal Year Ended	OPEB Cost	Percent OPEB Cost Contributed	Net OPEB Obligation
2007	\$ 556	60.2%	\$ 222
2006	-	-	-
2005	-	-	-

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE 11 - POSTEMPLOYMENT HEALTHCARE (Continued)

Funded Status and Funding Progress - OPEB

Employee's Plan - Retiree Healthcare Benefits:

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

Supplemental and Board Plans - Retiree Healthcare Benefits

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

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

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

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE 11 - POSTEMPLOYMENT HEALTHCARE (Continued)

In the actuarial valuation as of January 1, 2007, and January 1, 2008, the projected unit credit cost method was used. The actuarial assumptions included a 5.0 percent investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an initial healthcare cost trend rate of 10 percent for medical benefit and 12 percent for prescription drug benefits, reduced by one percent per year until an ultimate rate of 5 percent is reached. Both rates included a 3.5 percent inflation assumption. The actuarial value of assets for the Employees' healthcare plan was marked to the market value of the retiree healthcare account as of January 1, 2007. The UAAL is being amortized as a level percentage of projected payroll over an open 30-year period. An open period amortization means that in subsequent valuations, the amortization period will remain at 30 years.

NOTE 12 - RISK MANAGEMENT

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

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

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

The RTA provides excess liability insurance to protect the self-insurance programs for general liability and terrorism currently maintained by the CTA. On November 8, 2005, a new policy was established through May 7, 2008 that covered injury and damage claims up to \$35,000,000 per occurrence and \$70,000,000 in the aggregate, with a \$15,000,000 deductible. In 2007 and 2006, no CTA claim existed that would have been submitted under this insurance policy.

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE 12 - RISK MANAGEMENT (Continued)

The CTA participates in a Joint Self-Insurance Fund (the Fund) with the RTA that permits the CTA to receive monies necessary to pay injury and damage claims in excess of \$2,500,000 per occurrence up to a maximum of \$47,500,000 from the Fund. The CTA is obligated to reimburse the Fund for any damages paid plus a floating interest rate. However, reimbursement payments, including interest, cannot exceed \$3,500,000 in any one year. No borrowings were made from the Fund in fiscal year 2007 or 2006 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 4.0%, respectively.

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

	<u>Injury and damage</u>	<u>Group health and dental</u>	<u>Workers' compensation</u>	<u>Total</u>
Balance at December 31, 2005	\$ 92,359	\$ 13,985	\$ 62,614	\$ 168,958
Funded	45,266	178,695	31,561	255,522
Funding (excess) per actuarial requirement	(18,999)	-	-	(18,999)
Payments	<u>(26,454)</u>	<u>(177,957)</u>	<u>(35,227)</u>	<u>(239,638)</u>
Balance at December 31, 2006	92,172	14,723	58,948	165,843
Funded	25,000	190,084	37,158	252,242
Funding (excess)/deficiency per actuarial requirement	(8,776)	-	21,600	12,824
Payments	<u>(14,840)</u>	<u>(187,250)</u>	<u>(36,069)</u>	<u>(238,159)</u>
Balance at December 31, 2007	<u>\$ 93,556</u>	<u>\$ 17,557</u>	<u>\$ 81,637</u>	<u>\$ 192,750</u>

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE 12 - RISK MANAGEMENT (Continued)

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

NOTE 13 - DERIVATIVE FINANCIAL INSTRUMENTS

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

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

2007 Commodity Swap Agreements:

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

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE 13 - DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

2006 Commodity Swap Agreements:

Effective date	Termination date	Notional quantity per calculation period (gallons)	Total notional quantity (gallons)	Fair value
11/1/2006	12/31/2006	712,500	1,425,000	\$ (306,446)
1/1/2007	12/31/2007	380,000	4,560,000	(1,422,584)
1/1/2007	12/31/2007	380,000	4,560,000	(2,057,914)
1/1/2007	12/31/2007	190,000	2,280,000	(927,882)
1/1/2007	12/31/2007	190,000	2,280,000	(793,485)
11/1/2006	12/31/2006	475,000	950,000	(221,398)
11/1/2006	12/31/2006	712,500	1,425,000	(307,159)
1/1/2007	12/31/2007	190,000	2,280,000	(927,882)
1/1/2007	12/31/2007	190,000	2,280,000	(793,485)
1/1/2007	12/31/2007	190,000	2,280,000	(406,955)
1/1/2007	12/31/2007	190,000	38,974	(406,955)
				\$ (8,572,145)

Fair Value: As of December 31, 2007 and 2006, the commodity swaps had a fair value of \$852,530 and (\$8,572,146), respectively, estimated by discounting forward market prices available from exchange trading.

Credit Risk: The CTA is exposed to credit risk in the amount of its fair value. As of December 31, 2007, the swap counterparty's long-term deposit ratings were 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.

NOTE 14 - COMMITMENTS AND CONTINGENCIES

Litigation: In April 2003, the CTA and certain managers were named as co-defendants, along with union trustees of the Retirement Allowance Committee, the governing board of the Retirement Plan for CTA Employees, in a suit alleging that the Committee trustees breached their fiduciary duties by approving payment from Plan assets to reimburse the CTA for actual healthcare costs of retirees. The combined amount currently alleged totals over \$60 million. The Illinois Appellate Court, in September 2007, upheld the trial court's judgment in favor of CTA and denied plaintiffs motion for reconsideration in March of 2008. Plaintiffs may petition for review by the Illinois Supreme Court. Based upon its own investigation, management believes that there has been no illegality, and that payments were properly made. Accordingly, no liability has been recorded in the financial statements as of December 31, 2007.

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE 14 - COMMITMENTS AND CONTINGENCIES (Continued)

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

Defeased Debt: On 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 outstanding balance of the defeased debt was \$725,000 as of December 31, 2007.

On October 26, 2006, the PBC issued Building Refunding Revenue Bonds for the benefit of the CTA in the amount of \$91,340,000. The proceeds of the bonds were used to advance refund the Public Building Commission of Chicago, Series 2003 bonds. The outstanding balance of the defeased debt was \$106,870,000 as of December 31, 2007.

Operating Leases: As of December 31, 2007, future minimum lease payments for operating leases, in the aggregate, are as follows (in thousands of dollars):

2008	\$ 323,244
2009	332,941
2010	342,930
2011	353,217
2012	241,978
Total minimum lease payments	<u><u>\$ 1,594,310</u></u>

NOTE 15 - SUBSEQUENT EVENTS

New Legislation: On January 18, 2008, Public Act 95-708 became law. As a result, the RTA Act was amended to (1) authorize additional funds to be raised, primarily from the RTA region and (2) to enhance the RTA's responsibilities and accountability with respect to regional planning, fiscal oversight, and fare and service coordination.

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE 15 – SUBSEQUENT EVENTS (Continued)

This legislation also includes provisions to stabilize the long-term financial health of the CTA pension and retiree healthcare system. The legislation requires that the funding for the pension and retiree healthcare are separated, employee and employer contributions are increased, benefits are adjusted, governance is strengthened, bonds are issued and ongoing financial oversight by the Illinois Auditor General is established. The Chicago Transit Board has not yet approved the issuance of these bonds, however the CTA is preparing for this issuance predicated on the assumption that the bonds will be repaid with the proceeds of the additional funds provided to the CTA from the legislation.

Please refer to the Management’s Discussion and Analysis section for further information regarding Public Act 95-708.

