

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



**\$296,220,000**  
**CHICAGO TRANSIT AUTHORITY**  
**SECOND LIEN SALES TAX RECEIPTS REVENUE BONDS**  
**SERIES 2017**

**Dated: Date of Issuance**

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

The Chicago Transit Authority (the “Authority”) Second Lien Sales Tax Receipts Revenue Bonds, Series 2017 (the “2017 Second Lien Bonds”), are being issued pursuant to a Trust Indenture dated as of January 1, 2017 (the “Master Indenture”) between the Authority and Zions Bank, a division of ZB, National Association, Chicago, Illinois, as trustee (the “Trustee”), as supplemented by a First Supplemental Indenture dated as of January 1, 2017 (the “First Supplemental Indenture” and together with the Master Indenture, the “Indenture”), between the Authority and the Trustee.

The 2017 Second Lien 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 2017 Second Lien Bonds will be made in denominations of \$5,000 and integral multiples thereof and will be in book-entry form only. Purchasers of 2017 Second Lien Bonds will not receive physical bonds representing their beneficial ownership in the 2017 Second Lien Bonds but will receive a credit balance on the books of their respective DTC Participants or DTC Indirect Participants. The 2017 Second Lien Bonds will not be transferable or exchangeable except for transfer to another nominee of DTC or as otherwise described herein.

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

The 2017 Second Lien Bonds are subject to optional redemption and mandatory sinking fund redemption. See “DESCRIPTION OF THE 2017 SECOND LIEN BONDS—Redemption.”

The 2017 Second Lien Bonds are limited obligations of the Authority payable solely from Sales Tax Receipts on a subordinate and junior basis to the claim on such Sales Tax Receipts by certain First Lien Obligations as described herein. See “SECURITY FOR THE 2017 SECOND LIEN BONDS—Pledge of Security.”

The proceeds from the sale of the 2017 Second Lien Bonds will be used to (i) finance, in whole or in part, capital projects contemplated by the Authority’s capital improvement plan, (ii) capitalize interest on the 2017 Second Lien Bonds, and (iii) pay costs in connection with the issuance of the 2017 Second Lien Bonds. See “PLAN OF FINANCE.”

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

The scheduled payment of principal of and interest on the 2017 Second Lien Bonds maturing on December 1, 2046, in the original principal amount of \$10,000,000 (CUSIP® 16772PBV7) and the 2017 Second Lien Bonds maturing on December 1, 2051, in the original principal amount of \$25,000,000 (CUSIP® 16772PBW5) (collectively, the “Insured 2017 Second Lien Bonds”), when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Insured 2017 Second Lien Bonds by **ASSURED GUARANTY MUNICIPAL CORP.**



**The maturities, principal amounts, interest rates, yields, prices and CUSIP® numbers of the 2017 Second Lien Bonds are set forth on the inside front cover page of this Official Statement.**

*The 2017 Second Lien Bonds are offered when, as and if issued and received by the Underwriters, subject to the approval of validity thereof by Mayer Brown LLP, Chicago, Illinois, and Pugh, Jones & Johnson, P.C., Chicago, Illinois, Co-Bond Counsel. Certain legal matters will be passed upon for the Underwriters by Hardwick Law Firm, LLC, Chicago, Illinois, Underwriters’ Counsel, and for the Authority by its General Counsel and by Duane Morris, LLP, Chicago, Illinois, Disclosure Counsel. The 2017 Second Lien Bonds are expected to be delivered through the facilities of DTC in New York, New York on or about January 24, 2017.*

**Loop Capital Markets**

**BofA Merrill Lynch**

**Cabrera Capital Markets, LLC**

**Barclays**

**Estrada Hinojosa & Company, Inc.**

**Fifth Third Securities, Inc.**

**J.J.B. Hilliard, W.L. Lyons, LLC**

**North South Capital, LLC**

**PNC Capital Markets LLC**

**The Williams Capital Group, L.P.**

**MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, YIELDS, PRICES AND CUSIP® NUMBERS**

**\$296,220,000**  
**CHICAGO TRANSIT AUTHORITY**  
**SECOND LIEN SALES TAX RECEIPTS REVENUE BONDS**  
**SERIES 2017**

\$10,000,000 4.000% Term Bonds due December 1, 2046, Yield 4.150%, Price 97.441% CUSIP®\*: 16772PBV7  
\$131,990,000 5.000% Term Bonds due December 1, 2046, Yield 4.130%, Price 106.978%<sup>†</sup> CUSIP®\*: 16772PBU9  
\$25,000,000 5.000% Term Bonds due December 1, 2051, Yield 4.130%, Price 106.978%<sup>†</sup> CUSIP®\*: 16772PBW5  
\$129,230,000 5.000% Term Bonds due December 1, 2051, Yield 4.280%, Price 105.733%<sup>†</sup> CUSIP®\*: 16772PBT2

<sup>†</sup> *Price to call date of December 1, 2026.*

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\* Copyright 2017, American Bankers Association. CUSIP data herein is provided by CUSIP Global Services which is managed on behalf of the American Bankers Association by S&P Capital IQ, a part of McGraw-Hill Financial, Inc. The CUSIP numbers listed are being provided solely for the convenience of the bondholders only at the time of sale of the 2017 Second Lien Bonds and the Authority does not make any representation with respect to such numbers or undertake any responsibility for their accuracy now or at any time in the future. The CUSIP number for a specific maturity is subject to change after the sale of the 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 2017 Second Lien Bonds.

**CHICAGO TRANSIT AUTHORITY**

**CHICAGO TRANSIT BOARD**

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

**OFFICERS**

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

**CO-BOND COUNSEL**

Mayer Brown LLP  
Pugh, Jones & Johnson, P.C.  
Chicago, Illinois

**DISCLOSURE COUNSEL**

Duane Morris, LLP  
Chicago, Illinois

**FINANCIAL ADVISOR**

Columbia Capital Management, LLC  
Chicago, Illinois

This Official Statement does not constitute an offer to sell the 2017 Second Lien Bonds in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction. No dealer, broker, salesman or other person has been authorized by the Authority or the Underwriters to give any information or to make any representation other than those contained herein and, if given or made, such other information or representation must not be relied upon as having been authorized. Neither the delivery of this Official Statement nor the sale of any of the 2017 Second Lien 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 2017 Second Lien Bonds. All summaries of statutes and documents are made subject to the provisions of such statutes and documents, respectively, and do not purport to be complete statements of any or all of such provisions.

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

Assured Guaranty Municipal Corp. (“AGM”) makes no representation regarding the 2017 Second Lien Bonds or the advisability of investing in the 2017 Second Lien Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading “BOND INSURANCE” and APPENDIX I—“SPECIMEN MUNICIPAL BOND INSURANCE POLICY.”

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, including but not limited to those described under “CERTAIN INVESTMENT CONSIDERATIONS,” that could cause actual results to differ materially from those that have been projected. Such risks and uncertainties which could affect the amount of Sales Tax Receipts received include, among others, changes in political, social and economic conditions, federal, state and local statutory and regulatory initiatives, litigation, natural disasters, and various other events, conditions and circumstances, many of which are beyond the control of the Authority. These forward-looking statements include, but are not limited to, certain statements contained in the information contained under the captions “SOURCES OF PAYMENT OF THE 2017 SECOND LIEN BONDS—Sales Tax Receipts” and “THE AUTHORITY—Ridership Trends,” “—Operations,” “—2018-2019 Proposed Two-Year Financial Plan” and “—Capital Improvement Plan,” and such statements speak only as of the date of this Official Statement. The Authority disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any changes in the Authority’s expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

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

**The 2017 Second Lien 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.**

**In connection with this offering, the Underwriters may overallocate or effect transactions that stabilize or maintain the market prices of the 2017 Second Lien 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 2017 Second Lien Bonds to certain dealers and others at prices lower than the public offering prices stated on the inside front cover page of this Official Statement, and such public offering prices may be changed from time to time by the Underwriters.**

# Chicago Transit Authority System Map



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## SUMMARY

*This Summary does not purport to be complete and is subject to the more detailed information contained in this Official Statement. Capitalized terms used and not defined in this Summary are defined in APPENDIX A—“DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—Definitions of Certain Terms.”*

- The Authority**..... The Chicago Transit Authority (the “Authority”) operates the nation’s second largest public transportation system (the “Transportation System”), providing mass transit services within the City of Chicago and 35 surrounding suburbs. The service area of the Authority has a population of approximately 3.5 million. The Authority carries over 81 percent of the public transit riders in the six-county northeastern Illinois region (“Northeastern Illinois Transit Region”), which includes the Counties of Cook, DuPage, Kane, Lake, McHenry and Will. Transit services provided by the Authority are part of the regional public mass transportation service system in the Northeastern Illinois Transit Region provided through the independent operations of the Authority, the Commuter Rail Division (“Metra”) of the Regional Transportation Authority (the “RTA”), and the Suburban Bus Division (“Pace”) of the RTA (the Authority, Metra and Pace are collectively referred to as the “Service Boards”). For additional information regarding the Authority, see “CHICAGO TRANSIT AUTHORITY” herein.
- Regional Transportation Authority** ..... The RTA oversees public transportation in northeastern Illinois pursuant to powers and authority granted under the Regional Transportation Authority Act (the “RTA Act”) of the State of Illinois (the “State”). The RTA provides funding, planning and fiscal oversight for the Service Boards in part through the imposition of sales taxes throughout the Northeastern Illinois Transit Region. The RTA Act vests responsibility for operating budget and financial oversight of the Service Boards in the RTA and responsibility for operations and day-to-day management of rail and bus service in the Service Boards. See “THE AUTHORITY—RTA Oversight” herein.
- 2017 Second Lien Bonds**..... \$296,220,000 Second Lien Sales Tax Receipts Revenue Bonds, Series 2017, issued pursuant to a Trust Indenture dated as of January 1, 2017 (the “Master Indenture”) between the Authority and Zions Bank, a division of ZB, National Association, Chicago, Illinois, as trustee (the “Trustee”), as supplemented by a First Supplemental Indenture dated as of January 1, 2017 (the “First Supplemental Indenture” and together with the Master Indenture, the “Indenture”), between the Authority and the Trustee.
- Use of Proceeds** ..... The proceeds from the sale of the 2017 Second Lien Bonds will be used to (i) finance, in whole or in part, certain capital projects contemplated by the Authority’s capital improvement plan, (ii) capitalize interest on the 2017 Second Lien Bonds, and (iii) pay costs in connection with the issuance of the 2017 Second Lien Bonds. See “PLAN OF FINANCE” herein.
- Payment of Interest** ..... Interest on the 2017 Second Lien Bonds will be payable on June 1 and December 1 of each year, commencing June 1, 2017, until maturity or earlier redemption. Interest is computed on the basis of a 360-day year consisting of twelve 30-day months at the rates set forth on the inside front cover of this Official Statement.
- Redemption** ..... The 2017 Second Lien Bonds are subject to optional redemption and mandatory sinking fund redemption. See “DESCRIPTION OF THE 2017 SECOND LIEN BONDS—Redemption” herein.

**Source of Payment**..... The principal of and interest on the 2017 Second Lien Bonds are payable from Sales Tax Receipts deposited into the Sales Tax Receipts Fund maintained by the Authority under the Trust Indenture dated July 1, 2008, as supplemented, by and between the Authority and U.S. Bank National Association, as trustee, after payment of amounts due on outstanding First Lien Obligations. *See* “SOURCES OF PAYMENT OF THE 2017 SECOND LIEN BONDS” herein.

**Sales Tax Receipts** ..... Sales Tax Receipts consist of all amounts received by the Authority from the RTA under the RTA Act, and include the Authority’s share of (i) sales and use taxes imposed by the RTA and collected by the State throughout the Northeastern Illinois Transit Region (“RTA Sales Tax”), (ii) sales and use taxes imposed and collected by the State and allocated to the RTA (“State Sales Tax”), and (iii) State funds dedicated to public transportation received by the RTA (“Public Transportation Funds”). *See* “SOURCES OF PAYMENT OF THE 2017 SECOND LIEN BONDS—Sales Tax Receipts” herein.

The collection and distribution by the State of RTA Sales Tax, State Sales Tax, and Public Transportation Funds represent irrevocable and continuing appropriations by the Illinois General Assembly. *See* “SOURCES OF PAYMENT OF THE 2017 SECOND LIEN BONDS—Continuing Appropriations.”

**Security for the 2017 Second Lien Bonds**..... The 2017 Second Lien Bonds are secured by (i) the Sales Tax Receipts deposited into the Sales Tax Receipts Fund after the satisfaction of all amounts due on the First Lien Obligations; (ii) all moneys, securities and earnings thereon in all Funds, Sub-Funds, Accounts and Sub-Accounts established under the Indenture, subject however to the right of the Authority to make periodic withdrawals with respect to First Lien Obligations, and (iii) any and all other moneys and securities furnished from time to time to the Trustee by the Authority or on behalf of the Authority or by any other persons to be held by the Trustee under the terms of the Indenture. *See* “SECURITY FOR THE 2017 SECOND LIEN BONDS” herein.

The First Supplemental Indenture establishes with the Trustee a separate and segregated Sub-Fund designated the “Series 2017 Dedicated Sub-Fund.” Moneys on deposit in the Series 2017 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 2017 Second Lien Bonds and shall not be used or available for the payment of any other Second Lien Parity Obligations, except as otherwise provided in the Indenture.

The 2017 Second Lien Bonds will not be secured by a debt service reserve fund.

**Additional Second Lien Bonds** ..... The Authority may issue one or more additional series of Second Lien Bonds for the purpose of financing any lawful project or purpose of the Authority or to refund any First Lien Obligations. Such Additional Second Lien Bonds may be issued only upon delivery to the Trustee, among other things, of a certificate of the Authority stating that the aggregate amount of all Available Sales Tax Receipts received by the Authority for any period of 12 consecutive calendar months out of the 18 calendar months next preceding the date of issuance of such Series were at least equal to 150 percent of the Maximum Annual Coverage Requirement as of the time immediately following the issuance of such Series. Subject to the terms of the Indenture, Second Lien Obligations may be refunded with Additional Second Lien Bonds without meeting the coverage test described above. *See* “SECURITY FOR THE BONDS—Additional Bonds” herein.

**Additional First Lien Obligations** ..... The Authority may also issue additional First Lien Obligations pursuant to the 2008 Indenture or the 2010 Indenture for the purpose of financing any lawful project or purpose of the Authority. Such additional First Lien Obligations may be issued only



upon delivery to the 2010 Trustee, among other things, of a certificate of the Authority stating the aggregate amount of all Sales Tax Receipts received by the Authority for any period of 12 consecutive calendar months out of the 18 calendar months next preceding the date of issuance of such Series was at least equal to 200 percent of the Maximum Annual Coverage Requirement for the First Lien Obligations as of the time immediately following the issuance of such Series. See “SECURITY FOR THE BONDS—Additional Bonds” herein.

**Insured Bonds** ..... The scheduled payment of principal of and interest on the 2017 Second Lien Bonds maturing on December 1, 2046, in the original principal amount of \$10,000,000 (CUSIP® 16772PBV7) and the 2017 Second Lien Bonds maturing on December 1, 2051, in the original principal amount of \$25,000,000 (CUSIP® 16772PBW5) (collectively, the “Insured 2017 Second Lien Bonds”), when due will be guaranteed under an insurance policy (the “2017 Bond Insurance Policy”) to be issued concurrently with the delivery of the Insured 2017 Second Lien Bonds by Assured Guaranty Municipal Corp. (“AGM”). See “BOND INSURANCE” herein.

**Limited Obligation** ..... The 2017 Second Lien Bonds are limited obligations of the Authority payable solely from the sources pledged for their payment in accordance with the Indenture. The 2017 Second Lien Bonds are not, and shall not be or become, an indebtedness or obligation of the State, the RTA or any political subdivision of the State (other than the Authority) or of any municipality within the State nor shall any 2017 Second Lien Bonds be or become an indebtedness of the Authority within the purview of any constitutional limitation or provision. The 2017 Second Lien Bonds do not have a lien on and are not secured by any physical properties of the Authority. The Authority has no taxing power.