Hybrid Bus Lease: On February 29, 2008, CTA finalized an agreement to lease 150 New Flyer articulated hybrid buses. Delivery of the new buses is expected to occur between Fall 2008 and Spring 2009. The terms of the agreement allow CTA to lease the buses for 12 years and retain ownership at the conclusion of the lease. The lease cost will be approximately \$13.4 million per year with a total principal amount of \$120,522,624. Lease payments are due every June 1 and December 1 of each year, beginning on December 1, 2008.

Capital Grant Receipts Revenue Bonds, Series 2008: On March 12, 2008, the Chicago Transit Board approved the issuance of \$250 million in Capital Grant Receipt Revenue Bonds to accelerate funding of capital improvement projects including the purchase of buses and rail cars, and slow zone elimination. The Board’s approval means the CTA will issue up to \$250 million in tax-exempt Capital Grant Receipts Revenue Bonds backed by the pledge of Federal Transit Administration Section 5307 Urbanized Area Formula Program and 5309 Fixed Guideway Modernization Program Funds.

REQUIRED SUPPLEMENTARY INFORMATION

CHICAGO TRANSIT AUTHORITY
Required Supplementary Information – Pension
Schedules of Funding Progress (Unaudited)
December 31, 2007
(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:						
1/1/2007	\$ 1,007,305	\$ 2,466,106	\$ 1,458,801	40.8%	\$ 562,567	259.3%
1/1/2006	1,144,669	2,354,125	1,209,456	48.6	547,532	220.9
1/1/2005	1,313,087	2,291,162	978,075	57.3	544,442	179.6
1/1/2004	1,491,574	2,189,666	698,092	68.1	486,626	143.5
1/1/2003	1,671,055	2,085,724	414,669	80.1	480,740	86.3
1/1/2002	1,688,873	2,044,330	355,457	82.6	459,343	77.4
1/1/2001	1,634,254	2,058,999	424,745	79.4	431,703	98.4
1/1/2000	1,533,217	1,871,391	338,174	81.9	424,518	79.7
Open Supplemental Plan:						
1/1/2008	\$ 19,457	\$ 15,974	\$ (3,483)	121.8%	\$ 13,551	-25.7%
1/1/2007	18,937	15,503	(3,434)	122.2	14,840	-23.1
1/1/2006	17,001	10,064	(6,937)	168.9	14,871	-46.6
1/1/2005	*	*	*	*	*	*
1/1/2004	*	*	*	*	*	*
1/1/2003	*	*	*	*	*	*
1/1/2002	*	*	*	*	*	*
1/1/2001	*	*	*	*	*	*
Closed Supplemental Plan:						
1/1/2008	\$ -	\$ 32,887	\$ 32,887	-%	\$ -	-%
1/1/2007	-	33,104	33,104	-	-	-
1/1/2006	-	34,835	34,835	-	-	-
1/1/2005	408	45,959	45,551	0.9	15,953	285.5
1/1/2004	301	46,820	46,519	0.6	17,590	264.5
1/1/2003	265	48,372	48,107	0.5	18,685	257.5
1/1/2002	204	47,762	47,558	0.4	17,502	271.7
1/1/2001	253	41,927	41,674	0.6	15,240	273.5
Board Supplemental Plan:						
1/1/2008	\$ 56	\$ 3,193	\$ 3,137	1.8%	\$ 200	1568.5%
1/1/2007	50	3,312	3,262	1.5	200	1631.0
1/1/2006	47	3,270	3,223	1.4	175	1841.7
1/1/2005	42	3,001	2,959	1.4	175	1690.9
1/1/2004	55	2,579	2,524	2.1	175	1442.3
1/1/2003	55	2,369	2,314	2.3	200	1157.0
1/1/2002	56	2,127	2,071	2.6	200	1035.5
1/1/2001	50	1,803	1,753	2.8	162	1082.1

*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.

CHICAGO TRANSIT AUTHORITY
Required Supplementary Information - Other Post Employment Healthcare
Schedules of Funding Progress (Unaudited)
December 31, 2007
(In thousands of dollars)

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	Percentage of covered payroll ((b-a)/c)
Employees' Plan - Healthcare:						
1/1/2007	\$ 58,856	\$ 1,765,884	\$ 1,707,028	3.3%	\$ 562,567	303.4%
1/1/2006	54,386	1,129,278	1,074,892	4.8	547,532	196.3
1/1/2005	69,177	1,219,457	1,150,280	5.7	544,442	211.3
1/1/2004	89,472	1,068,961	979,489	8.4	486,626	201.3
1/1/2003	55,882	940,873	884,991	5.9	480,740	184.1
1/1/2002	175,854	767,864	592,010	22.9	459,343	128.9
1/1/2001	193,841	299,857	106,016	64.6	431,703	24.6
1/1/2000	188,998	284,888	95,890	66.3	424,518	22.6
Supplemental Plan - Healthcare:						
1/1/2008	\$ -	\$ 6,287	\$ 6,287	0.0%	\$ 2,771	226.9%
1/1/2007	-	6,796	6,796	-	3,332	204.0

CHICAGO TRANSIT AUTHORITY
Employees' Plan
Required Supplementary Information -
Schedules of Employer Contributions (Unaudited)
December 31, 2007
(In thousands of dollars)

Employees' Plan - Pension		
Year ended	Annual required contribution	Percentage contributed
12/31/07	\$ 185,944	13.5%
12/31/06	153,204	15.6
12/31/05	133,816	14.8
12/31/04	104,881	19.2
12/31/03	64,627	30.0
12/31/02	33,973	57.5
12/31/01	58,317	41.3
12/31/00	47,650	47.8

CHICAGO TRANSIT AUTHORITY
 Other Post Employment Healthcare
 Required Supplementary Information -
 Schedules of Employer Contributions (Unaudited)
 December 31, 2007
 (In thousands of dollars)

Employees' Plan - Healthcare		
Year ended	Annual required contribution	Percentage contributed
12/31/07	\$ 159,021	5.5%
12/31/06	119,568	9.8
12/31/05	128,653	8.3
12/31/04	111,659	9.3
12/31/03	97,936	10.1
12/31/02	41,841	22.0
12/31/01	11,488	27.3
12/31/00	10,312	29.7

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

CHICAGO TRANSIT AUTHORITY
Supplemental Plans
Required Supplementary Information -
Schedules of Employer Contributions (Unaudited)
December 31, 2007
(In thousands of dollars)

Open Supplemental Plan		
Year ended	Annual required contribution	Percentage contributed
12/31/07	\$ 200	0.0%
12/31/06	-	N/A
12/31/05	1,545	1,016.5
12/31/04	*	*
12/31/03	*	*
12/31/02	*	*
12/31/01	*	*

Closed Supplemental Plan		
Year ended	Annual required contribution	Percentage contributed
12/31/07	\$ 3,450	101.6%
12/31/06	3,474	99.8
12/31/05	2,439	144.4
12/31/04	*	*
12/31/03	*	*
12/31/02	*	*
12/31/01	*	*

Board Supplemental Plan		
Year ended	Annual required contribution	Percentage contributed
12/31/07	\$ 288	98.8%
12/31/06	275	106.0
12/31/05	261	109.7
12/31/04	*	*
12/31/03	*	*
12/31/02	*	*
12/31/01	*	*

Total Supplemental Plans		
Year ended	Annual required contribution	Percentage contributed
12/31/05	\$ 4,245	459.7%
12/31/04	4,368	84.0
12/31/03	4,690	65.3
12/31/02	4,543	108.6
12/31/01	3,817	96.0

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

SUPPLEMENTARY SCHEDULES

CHICAGO TRANSIT AUTHORITY
Schedule of Expenses and Revenues –
Budget and Actual – Budgetary Basis
Year ended December 31, 2007
(In thousands of dollars)

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

CHICAGO TRANSIT AUTHORITY
Schedule of Expenses and Revenues –
Budget and Actual – Budgetary Basis
Year ended December 31, 2006
(In thousands of dollars)

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual – budgetary basis</u>	<u>Variance favorable (unfavorable)</u>
Operating expenses:				
Labor and fringe benefits	\$ 748,922	\$ 748,922	\$ 760,751	\$ (11,829)
Materials and supplies	67,088	67,088	83,150	(16,062)
Fuel	48,000	48,000	57,470	(9,470)
Electric power	24,526	24,526	22,268	2,258
Purchase of security services	35,335	35,335	30,831	4,504
Purchase of paratransit services	29,582	29,582	28,415	1,167
Other	50,232	50,232	48,288	1,944
Provision for injuries and damages	<u>33,000</u>	<u>33,000</u>	<u>45,266</u>	<u>(12,266)</u>
Total operating expenses	<u>1,036,685</u>	<u>1,036,685</u>	<u>1,076,439</u>	<u>(39,754)</u>
System-generated revenues:				
Fares and passes	426,522	426,522	462,218	35,696
Reduced-fare subsidies	30,590	30,590	29,604	(986)
Advertising and concessions	24,800	24,800	24,402	(398)
Investment income	4,944	4,944	11,608	6,664
Contributions from local governmental units	5,000	5,000	5,000	-
Other revenue	<u>20,773</u>	<u>20,773</u>	<u>19,574</u>	<u>(1,199)</u>
Total system-generated revenues	<u>512,629</u>	<u>512,629</u>	<u>552,406</u>	<u>39,777</u>
Operating expenses in excess of system-generated revenues	524,056	524,056	524,033	23
Public funding from the RTA:				
Operating assistance	<u>524,056</u>	<u>524,056</u>	<u>524,056</u>	<u>-</u>
Change in net assets – budgetary basis	<u>\$ -</u>	<u>\$ -</u>	23	<u>\$ 23</u>
Reconciliation of budgetary basis to GAAP basis:				
Provision for depreciation			(376,910)	
Pension expense in excess of pension contributions			(286,694)	
Provision for injury and damage claims			19,000	
Revenue from leasing transactions			4,262	
Interest revenue on bond transactions			24,471	
Interest expense on bond transactions			(14,557)	
Interest income from sale/leaseback			118,559	
Interest expense from sale/leaseback			(113,753)	
Capital contributions			<u>522,040</u>	
Change in net assets – GAAP basis			<u>\$ (103,559)</u>	
CTA recovery ratio:				
Total operating expenses			\$ 1,076,439	
Less mandated security costs			(30,831)	
Plus City of Chicago in-kind services			22,000	
Total operating expenses for recovery ratio calculation (B)			<u>\$ 1,067,608</u>	
Total system-generated revenues			\$ 552,406	
Plus FTA funds			8,000	
Plus City of Chicago in-kind services			<u>22,000</u>	
Total system-generated revenues for recovery ratio calculation (A)			<u>\$ 582,406</u>	
Recovery ratio (A/B)				54.55%

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APPENDIX D

DTC AND THE BOOK-ENTRY ONLY SYSTEM AND GLOBAL CLEARANCE PROCEDURES

The information in this Appendix concerning The Depository Trust Company (“DTC”), New York, New York, and DTC’s book entry system has been obtained from DTC and neither the Authority nor the Underwriters takes any responsibility for the completeness or accuracy thereof. The Authority cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants (each as defined herein) will distribute to the Beneficial Owner (as defined herein) (a) payments of interest, principal or premium, if any, with respect to the 2008 Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the 2008 Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the 2008 Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in the body of this Official Statement or in this Appendix. The current “Rules” applicable to DTC are on file with the Securities and Exchange Commission and the current “Procedures” of DTC to be followed in dealing with DTC Participants are on file with DTC.

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the 2008 Bonds. The 2008 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 or more fully registered 2008 Bond certificates will be issued for each maturity and series of the 2008 Bonds, in the aggregate principal amount of such maturity and series, 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 3.5 million issues of U.S. and non U.S. equity, corporate and municipal debt issues, and money market instrument (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC

Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of the 2008 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2008 Bonds on DTC's records. The ownership interest of each actual purchaser of each 2008 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 2008 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 2008 Bonds, except in the event that use of the book entry system for the 2008 Bonds is discontinued.

To facilitate subsequent transfers, all 2008 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 2008 Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2008 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2008 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the 2008 Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the 2008 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of 2008 Bonds may wish to ascertain that the nominee holding the 2008 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 2008 Bonds within a maturity are being redeemed, DTC's usual practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed. In accordance with DTC's procedures, the Authority has directed the Trustee to notify DTC that in the event less than all of the 2008 Bonds of the same Series and like maturity and interest rate are to be redeemed, any such redemption shall be on a pro rata basis.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the 2008 Bonds unless authorized by a Direct Participant in accordance with DTC's

MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2008 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the 2008 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee on 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 Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the 2008 Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, 2008 Bond certificates are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book entry only transfers through DTC (or a successor securities depository). In that event, 2008 Bond certificates will be printed and delivered to DTC.

PURCHASES OF THE 2008 BONDS THROUGH EUROCLEAR AND CLEARSTREAM

GENERAL

The 2008 Bonds initially will be registered in the name of Cede & Co. as registered owner and nominee for DTC, which will act as securities depository for the 2008 Bonds. Purchases of the 2008 Bonds will be in book entry form only, as more fully described below.

Clearstream and Euroclear may hold omnibus positions on behalf of their participants through customers' securities accounts in Clearstream's and/or Euroclear's names on the books of their respective U.S. Depositories, which, in turn, hold such positions in customers' securities accounts in the U.S. Depositories' names on the books of DTC. Citibank, N.A. acts as the U.S. depository for Clearstream and JPMorgan Chase Bank acts as the U.S. Depository for Euroclear. The Authority cannot and does not give any assurances that DTC, Participants, Clearstream, Clearstream customers, Euroclear or Euroclear Participants will distribute to the Beneficial Owners of the 2008 Bonds: (i) payments of principal and interest payments (including

redemption payments) with respect to the 2008 Bonds; (ii) confirmation of ownership interest in the 2008 Bonds; or (iii) notices sent to DTC or Cede & Co., its nominee, as the registered owner of the 2008 Bonds, or that they will do so on a timely basis, or that DTC, the Participants, Clearstream, Clearstream customers, Euroclear or Euroclear Participants will serve and act in the manner described in this Official Statement.

The Authority will have no responsibility or obligations to DTC, the Participants, Euroclear, Euroclear Participants, Clearstream, Clearstream customers or the Beneficial Owners with respect to: (i) the accuracy of any records maintained by DTC or any DTC Participants, Clearstream, Clearstream customers, Euroclear or Euroclear Participants; (ii) the payment by DTC or any DTC Participants, Clearstream, Clearstream customers, Euroclear or Euroclear Participants of any amount due to any Beneficial Owner in respect of principal and interest payments (including redemption payments) on the 2008 Bonds; (iii) the delivery by DTC or any DTC Participants, Clearstream, Clearstream customers, Euroclear or Euroclear Participants of any notice to any Beneficial Owner that is required or permitted to be given to owners under the terms of the 2008 Bonds; or (iv) any consent given or other action taken by DTC as registered holder of the 2008 Bonds.