**Authority Pension Obligations** ..... The Authority maintains a retirement plan that provides pension benefits to participating employees. The annual amounts the Authority contributes to the retirement plan are determined by the Illinois Pension Code. Under the Pension Code, the Authority is required to achieve and maintain statutorily-determined funding levels. If actual funding levels fall below the levels mandated by the Pension Code, the Authority is required to make additional annual contributions set by the Pension Code in order to achieve the funding targets. The Authority has never failed to make its required contributions to the retirement plan. See “THE AUTHORITY—Pension and Other Post-Employment Benefit Obligations” and APPENDIX F—“PENSION PLANS AND POST-EMPLOYMENT HEALTHCARE.”

**Ratings** ..... Standard & Poor's Global Ratings (“S&P”) and Kroll Bond Rating Agency (“KBRA”) have assigned the 2017 Second Lien Bonds ratings of “A+” (stable outlook) and “AA-” (stable outlook), respectively, and S&P and KBRA have assigned the Insured 2017 Second Lien Bonds ratings of “AA” (stable outlook) and “AA+” (stable outlook), respectively, based solely on the 2017 Bond Insurance Policy to be issued by AGM concurrently with the delivery of the Insured 2017 Second Lien Bonds. See “RATINGS” in the Official Statement.

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

**Book-Entry Form and Denominations** ..... The 2017 Second Lien Bonds will be issued in fully registered book-entry form in denominations of \$5,000 or any integral multiple thereof.

**Tax Matters** ..... Mayer Brown LLP and Pugh, Jones & Johnson, P.C., Co-Bond Counsel, are of the opinion that under existing law, interest on the 2017 Second Lien Bonds is excludable from the gross income of the owners thereof for federal income tax purposes

assuming the accuracy of the certifications of the Authority and continuing compliance by the Authority with the requirements of the Code. In addition, interest on the 2017 Second Lien Bonds is not an item of tax preference for purposes of computing individual or corporate alternative minimum taxable income. Interest on the 2017 Second Lien Bonds is, however, taken into account as earnings and profits of a corporation when computing, for example, corporate alternative minimum taxable income for purposes of the corporate alternative minimum tax. Prospective purchasers of the 2017 Second Lien Bonds should consult their own tax advisors as to the federal, state and local tax consequences of their acquisition, ownership or disposition of, or the accrual or receipt of interest on the 2017 Second Lien Bonds. See “TAX MATTERS” herein.

**Delivery and Clearance** ..... The 2017 Second Lien Bonds are expected to be available for delivery at DTC in New York, New York, on or about January 24, 2017.

**Legal Matters** ..... Certain legal matters will be passed upon for the parties to the financing by their respective counsel as set forth on the cover page to this Official Statement.

**Additional Information** ..... Additional information may be obtained upon request to Jeremy V. Fine, Chief Financial Officer and Treasurer, Chicago Transit Authority, 567 West Lake Street, Chicago, Illinois 60661; phone: (312) 681-3400.

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## **OFFICIAL STATEMENT**

**\$296,220,000**

### **CHICAGO TRANSIT AUTHORITY SECOND LIEN SALES TAX RECEIPTS REVENUE BONDS, SERIES 2017**

#### **INTRODUCTION**

The purpose of this Official Statement, which includes the appendices hereto, is to set forth certain information concerning the issuance by the Chicago Transit Authority (the “Authority”) of \$296,220,000 aggregate principal amount of Second Lien Sales Tax Receipts Revenue Bonds, Series 2017 (the “2017 Second Lien Bonds”).

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

The 2017 Second Lien Bonds are authorized and are being issued pursuant to the laws of the State of Illinois, including the Metropolitan Transit Authority Act, as amended (70 ILCS 3605/1 *et seq.*) (the “Act”), the Local Government Debt Reform Act, as amended (30 ILCS 350/1 *et seq.*), and an ordinance adopted by the Chicago Transit Board, the Authority’s governing body (the “Chicago Transit Board”), on November 16, 2016. The 2017 Second Lien Bonds are being issued pursuant to a Trust Indenture, dated as of January 1, 2017 (the “Master Indenture”), between the Authority and Zions Bank, a division of ZB, National Association, Chicago, Illinois, as trustee (the “Trustee”), as supplemented by the First Supplemental Indenture dated as of January 1, 2017 (the “First Supplemental Indenture,” and together with the Master Indenture, the “Indenture”), between the Authority and the Trustee.

The principal of and interest on the 2017 Second Lien Bonds are payable from Sales Tax Receipts (as defined herein) on a subordinate and junior basis to the claim on such Sales Tax Receipts by First Lien Obligations, as more fully described in this Official Statement. *See* “SECURITY FOR THE 2017 SECOND LIEN BONDS—Pledge of Security.”

All capitalized terms used and not otherwise defined in this Official Statement shall have the meanings assigned to such terms in APPENDIX A—“DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—Definitions of Certain Terms.”

#### **PLAN OF FINANCE**

The proceeds from the sale of the 2017 Second Lien Bonds will be used to (i) finance, in whole or in part, certain capital projects contemplated by the Authority’s capital improvement plan (the “Capital Improvement Plan”), (ii) capitalize interest on the 2017 Second Lien Bonds, and (iii) pay costs in connection with the issuance of the 2017 Second Lien Bonds.

**Capital Projects**

Proceeds of the 2017 Second Lien Bonds in the amount of \$284,367,207 will be used for projects included in the Capital Improvement Plan. The Capital Improvement Plan is the Authority’s plan for capital improvements to the Transportation System’s bus and rail lines and systemwide support structure. For information regarding the capital projects financed with proceeds of the 2017 Second Lien Bonds, see “THE AUTHORITY—Capital Improvement Plan—Use of 2017 Second Lien Bond Proceeds.”

**Capitalized Interest**

Under the Indenture, an amount equal to \$27,256,214 will be deposited in the Series 2017 Capitalized Interest Account that, when invested as permitted under the Indenture, is expected to be sufficient, together with the interest earnings thereon, to provide for a portion of the payment of the scheduled interest on the 2017 Second Lien Bonds through December 1, 2018. See “SECURITY FOR THE SECOND LIEN BONDS—Disbursements from Debt Service Fund and Additional Deposits Fund—Capitalized Interest Account.”

**SOURCES AND USES OF FUNDS**

<b>Sources of Funds</b>	<b>Amount</b>
Par Amount of 2017 Second Lien Bonds .....	\$296,220,000
Net Original Issue Premium .....	18,107,618
Total Sources of Funds .....	<u>\$314,327,618</u>
<b>Uses of Funds</b>	
Deposit to Series 2017 Project Account .....	\$284,367,207
Deposit to Series 2017 Capitalized Interest Account.....	27,256,214
Costs of Issuance <sup>(1)</sup> .....	2,704,197
Total Uses of Funds .....	<u>\$314,327,618</u>

<sup>(1)</sup> Includes Underwriters’ discount and bond insurance premium.

**DESCRIPTION OF THE 2017 SECOND LIEN BONDS**

**General**

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

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

## Redemption

**Optional Redemption.** The 2017 Second Lien Bonds are subject to redemption prior to maturity at the option of the Authority, as a whole, or in part by lot, and upon notice as described below under “— Redemption Procedures,” on December 1, 2026, and on any date thereafter at a Redemption Price equal to the principal amount of the 2017 Second Lien Bonds to be redeemed plus accrued interest to the date fixed for redemption.

**Mandatory Sinking Fund Redemption.** The 2017 Second Lien Bonds maturing on December 1, 2046 in the original principal amount of \$10,000,000 are Term Bonds subject to mandatory redemption at a Redemption Price of par, on December 1 of the following years and in the following principal amounts, each constituting a Sinking Fund Installment for the retirement of the Term Bonds as set forth in the following table, subject to adjustment as described below under “— Adjustment of Sinking Fund Installments”:

### **\$10,000,000 2046 Term Bonds (CUSIP® 16772PBV7)**

<u>Year</u>	<u>Principal Amount</u>
2041	\$1,510,000
2042	1,565,000
2043	1,630,000
2044	1,695,000
2045	1,765,000
2046	1,835,000*

\*Final Maturity.

The 2017 Second Lien Bonds maturing on December 1, 2046 in the original principal amount of \$131,990,000 are Term Bonds subject to mandatory redemption at a Redemption Price of par, on December 1 of the following years and in the following principal amounts, each constituting a Sinking Fund Installment for the retirement of the Term Bonds as set forth in the following table, subject to adjustment as described below under “— Adjustment of Sinking Fund Installments”:

### **\$131,990,000 2046 Term Bonds (CUSIP® 16772PBU9)**

<u>Year</u>	<u>Principal Amount</u>
2041	\$19,400,000
2042	20,380,000
2043	21,395,000
2044	22,465,000
2045	23,585,000
2046	24,765,000*

\*Final Maturity.

The 2017 Second Lien Bonds maturing on December 1, 2051, in the original principal amount of \$25,000,000 are Term Bonds subject to mandatory redemption at a Redemption Price of par, on December 1 of the following years and in the following principal amounts, each constituting a Sinking Fund Installment for the retirement of the Term Bonds as set forth in the following table, subject to adjustment as described below under “— Adjustment of Sinking Fund Installments”:

**\$25,000,000 2051 Term Bonds (CUSIP® 16772PBW5)**

<u>Year</u>	<u>Principal Amount</u>
2047	\$4,525,000
2048	4,750,000
2049	4,990,000
2050	5,235,000
2051	5,500,000*

\*Final Maturity.

The 2017 Second Lien Bonds maturing on December 1, 2051, in the original principal amount of \$129,230,000 are Term Bonds subject to mandatory redemption at a Redemption Price of par, on December 1 of the following years and in the following principal amounts, each constituting a Sinking Fund Installment for the retirement of the Term Bonds as set forth in the following table, subject to adjustment as described below under “— Adjustment of Sinking Fund Installments”:

**\$129,230,000 2051 Term Bonds (CUSIP® 16772PBT2)**

<u>Year</u>	<u>Principal Amount</u>
2047	\$23,385,000
2048	24,560,000
2049	25,785,000
2050	27,075,000
2051	28,425,000*

\*Final Maturity.

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

***Redemption Procedures.*** In the case of any redemption of 2017 Second Lien Bonds at the election or direction of the Authority, the Authority shall give written notice to the Trustee of its election or direction so to redeem, of the date fixed for redemption, and of the principal amounts and interest rates of the 2017 Second Lien Bonds of each maturity to be redeemed. Such notice shall be given at least 25 days prior to the specified redemption date or such shorter period as shall be acceptable to the Trustee. In the event notice of redemption shall have been given as described below under “— Notice of Redemption”, there shall be paid on or prior to the specified redemption date to the Trustee an amount in cash or Government Obligations maturing on or before the specified redemption date which, together with other moneys, if any, available therefor held by the Trustee, will be sufficient to redeem all of the 2017 Second Lien Bonds to be redeemed on the specified redemption date at their Redemption Price plus interest accrued and unpaid to the date fixed for redemption. Such amount and moneys shall be held in a separate, segregated account for the benefit of the Owners of the 2017 Second Lien Bonds so called for redemption.

***Selection of 2017 Second Lien Bonds to Be Redeemed.*** If less than all the 2017 Second Lien Bonds of the same maturity are called for redemption, the particular 2017 Second Lien Bonds or portion of 2017 Second Lien Bonds to be redeemed shall be selected at random by the Trustee in such manner as the Trustee in its discretion may deem fair and appropriate; *provided, however*, that the portion of any



2017 Second Lien Bond of a denomination of more than the minimum Authorized Denomination to be redeemed shall be in the principal amount of an Authorized Denomination and that, in selecting portions of such 2017 Second Lien Bonds for redemption, the Trustee shall treat each such 2017 Second Lien Bond as representing that number of 2017 Second Lien Bonds of the minimum Authorized Denomination which is obtained by dividing the principal amount of such 2017 Second Lien Bond to be redeemed in part by said minimum Authorized Denomination. If all 2017 Second Lien Bonds are held in book-entry only form, the particular 2017 Second Lien Bonds or portions thereof to be redeemed shall be selected by DTC in such manner as DTC shall determine.

***Notice of Redemption.*** When the Trustee shall receive notice from the Authority of its election or direction to redeem 2017 Second Lien Bonds pursuant to the Indenture, the Trustee shall give notice, in the name of the Authority, of the redemption of such 2017 Second Lien Bonds, which notice shall specify the maturities and interest rates of the 2017 Second Lien 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 2017 Second Lien Bonds of any like maturity and interest rate are to be redeemed, the letters and numbers or other distinguishing marks of such 2017 Second Lien Bonds so to be redeemed, and, in the case of 2017 Second Lien 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 2017 Second Lien Bond to be redeemed, or the Redemption Price of the specified portions of the principal thereof in the case of 2017 Second Lien Bonds to be redeemed in part only, together with interest accrued to the date fixed for redemption, and that from and after such date interest thereon shall cease to accrue and be payable. The Trustee shall mail copies of such notice by first-class mail, postage prepaid, not more than 60 days nor less than 20 days before the date fixed for redemption, to the Owners of the 2017 Second Lien Bonds to be redeemed at their addresses as shown on the registration books of the Authority maintained by the Registrar. If the Trustee mails notices of redemption as provided in the Indenture, notice shall be conclusively presumed to have been given to all Owners.

With respect to an optional redemption of any 2017 Second Lien Bonds, unless moneys sufficient to pay the Redemption Price of, and interest on, the 2017 Second Lien 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 2017 Second Lien 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 2017 Second Lien Bonds will not be redeemed.

***Payment of Redeemed 2017 Second Lien Bonds.*** Notice having been given in the manner provided above, the 2017 Second Lien 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 2017 Second Lien 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 2017 Second Lien Bond, the Authority shall execute and the Trustee shall authenticate and the appropriate Fiduciary shall deliver, upon the surrender of such 2017 Second Lien Bond, without charge to the Owner thereof, for the unredeemed balance of the principal amount of the 2017 Second Lien Bond so surrendered, fully registered 2017 Second Lien Bonds of like maturity and interest rate in any Authorized Denominations. If, on the date fixed for redemption, moneys for the redemption of all the 2017 Second Lien 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 2017 Second

Lien 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 2017 Second Lien 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.

## SOURCES OF PAYMENT OF THE 2017 SECOND LIEN BONDS

### RTA Funding and Service Board Allocations

The RTA provides funding for the Authority and the other Service Boards from sales tax revenue collected by the State and distributed to the RTA. The sources of RTA funds consist of (i) sales and use taxes imposed by the RTA and collected by the State throughout the Northeastern Illinois Transit Region (“RTA Sales Tax”), (ii) sales and use taxes imposed and collected by the State and allocated to the RTA (“State Sales Tax,” and together with RTA Sales Tax, “Sales Taxes”), and (iii) State “matching” funds dedicated to public transportation received by the RTA (“Public Transportation Funds”).

After providing for payment of the RTA’s outstanding debt obligations, RTA operating expenses and special fund deposits for ADA paratransit, community mobility and RTA innovation, coordination and enhancement (“ICE”) programs, the RTA releases funds to the Service Boards according to specific funding formulas set forth in the RTA Act (“RTA Formula Funds”) or at the discretion of the RTA Board (“RTA Discretionary Funds”).

The following table generally describes the breakdown of the sources of RTA Formula Funds and RTA Discretionary Funds. For a more detailed discussion of Sales Taxes and Public Transportation Funds and the allocation of RTA funds to the Authority and the other Service Boards, see APPENDIX B—“SALES TAX RECEIPTS.”

### RTA Formula and Discretionary Funds

	Description
<b>RTA Formula Funds</b>	
Sales Taxes .....	Approximately 85 to 88% of RTA Sales Tax and 85% of State Sales Tax
Public Transportation Funds .....	State matching funds approximately equal to: <ul style="list-style-type: none"> <li>• 10 to 13% of RTA Sales Tax,</li> <li>• 5% of State Sales Tax, and</li> <li>• 30% of the Real Estate Transfer Tax<sup>(1)</sup></li> </ul>
<b>RTA Discretionary Funds</b>	
Sales Taxes .....	Approximately 12 to 15% of RTA Sales Tax and 15% of State Sales Tax
Public Transportation Funds .....	Approximately 8 to 20% of RTA Sales Tax and 25% of the State Sales Tax

<sup>(1)</sup> Public Transportation Funds are calculated, in part, by reference to the amount of Real Estate Transfer Tax received by the Authority directly from the City of Chicago. The Real Estate Transfer Tax is the tax imposed by the City of Chicago on transfers of real property in the City of Chicago. See “THE AUTHORITY—Operations—Public Funding.” The Real Estate Transfer Tax is not included as part of Sales Taxes and is not pledged as security for the Series 2017 Second Lien Bonds.