The information concerning Clearstream and Euroclear has been derived from information obtained from Clearstream and Euroclear and other sources. Neither the Authority nor the Underwriters make any representation or warranty regarding the accuracy or completeness thereof.

CLEARSTREAM

Clearstream Banking, société anonyme, 42 Avenue J.F. Kennedy, L 1855 Luxembourg (“Clearstream, Luxembourg”), was incorporated in 1970 as “Cedel S.A.”, a company with limited liability under Luxembourg law (a société anonyme). Cedel S.A. subsequently changed its name to Cedelbank. On 10 January 2000, Cedelbank’s parent company, Cedel International, société anonyme (“CI”) merged its clearing, settlement and custody business with that of Deutsche Börse AG (“DBAG”). The merger involved the transfer by CI of substantially all of its assets and liabilities (including its shares in Cedelbank), and the transfer by DBAG of its shares in Deutsche Börse Clearing (DBC), to a new Luxembourg company, which with effect 14 January 2000 was renamed Clearstream International, société anonyme, and was then 50% owned by CI and 50% owned by DBAG. Following this merger, the subsidiaries of Clearstream International were also renamed to give them a cohesive brand name. On 18 January 2000, Cedelbank was renamed “Clearstream Banking, société anonyme”, and Cedel Global Services was renamed “Clearstream Services, société anonyme”. On 17 January 2000, Deutsche Börse Clearing AG was renamed “Clearstream Banking AG”. Today, Clearstream International is 100% owned by DBAG. The shareholders of DBAG are comprised of mainly banks, securities dealers and financial institutions.

Clearstream, Luxembourg holds securities for its customers and facilitates the clearance and settlement of securities transactions between Clearstream, Luxembourg customers through electronic book entry changes in accounts of Clearstream, Luxembourg customers, thereby eliminating the need for physical movement of certificates. Transactions may be settled by

Clearstream, Luxembourg in any of 36 currencies, including United States Dollars. Clearstream, Luxembourg provides to its customers, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Clearstream, Luxembourg also deals with domestic securities markets in over 30 countries through established depository and custodial relationships. Clearstream, Luxembourg is registered as a bank in Luxembourg, and as such is subject to regulation by the Commission de Surveillance du Secteur Financier, “CSSF”, and the Banque Centrale du Luxembourg (“BCL”) which supervise and oversee the Authority Activities of Luxembourg banks. Clearstream, Luxembourg’s customers are world wide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations.

Clearstream, Luxembourg’s U.S. customers are limited to securities brokers and dealers and banks. Currently, Clearstream, Luxembourg has approximately 2,000 customers located in over 80 countries, including all major European countries, Canada, and the United States. Indirect access to Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an account holder of Clearstream, Luxembourg. Clearstream, Luxembourg has established an electronic bridge with Euroclear Bank S.A./N.V. as the Operator of the Euroclear System (the “Euroclear Operator”) in Brussels to facilitate settlement of trades between Clearstream, Luxembourg and the Euroclear Operator.

EUROCLEAR BANK

Euroclear Bank S.A./N.V. (“Euroclear Bank”) holds securities and book entry interests in securities for participating organizations and facilitates the clearance and settlement of securities transactions between Euroclear Participants, and between Euroclear Participants and Participants of certain other securities intermediaries through electronic book entry changes in accounts of such Participants or other securities intermediaries.

Euroclear Bank provides Euroclear Participants, among other things, with safekeeping, administration, clearance and settlement, securities lending and borrowing, and related services. Euroclear Participants are investment banks, securities brokers and dealers, banks, central banks, supranationals, custodians, investment managers, corporations, trust companies and certain other organizations. Certain of the managers or underwriters for this offering, or other financial entities involved in this offering, may be Euroclear Participants. Non Participants in the Euroclear System may hold and transfer book entry interests in the Securities through accounts with a Participant in the Euroclear System or any other securities intermediary that holds a book entry interest in the securities through one or more securities intermediaries standing between such other securities intermediary and Euroclear Bank.

Clearance and Settlement. Although Euroclear Bank has agreed to the procedures provided below in order to facilitate transfers of securities among Participants in the Euroclear System, and between Euroclear Participants and Participants of other intermediaries, it is under no obligation to perform or continue to perform such procedures and such procedures may be modified or discontinued at any time.

Initial Distribution. Investors electing to acquire Securities through an account with Euroclear Bank or some other securities intermediary must follow the settlement procedures of such an intermediary with respect to the settlement of new issues of securities. Securities to be acquired against payment through an account with Euroclear Bank will be credited to the securities clearance accounts of the respective Euroclear Participants in the securities processing cycle for the business day following the settlement date for value as of the settlement date, if against payment.

Secondary Market. Investors electing to acquire, hold or transfer securities through an account with Euroclear Bank or some other securities intermediary must follow the settlement procedures of such an intermediary with respect to the settlement of secondary market transactions in securities. Please be aware that Euroclear Bank will not monitor or enforce any transfer restrictions with respect to the securities offered herein.

Custody. Investors who are Participants in the Euroclear System may acquire, hold or transfer interests in the securities by book entry to accounts with Euroclear Bank. Investors who are not Participants in the Euroclear System may acquire, hold or transfer interests in the securities by book entry to accounts with a securities intermediary who holds a book entry interest in the securities through accounts with Euroclear Bank.

Custody Risk. Investors that acquire, hold and transfer interests in the securities by book-entry through accounts with Euroclear Bank or any other securities intermediary are subject to the laws and contractual provisions governing their relationship with their intermediary, as well as the laws and contractual provisions governing the relationship between such an intermediary and each other intermediary, if any, standing between themselves and the individual securities.

Euroclear Bank has advised as follows:

Under Belgian law, investors that are credited with securities on the records of Euroclear Bank have a co property right in the fungible pool of interests in securities on deposit with Euroclear Bank in an amount equal to the amount of interests in securities credited to their accounts. In the event of the insolvency of Euroclear Bank, Euroclear Participants would have a right under Belgian law to the return of the amount and type of interests in securities credited to their accounts with Euroclear Bank. If Euroclear Bank did not have a sufficient amount of interests in securities on deposit of a particular type to cover the claims of all Participants credited with such interests in securities on Euroclear Bank's records, all Participants having an amount of interests in securities of such type credited to their accounts with Euroclear Bank would have the right under Belgian law to the return of their pro rata share of the amount of interests in securities actually on deposit.

Under Belgian law, Euroclear Bank is required to pass on the benefits of ownership in any interests in securities on deposit with it (such as dividends, voting rights and other entitlements) to any person credited with such interests in securities on its records.