The following table shows the percentage allocations of RTA Formula Funds and RTA Discretionary Funds to the Authority and the other Service Boards in 2015. The RTA has historically allocated nearly half of the discretionary Sales Taxes and between 90 and 99 percent of discretionary Public Transportation Funds to the Authority. All allocations of RTA Formula Funds and RTA Discretionary Funds to the Authority constitute Sales Tax Receipts.

**RTA Percentage Funding Allocations Among the Service Boards  
2015**

	<u>Authority</u>	<u>Metra</u>	<u>Pace</u>
<b>RTA Formula Funds</b>			
RTA Sales Taxes <sup>(1)</sup>			
City of Chicago .....	100%	0%	0%
Cook County .....	30	55	15
Collar Counties.....	0	70	30
Combined .....	48	39	13
State Sales Taxes <sup>(1)</sup>			
City of Chicago .....	100	0	0
Cook County .....	30	55	15
Public Transportation Funds ....			
Sales Taxes .....	48	39	13
Real Estate Transfer Tax .....	100	0	0
<b>RTA Discretionary Funds</b>			
Sales Taxes.....	48	39	13
Public Transportation Funds ....	98	0	2

<sup>(1)</sup> Allocations depend on the origin of the Sales Taxes. See APPENDIX B—"SALES TAX RECEIPTS—Allocations of RTA Tax Funds."

The following table shows the actual amounts of RTA funds allocated to the Service Boards in 2015.

**RTA Funding Allocations Among the Service Boards  
2015  
(in thousands)**

	<u>Authority</u>	<u>Metra</u>	<u>Pace</u>	<u>Total</u>
<b>RTA Formula Funds</b>				
Sales Taxes .....	\$417,335	\$331,042	\$105,646	\$ 854,023
Public Transportation Funds				
Sales Tax .....	66,913	54,366	18,122	139,401
Real Estate Transfer Tax .....	19,565	0	0	19,565
Subtotal.....	503,813	385,408	123,768	1,012,989
<b>RTA Discretionary Funds</b>				
Sales Taxes.....	900	731	244	1,875
Public Transportation Funds .....	213,571	0	4,359	217,930
Subtotal.....	214,471	731	4,603	219,805
Total .....	<u>\$718,284</u>	<u>\$386,139</u>	<u>\$128,371</u>	<u>\$1,232,794</u>

## Sales Tax Receipts

Sales Tax Receipts, representing the Authority’s share of Sales Taxes and Public Transportation Funds, are deposited by the Authority promptly upon receipt from the RTA directly into the Sales Tax Receipts Fund, a special fund maintained by the Authority. Amounts in the Sales Tax Receipts Fund are first used to make required payments with respect to the First Lien Obligations and then to pay debt service on the 2017 Second Lien Bonds. See “—Flow of Funds” below.

RTA Sales Tax is the largest component of Sales Tax Receipts received by the Authority, representing \$360.6 million or 50.3 percent of total Sales Tax Receipts in 2015. State Sales Tax was \$56.8 million or 7.9 percent, and Public Transportation Funds were \$300.0 million or 41.9 percent, of Sales Tax Receipts in 2015. The amount of Sales Tax Receipts distributed to the Authority on an actual basis for the years 2011 through 2015 and as forecast for 2016 are set forth in the following table.

### Sales Tax Receipts Distributed to the Authority 2011-2016 (in thousands)

	<b>Actual</b>					<b>Forecast</b>
	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016<sup>(1)</sup></b>
<b>RTA Formula Funds</b>						
RTA Sales Tax .....	\$296,033	\$311,746	\$327,537	\$343,087	\$360,575	\$368,695
State Sales Tax .....	60,832	58,149	56,947	58,022	56,760	60,491
Public Transportation Funds .....	64,070	67,646	74,759	78,725	86,478	86,818
Subtotal .....	420,935	437,541	459,243	479,834	503,813	516,004
<b>RTA Discretionary Funds</b>						
RTA Sales Tax .....	0	0	0	0	900	1,733
Public Transportation Funds .....	128,251	168,700	181,009	194,936	213,571	218,563
Subtotal .....	128,251	168,700	181,009	194,936	214,471	220,296
Total .....	<u>\$549,186</u>	<u>\$606,241</u>	<u>\$640,252</u>	<u>\$674,770</u>	<u>\$718,284</u>	<u>\$736,300</u>

Source: Chicago Transit Authority.

<sup>(1)</sup> Based on the forecast for 2016 included in *CTA: Building a 21st Century Transit System, President’s 2017 Budget Recommendation*.

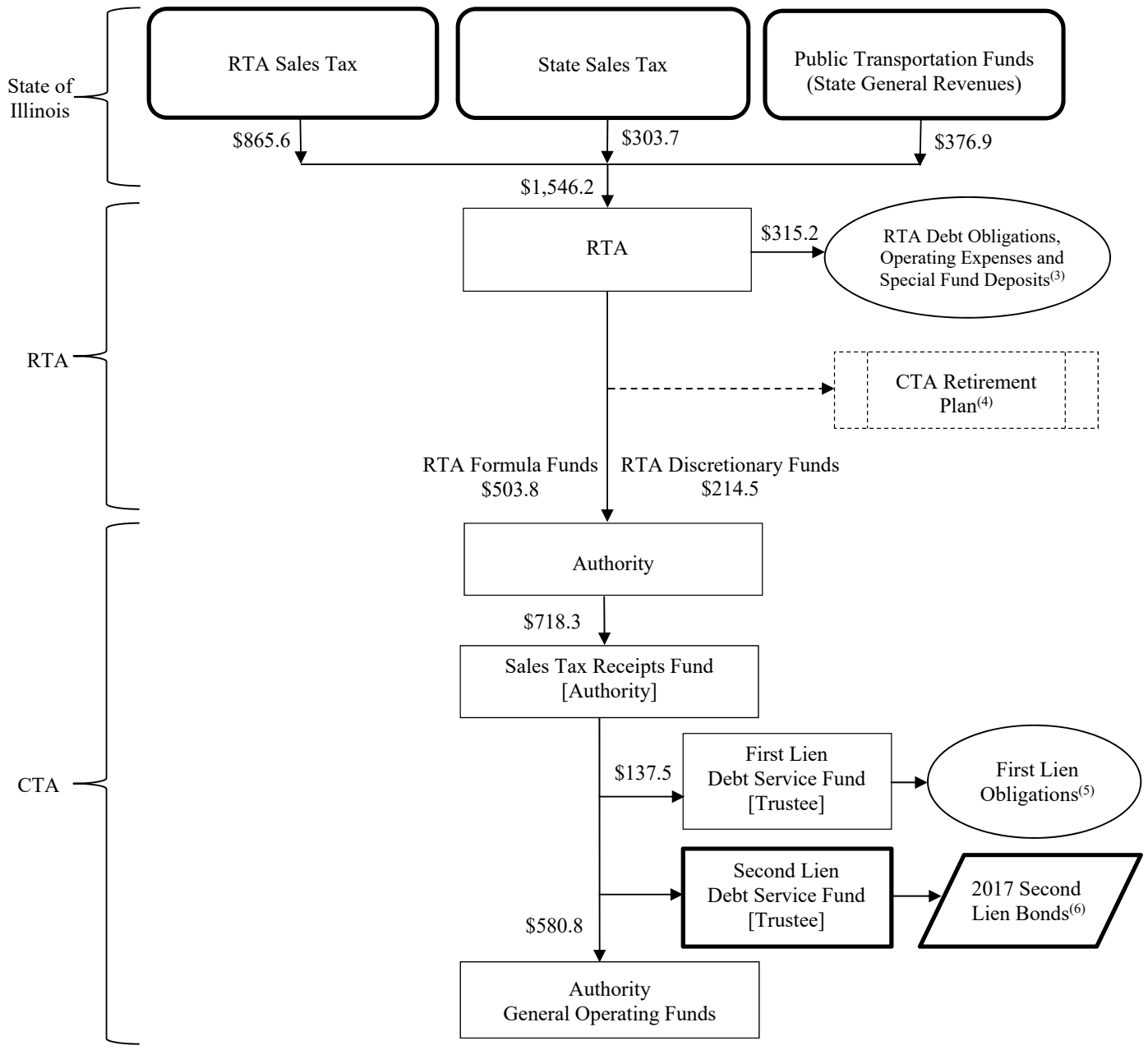
## Flow of Funds

The Illinois Department of Revenue collects RTA Sales Tax and State Sales Tax and transfers the collections to the Illinois State Treasurer (the “State Treasurer”). Public Transportation Funds are paid out of the State’s general fund to the State Treasurer. All monies transferred to the State Treasurer are held in segregated funds outside the State Treasury. The State Treasurer then distributes the RTA Sales Tax, State Sales Tax and Public Transportation Funds to the RTA. The RTA first provides for payment of outstanding RTA debt obligations. RTA then withholds 15 percent of Sales Taxes to pay RTA operating expenses and makes certain deposits in special funds for ADA paratransit, community mobility and ICE programs. The remaining Sales Taxes, the full amount of Public Transportation Funds and any excess holdback funds are distributed by the RTA to the Service Boards according to the formula and discretionary allocations described above.

Sales Tax Receipts, constituting the Authority’s share of RTA funds, are distributed by the RTA to the Authority towards the end of each month and deposited by the Authority into the Sales Tax Receipts Fund held by the Authority. Not later than the 20<sup>th</sup> day of each month, the Authority first transfers from the Sales Tax Receipts Fund to the trustee for the First Lien Obligations amounts required to be applied in accordance with the terms of the 2008 Indenture and the 2010 Indenture, as applicable, with respect to the First Lien Obligations, and then transfers to the Second Lien Debt Service Fund held by the Trustee the sum required to make the interest and principal deposits under the Indenture for that month. After required transfers are made each month, the Authority may withdraw all remaining moneys in the Sales Tax Receipts Fund free from the lien of the Indenture. *See* “SECURITY FOR THE 2017 SECOND LIEN BONDS—Outstanding First Lien Obligations” and “—Funds and Accounts.”

The flow of funds depicting the collection and transfer of Sales Taxes and Public Transportation Funds from the State to the RTA and from the RTA to the Authority is set forth in the following chart.

**Flow of Funds—Public Funding<sup>(1)</sup>**  
**{Including 2015 Amounts<sup>(2)</sup>}**



<sup>(1)</sup> Excludes \$1.875 million of RTA Discretionary Funds (Sales Taxes). Also excludes the Real Estate Transfer Tax received by the Authority from the City of Chicago. See “THE AUTHORITY—Operations—Public Funding.”

<sup>(2)</sup> Dollar figures represent amounts (in millions) distributed in fiscal year 2015.

<sup>(3)</sup> Includes \$129.8 million for RTA debt service and operating expenses and \$185.4 million of special fund deposits for ADA paratransit and community mobility services for Pace and ICE funds for the Service Boards. See “—RTA Funding and Service Board Allocations.”

<sup>(4)</sup> The Authority currently makes contributions to the Retirement Plan for Chicago Transit Authority Employees Retirement Funds (the “Retirement Plan”) from the Authority’s general operating funds. The RTA is required to withhold from the Authority any overdue pension contributions payable by the Authority to the Retirement Plan. The Authority has never failed to meet its contribution requirements to the Retirement Plan. See APPENDIX F—“PENSION PLANS AND POST-EMPLOYMENT HEALTHCARE—Background Information Regarding the Retirement Plan—Determinations of Authority’s Contributions.”

<sup>(5)</sup> The Real Estate Transfer Tax received by the Authority from the City of Chicago is applied to the payment of debt service on Pension Bonds before any funds are withdrawn from the Sales Tax Receipts Fund to pay remaining sums due on the Pension Bonds. See “THE AUTHORITY—Operations—Public Funding.”

<sup>(6)</sup> Including any Second Lien Parity Bonds, if and when issued. See “SECURITY FOR THE 2017 SECOND LIEN BONDS—Additional Bonds.”

## **Continuing Appropriations**

The transfer of State revenues from the State's General Revenue Fund to the various funds maintained by the State Treasurer for the collection and distribution of Sales Taxes and Public Transportation Funds to the RTA represent irrevocable and continuing appropriations by the Illinois General Assembly. No further action of the Illinois General Assembly is required to effect the transfers of Sales Taxes and Public Transportation Funds to the RTA.

## **Status of State Funding**

In the normal course, the process of collection and distribution of RTA Sales Tax and State Sales takes two to three months before funds are received by the Authority. In 2008, the State began delaying payments of Public Transportation Funds by an additional two to three months. The Authority has effectively managed the delay in State payments with its available resources and through its budgeting process. See "CERTAIN INVESTMENT CONSIDERATIONS—Factors Affecting Sales Tax Receipts—*State Delay in Payments.*"

## **SECURITY FOR THE 2017 SECOND LIEN BONDS**

### **General**

The 2017 Second Lien Bonds are being issued pursuant to, under authority of and in full compliance with the Constitution and laws of the State of Illinois, particularly the Metropolitan Transit Authority Act and the Local Government Debt Reform Act, 30 Illinois Compiled Statutes 350, and the Indenture.

The 2017 Second Lien Bonds are secured on a parity with any Additional Second Lien Bonds and Second Lien Refunding Bonds by (i) the Available Sales Tax Receipts on deposit in the Sales Tax Receipts Fund; (ii) all moneys, securities and earnings thereon in all Funds, Sub-Funds, Accounts and Sub-Accounts established under the Indenture for the payment and security of the 2017 Second Lien Bonds; and (iii) any and all other moneys and securities furnished from time to time to the Trustee by the Authority or on behalf of the Authority or by any other persons to be held by the Trustee under the terms of the Indenture. The 2017 Second Lien Bonds are the first series of Second Lien Obligations issued pursuant to the Indenture.

### **Pledge of Security**

The 2017 Second Lien Bonds are secured by a pledge of and lien on the Trust Estate. Second Lien Bonds constitute Subordinate Indebtedness and the principal of and interest on the 2017 Second Lien Bonds shall be payable from Sales Tax Receipts deposited into the Sales Tax Receipts Fund, on a subordinate and junior basis to the claim on such Sales Tax Receipts by the First Lien Obligations. The First Supplemental Indenture provides that Additional Second Lien Bonds and Second Lien Refunding Bonds may be issued from time to time on a parity with the 2017 Second Lien Bonds to share ratably and equally in the Trust Estate upon compliance with certain requirements contained in the Master Indenture (the 2017 Second Lien Bonds, any Additional Second Lien Bonds and any Second Lien Refunding Bonds from time to time outstanding are referred to collectively as the "Second Lien Bonds"). The Authority may also issue additional First Lien Obligations pursuant to the 2008 Indenture or the 2010 Indenture for the purpose of financing any lawful project or purpose of the Authority upon compliance with certain requirements contained in the applicable indenture.

Pursuant to Section 13 of the Local Government Debt Reform Act, the Sales Tax Receipts Fund and the other moneys and securities pledged in the Indenture shall immediately be subject to the lien and pledge under the Indenture without any physical delivery or further act and 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 hereof.

### **Outstanding First Lien Obligations**

First Lien Obligations currently outstanding include:

(a) The Authority's Pension and Retirement Debt Obligations, consisting of \$1,814.8 million aggregate principal amount of Sales and Transfer Tax Receipts Revenue Bonds, Taxable Series 2008A (Pension Funding) and Sales and Transfer Tax Receipts Revenue Bonds, Taxable Series 2008B (Retiree Health Care Funding) issued under the 2008 Indenture (collectively, the "Pension Bonds") but only to the extent that the Real Estate Transfer Tax applied to the payment of debt service on the Pension Bonds is insufficient therefor;

(b) The Authority's Corporate Purpose Debt Obligations, consisting of sales tax receipts revenue bonds issued under the 2010 Indenture, which include (i) \$536.6 million aggregate principal amount of Sales Tax Receipts Revenue Bonds, Series 2010A, and Taxable Series 2010B (Build America Bonds) (the "Series 2010 Bonds"), (ii) \$476.9 million principal amount of Sales Tax Receipts Revenue Bonds, Series 2011 ("Series 2011 Bonds"), and (iii) \$555.0 million principal amount of Sales Tax Receipts Revenue Bonds, Series 2014 ("Series 2014 Bonds," and together with the Series 2010 Bonds and Series 2011 Bonds," the "Sales Tax Bonds"); and

(c) Rent (including \$69.8 million of lease payments attributable to principal) and other payment obligations of the Authority under a Lease Agreement dated March 31, 2003 (the "PBC Lease") between the Authority and the Public Building Commission of Chicago ("PBC"), if the maximum annual debt service on all debt secured by Sales Tax Receipts exceeds 75% of the Sales Taxes received during the preceding fiscal year.