INITIAL SETTLEMENT; DISTRIBUTIONS; ACTIONS UPON BEHALF OF OWNERS

All of the 2008 Bonds will initially be registered in the name of Cede & Co., the nominee of DTC. Clearstream and Euroclear may hold omnibus positions on behalf of their participants through customers' securities accounts in Clearstream's and/or Euroclear's names on the books of their respective U.S. Depository, which, in turn, holds such positions in customers' securities accounts in its U.S. Depository's name on the books of DTC. Citibank, N.A. acts as depository for Clearstream and JPMorgan Chase Bank acts as depository for Euroclear (the "U.S. Depositories"). Holders of the 2008 Bonds may hold their 2008 Bonds through DTC (in the United States) or Clearstream or Euroclear (in Europe) if they are participants of such systems, or directly through organizations that are participants in such systems. Investors electing to hold the 2008 Bonds through Euroclear or Clearstream accounts will follow the settlement procedures applicable to conventional EuroBonds in registered form. Securities will be credited to the securities custody accounts of Euroclear and Clearstream holders on the business day following the settlement date against payment for value on the settlement date.

Distributions with respect to the 2008 Bonds held beneficially through Clearstream will be credited to the cash accounts of Clearstream customers in accordance with its rules and procedures, to the extent received by its U.S. Depository. Distributions with respect to the 2008 Bonds held beneficially through Euroclear will be credited to the cash accounts of Euroclear Participants in accordance with the Terms and Conditions, to the extent received by its U.S. Depository. Such distributions will be subject to tax reporting in accordance with relevant United States tax laws and regulations. Clearstream or the Euroclear Operator, as the case may be, will take any other action permitted to be taken by an owner of the 2008 Bonds on behalf of a Clearstream customer or Euroclear Participant only in accordance with the relevant rules and procedures and subject to the U.S. Depository's ability to effect such actions on its behalf through DTC.

SECONDARY MARKET TRADING

Secondary market trading between Participants (other than U.S. Depositories) will be settled using the procedures applicable to U.S. corporate debt obligations in same day funds. Secondary market trading between Euroclear Participants and/or Clearstream customers will be settled using the procedures applicable to conventional EuroBonds in same day funds. When securities are to be transferred from the account of a Participant (other than U.S. Depositories) to the account of a Euroclear Participant or a Clearstream customer, the purchaser must send instructions to the applicable U.S. Depository one business day before the settlement date. Euroclear or Clearstream, as the case may be, will instruct its U.S. Depository to receive the securities against payment. Its U.S. Depository will then make payment to the Participant's account against delivery of the securities. After settlement has been completed, the securities will be credited to the respective clearing system and by the clearing system, in accordance with

its usual procedures, to the Euroclear participant's or Clearstream customers' accounts. Credit for the securities will appear on the next day (European time) and cash debit will be back valued to, and the interest on the 2008 Bonds will accrue from the value date (which would be the preceding day when settlement occurs in New York). If settlement is not completed on the intended value date (*i.e.*, the trade fails), the Euroclear or Clearstream cash debit will be valued instead as of the Authority Actual settlement date.

Euroclear Participants and Clearstream customers will need to make available to the respective clearing systems the funds necessary to process same day funds settlement. The most direct means of doing so is to pre position funds for settlement, either from cash on hand or existing lines of credit, as they would for any settlement occurring within Euroclear or Clearstream. Under this approach, they may take on credit exposure to Euroclear or Clearstream until the securities are credited to their accounts one day later. As an alternative, if Euroclear or Clearstream has extended a line of credit to them, participants/customers can elect not to pre position funds and allow that credit line to be drawn upon to finance settlement. Under this procedure, Euroclear Participants or Clearstream customers purchasing securities would incur overdraft charges for one day, assuming they cleared the overdraft when the securities were credited to their accounts. However, interest on the securities would accrue from the value date. Therefore, in many cases, the investment income on securities earned during that one day period may substantially reduce or offset the amount of such overdraft charges, although this result will depend on each participant's/customer's particular cost of funds. Because the settlement is taking place during New York business hours, Participants can employ their usual procedures for sending securities to the applicable U.S. Depository for the benefit of Euroclear Participants or Clearstream customers. The sale proceeds will be available to the DTC seller on the settlement date. Thus, to the Participant, a cross market transaction will settle no differently from a trade between two Participants.

Due to time zone differences in their favor, Euroclear Participants and Clearstream customers may employ their customary procedure for transactions in which securities are to be transferred by the respective clearing system, through the applicable U.S. Depository to another Participant's. In these cases, Euroclear will instruct its U.S. Depository to credit the securities to the Participant's account against payment. The payment will then be reflected in the account of the Euroclear Participant or Clearstream customer the following business day, and receipt of the cash proceeds in the Euroclear Participants' or Clearstream customers' accounts will be backvalued to the value date (which would be the preceding day, when settlement occurs in New York). If the Euroclear Participant or Clearstream customer has a line of credit with its respective clearing system and elects to draw on such line of credit in anticipation of receipt of the sale proceeds in its account, the back-valuation may substantially reduce or offset any overdraft charges incurred over that one day period. If settlement is not completed on the intended value date (*i.e.*, the trade fails), receipt of the cash proceeds in the Euroclear Participant's or Clearstream customer's accounts would instead be valued as of the Authority Actual settlement date.

PROCEDURES MAY CHANGE

Although DTC, Clearstream and Euroclear have agreed to these procedures in order to facilitate transfers of securities among DTC and its Participants, Clearstream and Euroclear, they are under no obligation to perform or continue to perform these procedures and these procedures may be discontinued and may be changed at any time by any of them.

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APPENDIX E

FORM OF CONTINUING DISCLOSURE UNDERTAKING

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**CONTINUING DISCLOSURE UNDERTAKING
FOR THE PURPOSE OF PROVIDING
CONTINUING DISCLOSURE INFORMATION
UNDER SECTION (B)(5) OF RULE 15C2-12**

This Continuing Disclosure Undertaking (the “*Agreement*”) is executed and delivered by the Chicago Transit Authority, a political subdivision, body politic and municipal corporation of the State of Illinois (the “*Issuer*”), in connection with the issuance by the Issuer of \$1,297,175,000.00 aggregate principal amount of Sales and Transfer Tax Receipts Revenue Bonds, Taxable Series 2008A (Pension Funding) (the “*2008A Bonds*”) and \$639,680,000.00 aggregate principal amount of Sales and Transfer Tax Receipts Revenue Bonds, Taxable Series 2008B (Retiree Health Care Funding) (the “*2008B Bonds*,” and collectively with the 2008A Bonds, the “*2008 Bonds*”). The 2008 Bonds are being issued pursuant to the laws of the State of Illinois, including the Metropolitan Transit Authority Act (70 ILCS 3605) and the Local Government Debt Reform Act (30 ILCS 350). The 2008 Bonds are authorized by an ordinance adopted by the Chicago Transit Board on June 11, 2008. The 2008A Bonds are being issued pursuant to the Trust Indenture dated as of July 1, 2008 (the “*Master Indenture*”), between the Issuer and U.S. National Bank Association, Chicago, Illinois, as trustee (the “*Trustee*”), as supplemented by a First Supplemental Indenture, dated as of July 1, 2008, by and between the Issuer and the Trustee (the “*First Supplemental Indenture*”). The 2008B Bonds are being issued pursuant to the Master Indenture, as supplemented by a Second Supplemental Indenture dated as of July 1, 2008, between the Issuer and the Trustee (the “*Second Supplemental Indenture*”). The Master Indenture, as supplemented by the First Supplemental Indenture and the Second Supplemental Indenture, is referred to herein as the “*Bond Indenture*.”

In consideration of the issuance of the 2008 Bonds by the Issuer and the purchase of such 2008 Bonds by the beneficial owners thereof, the Issuer covenants and agrees as follows:

1. **PURPOSE OF THIS AGREEMENT.** This Agreement is executed and delivered by the Issuer as of the date set forth below, for the benefit of the beneficial owners of the 2008 Bonds and in order to assist the Participating Underwriters in complying with the requirements of the Rule (as defined below). The Issuer represents that it will be the only obligated person with respect to the 2008 Bonds at the time the 2008 Bonds are delivered to the Participating Underwriters and that no other person is expected to become so committed at any time after the issuance of the 2008 Bonds.

2. **DEFINITIONS.** The terms set forth below shall have the following meanings in this Agreement, unless the context clearly otherwise requires.

Annual Financial Information means the financial information and operating data described in *Exhibit I*.

Annual Financial Information Disclosure means the dissemination of disclosure concerning Annual Financial Information and the dissemination of the Audited Financial Statements as set forth in Section 4.

Audited Financial Statements means the audited financial statements of the Issuer prepared pursuant to the standards and as described in *Exhibit I*.

Bondholder means any registered owner of any of the 2008 Bonds and any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any of the 2008 Bonds (including persons holding 2008 Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any of the 2008 Bonds for federal income tax purposes.

Commission means the Securities and Exchange Commission.

Dissemination Agent shall mean any dissemination agent designated in writing by the Issuer and that has filed with the Trustee a written acceptance of such designation.

Event means the occurrence of any of the events set forth in *Exhibit II*.

Exchange Act means the Securities Exchange Act of 1934, as amended.

Material Event means the occurrence of any of the Events with respect to the 2008 Bonds set forth in *Exhibit II* that is material, as materiality is interpreted under the Exchange Act.

Material Events Disclosure means the dissemination of a notice of a Material Event as set forth in Section 5.

MSRB means the Municipal Securities Rulemaking Board.

NRMSIRs means, as of any date, all Nationally Recognized Municipal Securities Information Repositories then recognized by the Commission for purposes of the Rule. The names and addresses of the current NRMSIRs are presently set forth on the following website: www.sec.gov/info/municipal/nrmsir.htm. The names and addresses of all current NRMSIRs should be verified each time information is delivered to the NRMSIRs pursuant to this Agreement.

Participating Underwriter means each broker, dealer or municipal securities dealer acting as an underwriter in the primary offering of the 2008 Bonds.

Rule means Rule 15c2-12 adopted by the Commission under the Exchange Act, as the same may be amended from time to time.

SID means the public or private repository designated by the State as the state repository and recognized as such by the Commission for purposes of the Rule. As of the date of this Agreement there is no SID.

State means the State of Illinois.

Undertaking means the obligations of the Issuer pursuant to Sections 4 and 5.

3. CUSIP NUMBERS/FINAL OFFICIAL STATEMENT. The CUSIP numbers of the 2008 Bonds are as set forth in *Exhibit III* hereto. The Final Official Statement relating to the 2008 Bonds is dated July 30, 2008 (the "*Final Official Statement*").

4. ANNUAL FINANCIAL INFORMATION DISCLOSURE. The Issuer hereby covenants that it will disseminate its Annual Financial Information and its Audited Financial Statements (in the form and by the dates set forth in *Exhibit I*) to each NRMSIR and to the SID, if any. The Issuer is required to deliver such information in such manner and by such time so that such entities receive the information by the dates specified in *Exhibit I*.

If any part of the Annual Financial Information can no longer be generated because the operations to which it is related have been materially changed or discontinued, the Issuer will provide a statement to such effect as part of its Annual Financial Information for the year in which such event first occurs.

If any amendment is made to this Agreement, the Annual Financial Information for the year in which such amendment is made (or in any notice or supplement provided to each NRMSIR and the SID, if any) shall contain a narrative description of the reasons for such amendment and its impact on the type of information being provided.

5. MATERIAL EVENTS DISCLOSURE. Subject to Section 9 of this Agreement, the Issuer hereby covenants that it will disseminate in a timely manner Material Events Disclosure to each NRMSIR or the MSRB and to the SID, if any. Notwithstanding the foregoing, notice of optional or unscheduled redemption of any 2008 Bonds or defeasance of any 2008 Bonds need not be given under this Agreement any earlier than the notice (if any) of such redemption or defeasance is given to the Bondholders pursuant to the Bond Indenture.

6. DUTY TO UPDATE NRMSIRs/SID. The Issuer shall determine, in the manner it deems appropriate, the names and addresses of the then existing NRMSIRs and SID each time it is required to file information with such entities.

7. CONSEQUENCES OF FAILURE OF THE ISSUER TO PROVIDE INFORMATION. The Issuer shall give notice in a timely manner to each NRMSIR or to the MSRB and to the SID, if any, of any failure to provide disclosure of Annual Financial Information and Audited Financial Statements when the same are due hereunder.

In the event of a failure of the Issuer to comply with any provision of this Agreement, the beneficial owner of any 2008 Bond may seek mandamus or specific performance by court order, to cause the Issuer to comply with its obligations under this Agreement. Any such action to enforce any provision of this Agreement shall be commenced in the Circuit Court of Cook County, Illinois. A default under this Agreement shall not be deemed an Event of Default under the Bond Indenture, and the sole remedy under this Agreement in the event of any failure of the Issuer to comply with this Agreement shall be an action to compel performance.

8. AMENDMENTS; WAIVER. Notwithstanding any other provision of this Agreement, the Issuer may amend this Agreement, and any provision of this Agreement may be waived, if:

(a) The amendment or waiver is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the Issuer, or type of business conducted;

(b) This Agreement, as amended, or the provision, as waived, would have complied with the requirements of the Rule at the time of the primary offering, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver does not materially impair the interests of the beneficial owners of the 2008 Bonds, as determined either by parties unaffiliated with the Issuer (such as the Trustee or nationally recognized bond counsel), or by an approving vote of Bondholders pursuant to the terms of the Indenture at the time of the amendment.

9. TERMINATION OF UNDERTAKING. The Undertaking of the Issuer shall be terminated hereunder with respect to the 2008 Bonds if the Issuer shall no longer have any legal liability for any obligation on or relating to repayment of such series of the 2008 Bonds under the Indenture. If this Section is applicable, the Issuer shall give notice in a timely manner to each NRMSIR or to the MSRB and to the SID, if any.

10. INTERNET FILINGS. The Issuer may elect to make its continuing disclosure filings electronically at www.DisclosureUSA.org, an Internet-based electronic filing system, for immediate transmission, together with CUSIP numbers and other indexing information, to each NRMSIR and any appropriate SID.

11. ADDITIONAL INFORMATION. Nothing in this Agreement shall be deemed to prevent the Issuer from providing any other information, using the means of dissemination set forth in this Agreement or any other means of communication, or including any other information in any Annual Financial Information or Audited Financial Statements or notice of occurrence of a Material Event, in addition to that which is required by this Agreement. If the Issuer chooses to include any information from any document or notice of occurrence of a Material Event in addition to that which is specifically required by this Agreement, the Issuer shall have no obligation under this Agreement to update such information or include it in any future disclosure or notice of occurrence of a Material Event.

12. BENEFICIARIES. This Agreement has been executed in order to assist the Participating Underwriters in complying with the Rule; however, this Agreement shall inure solely to the benefit of the Issuer, the Dissemination Agent, if any, and the beneficial owners of the 2008 Bonds, and shall create no rights in any other person or entity.

13. RECORDKEEPING. The Issuer shall maintain records of all Annual Financial Information Disclosure and Material Events Disclosure including the content of such disclosure, the names of the entities with whom such disclosure was filed and the date of filing such disclosure.