*See "DEBT SERVICE REQUIREMENTS" and "THE AUTHORITY—Debt Obligations—Outstanding Long-Term Debt."*

### **Additional Bonds**

The Authority may issue additional First Lien Obligations pursuant to the 2008 Indenture or the 2010 Indenture for the purpose of financing any lawful project or purpose of the Authority. Such additional First Lien Obligations may be issued only upon delivery to the 2008 Trustee or the 2010 Trustee of, among other things, a certificate of the Authority stating the aggregate amount of all Sales Tax Receipts received by the Authority for any period of 12 consecutive calendar months out of the 18 calendar months next preceding the date of issuance of such Series was at least equal to 200 percent of the Maximum Annual Coverage Requirement for the First Lien Obligations as of the time immediately following the issuance of such Series.

The issuance of one or more Series of Second Lien Bonds entitled to the benefit, protection and security of the Indenture and constituting a Series of Additional Second Lien Bonds may be authorized and delivered upon original issuance for the purpose of financing any lawful project or purpose of the Authority, refund any First Lien Obligation, to pay costs and expenses incident to the issuance of such Additional Second Lien Bonds and to make deposits into any Fund, Sub-Fund, Account or Sub-Account under the Indenture or any Supplemental Indenture. Any such Series shall be authenticated and delivered



by the Trustee only upon the receipt by it of, among other things, a Certificate of an Authorized Officer stating that the aggregate amount of all Available Sales Tax Receipts received by the Authority for any period of 12 consecutive calendar months out of the 18 calendar months next preceding the date of issuance of such Series was at least equal to 150 percent of the Maximum Annual Coverage Requirement as of the time immediately following the issuance of such Series.

In applying the foregoing test, if any of the Second Lien Bonds Outstanding immediately prior to or after the issuance of the Additional Second Lien Bonds to be issued constitute Optional Tender Bonds or Variable Rate Bonds, certain provisions in the Indenture shall be applied in determining the Annual Second Lien Debt Service Requirements of such Second Lien Bonds.

### **Junior 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 Available Sales Tax Receipts, or (ii) incurring contractual obligations that are payable from Available Sales Tax Receipts, but, in each case, only if such indebtedness or contractual obligation is junior and subordinate in all respects to any and all Second Lien Parity Obligations issued and Outstanding under the Indenture.

### **Indebtedness and Liens**

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

### **Equality of Second Lien Parity Obligations**

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

### **Funds and Accounts**

Pursuant to the 2008 Indenture, the Authority established the Sales Tax Receipts Fund as a special fund of the Authority held by the Authority as part of the Trust Estate, subject to the senior pledge rights of the PBC under the PBC Lease and the senior pledges to the First Lien Obligations described

under “—Outstanding First Lien Obligations” above. In the Indenture, the Authority established the Second Lien Debt Service Fund, which is a special fund of the Authority held in trust by the Trustee as part of the Trust Estate. The Authority also established the Second Lien Consolidated Debt Service Reserve Fund, which is a special fund of the Authority held in trust by the Trustee as part of the Trust Estate only for the benefit and security of the Owners of Second Lien Consolidated Reserve Fund Bonds. The 2017 Second Lien Bonds are not Second Lien Consolidated Reserve Fund Bonds. Subject to use and application in accordance with the 2008 Indenture, the 2010 Indenture and the Indenture in the case of the Sales Tax Receipts Fund and the Indenture in the case of the Second Lien Debt Service Fund and the Second Lien Consolidated Debt Service Reserve Fund, all of Available Sales Tax Receipts held in the Sales Tax Receipts Fund and moneys and securities held in the Second Lien Debt Service Fund are pledged as security for the payment of the principal of, redemption premium, if any, and interest on the Second Lien Parity Obligations to the extent provided in the Indenture and shall be subject to the lien of the Indenture.

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

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

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

### **Deposit and Application of Sales Tax Receipts**

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

Subject to the following two paragraphs, the Authority covenants and agrees in the Indenture to withdraw Available Sales Tax Receipts from the Sales Tax Receipts Fund and pay into the Second Lien Debt Service Fund, not later than the 20th day of each calendar month, the sum required to make all of the Second Lien Sub-Fund Deposits and Other Required Second Lien Deposits to be disbursed from the Second Lien Debt Service Fund in that calendar month as described below under “— Disbursements from Second Lien Debt Service Fund.”

Each withdrawal from the Sales Tax Receipts Fund is subject to the contractual obligations of the Authority to make monthly withdrawals from the Sales Tax Receipts Fund for the payment of Pension

and Retirement Debt Payments and the Corporate Purpose Debt Payments on a senior basis with the payments to the Second Lien 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 Senior Pledge Rights are in effect, the Authority may make monthly allocations from the Sales Tax Receipts Fund, on a senior basis to the payments to the Second Lien Debt Service Fund, sufficient to provide for the payment, in equal monthly installments, of the next payment of PBC Annual Rent. The Authority has never drawn on the Sales Tax Receipts Fund to meet its payment obligations under the PBC Lease.

In determining the monthly deposits to the Second Lien Debt Service Fund, such deposits may be reduced by excess amounts in the Second Lien Debt Service Fund or any Sub-Fund, Account or sub-account therein available to make the deposits required as described below under “— Disbursements from Second Lien Debt Service Fund.”

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

#### **Disbursements from Second Lien Debt Service Fund**

The moneys in the Second Lien 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 2017 Second Lien Bonds is described below.

***Creation of Series 2017 Dedicated Sub-Fund.*** The First Supplemental Indenture establishes with the Trustee a separate and segregated Sub-Fund within the Second Lien Debt Service Fund related to the 2017 Second Lien Bonds (the “Series 2017 Dedicated Sub-Fund”). Moneys on deposit in the Series 2017 Dedicated Sub-Fund, and in each Account established therein as provided in the Indenture, shall be held in trust by the Trustee for the sole and exclusive benefit of the Owners of the 2017 Second Lien Bonds and shall not be used or available for the payment of the other Second Lien Parity Obligations, except as expressly provided in the Indenture.

***Creation of Accounts.*** The First Supplemental Indenture establishes with the Trustee separate Accounts within the Series 2017 Dedicated Sub-Fund, designated as follows:

(i) 2017 Capitalized Interest Account: an Account to be designated the “Series 2017 Capitalized Interest Account” (the “2017 Capitalized Interest Account”);

(ii) 2017 Project Account: an Account to be designated the “Series 2017 Project Account” (the “2017 Project Account”);

(iii) 2017 Principal Account: an Account to be designated the “Series 2017 Principal Account” (the “2017 Principal Account”); and

(iv) 2017 Interest Account: an Account to be designated the “Series 2017 Interest Account” (the “2017 Interest Account”).

**Capitalized Interest Account.** The Trustee shall withdraw from the 2017 Capitalized Interest Account, prior to each of the following Interest Payment Dates, the amounts set forth in the following table, and apply the same to the payment of the interest on the 2017 Second Lien Bonds due on such Interest Payment Date:

<u>Interest Payment Date</u>	<u>Amount</u>
June 1, 2017	\$5,189,714
December 1, 2017	7,355,500
June 1, 2018	7,355,500
December 1, 2018	7,355,500

Any amount remaining in the 2017 Capitalized Interest Account on December 1, 2018, after all deposits referenced above, shall be withdrawn from the 2017 Capitalized Interest Account and deposited into the 2017 Interest Account.

**Deposits into Series 2017 Dedicated Sub-Fund and Accounts.** On the 25th day of each month, or if such day is not a Business Day, the immediately preceding Business Day, commencing February 24, 2017 (each such date a “Deposit Date”), there shall be deposited into the Series 2017 Dedicated Sub-Fund from amounts on deposit in the Second Lien Debt Service Fund, an amount equal to the aggregate of the amounts described in the following paragraphs, 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 2017 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 2017 Dedicated Sub-Fund are insufficient to make any required deposit, the deposit shall be made up on the next Deposit Date after required deposits into other Accounts having a higher priority shall have been made in full:

*First:* for deposit into the 2017 Interest Account, an amount equal to the lesser of (i)(a) prior to the June 23, 2017 Deposit Date, an amount equal to the total amount due on the 2017 Second Lien Bonds on the first Interest Payment Date, other than interest payable on such Interest Payment Date from the 2017 Capitalized Interest Account and available in the 2017 Capitalized Interest Account, divided by the number of months between the date of the First Supplemental Indenture and the first Interest Payment Date; and (b) commencing on the June 23, 2017 Deposit Date, one-sixth of the interest due on the 2017 Second Lien Bonds on the next Interest Payment Date; or (ii) the amount required so that the sum held in the 2017 Interest Account, when added to the interest payable from the 2017 Capitalized Interest Account on the next Interest Payment Date and available in the 2017 Capitalized Interest Account, will equal the interest due on the 2017 Second Lien Bonds on such Interest Payment Date; and

*Second:* commencing on December 24, 2040, for deposit into the 2017 Principal Account, an amount equal to the lesser of (i) one-twelfth of the Principal due on the 2017 Second Lien Bonds on the first day of December next ensuing, or (ii) the amount required so that the sum then held in the 2017 Principal Account will equal the Principal due on the 2017 Second Lien Bonds on the first day of December next ensuing.

In addition to the Series 2017 Deposit Requirement, there shall be deposited into the Series 2017 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 2017 Dedicated Sub-Fund and to one or more accounts in the Series 2017 Dedicated Sub-Fund.

Upon calculation by the Trustee of each Series 2017 Deposit Requirement, the Trustee shall notify the Authority of the Series 2017 Deposit Requirement and the Deposit Date to which it relates together with such supporting documentation and calculations as the Authority may reasonably request.

### **Second Lien Consolidated Debt Service Reserve Fund**

A Second Lien Consolidated Debt Service Reserve Fund has been established under the Indenture for the benefit and security of owners of Second Lien Consolidated Reserve Fund Bonds to be maintained in an amount equal to the Second Lien Consolidated Reserve Requirement, which requirement may be satisfied in whole or in part with one or more Qualified Reserve Credit Instruments. Any such Qualified Reserve Credit Instrument shall be issued in the name of the Trustee and shall contain no restrictions on the ability of the Trustee to receive payments thereunder other than a certification of the Trustee that the funds drawn thereunder are to be used for the purposes for which moneys in the Second Lien Consolidated Debt Service Reserve Fund may be used. If any time the Second Lien Consolidated Debt Service Reserve Fund holds one or more Qualified Reserve Credit Instruments and Investment Securities, the Investment Securities shall be liquidated and the proceeds applied to fund transfers permitted as described below prior to any draw being made on any Qualified Reserve Credit Instrument. If the Second Lien Consolidated Debt Service Reserve Fund holds multiple Qualified Reserve Credit Instruments, draws shall be made under such Qualified Reserve Credit Instruments on a pro-rata basis to the extent of available funds.

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

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

In the event that the sum available for withdrawal from the Second Lien Consolidated Debt Service Reserve Fund is not sufficient to satisfy all the withdrawals required by the two immediately preceding paragraphs, then the sum held therein shall be allocated first for the withdrawals required by the second preceding paragraph and among the various withdrawals required by either of the immediately preceding two paragraphs, pro-rata amongst all applicable Series of Second Lien Consolidated Reserve Fund Bonds based upon the amount needed to cure each such deficiency.

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

Lien Consolidated Debt Service Reserve Fund sufficient to fully restore the amount held on the Second Lien Consolidated Debt Service Reserve Fund to the Second Lien Consolidated Reserve Requirement within one year of the initial deficiency in the Second Lien Consolidated Debt Service Reserve Fund. If, at the time that any payment or transfer required to be made hereby is to be made, there are then Outstanding two or more Series of Second Lien Consolidated Reserve Fund Bonds, then each Series and its associated Sub-Fund shall be charged for its Allocable Share of the amounts due hereunder.

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

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

#### **The 2017 Second Lien Bonds are not Second Lien Consolidated Reserve Fund Bonds.**

#### **Limited Obligations of the Authority**

The 2017 Second Lien Bonds, any Additional Second Lien Bond, any Second Lien Refunding Bond, and all other Second Lien Parity Obligations are limited obligations of the Authority payable solely from and secured solely by (i) the Available Sales Tax Receipts Fund, subject however to the PBC Senior Pledge Rights and the senior pledge of or lien on the Sales Tax Receipts Fund as security for the payment of Pension and Retirement Debt Payments and the Corporate Purpose Debt Payments, (ii) all moneys, securities and earnings thereon in all Funds, Sub-Funds, Accounts and Sub-Accounts established under the Indenture or the First Supplemental Indenture, subject however to the right of the Authority to make periodic withdrawals in accordance with the 2008 Indenture and the 2010 Indenture, and (iii) any and all other moneys and securities furnished from time to time to the Trustee by the Authority or on behalf of the Authority or by any other persons to be held by the Trustee under the terms of the Indenture; provided, that the application of moneys to the payments due to a Swap Provider under a Qualified Swap Agreement is expressly limited to the extent provided in the Indenture. The Bonds are not, and shall not be or become, an indebtedness or obligation of the State, the RTA, or any other political subdivision of the State (other than the Authority) or of any municipality within the State nor shall any Second Lien Parity Obligation be or become an indebtedness of the Authority within the purview of any constitutional limitation or provision.

#### **Bond Insurance**

The scheduled payment of principal of and interest on the 2017 Second Lien Bonds maturing on December 1, 2046, in the original principal amount of \$10,000,000 (CUSIP® 16772PBV7) and the 2017 Second Lien Bonds maturing on December 1, 2051, in the original principal amount of \$25,000,000 (CUSIP® 16772PBW5) (collectively, the “Insured 2017 Second Lien Bonds”), when due will be guaranteed under an insurance policy (the “2017 Bond Insurance Policy”) to be issued concurrently with the delivery of the Insured 2017 Second Lien Bonds by Assured Guaranty Municipal Corp. (“AGM”). See “BOND INSURANCE.”

## DEBT SERVICE REQUIREMENTS

The annual debt service for the existing Pension and Retirement Debt Obligations, the Corporate Purpose Debt Obligations and the 2017 Second Lien Bonds is set forth in the following table.

Period Ending December 1	Outstanding Pension and Retirement Debt Obligation Debt Service <sup>(1)</sup>	Outstanding Corporate Purpose Debt Obligations <sup>(1)</sup>	Total First Lien Obligation Debt Service <sup>(1)</sup>	2017 Second Lien Bonds			Total Aggregate Net Debt Service	
				Principal	Interest	Capitalized Interest		
2017	\$ 156,573,869	\$ 95,806,026	\$ 252,379,894		\$ 12,545,214	\$(12,545,214)	\$ 252,379,894	
2018	156,572,944	95,809,276	252,382,219		14,711,000	(14,711,000)	252,382,219	
2019	156,573,184	95,810,826	252,384,009		14,711,000		\$ 14,711,000	
2020	156,576,399	95,870,076	252,446,474		14,711,000		14,711,000	
2021	156,573,769	109,961,519	266,535,287		14,711,000		14,711,000	
2022	156,576,474	109,960,660	266,537,133		14,711,000		14,711,000	
2023	156,575,395	109,962,596	266,537,990		14,711,000		14,711,000	
2024	156,574,586	109,963,492	266,538,078		14,711,000		14,711,000	
2025	156,574,560	109,965,205	266,539,765		14,711,000		14,711,000	
2026	156,574,793	109,960,495	266,535,288		14,711,000		14,711,000	
2027	156,573,729	109,961,185	266,534,914		14,711,000		14,711,000	
2028	156,573,774	109,965,978	266,539,751		14,711,000		14,711,000	
2029	156,570,957	109,963,218	266,534,174		14,711,000		14,711,000	
2030	156,575,270	109,961,560	266,536,830		14,711,000		14,711,000	
2031	156,574,636	109,963,825	266,538,461		14,711,000		14,711,000	
2032	156,576,290	109,962,213	266,538,502		14,711,000		14,711,000	
2033	156,575,394	109,963,875	266,539,269		14,711,000		14,711,000	
2034	156,570,732	116,155,130	272,725,862		14,711,000		14,711,000	
2035	156,574,364	116,153,253	272,727,616		14,711,000		14,711,000	
2036	156,575,588	116,148,945	272,724,533		14,711,000		14,711,000	
2037	156,577,324	116,145,783	272,723,107		14,711,000		14,711,000	
2038	156,570,078	116,156,553	272,726,631		14,711,000		14,711,000	
2039	156,572,630	116,152,493	272,725,123		14,711,000		14,711,000	
2040	156,574,965	116,150,770	272,725,735		14,711,000		14,711,000	
2041		78,776,788	78,776,788	\$20,910,000	14,711,000		35,621,000	
2042		78,777,788	78,777,788	21,945,000	13,680,600		35,625,600	
2043		78,778,288	78,778,288	23,025,000	12,599,000		35,624,000	
2044		78,777,038	78,777,038	24,160,000	11,464,050		35,624,050	
2045		78,777,538	78,777,538	25,350,000	10,273,000		35,623,000	
2046		78,775,300	78,775,300	26,600,000	9,023,150		35,623,150	
2047		78,775,063	78,775,063	27,910,000	7,711,500		35,621,500	
2048		78,777,900	78,777,900	29,310,000	6,316,000		35,626,000	
2049		78,774,363	78,774,363	30,775,000	4,850,500		35,625,500	
2050				32,310,000	3,311,750		35,621,750	
2051				33,925,000	1,696,250		35,621,250	
<b>Total</b>	<b>\$3,757,781,701</b>	<b>\$3,334,865,008</b>	<b>\$7,092,646,709</b>	<b>\$296,220,000</b>	<b>\$446,535,014</b>	<b>\$(27,256,214)</b>	<b>\$715,498,800</b>	<b>\$7,808,145,511</b>

Note: Columns may not add due to rounding.

(1) See "SECURITY FOR THE 2017 SECOND LIEN BONDS—Outstanding First Lien Obligations."

## DEBT SERVICE COVERAGE

The table below sets forth the Sales Tax Receipts and debt service and debt service coverage for the First Lien Obligations and the 2017 Second Lien Bonds for the periods indicated. First Lien Obligations currently outstanding consist of \$1,814.8 million of Pension Bonds and \$1,568.5 million of Sales Tax Bonds. There are no outstanding Second Lien Obligations other than the 2017 Second Lien Bonds when issued. The Pension Bonds are secured by Real Estate Transfer Tax in addition to Sales Tax Receipts. The Real Estate Transfer Tax is applied first before the application of Sales Tax Receipts to the payment of debt service on the Pension Bonds. The Sales Tax Bonds and the 2017 Second Lien Bonds are secured only by Sales Tax Receipts. Debt service coverage is presented as annual debt service for the year and the maximum annual debt service for any year (“MADS”). The debt service calculations below are not indicative of the additional bonds test for issuing additional First Lien Obligations or Second Lien Bonds. For information on the requirements for issuing additional First Lien Obligations or Second Lien Bonds, see “SECURITY FOR THE 2017 SECOND LIEN BONDS—Additional Bonds.”

<b>Debt Service Coverage</b>						
(\$ in millions)						
	<b>Actual</b>		<b>Forecast</b>	<b>Budget</b>	<b>Projected</b>	
	<b>2014</b>	<b>2015</b>			<b>2016</b>	<b>2017</b>
<b>Revenues</b>						
Sales Tax Receipts <sup>(1), (2)</sup> .....	\$675.0	\$718.3	\$736.3	\$767.1	\$792.3	\$818.2
<b>Debt Service</b>						
Pension Bonds .....	156.6	156.6	156.6	156.6	156.6	156.6
Real Estate Transfer Tax <sup>(3)</sup> .....	63.2	74.7	73.5	64.7	66.6	68.6
Net Pension Bonds <sup>(4)</sup> .....	93.4	81.9	83.1	91.9	89.9	87.9
Other First Lien Obligations <sup>(5)</sup> .....	40.1	55.7	79.6	95.8	95.8	95.8
Total First Lien Obligations .....	133.5	137.5	162.7	187.7	185.8	183.8
2017 Second Lien Bonds <sup>(6)</sup> .....				0.0	0.0	14.7
<b>Total Net Debt Service</b>	<b>\$133.5</b>	<b>\$137.5</b>	<b>\$162.7</b>	<b>\$187.7</b>	<b>\$185.8</b>	<b>\$198.5</b>
<b>Maximum Annual Debt Service <sup>(7)</sup></b>						
First Lien Obligations .....	\$209.5	\$198.0	\$198.0	\$198.0	\$198.0	\$198.0
Combined First and Second Lien Obligations .....				\$212.7	\$212.7	\$212.7
<b>Coverage Calculations</b>						
First Lien Annual Coverage .....	5.06x	5.22x	4.53x	4.09x	4.27x	4.45x
First Lien MADS Coverage .....	3.22x	3.63x	3.72x	3.87x	4.00x	4.13x
Combined First and Second Lien Annual Coverage .....				4.09x	4.27x	4.12x
Combined First and Second Lien MADS Coverage .....				3.61x	3.72x	3.85x

Source: Chicago Transit Authority.

<sup>(1)</sup> The amount of Sales Tax Receipts forecast for 2016, budgeted for 2017 and projected for 2018 and 2019 are taken from the 2017 Budget Recommendations.

<sup>(2)</sup> See “SOURCES OF PAYMENT OF THE 2017 SECOND LIEN BONDS—Sales Tax Receipts.”



- (3) See “THE AUTHORITY—Operations—Public Funding.” The Real Estate Transfer Tax is pledged only to payment of debt service on the Pension Bonds.
- (4) Represents debt service on the Pension Bonds paid from Sales Tax Receipts.
- (5) Other First Lien Obligations include the Sales Tax Bonds. Amounts shown for debt service on the First Lien Obligations do not include Build American Bond subsidies for the Series 2010B Bonds, which are not pledged to pay debt service on the Series 2010B Bonds, and are net of capitalized interest on the Series 2011 Bonds and the Series 2014 Bonds.
- (6) Amounts shown for debt service on the 2017 Second Lien Bonds are net of capitalized interest.
- (7) MADS on the First Lien Obligations is calculated by deducting the Real Estate Transfer Tax from the aggregate maximum annual debt service for the First Lien Obligations as the Real Estate Transfer Tax is pledged to and reduces the debt service payable from Sales Tax Receipts on the Pension Bonds. MADS is based on the aggregate maximum debt service for the First Lien Obligations for 2035. The Real Estate Transfer Tax for 2016 through 2019 is held constant at the 2015 level for purposes of calculating MADS for those years.

## **THE AUTHORITY**

### **General**

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

### **Operations**

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

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

## Authority Rail Lines

Name	Route
Blue Line	Chicago-O'Hare International Airport to the Forest Park terminal, via downtown Chicago.
Brown Line	Kimball to downtown Chicago (with certain late night trips between Kimball and Belmont only).
Green Line	Harlem in Forest Park, IL and Oak Park, IL to 63rd Street on Chicago's South Side, via Loop 'L'.
Orange Line	Midway Airport to downtown Chicago, providing service to Chicago's Southwest Side.
Pink Line	54th/Cermak (serves Cicero, IL and Berwyn, IL) to downtown Chicago.
Purple Line	Linden (in Wilmette, IL) to Howard (in Chicago) via Evanston, IL. During weekday rush-periods, express service continues to downtown Chicago.
Red Line	Howard on the North Side to 95th/Dan Ryan on the South Side via downtown Chicago.
Yellow Line	Dempster (in Skokie, IL) to Howard (in Chicago), with connecting service to downtown Chicago via Purple Line Express or Red Line.

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

### RTA Oversight

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

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

The RTA Act vests responsibility for operating budget financial oversight for each Service Board in the RTA. Responsibility for operations and day-to-day management of rail and bus service rests with the Service Boards. The RTA's financial oversight responsibility is implemented principally through the operating budget process, in which each Service Board submits an annual budget and two-year financial

plan for approval by the RTA. The RTA Act sets criteria which proposed budgets and financial plans must meet in order for the RTA Board to adopt a consolidated budget and financial plan.

The RTA Board, by the affirmative vote of twelve of its directors, determines whether a Service Board's budget and financial plan meet the RTA's criteria and certifies such to the Governor, the Mayor of the City of Chicago and the Auditor General of the State. If a Service Board's budget and financial plan are found not to be substantially in compliance with its criteria, the RTA may direct that Service Board to submit a revised budget and financial plan meeting the mandated criteria. Even if a Service Board's revised budget does not meet the criteria, the RTA must still release 75 percent of a Service Board's statutory share of Sales Taxes and Public Transportation Funds to the Service Board, and must release the remaining 25 percent upon approval of the Service Board's budget and financial plan. The RTA has never withheld funds from the Authority as the result of a non-compliant budget submission.

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

## **Administration**

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

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

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

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

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

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

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

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

The current officers of the Authority are as follows:

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

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

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

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

## **Employees and Labor Relations**

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

The Amalgamated Transit Union Locals 241 and 308 (the "ATU Locals") represent approximately 8,600 of the Authority's unionized employees. The Authority and the ATU Locals are currently negotiating the successor contract to the collective bargaining agreement for the term January 1, 2012 through December 31, 2015.

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

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

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

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

## **Annual Budget Process**

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

## Annual Budget Calendar

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

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

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

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

When the RTA amends a revenue estimate because of changes in economic conditions, governmental funding, a new program, or other reasons, the Authority has 30 days to revise its budget to reflect these changes. The RTA's Finance Committee must approve all amendments before they are recommended to the RTA Board for approval. The budget may also be amended based upon financial condition and results of operations if the Authority is significantly out of compliance with its budget for a particular quarter. The RTA Board, by a vote of 12 members, may require the Authority to submit a revised financial plan and budget, which show that the marks will be met in a time period of less than four quarters. If the RTA Board determines that the revised budget is not in compliance with the marks, the RTA will not release discretionary funds. RTA discretionary funds include monies from the Public Transportation Fund, discretionary sales tax and other state funding. If the Authority submits a revised financial plan and budget which show the marks will be met within a four-quarter period, then the RTA Board must continue to release funds.

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

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

## **Ridership Trends**

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

Total ridership has remained stable over the past ten years despite recent declines as near term total ridership is expected to be nearly equal to total ridership experienced in 2007. The Authority has seen growth in rail ridership alongside a decline in bus ridership since 2007, and the recent declines in bus ridership are consistent with the experience of other transit agencies across the country.

Based on performance measures for service effectiveness, operating expense per unlinked passenger trip was approximately 20% less for trips taken on rail than trips taken on bus in 2015, and total revenue from ridership has grown because the average fare is higher for a rail trip than for a bus trip. Set forth below are the unlinked passenger trips per year for the Transportation System on a historical basis for the years 2011 through 2015, as forecast for 2016 and as budgeted for 2017.

**Yearly Ridership—Unlinked Passenger Trips<sup>(1)</sup>**  
**2011-2016**  
(in millions)

	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>Forecast 2016<sup>(2)</sup></b>	<b>Budget 2017</b>
Bus.....	310.3	314.4	300.1	276.1	274.3	259.8	248.8
Rail.....	221.6	231.1	229.1	238.1	241.7	239.9	247.5
Total .....	<u>531.9</u>	<u>545.5</u>	<u>529.2</u>	<u>514.2</u>	<u>516.0</u>	<u>499.7</u>	<u>496.3</u>

Source: Chicago Transit Authority.

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

<sup>(2)</sup> Based on the forecast for 2016 included in the 2017 Budget Recommendations.

Rail ridership has grown at a rate of 1.6 percent per year over the last three years and hit an all-time high in 2015. Rail ridership is forecast to be 239.9 million trips in 2016, a slight decrease from 2015, reflecting a loss in off-peak trips. As peak ridership continues to grow, overall rail ridership is expected to increase 3.2 percent to 247.5 million trips in 2017. Bus ridership has fallen at a rate of 4.8 percent per year over the last three years and is forecast to be 259.8 million in 2016, a 5.3 percent decrease compared to 2015. Bus ridership is expected to fall 4.2 percent to 248.8 million in 2017.

Given the ridership trends and near term expectations on the rail and bus systems, total ridership in 2016 is forecasted to be 499.7 million passenger trips, a 3.2 percent decrease from the 516.0 million rides in 2015. The Authority estimates that system-wide total ridership will decrease to 496.3 million trips in 2017, 0.7 percent below 2016. Lower gas prices and ridesharing have contributed to the decrease in total ridership, alongside increased local traffic congestion which has slowed bus speeds.

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

## Operations

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

The following table sets forth the operating expenses, system-generated revenues and public funding for the Authority on an historical basis for the years 2011 through 2015, as forecasted for 2016, and as budgeted for 2017. The 2016 forecast and 2017 budget information is taken from the 2017 Budget Recommendations.

The financial information included in the table is presented on a budgetary basis. The historical financial information presented is prepared on a basis consistent with generally accepted accounting principles (GAAP), except for the exclusion of certain income and expenses. These amounts include provision for injuries and damage in excess of budget, depreciation expense, pension expense in excess of



pension contributions, revenue from leasing transactions, interest income, expense from sale/leaseback transactions, and capital contributions.

The following information should be read in conjunction with APPENDIX D—“CHICAGO TRANSIT AUTHORITY FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION, YEARS ENDED DECEMBER 31, 2015 AND 2014.”

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

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

	<u>Actual</u>					<u>Forecast</u>	<u>Budget</u>
	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016<sup>(1)</sup></u>	<u>2017<sup>(2)</sup></u>
<b><u>Operating Expenses</u></b>							
Labor .....	\$ 893,834	\$ 921,884	\$ 948,272	\$ 965,868	\$1,002,486	\$1,025,988	\$1,050,436
Material .....	67,919	85,437	60,353	80,963	83,507	83,250	89,176
Fuel .....	57,273	62,908	61,836	59,476	49,830	34,729	33,946
Power .....	28,099	25,020	26,174	33,568	28,818	29,398	31,365
Provisions for Injuries and Damages ..	15,000	24,000	–	3,500	13,000	9,500	9,500
Purchase of Security Services .....	36,815	37,468	24,160	13,628	14,431	15,584	16,838
Other Expenses .....	193,394	134,789	245,329	242,910	252,054	283,879	292,978
Total Operating Expenses .....	\$1,292,334	\$1,291,506	\$1,366,124	\$1,399,913	\$1,444,126	\$1,482,328	\$1,524,239
<b><u>System-Generated Revenues</u></b>							
Fares and Passes.....	\$ 527,853	\$ 548,799	\$ 574,029	\$ 583,299	\$ 587,108	\$ 580,103	\$ 581,250
Reduced Fare Subsidy .....	26,026	27,780	21,948	28,321	14,606	14,606	28,322
Advertising, Charter & Concessions ..	21,459	25,675	25,677	27,561	31,241	33,688	35,165
Investment Income.....	578	674	370	422	1,123	1,515	1,121
Statutory Required Contributions .....	5,000	5,000	5,000	5,000	5,000	5,000	5,000
Other Revenue .....	31,401	38,054	41,939	36,072	36,440	41,604	35,489
Total System-Generated Revenues ..	\$ 612,317	\$ 645,982	\$ 668,963	\$ 680,675	\$ 675,518	\$ 676,516	\$ 686,347
<b><u>Public Funding</u></b>							
Total Public Funding.....	\$701,920 <sup>(3)</sup>	\$ 645,524	\$ 697,161	\$ 739,238	\$ 793,008	\$ 810,812	\$ 837,892
Total Operating Revenue .....	\$1,314,237	\$1,291,506	\$1,366,124	\$1,419,913	\$1,468,525	\$1,487,328	\$1,524,239
<b>Change in Net Assets</b>							
Budgeting Basis .....	\$ 21,903	\$ 0	\$ 0	\$ 20,000	\$ 24,400	\$ 5,000	\$ 0
Actual Recovery Ratio <sup>(4)</sup> .....	57.3%	60.8%	59.2%	58.5%	56.0%	54.5%	54.92%
RTA Required Recovery Ratio <sup>(5)</sup> .....	52.0%	52.0%	52.0%	54.0%	54.5%	54.5%	54.75%

Source: Chicago Transit Authority Financial Statements and Supplemental Information, Schedule of Expenses and Revenues, Budget and Actual–Budgetary Basis, for the years 2011 to 2015, and the 2017 Budget Recommendations.