14. DISSEMINATION AGENT. The Issuer may, from time to time, appoint or engage a Dissemination Agent to assist in carrying out its obligations under this Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. If at any time there is not any other designated Dissemination Agent, the Issuer shall be the Dissemination Agent.

15. ASSIGNMENT. The Issuer shall not transfer its obligations under the Bond Indenture unless the transferee agrees to assume all obligations of the Issuer under this Agreement or to execute an Undertaking under the Rule.

16. GOVERNING LAW. This Agreement shall be governed by the laws of the State.

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CHICAGO TRANSIT AUTHORITY

By _____
Name: _____
Title: _____

Date: _____, 2008

Exhibit I

ANNUAL FINANCIAL INFORMATION AND TIMING AND AUDITED FINANCIAL STATEMENTS

“*Annual Financial Information*” means financial information as set forth below. All or a portion of the Annual Financial Information and the Audited Financial Statements as set forth below may be included by reference to other documents, including other official statements (subject to the following sentence), which have been submitted to each NRMSIR or filed with the SEC. If the information included by reference is contained in a final official statement, the final official statement shall have been submitted by the Issuer to the MSRB. The Issuer shall clearly identify each such item of information included by reference.

1. Annual Financial Information:

(a) Annual Financial Information means:

(i) The information set forth in the Official Statement under “HISTORICAL AND PRO FORMA REVENUES,” set forth in Tables I, II, III and IV;

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

(iii) The information set forth in the Appendix B to the Official Statement in the table under the heading “Funding Status”; and

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

(b) Annual Financial Information will be provided to each NRMSIR not more than 210 days after the end of each Fiscal Year (as defined in the Indenture). Audited Financial Statements are expected to be filed as part of the Annual Financial Information on the schedule described in this Part 1. If Audited Financial Statements are not available to be filed as part of the Annual Financial Information at the time the Annual Financial Information is required to be filed, the Annual Financial Information shall contain unaudited financial statements in a format similar to the financial statements contained in the Final Official Statement relating to the 2008 Bonds, and the Audited Financial Statements shall be filed in the same manner as the Annual Financial Information promptly after they become available.

2. Audited Financial Statements:

(a) Audited Financial Statements means:

Annual audited financial statements of the Issuer prepared in accordance with the 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.

(b) Audited Financial Statements shall be provided to each NRMSIR as described in Part 1(b) above.

Exhibit II

**EVENTS WITH RESPECT TO THE 2008 BONDS FOR WHICH
MATERIAL EVENTS DISCLOSURE IS REQUIRED**

1. Principal and interest payment delinquencies;
2. Non-payment related defaults;
3. Unscheduled draws on debt service reserves reflecting financial difficulties;
4. Unscheduled draws on credit enhancements reflecting financial difficulties;
5. Substitution of credit or liquidity providers, or their failure to perform;
6. Adverse tax opinions or events affecting the tax-exempt status of the security;
7. Modifications to the rights of security holders;
8. Bond calls;
9. Defeasances;
10. Release, substitution or sale of property securing repayment of the securities; and
11. Rating changes.

Exhibit III

CUSIP AND ISIN NUMBERS

2008A Bonds	CUSIP¹	ISIN¹
<u>Maturing December 1</u>		
2013	167725AA8	US167725AA82
2021	167725AB6	US167725AB65
2040	167725AC4	US167725AC49

2008B Bonds	CUSIP¹	ISIN¹
<u>Maturing December 1</u>		
2013	167725AD2	US167725AD22
2021	167725AE0	US167725AE05
2040	167725AF7	US167725AF79

¹Copyright 2008, American Bankers Association. CUSIP and ISIN data herein are provided by Standard & Poor's, CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. The CUSIP and ISIN numbers listed above are being provided solely for the convenience of bondholders only at the time of issuance of the Bonds and the Issuer does not make any representation with respect to such numbers or undertake any responsibility for their accuracy now or at any time in the future. The CUSIP or ISIN number for a specific maturity is subject to being changed after the issuance of the 2008 Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the 2008 Bonds.

APPENDIX F-1

FORM OF OPINION OF CO-BOND COUNSEL FOR 2008A BONDS

August 6, 2008

The Chicago Transit Board
of the Chicago Transit Authority

Dear Members:

We have examined a record of proceedings relating to the issuance of \$1,297,175,000 aggregate principal amount of Sales and Transfer Tax Receipts Revenue Bonds, Taxable Series 2008A (Pension Funding) (the “Bonds”) of the Chicago Transit Authority (the “Authority”). The Bonds are authorized and issued under and pursuant to Section 12c of the Metropolitan Transit Authority Act, 70 Illinois Compiled Statutes 3605 (the “Act”) and the Local Government Debt Reform Act, 30 Illinois Compiled Statutes 350, and by virtue of Ordinance Number 008-85 adopted by the Chicago Transit Board on June 11, 2008 (the “Bond Ordinance”). The Bonds are issued and secured under the Trust Indenture dated as of July 1, 2008 (the “Indenture”) by and between the Authority and U.S. Bank National Association, as trustee (the “Trustee”), as supplemented by the First Supplemental Indenture dated as of July 1, 2008 (the “First Supplemental Indenture”) by and between the Authority and the Trustee. The Bonds are a Series of Pension Funding Bonds and are Parity Obligations under the Indenture.

The Bonds are dated August 6, 2008 and bear interest from their date payable on December 1, 2008 and semiannually thereafter on each June 1 and December 1. The Bonds mature on December 1 in each of the following years in the respective principal amount set opposite each such year in the following table and bear interest at the respective rate of interest per annum set forth opposite such year:

<u>Year</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
2013	\$ 23,935,000	5.118%
2021	181,160,000	6.300
2040	1,092,080,000	6.899

The Bonds are subject to redemption prior to maturity at the option of the Authority, in such principal amounts and from such maturities as the Authority shall determine and pro-rata within a single maturity, on any date, at a redemption price determined pursuant to the First Supplemental Indenture, plus accrued interest to the redemption date.

The Bonds due December 1 of the years 2013, 2021 and 2040 are subject to mandatory redemption, in part and pro-rata, on December 1 of the years and in the respective principal

amounts set forth in the following tables, at the redemption price of par and by the application of sinking fund installments as provided in the First Supplemental Indenture.

Bonds Due 2013		Bonds Due 2021		Bonds Due 2040	
Year	Principal Amount	Year	Principal Amount	Year	Principal Amount
2012	\$6,710,000	2014	\$18,110,000	2022	\$29,520,000
		2015	19,250,000	2023	31,560,000
		2016	20,460,000	2024	33,735,000
		2017	21,750,000	2025	36,060,000
		2018	23,120,000	2026	38,550,000
		2019	24,575,000	2027	41,210,000
		2020	26,125,000	2028	44,050,000
				2029	47,090,000
				2030	50,340,000
				2031	53,815,000
				2032	57,525,000
				2033	61,495,000
				2034	65,735,000
				2035	70,270,000
				2036	75,120,000
				2037	80,305,000
				2038	85,840,000
				2039	91,765,000

Pursuant to the Indenture and concurrently with the issuance of the Bonds, the Authority has issued \$639,680,000 aggregate principal amount of Sales and Transfer Tax Receipts Revenue Bonds, Taxable Series 2008B (Retiree Health Care Funding) of the Authority (the “2008B Bonds”) that are Parity Obligations. The Bonds, the 2008B Bonds and all other Parity Obligations hereafter issued or incurred under the Indenture are ratably and equally entitled to the benefits and security of the Indenture, including the pledge of the Trust Estate under the Indenture. The Trust Estate includes (i) the Sales Tax Receipts Fund held by the Authority under the Indenture, subject however to the PBC Parity Pledge Rights (as defined in the Indenture) and any parity pledge or lien created with respect to the Corporate Purpose Debt Obligations (as defined in the Indenture); (ii) the Transfer Tax Receipts Fund held by the Authority under the Indenture and (iii) the Debt Service Fund held by the Trustee under the Indenture, subject to the allocation of the Debt Service Fund into dedicated sub-funds, including the Series 2008A Dedicated Sub-Fund established and maintained for the benefit of the Bonds under the First Supplemental Indenture.