(1) Based on the forecast for 2016 included in the 2017 Budget Recommendations.

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

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

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

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

***Operating Expenses.*** The Authority's annual operating expenses consist of labor, material, fuel, power, provisions for injuries and damage, purchase of security services and other expenses. Set forth below is a review of the Authority's operating expenses on an historical basis for 2011 through 2015, as forecast for 2016, and as budgeted for 2017.

***Labor.*** Labor is the largest expense of the Authority, representing between 69.1 percent and 71.2 percent of costs annually over the period 2011 to 2015 and 69.2 percent of costs as forecast for 2016. Labor expense consists of wages, salaries, employer pension contributions, and fringe benefits such as healthcare. Labor expense increased from 2011 through 2013 due to negotiated wage increases, increases in overtime and higher fringe benefit costs, which was offset by management efficiencies and personnel reductions. In 2013, the Authority and Amalgamated Transit Union (ATU) Local 241 and 308 reached a four-year labor agreement, ratified by ATU, that benefited the Authority's customers, lowered agency health care costs by strengthening the approach to health and wellness, and improved worker conditions and preserved jobs. In 2014, the Authority was able to save on additional vacant positions and group benefits, including the restructuring of employee health care plans included as part of the 2013 labor agreement. The increase in 2015 was due to contractual wage increases and increased service levels.

Labor expenses are forecast to be \$1,026.0 million in 2016, an increase of 2.3 percent from 2015. The major factors driving this increase include the full year impact of contractual wage increases as well as enhanced service levels. Fringe benefits are higher in 2016 compared to 2015 due to the higher base labor and slightly higher health care costs. The 2017 budget shows labor increasing 2.4 percent over 2016 mainly due to a pension contribution increase of \$24.0 million.

***Material.*** Material primarily consists of parts replacement and supplies. Material tends to track the age of the Authority's fleet, changes in fleet mileage and the occurrence of severe weather. Material constituted between 5.3 percent and 6.6 percent of operating costs annually from 2011 through 2015 and are forecast to be 5.6 percent of total costs for 2016.

Material increased 25.8 percent in 2012 from 2011 levels due to an increase in the reserve for obsolescence, but dropped 29.3 percent in 2013 from a combination of cost offsets to capital projects, more favorable per-unit price costs, a reduction in the reserve for obsolescence and savings from a full inventory review conducted as part of a supply chain modernization effort. Material spending for 2014 jumped 34.0 percent from 2013 due to increased ridership, an increase in service miles to support construction projects, and the severe weather experienced in the first quarter of 2014. The 2015 results and 2016 forecast reflect similar material usage patterns as in prior years, benefits of a younger fleet, and slight increases in fleet mileage due to planned service levels. The 2016 forecast includes the impact of additional maintenance due to service improvements to six bus routes and two branches of the south Green Line that serve Chicago's south and far south sides as well as the enhanced and new service pilot programs for the Lincoln Avenue and 31<sup>st</sup> Street bus routes. The 2017 budget assumes material will increase 7.1 percent over the 2016 forecast due to increased service levels generating additional mileage as well as additional vehicle repairs and maintenance because the 5000-series rail cars came out of warranty at the end of 2016.

***Fuel.*** Fuel represents the costs of diesel and gasoline for revenue equipment. Fuel fluctuated between 3.4 percent and 4.9 percent of operating costs from 2011 to 2015. Fuel costs correlate to overall fuel consumption, fuel price levels and service mileage. The steady drop in fuel cost beginning in 2012 was due to lower prices, lower consumption and better fuel efficiency over the period. Fuel is forecasted to end 2016 6.8 percent less than 2015. The savings is mainly due to better fuel pricing. A mild winter and mild summer also helped lower fuel consumption because of the reduced need for heating and air conditioning on buses. The 2017 budget shows fuel costs to be 2.3 percent less than the 2016 forecast reflecting lower average prices.

From 2011 through 2014, the Authority managed its fuel price risk through financial hedging contracts with various counterparties. In 2015 and 2016, to take advantage of falling fuel prices, the Authority negotiated a fixed price for diesel eliminating the need for a financial hedge. The Authority pre-purchased 50 percent of its fuel needed for 2017 in advance of finalizing its budget and expects to purchase more in the near future to increase budget certainty. Fuel prices in 2017 are budgeted at an average \$2.03 per gallon, representing the average price the Authority has locked in for 2017 at the time of budgeting. This includes the price of supply and delivery combined and represents significant savings compared to the \$2.15 per gallon budgeted in 2016. See APPENDIX D—“CHICAGO TRANSIT AUTHORITY FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION, YEARS ENDED DECEMBER 31, 2015 AND 2014, Note 17—Accounting for Derivatives and Hedging Activities.”

Power. Electric power expenses reflect the cost of electric power for the rail system and other Authority facilities. For the five year period ending 2015, electric power ranged from 1.9 percent to 2.4 percent of total operating expenses. The 2016 forecast shows electric power costs increasing 2.0 percent over 2015. Variances in electric power costs year-to-year are generally due to changes in power consumption, market pricing and weather severity. The 2017 budget assumes that electric power costs will increase 6.7 percent from 2016 due to service level improvements on both bus and rail as well as regulatory fee increases.

The Authority’s strategy for purchasing electric power changed for 2017. In previous years, the Authority purchased a fixed portion of the forecasted consumption and carried the risk if consumption was higher than forecasted. For 2017, the Authority switched to a “load following” strategy, in which the price of a percentage of consumption is fixed, no matter what the consumption ultimately is. This protects against extreme weather that can cause spikes in consumption. The Authority has purchased about 80 percent of its anticipated power usage in advance.

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

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

The 2016 forecast expense for security services is 8.0 percent higher than 2015. The 2017 budget shows security services increasing 8.1 percent from the 2016 forecast. The 2016 forecast and 2017 budget include additional security services deployed to address continuous riders and to mitigate fraudulent fare practices and evasion of fares.

Other Expenses. Other expenses includes interest on pension obligation bonds, maintenance and repair contracts, utilities, advertising, commissions, consulting, insurance, leases and rentals, and other

general expenses. Set forth below are the historical results of other expenses for the years 2013 through 2015, as forecast for 2016, and as budgeted for 2017. The Authority first began accounting for the components of other expenses in the manner presented in the table in 2013. Comparable information for years prior to 2013 is not available.

**Other Expenses**  
**2013-2017**  
(in millions)

	<b>Actual</b>			<b>Forecast</b>	<b>Budget</b>
	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016<sup>(1)</sup></b>	<b>2017<sup>(2)</sup></b>
Pension Bonds (Net) <sup>(3)</sup> .....	\$114,832	\$115,746	\$112,281	\$118,050	\$111,943
Contractual Services .....	81,063	94,334	104,278	102,970	109,349
Utilities.....	19,657	23,059	24,562	23,677	24,152
Non-Capital Grant, Travel, Leases, Other.....	29,783	9,771	10,933	22,517	18,938
Other Debt Service <sup>(4)</sup> .....	0	0	0	16,666	28,597
<b>Total .....</b>	<b>\$245,336</b>	<b>\$242,910</b>	<b>\$252,054</b>	<b>\$283,880</b>	<b>\$292,979</b>

Note: Columns may not add due to rounding.

Source: Chicago Transit Authority.

(1) Based on the forecast for 2016 included in the 2017 Budget Recommendations.

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

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

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

Other expenses fluctuated between 10.4 percent and 25.0 percent of total operating expenses from 2011 to 2015, and are forecast to be 19.2 percent of total operating expenses in 2016. The 30.3 percent drop in other expenses in 2012 compared to 2011 was due to the substitution of a Qualified Reserve Credit Instrument for Investment Securities held in a bond debt service reserve fund. Other expenses in 2013 increased 82.0 percent above 2012 levels due primarily to the debt service reserve substitution in 2012. The increase in total operating expenses from 2014 to 2015 is attributed to initial debt service from the Series 2014 Bonds, additional bus operator training, normal escalation of contractual expenses and additional maintenance support for the Authority’s camera systems and support technology. Other expenses are forecast to be 12.6 percent higher in 2016 than 2015 mainly due to new debt service and higher than planned non-capital grant expenses offset by non-capital grant revenue. Other expenses are budgeted in 2017 to be 3.2 percent higher than the 2016 forecast primarily due to \$14.3 million in additional debt service and normal escalation of contractual expenses, including maintenance for the Authority’s security camera systems, technology efforts and system and safety training programs.

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

**System-Generated Revenues.** The Authority’s system-generated revenue consists of fares and passes, reduced-fare subsidies, advertising and concessions, investment income, contributions from local governments, and other revenue. Overall, system-generated revenues have increased 2.1 percent on an

average annual basis over the period 2011 to 2015 and as forecast for 2016. Set forth below is a discussion of the Authority's operating revenues on an historical basis for 2011 through 2015, as forecast for 2016, and as budgeted for 2017.

Fares and Passes. Regular fares and passes make up the majority of system-generated revenues. Farebox revenue from 2011 to 2015 and as forecast for 2016 represents between 85.0 percent and 86.9 percent of system-generated revenues.

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

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

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

Unlike Sales Tax Receipts, reduced-fare subsidy reimbursements are not a continuous appropriation of State funds and therefore must be approved annually by the Illinois General Assembly.

Advertising and Concessions. Advertising and concessions comprise revenues from systemwide advertising sales, rentals and concession fees. Advertising and concessions revenue is subject to regional economic conditions. The Authority has used a combination of concession rental improvements, alcohol advertisements, single vendor station sponsorship, specialty media (such as wraps on elevators, in tunnels and on stairs) and increased digital platform and street-level advertisements to augment advertising and concessions revenues. From 2011 to 2015, advertising and concessions revenue constituted between 2.2 percent to 4.0 percent of total system-generated revenue and is forecast to be 5.0 percent in 2016. The 2016 forecast is 7.8 percent above 2015 due to increased advertising sales and concession fees. Vehicle and platform advertisements are expected to increase as demand for digital advertising continues to grow. The Authority's stations now have more than 100 urban panels for digital advertisement (street-level video displays at rapid transit station entrances). The 2017 budget assumes a 4.4 percent increase in advertising and concessions revenues over the 2016 forecast.

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

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

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

**Public Funding.** Public funding is the largest source of the Authority’s revenue. Public Funding consists of Sales Tax Receipts, the Real Estate Transfer Tax and, in certain years, RTA innovation, coordination and enhancement (“ICE”) funds. The amount of public funding available for Authority operations is established by the RTA, and is based on the RTA’s revenue projections and the approved funding marks set by the RTA Board. Funding “marks” are the amounts RTA commits to provide to each of the Service Boards.

For financial statement reporting purposes, public funding is separated into RTA Sales Tax (Illinois State Sales tax allocation), RTA Discretionary Funds (RTA discretionary funding and other), State Sales Tax and Formula PTF (Illinois State Sale Tax allocation and PTF) and Real Estate Transfer Tax (Real estate transfer tax). See APPENDIX D—“THE AUTHORITY FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION, YEARS ENDED DECEMBER 31, 2015 AND 2014, Note 4—Budgeted Public Funding from the Regional Transportation Authority and the State of Illinois.” Set forth in the following table are the components of public funding as reported by the Authority in its financial statements for the years 2011 to 2015.

<b>Public Funding<sup>(1)</sup></b>					
<b>2011-2015</b>					
(in thousands)					
	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
RTA Sales Tax.....	\$296,033	\$311,746	\$327,537	\$343,087	\$360,575
RTA Discretionary Funds (including					
Discretionary PTF).....	128,251	168,700	181,009	196,254	214,471
State Sales Tax and Formula PTF .....	124,902	125,795	131,706	136,747	143,239
Real Estate Transfer Tax.....	34,734	39,283	56,909	63,150	74,723
Total Budgeted Public Funding .....	583,920	645,524	697,161	73,238	793,008
RTA Provision – Capital Preventative					
Maintenance <sup>(2)</sup> .....	118,000	0	0	0	0
Final Public Funding.....	<u>\$701,902</u>	<u>\$645,524</u>	<u>\$697,161</u>	<u>\$739,238</u>	<u>\$793,008</u>

Source: Chicago Transit Authority.

<sup>(1)</sup> See “SOURCES OF PAYMENT OF THE 2017 SECOND LIEN BONDS—RTA Funding and Service Board Allocations.”

<sup>(2)</sup> Represents federal capital project funds for preventive maintenance. The Authority stopped receiving these funds in 2012.

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

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

The 2016 forecast for public funding is \$810.8 million, an increase of 2.2 percent. The increase is due to higher than expected Sales Tax revenues and a rise in the Real Estate Transfer Tax from a higher volume of real estate transactions in Chicago. Importantly, this number assumes no changes in public funding and the amount the State provides to the Authority. The 2016 forecast includes \$1.0 million from ICE funds which are now distributed to the Service Boards by formula by the RTA and can be used in the operating or capital budget.

Public funding is budgeted to be \$837.9 million in 2017. The total public funding level is a 3.3 percent increase over the 2016 forecast. The increase represents continued improvement in Sales Tax Receipts anticipated over the next year. The 2017 budget also includes \$6.0 million in ICE funds.

### **2018-2019 Proposed Two-Year Financial Plan**

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

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



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

	<u>Projected 2018</u>	<u>Projected 2019</u>
<b><u>Operating Expenses</u></b>		
Labor .....	\$1,071,445	\$1,092,873
Material .....	92,705	95,522
Fuel .....	35,934	37,012
Power .....	32,592	33,244
Provisions for Injuries and Damages .....	20,000	20,000
Purchase of Security Services .....	17,090	17,432
Other Expenses		
Pension Obligation Bonds (Net) .....	115,301	118,760
Contractual Services .....	113,108	116,502
Utilities .....	24,876	25,622
Non-Capital Grant, Travel, Leases, Other ..	19,506	20,091
Other Debt Service.....	28,597	53,600
Total Operating Expenses .....	<u>\$1,571,154</u>	<u>\$1,630,659</u>
<b><u>System-Generated Revenues</u></b>		
Fares and Passes.....	\$ 595,928	\$ 617,740
Reduced-fare Subsidy .....	28,322	28,322
Advertising, Charter & and Concessions .....	39,000	43,070
Investment Income .....	1,433	1,656
Statutory Required Contributions .....	5,000	5,000
Other Revenue .....	42,587	48,058
Total System-Generated Revenues .....	<u>\$ 712,270</u>	<u>\$ 743,846</u>
<b><u>Public Funding from the RTA</u></b>		
Total Public Funding.....	<u>\$ 858,884</u>	<u>\$ 886,813</u>
Total Operating Revenue .....	<u>\$1,571,154</u>	<u>\$1,630,659</u>
Projected Recovery Ratio <sup>(1)</sup> .....	54.75%	54.75%
RTA Required Recovery Ratio <sup>(2)</sup> .....	54.75%	54.75%

Source: Chicago Transit Authority.

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

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

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

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

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

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

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

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

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

contractor reimbursements, fees from filming, non-capital grants from the federal government and other sources.

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

## **Debt Obligations**

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

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

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

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

**Long Term Debt  
As of January 10, 2017**

<u>Type of Obligation</u>	<u>Designation</u>	<b>Current Par Amount Outstanding As of January 10, 2017 (in millions)</b>	<u>Security Pledge</u>
Sales Tax and Transfer Tax Receipts Revenue Bonds.....	2008A, 2008B	\$1,814.8	Sales Taxes and Real Estate Transfer Tax
	2010A, 2010B	536.6	Sales Taxes
	2011	476.9	Sales Taxes
	2014	555.0	Sales Taxes
	2017	296.2	Sales Taxes
Capital Grant Receipts Revenue Bonds			
FTA 5307 Program.....	2006A	24.7	Grant Receipts
	2008A	100.0	Grant Receipts
	2010	63.9	Grant Receipts
	2011	56.5	Grant Receipts
	2015	131.3	Grant Receipts
FTA 5309/5337 Program.....	2008A	77.5	Grant Receipts
	2008	102.4	Grant Receipts
	2010	26.8	Grant Receipts
	2015	45.7	Grant Receipts
PBC Lease.....	2006	69.8	Lease Payments
Bus lease .....	2013	43.9	Lease Payments
Bus lease (Certificates of Participation).....	2008	29.8	Lease Payments
Total .....		\$4,451.8	

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

**Sales Tax and Transfer Tax Receipts Revenue Bonds.** The Authority has outstanding bonds secured by Sales Tax Receipts and the Real Estate Transfer Tax. *See* “SECURITY FOR THE 2017 SECOND LIEN BONDS—Outstanding First Lien Obligations.” In 2008, the Authority issued the Pension Bonds to fund the Authority’s employee retirement plan and create a retiree health care trust. The Pension Bonds are secured by a senior pledge of Sales Tax Receipts and the Real Estate Transfer Tax. The Authority has also issued the Sales Tax Bonds to fund new rail cars, refurbish existing rail cars, upgrade rail system components and fund capital projects contemplated by the Authority’s capital plan. The Sales Tax Bonds are secured by a senior pledge of Sales Tax Receipts. *See* APPENDIX D—“CHICAGO TRANSIT AUTHORITY FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014, Note 9—Bonds Payable.”

**Capital Grant Receipts Revenue Bonds.** The Authority has outstanding capital grant receipts revenue bonds secured by funds provided by the Federal Transit Administration (the “FTA”) under the FTA’s Urbanized Area Formula Funding Program (5307) (the “5307 Program”), and the State of Good Repair Grants Program (5337) (the “5309/5337 Program”). *See* “—Capital Improvement Plan—Sources of Funds—FEDERAL FUNDING” below.

The proceeds of bonds backed by grants under the 5307 Program have been used to pay or reimburse the Authority for prior expenditures relating to facility rehabilitation, rail station reconstruction, replacing and upgrading track, structure and signal systems, communication infrastructure improvements, and replacing the bus and rail fleets. See APPENDIX D—“CHICAGO TRANSIT AUTHORITY FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014, Note 9—Bonds Payable.

The proceeds of bonds backed by grants under the 5309/5337 Program were used to refund a prior issue of bonds, the proceeds of which funded costs of the Authority’s capital plan in anticipation of the receipts under the 5309/5337 Program. See APPENDIX D—“CHICAGO TRANSIT AUTHORITY FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014, NOTE 9—Bonds Payable.

Capitalized Lease Obligations. The outstanding capitalized lease obligations consist of (i) the lease of the Authority’s headquarters from the Public Building Commission, (ii) lease obligations incurred in connection with the financing of a portion of the Authority’s bus fleet, and (iii) a lease/leaseback transaction in 1998 relating to certain property, railway tracks and train stations on the Green Line. See APPENDIX D—“CHICAGO TRANSIT AUTHORITY FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014, Note 8—Capital Lease Obligations.”

Certificates of Participation. In 2008, the Authority entered into an installment purchase agreement with a financial institution for the purchase of 200 (40 ft.) New Flyer low floor buses and certain related parts and equipment. The financial institution issued certificates of participation (“COPs”) on behalf of the Authority, which represent the Authority’s unconditional obligation to make installment payments from legally available funds. The Authority’s installment payments are remitted to the financial institution, which in turn remits payments to the holders of the COPs. See APPENDIX D—“CHICAGO TRANSIT AUTHORITY FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014, Note 10—Certificates of Participation.”

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

## **Capital Improvement Plan**

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

projects, due partly to the need to maintain an exclusive right-of-way while buses operate on streets maintained by other units of government.

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

***Use of 2017 Second Lien Bond Proceeds.*** The Authority intends to apply proceeds of the 2017 Second Lien Bonds to the following projects under the Capital Improvement Plan:

- Overhaul of 258 rail cars, the 3200-Series cars
- Purchase of 400 new 7000-Series Rail cars
- Red/Purple Modernization Phase One project
- Major rail line improvements (Brown, Green, Blue, and Red Lines)
- Facilities SOGR Program and Station Renewal Program
- Track & structure renewal (slow zone remediation)
- Traction Power and Signal improvements
- Rehabilitate Signal System – O'Hare Blue Line
- Red Line South extension

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

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

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

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

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

**Capital Improvement Program Preliminary Marks<sup>(1)</sup> 2017 – 2021**  
**Sources of Funds**  
(in thousands)

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>5-Year Total</u>
<b><u>FTA Formula Funds</u></b>						
5307 Urbanized Formula .....	\$ 128,172	\$130,793	\$133,493	\$136,251	\$139,019	\$ 667,729
5337 State of Good Repair.....	11,279	11,515	11,759	12,009	12,259	58,821
5339 Bus and Bus Facilities Formula	152,166	154,794	157,459	160,171	162,923	787,512
	<u>291,616</u>	<u>297,102</u>	<u>302,712</u>	<u>308,430</u>	<u>314,202</u>	<u>1,514,062</u>
<b><u>Other Federal</u></b>						
5339c Dis. Low or No-Emission Bus Program .....	3,620	-	-	-	-	3,620
Sec. 5307 CMAQ.....	-	25,000	8,891	100,000	-	133,891
5309 Core Capacity .....	256,000	100,000	100,000	100,000	100,000	656,000
Department Homeland Security .....	5,592	3,000	3,000	3,000	3,000	17,592
2016 TIGER .....	25,000	-	-	-	-	25,000
Clean Diesel Funding Assistant Program (EPA) .....	1,800	-	-	-	-	1,800
	<u>292,012</u>	<u>128,000</u>	<u>111,891</u>	<u>203,000</u>	<u>103,000</u>	<u>837,903</u>
Subtotal.....	<u>583,628</u>	<u>425,102</u>	<u>414,603</u>	<u>511,430</u>	<u>417,202</u>	<u>2,351,965</u>
<b><u>State and Local</u></b>						
RTA Bonds.....	75,000	-	-	79,000	-	154,000
RTA ICE .....	-	6,350	6,572	-	-	12,922
Transit TIF.....	622,000	-	-	-	-	622,000
Authority Funds.....	1,875	1,875	15,000	-	-	18,750
Authority Bonds for RPM .....	-	287,249	-	-	-	287,249
Subtotal.....	<u>698,875</u>	<u>295,474</u>	<u>21,572</u>	<u>79,000</u>	<u>-</u>	<u>1,094,921</u>
<b>New Funding Available</b>	<u>1,282,503</u>	<u>720,576</u>	<u>436,175</u>	<u>590,430</u>	<u>417,202</u>	<u>3,446,886</u>
Authority Share for Competitive Grants .....	27,780	-	-	-	-	27,780
RPM Operating Funds .....	61,749	-	-	-	-	61,749
Total.....	<u>\$1,372,033</u>	<u>\$720,576</u>	<u>\$436,174</u>	<u>\$590,430</u>	<u>\$417,202</u>	<u>\$3,536,416</u>

Note: Totals may not add due to rounding.

Source: Chicago Transit Authority.

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

FEDERAL FUNDING. Sources of federal funds for capital projects included in the 2017-2021 Capital Improvement Plan are described below. No federal funds are pledged to the 2017 Second Lien Bonds.

*FTA Programs.* On December 4, 2015, President Obama signed the Fixing America's Surface Transportation Act ("FAST Act") into law. The FAST Act includes slight annual funding increases over the levels included in the previous transportation authorization called Moving Ahead for Progress in the 21st Century ("MAP-21"). MAP-21 authorized funding for fiscal years 2013 and 2014, and it was extended on a short-term basis numerous times until the FAST Act was enacted.

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



expenditure of funds from the federal Mass Transit Account of the Highway Trust Fund for transit programs.

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

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

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

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

*TIFIA Loan Program.* The Transportation Infrastructure Finance and Innovation Act of 1998 (“TIFIA”) established a federal credit program for eligible transportation projects under which the U.S. Department of Transportation (“USDOT”) may provide three forms of credit assistance, i.e., secured (direct) loans, loan guarantees, and standby lines of credit. TIFIA was created because state and local governments that sought to finance large-scale transportation projects with tolls and other forms of user-backed revenue often had difficulty obtaining financing at reasonable rates due to the uncertainties associated with these revenue streams. The savings to the Authority from TIFIA financing come from two primary sources: (1) the Authority draws TIFIA funds on an “as needed” basis during the project, similar to a line of credit, rather than accruing interest on funds before they are used, and (2) the interest rate on this borrowing is set at the federal government’s rate, which, for Authority loans, have been 1.0 to

1.5 percent lower than traditional financing. TIFIA financing enhances the affordability of the debt and maximizes borrowing capacity.

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

STATE AND LOCAL FUNDING. Sources of State and local funding for capital projects included in the 2017-2021 Capital Improvement Plan and described below.

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

The traditional avenue for the State transit funding is through a legislative mandated bond program, generally for a five-year period. The current State Transportation Series "B" Bond fund was appropriated under two legislative programs: Illinois Jump Start, which was appropriated in fiscal year 2009 and has been authorized in part, and Illinois Jobs Now, which was appropriated and authorized in fiscal year 2010. The Authority's share from both legislative programs totals \$1.4 billion. The State of Illinois Jobs Now includes funding for mass transit agencies to replace, upgrade and enhance infrastructure system wide, and provided state funding over a five-year period, which began in fiscal year 2010 and ended in fiscal year 2014. Through 2016, the Authority has been granted \$1.17 billion of funds in total from these programs. The remaining funds of \$220.9 million have not been authorized and funding has been delayed for two years due to the State's fiscal budget constraints and the lack of a dedicated source of revenue. The delay in the receipt of granted and programmed (promised) State funds has caused the Authority to delay a number of construction projects until receipt of funds are obtained. The Authority, over the last several years, provided its own source of funds by issuing bonds; allowing key projects to advance. The Authority needs a substantial contribution from the State of Illinois to effectively move forward with various new project initiatives and without a State source of funds, the Authority will be severely limited in addressing system SOGR needs. A new five-year State transit bond authorization will be required to provide the match for federal funds anticipated from FAST Act transit authorization from years 2017 through 2020.

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

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

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

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

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

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

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

*Authority Funds.* Authority funds available for capital projects generally consist of proceeds from positive budget variance, insurance settlement agreements, and/or sale of assets. The 2017-2021

Capital Improvement Plan assumes the use of Authority funds for capital projects in 2017, 2018 and 2019.

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

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

## **Pension and Other Post-Employment Benefit Obligations**

*Retirement Plan.* The Authority contributes to the Retirement Plan for Chicago Transit Authority Employees, a single-employer defined benefit pension plan covering substantially all full-time permanent union and non-union employees (the "Retirement Plan"). The Retirement Plan was first established by an agreement between the Authority and its collective bargaining units in 1949 ("Plan Agreement"), which has since been amended and is currently governed by Section 22-101 of the Illinois Pension Code (40 ILCS 5/22-101) (the "Pension Code"). The Authority's contributions to the Retirement Plan and benefits for participants in the Retirement Plan are governed by the Plan Agreement and the Pension Code. Information relating to the Retirement Plan is set forth in APPENDIX D—"CHICAGO TRANSIT AUTHORITY FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION, YEARS ENDED DECEMBER 31, 2015 AND 2014, Note 13—Employees' Retirement Plan Pension Disclosures" and APPENDIX F—"PENSION PLANS AND POST-EMPLOYMENT HEALTHCARE."

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

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

- For each year through 2039, the estimated “funded ratio” of the Retirement Plan, which is the actuarial value of assets divided by the actuarial accrued liability, expressed as a percentage, must be at least 60%. If the funded ratio is projected to decline below 60% in any year before 2040, increased contributions will be required each year as a level percentage of payroll over the years remaining until 2040 so that the funded ratio does not decline below 60%.
- If the funded ratio actually declines below 60% in any year prior to 2040, increased contributions will be required each year as a level percentage of payroll during the years after the then current year so that the funded ratio is projected to reach at least 60% no later than 10 years after the then current year.
- Beginning in 2040, the minimum annual contribution to the Retirement Plan must be sufficient to bring the funded ratio to 90% by the end of 2059.
- Beginning in 2060, the minimum contribution must be an amount necessary to maintain the funded ratio at 90%.
- Two-thirds of any increase in required contributions is to be paid by the Authority and one-third by participating employees.

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

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

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

The funding mechanisms for the Retirement Plan can be distinguished in a number of respects from the retirement plans of other area governmental units, including plans currently in place for

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

***Supplemental Pension Plans.*** In addition to the Retirement Plan, the Authority maintains three non-statutory, single-employer defined benefit pension plans for a limited number of selected employees (collectively, the “Supplemental Pension Plans”). The Supplemental Pension Plans are operated separately from the Retirement Plan and closed to new participants. Descriptions of the Supplemental Pension Plans can be found in APPENDIX D—“CHICAGO TRANSIT AUTHORITY FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION, YEARS ENDED DECEMBER 31, 2015 AND 2014,” Note 14—Supplemental Plans Pension Disclosures.”

***Health Care Benefits.*** Prior to 2008, retiree health care benefits were administered by the Retirement Plan pursuant to collective bargaining agreements (“CBAs”) between the Authority and the labor unions representing Authority employees (“Unions”). In 2007, the Authority and its Unions agreed as part of an interest arbitration award (the “2007 CBA”) that the responsibility for retiree health care benefits would be transferred to a separate and newly-created Retiree Health Care Trust (“RHCT”). This agreement was codified in 2008 amendments to the Pension Code. As required by the parties’ agreement, the Authority contributed \$529.0 million in seed money to the RHCT from proceeds of the Pension Bonds, and the parties to the 2007 CBA confirmed that the obligation of the Authority and the Retirement Plan to provide or fund retiree health care benefits was terminated. Thereafter, the RHCT required subsidy of healthcare premiums from retirees. In *Matthews et al. v. Chicago Transit Authority et al.*, 11 CH 15446 (2014), a group of retirees and Authority employees claimed that, due to changes in retiree healthcare arising under the 2007 CBA, the Authority, the Retirement Plan and the RHCT breached certain contractual and constitutional obligations to provide retiree healthcare benefits. In May 2015, the parties argued all issues in the case before the Illinois Supreme Court, which issued its opinion on May 5, 2016. The Court held that Class I retirees (hired before September 5, 2001 and retired before January 1, 2007) have standing to challenge the enforceability of the 2007 CBA as it relates to retiree healthcare benefits but that Class II Authority employees who were hired before September 5, 2001 and retired after January 1, 2007 (or remain as current employees of the Authority) lacked standing to challenge the enforceability of those provisions of the 2007 CBA. The Court dismissed any remaining claims against the Authority, while the claims against the Retirement Plan and RHCT were remanded to the Circuit Court for further proceedings. Any judgment against the RHCT would have no impact against the Authority. A judgment against the Retirement Plan could have an impact on the Authority if the judgment causes the Retirement Plan’s assets to fall below the statutorily required funded ratio because the Authority and its employees could be required under the Pension Code to increase their contributions to the Retirement Plan to address such a shortfall. See APPENDIX F—“PENSION PLANS AND POST-EMPLOYMENT HEALTHCARE—Background Information Regarding the Retirement Plan-Determination of Authority’s Contribution.”

## **BOND INSURANCE**

### **Bond Insurance Policy**

Concurrently with the issuance of the 2017 Second Lien Bonds, Assured Guaranty Municipal Corp. (“AGM”) will issue its Municipal Bond Insurance Policy (the “2017 Bond Insurance Policy”) for the 2017 Second Lien Bonds maturing on December 1, 2046, in the original principal amount of \$10,000,000 (CUSIP® 16772PBV7) and the 2017 Second Lien Bonds maturing on December 1, 2051, in the original principal amount of \$25,000,000 (CUSIP® 16772PBW5) (the “Insured 2017 Second Lien Bonds”). The 2017 Bond Insurance Policy guarantees the scheduled payment of principal of and interest on the Insured 2017 Second Lien Bonds when due as set forth in the form of the 2017 Bond Insurance Policy included as APPENDIX I to this Official Statement.