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

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

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

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

2. The Authority has all requisite power and authority under the Constitution and the laws of the State of Illinois to adopt the Bond Ordinance, to enter into the Indenture and the First Supplemental Indenture, to issue the Bonds thereunder, and to perform all of its obligations under the Bond Ordinance, the Indenture and the First Supplemental Indenture in those respects.

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

4. The Indenture and the First Supplemental Indenture have been duly authorized, executed and delivered by the Authority and constitute valid and binding contractual obligations of the Authority enforceable in accordance with their terms.

5. The Bonds have been duly authorized and issued, are the legal, valid and binding limited obligations of the Authority payable from the Series 2008A Dedicated Sub-Fund, are entitled to the benefits and security of the Indenture and the First Supplemental Indenture, and are enforceable in accordance with their terms.

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

In rendering the foregoing opinion, we advise you that the enforceability (but not the validity or binding effect) of the Bonds, the Indenture and the First Supplemental Indenture (i) may be limited by any applicable bankruptcy, insolvency or other laws affecting the rights or remedies of creditors now or hereafter in effect and (ii) is subject to principles of equity in the event that equitable remedies are sought, either in an action at law or in equity.

Respectfully yours,

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APPENDIX F-2

FORM OF OPINION OF CO-BOND COUNSEL FOR 2008B BONDS

August 6, 2008

The Chicago Transit Board
of the Chicago Transit Authority

Dear Members:

We have examined a record of proceedings relating to the issuance of \$639,680,000 aggregate principal amount of Sales and Transfer Tax Receipts Revenue Bonds, Taxable Series 2008B (Retiree Health Care Funding) (the “Bonds”) of the Chicago Transit Authority (the “Authority”). The Bonds are authorized and issued under and pursuant to Section 12c of the Metropolitan Transit Authority Act, 70 Illinois Compiled Statutes 3605 (the “Act”) and the Local Government Debt Reform Act, 30 Illinois Compiled Statutes 350, and by virtue of Ordinance Number 008-85 adopted by the Chicago Transit Board on June 11, 2008 (the “Bond Ordinance”). The Bonds are issued and secured under the Trust Indenture dated as of July 1, 2008 (the “Indenture”) by and between the Authority and U.S. Bank National Association, as trustee (the “Trustee”), as supplemented by the Second Supplemental Indenture dated as of July 1, 2008 (the “Second Supplemental Indenture”) by and between the Authority and the Trustee. The Bonds are a Series of Retiree Health Care Funding Bonds and are Parity Obligations under the Indenture.

The Bonds are dated August 6, 2008 and bear interest from their date payable on December 1, 2008 and semiannually thereafter on each June 1 and December 1. The Bonds mature on December 1 in each of the following years in the respective principal amount set opposite each such year in the following table and bear interest at the respective rate of interest per annum set forth opposite such year:

<u>Year</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
2013	\$ 11,805,000	5.118%
2021	89,335,000	6.300
2040	538,540,000	6.899

The Bonds are subject to redemption prior to maturity at the option of the Authority, in such principal amounts and from such maturities as the Authority shall determine and pro-rata within a single maturity, on any date, at a redemption price determined pursuant to the Second Supplemental Indenture, plus accrued interest to the redemption date.

The Bonds due December 1 of the years 2013, 2021 and 2040 are subject to mandatory redemption, in part and pro-rata, on December 1 of the years and in the respective principal

amounts set forth in the following tables, at the redemption price of par and by the application of sinking fund installments as provided in the Second Supplemental Indenture.

Bonds Due 2013		Bonds Due 2021		Bonds Due 2040	
Year	Principal Amount	Year	Principal Amount	Year	Principal Amount
2012	\$3,310,000	2014	\$ 8,930,000	2022	\$14,560,000
		2015	9,490,000	2023	15,560,000
		2016	10,090,000	2024	16,635,000
		2017	10,725,000	2025	17,785,000
		2018	11,400,000	2026	19,010,000
		2019	12,120,000	2027	20,320,000
		2020	12,885,000	2028	21,725,000
				2029	23,220,000
				2030	24,825,000
				2031	26,535,000
				2032	28,370,000
				2033	30,325,000
				2034	32,415,000
				2035	34,655,000
				2036	37,045,000
				2037	39,600,000
				2038	42,330,000
				2039	45,250,000

Pursuant to the Indenture and concurrently with the issuance of the Bonds, the Authority has issued \$1,297,175,000 aggregate principal amount of Sales and Transfer Tax Receipts Revenue Bonds, Taxable Series 2008A (Pension Funding) of the Authority (the “2008A Bonds”) that are Parity Obligations. The Bonds, the 2008A Bonds and all other Parity Obligations hereafter issued or incurred under the Indenture are ratably and equally entitled to the benefits and security of the Indenture, including the pledge of the Trust Estate under the Indenture. The Trust Estate includes (i) the Sales Tax Receipts Fund held by the Authority under the Indenture, subject however to the PBC Parity Pledge Rights (as defined in the Indenture) and any parity pledge or lien created with respect to the Corporate Purpose Debt Obligations (as defined in the Indenture); (ii) the Transfer Tax Receipts Fund held by the Authority under the Indenture and (iii) the Debt Service Fund held by the Trustee under the Indenture, subject to the allocation of the Debt Service Fund into dedicated sub-funds, including the Series 2008B Dedicated Sub-Fund established and maintained for the benefit of the Bonds under the Second Supplemental Indenture.

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

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

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

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

2. The Authority has all requisite power and authority under the Constitution and the laws of the State of Illinois to adopt the Bond Ordinance, to enter into the Indenture and the Second Supplemental Indenture, to issue the Bonds thereunder, and to perform all of its obligations under the Bond Ordinance, the Indenture and the Second Supplemental Indenture in those respects.

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

4. The Indenture and the Second Supplemental Indenture have been duly authorized, executed and delivered by the Authority and constitute valid and binding contractual obligations of the Authority enforceable in accordance with their terms.

5. The Bonds have been duly authorized and issued, are the legal, valid and binding limited obligations of the Authority payable from the Series 2008B Dedicated Sub-Fund, are entitled to the benefits and security of the Indenture and the Second Supplemental Indenture, and are enforceable in accordance with their terms.

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

In rendering the foregoing opinion, we advise you that the enforceability (but not the validity or binding effect) of the Bonds, the Indenture and the Second Supplemental Indenture (i) may be limited by any applicable bankruptcy, insolvency or other laws affecting the rights or remedies of creditors now or hereafter in effect and (ii) is subject to principles of equity in the event that equitable remedies are sought, either in an action at law or in equity.

Respectfully yours,

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