The 2017 Bond Insurance Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

### **Assured Guaranty Municipal Corp.**

AGM is a New York domiciled financial guaranty insurance company and an indirect subsidiary of Assured Guaranty Ltd. (“AGL”), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol “AGO”. AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance, infrastructure and structured finance markets. Neither AGL nor any of its shareholders or affiliates, other than AGM, is obligated to pay any debts of AGM or any claims under any insurance policy issued by AGM.

AGM’s financial strength is rated “AA” (stable outlook) by S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC (“S&P”), “AA+” (stable outlook) by Kroll Bond Rating Agency, Inc. (“KBRA”) and “A2” (stable outlook) by Moody’s Investors Service, Inc. (“Moody’s”). Each rating of AGM should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AGM in its sole discretion. In addition, the rating agencies may at any time change AGM’s long-term rating outlooks or place such ratings on a watch list for possible downgrade in the near term. Any downward revision or withdrawal of any of the above ratings, the assignment of a negative outlook to such ratings or the placement of such ratings on a negative watch list may have an adverse effect on the market price of any security guaranteed by AGM. AGM only guarantees scheduled principal and scheduled interest payments payable by the issuer of bonds insured by AGM on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the relevant insurance policy), and does not guarantee the market price or liquidity of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

### *Current Financial Strength Ratings*

On July 27, 2016, S&P issued a credit rating report in which it affirmed AGM’s financial strength rating of “AA” (stable outlook). AGM can give no assurance as to any further ratings action that S&P may take.

On August 8, 2016, Moody’s published a credit opinion affirming its existing insurance financial strength rating of “A2” (stable outlook) on AGM. AGM can give no assurance as to any further ratings action that Moody’s may take.

On December 14, 2016, KBRA issued a financial guaranty surveillance report in which it affirmed AGM's insurance financial strength rating of "AA+" (stable outlook). AGM can give no assurance as to any further ratings action that KBRA may take.

For more information regarding AGM's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2015.

#### *Capitalization of AGM*

At September 30, 2016, AGM's policyholders' surplus and contingency reserve were approximately \$3,891 million and its net unearned premium reserve was approximately \$1,378 million. Such amounts represent the combined surplus, contingency reserve and net unearned premium reserve of AGM, AGM's wholly owned subsidiary Assured Guaranty (Europe) Ltd. and 60.7% of AGM's indirect subsidiary Municipal Assurance Corp.; each amount of surplus, contingency reserve and net unearned premium reserve for each company was determined in accordance with statutory accounting principles.

#### *Incorporation of Certain Documents by Reference*

Portions of the following documents filed by AGL with the Securities and Exchange Commission (the "SEC") that relate to AGM are incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

- (i) the Annual Report on Form 10-K for the fiscal year ended December 31, 2015 (filed by AGL with the SEC on February 26, 2016);
- (ii) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2016 (filed by AGL with the SEC on May 5, 2016);
- (iii) the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2016 (filed by AGL with the SEC on August 4, 2016); and
- (iv) the Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2016 (filed by AGL with the SEC on November 4, 2016).

All consolidated financial statements of AGM and all other information relating to AGM included in, or as exhibits to, documents filed by AGL with the SEC pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, excluding Current Reports or portions thereof "furnished" under Item 2.02 or Item 7.01 of Form 8-K, after the filing of the last document referred to above and before the termination of the offering of the 2017 Second Lien Bonds shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC's website at <http://www.sec.gov>, at AGL's website at <http://www.assuredguaranty.com>, or will be provided upon request to Assured Guaranty Municipal Corp.: 1633 Broadway, New York, New York 10019, Attention: Communications Department (telephone (212) 974-0100). Except for the information referred to above, no information available on or through AGL's website shall be deemed to be part of or incorporated in this Official Statement.

Any information regarding AGM included herein under the caption "BOND INSURANCE—Assured Guaranty Municipal Corp." or included in a document incorporated by reference herein (collectively, the "AGM Information") shall be modified or superseded to the extent that any



subsequently included AGM Information (either directly or through incorporation by reference) modifies or supersedes such previously included AGM Information. Any AGM Information so modified or superseded shall not constitute a part of this Official Statement, except as so modified or superseded.

### *Miscellaneous Matters*

AGM makes no representation regarding the 2017 Second Lien Bonds or the advisability of investing in the 2017 Second Lien Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading “BOND INSURANCE”.

### **RIGHTS OF BOND INSURER**

Payment when due of the principal of and interest on the Insured 2017 Second Lien Bonds will be insured by the 2017 Bond Insurance Policy issued by AGM, as described above. So long as any Bond Insurance Policy (as defined in APPENDIX A) is in full force and effect and the Bond Insurer (as defined in APPENDIX A) for such Bond Insurance Policy has not failed to perform any of its obligations thereunder, the Bond Insurer shall be deemed the owner of the Insured Bonds (as defined in APPENDIX A) insured thereunder for purposes of consenting to any supplements or amendments to the Indenture as may be required under the Indenture pursuant to which such Insured Bonds were issued. *See* APPENDIX A—“DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—Consent of Owners” and “—Rights of Bond Insurers.” Upon the occurrence and continuance of an Event of Default (as defined in APPENDIX A), a Bond Insurer will be treated as the owner of the Insured Bonds upon which said Bond Insurer is obligated for the purposes of calculating whether or not the owners of the requisite percentage of the 2017 Second Lien Bonds have consented to certain actions for the enforcement of rights and remedies granted to the Owners of the 2017 Second Lien Bonds or to the Trustee for their benefit. *See* APPENDIX A—“DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—Rights of Credit Bank or Bond Insurer.”

### **CERTAIN INVESTMENT CONSIDERATIONS**

*The purchase of the 2017 Second Lien Bonds involves certain investment considerations that are discussed throughout this Official Statement. Certain of these investment considerations are set forth in this section for convenience and are not intended to be a comprehensive compilation of all possible investment considerations nor a substitute for an independent evaluation of the information presented in this Official Statement. Each prospective purchaser of 2017 Second Lien Bonds should read this Official Statement in its entirety and consult such prospective purchaser’s own investment and/or legal advisor for a more complete explanation of the matters that should be considered when purchasing investments such as the 2017 Second Lien Bonds. The investment considerations discussed herein, and others not discussed, could affect the ability of the Authority to pay principal of and interest on the 2017 Second Lien Bonds, and could also affect the marketability of, or the market price for, the 2017 Second Lien Bonds to an extent that cannot be determined.*

### **Limited Obligations**

The 2017 Second Lien Bonds are limited obligations of the Authority payable solely from Sales Tax Receipts. The 2017 Second Lien Bonds are not secured by a lien upon any physical properties of the Authority, nor has the Authority established a debt reserve fund or obtained any third-party credit enhancement, credit support, surety bond or insurance with respect to the 2017 Second Lien Bonds. The

Authority has no taxing authority which could be exercised for the purpose of paying debt service on the 2017 Second Lien Bonds. See “SECURITY FOR THE 2017 SECOND LIEN BONDS—Limited Obligations of the Authority.”

### **Subordinate Bonds**

The 2017 Second Lien Bonds are secured by a junior lien on Sales Tax Receipts. Therefore, the security for the payment of the principal of and interest on the 2017 Second Lien Bonds is dependent on the Authority’s receipt of Sales Tax Receipts in amounts sufficient to meet the debt service requirements of First Lien Obligations and the 2017 Second Lien Bonds. See “SECURITY FOR THE 2017 SECOND LIEN BONDS—Pledge of Security.”

### **Factors Affecting Sales Tax Receipts**

The following represent some of the factors that may affect the actual amount of Sales Tax Receipts realized by the Authority and available for payment of debt service on the 2017 Second Lien 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 2017 Second Lien Bonds.

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

**Changes in Economic and Demographic Conditions.** Sales Taxes and Public Transportation Funds are sensitive to changes in local, regional and national economic conditions and/or a decline in the population of the Northeastern Illinois Transit Region. For example, Sales Taxes and Public Transportation Funds have historically declined during economic recession, when higher unemployment adversely affects consumption. Demographic changes in the population of the Northeastern Illinois Transit Region may adversely affect the level of commercial and industrial activity in the Northeastern Illinois Transit Region and could reduce the number and value of taxable transactions and thus reduce the amount of Sales Taxes and Public Transportation Funds. It is not possible to predict whether or to what extent any such changes in economic conditions, demographic characteristics, population or commercial and industrial activity will occur, and what impact any such changes would have on Sales Taxes and Public Transportation Funds. Reductions in Sales Taxes and Public Transportation Funds, including reductions due to such causes, could have a negative effect on the sufficiency of the Sales Tax Receipts realized by the Authority.

**Different Sales Tax Rates in Competing Jurisdictions.** Increases in sales and use tax rates in the Northeastern Illinois Transit Region, or decreases in sales and use tax rates in other jurisdictions, may create incentives for certain purchases to be made and delivered in jurisdictions with lower overall sales tax rates. As a result, increasing sales and use tax rates in the Northeastern Illinois Transit Region as a means to increase Sales Tax Receipts may not have the intended effect.

On November 21, 2013, in *Hartney Fuel Oil Company et al. v. Brian A. Hamer, Director of the Illinois Department of Revenue*, the Supreme Court of the State of Illinois found that the corporate practice of artificially shifting the official point of purchase from the area where the taxpayer conducts the bulk of its selling activity to a municipality with lower sales tax is inconsistent with State law. The Supreme Court also declared that the regulations promulgated by the Department of Revenue interpreting

the taxing statute were impermissibly narrow and restricted municipalities from collecting appropriate sales taxes from retailers in their jurisdictions. The Department of Revenue has issued new rules pursuant to the Supreme Court's decision in *Hartney* that create a multifactor test to source sales for sales tax purposes. The new regulations appear to have effectively eliminated widespread shifting of local sourcing revenues. There can be no assurance that the new tax regulations translate into higher Sales Tax Receipts.

**Internet Sales.** In future years, it is expected that increasing numbers of sales transactions will take place over the Internet. It is possible that Sales Tax Receipts in the future could be adversely impacted due to the growth of commerce over the Internet unless State tax laws are expanded to capture Internet sales. Goods purchased from out-of-state retailers for delivery to a customer within the State could displace sales from retailers located within the State. Internet sales also often go unreported. If Internet sales are not treated, for sales and use tax purposes, comparably to, or if they displace, the types of transactions for which sales and use taxes currently are collected, Sales Tax Receipts may be adversely affected.

**Mandatory Funding of Authority's Retirement Plan Contributions From Sales Taxes and Public Transportation Funds.** The RTA is required to continually review the Authority's payment of required contributions to the Retirement Plan. 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 Board on behalf of the Authority out of moneys otherwise payable to the Authority, which includes moneys derived from Sales Taxes and Public Transportation Funds, 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 Sales Tax Receipts available to pay debt service on the 2017 Second Lien Bonds and may have an adverse impact on the financial condition and operations of the Authority.

**Impact of Mandated Local Assistance on Authority Revenues.** The RTA Act requires that no moneys be released by the RTA to the Authority in any fiscal year unless "...a unit or units of local government in Cook County (other than the Authority) enters or enter into an agreement with the Authority to make a monetary contribution for such year of at least \$5,000,000 for public transportation." In addition, the RTA Act requires that the City of Chicago and Cook County 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. The City of Chicago and Cook County have made the required monetary contributions to the Authority each year since the inception of such requirement. If the mandated local assistance requirements are not met, it is possible that the RTA could withhold Sales Taxes or Public Transportation Funds otherwise payable to the Authority.

**RTA's Right to Intercept Sales Taxes and Public Transportation Funds.** Pursuant to the RTA Act, the RTA has the right to intercept Sales Taxes and Public Transportation Funds allocable to the Service Boards in order to make debt service payments on certain RTA bond obligations, in the event that funds from the State (including, but not limited to Public Transportation Funds) are not available to make such payments. In addition, the RTA is required to pay past due Authority contributions to the Retirement Plan from Sales Taxes and Public Transportation Funds that are otherwise distributable to the Authority. Either occurrence may result in the RTA withholding, delaying or not making payments to the Authority of its share of Sales Taxes or Public Transportation Funds. To date, the RTA has not withheld, delayed or failed to make distributions to the Authority in order to pay RTA bond obligations or to fund Authority pension contributions.

***State Delay in Payments.*** In the ordinary course, the time between collection of Sales Taxes by the State and the ultimate distribution to the Authority is typically a period of two to three months. Receipt by the Authority of Public Transportation Funds, however, is often delayed beyond the normal collection cycle by several months. As of September 30, 2016, the amount of Public Transportation Funds in arrears was \$62.5 million, representing approximately five months of payments. No assurance can be provided as to what effect, if any, future State payment delays could have on the Authority's ability to make timely payments of principal or interest on the 2017 Second Lien Bonds when due.

***Discretionary Funding.*** The RTA provides financial assistance to the Service Boards with RTA Discretionary Funds. The percentage of RTA Discretionary Funds are not fixed by statute and requires action each year by the RTA Board. The RTA has historically allocated between 90% and 99% of RTA Discretionary Funds to the Authority. See "SOURCES OF PAYMENT OF THE 2017 SECOND LIEN BONDS—RTA Funding and Service Board Allocations." Any significant reduction in the allocation of RTA Discretionary Funds to the Authority may have a negative impact on Sales Tax Receipts.

### **Issuance of Additional Sales Tax Bonds**

Subject to certain financial tests and limitations contained in the Indenture, the Authority may issue additional bonds secured by a pledge of and lien on Sales Tax Receipts senior to or on a parity with the 2017 Second Lien Bonds. For example, the Authority has included in its Capital Improvement Plan for 2017-2021 the issuance of sales tax bonds in 2018 to fund a portion of the RPM Phase One Project. See "THE AUTHORITY—Capital Improvement Plan—2017-2021 Capital Plan—Sources of Funds." The debt service requirements for the payment of any such additional bonds may be substantial.

The financial tests that must be satisfied to permit the issuance of additional bonds are based on certain assumptions concerning future revenue and debt service requirements. Actual debt service requirements may exceed assumed requirements and result in lower debt service coverage on the 2017 Second Lien Bonds. See "SECURITY FOR THE 2017 SECOND LIEN BONDS—Additional Bonds."

### **Project Costs and Capital Requirements**

The Authority is currently undertaking major transit projects that require significant capital investment to augment transit services and maintain the Transportation System in SOGR. See "THE AUTHORITY—Capital Improvement Plan." There can be no assurances that these projects will be completed on budget or on schedule. Whether or not the projects can be completed on budget or on schedule depends on a large number of factors, many of which are beyond the control of the Authority, including a delay in receipt of federal and State grants or loans. The costs for these projects may require the issuance of additional bonds secured by Sales Tax Receipts, which could result in lower debt service coverage on the 2017 Second Lien Bonds.

### **Changes in Federal Subsidy Programs**

The Authority does not rely upon any federal money to pay for its bus and rail transit operations. However, the Authority does receive substantial federal assistance for planned capital improvements. The Authority anticipates that its planned capital improvements will require increasing amounts of federal subsidies for the foreseeable future. Any reduction in federal subsidies from anticipated levels would cause the Authority to place additional reliance on its Sales Tax Receipts for capital projects.

## **Real Estate Transfer Tax**

The Real Estate Transfer Tax transferred to the Authority from the City of Chicago is derived from the tax imposed by the City of Chicago on transfers of real estate. The amount of Real Estate Transfer Tax is sensitive to economic conditions and the frequency and value of real estate transfers within the City of Chicago. The Authority first applies the Real Estate Transfer Tax it receives to payment of debt service on the Pension Bonds before using Sales Tax Receipts. The greater the amount of Real Estate Transfer Tax received by the Authority, the smaller the amount of Sales Tax Receipts is needed to pay debt service on the Pension Bonds. Any significant decrease in the Real Estate Transfer Tax received by the Authority, caused by a general reduction of economic activity or softening of the real estate market in the City of Chicago or otherwise, could require the Authority to rely more heavily on Sales Tax Receipts for the payment of sales tax obligations and cause a reduction in the debt service coverage of the 2017 Second Lien Bonds.

## **Lockbox Amendment**

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

## **Bankruptcy**

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

## **No Secondary Market**

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

## **Limitations on Remedies of Bondholders**

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

## **No Acceleration Provision**

The Indenture does not contain a provision allowing for the acceleration of the 2017 Second Lien Bonds in the event of a default in the payment of principal of and interest on the 2017 Second Lien Bonds when due. In the event of a default under the Indenture, the Trustee will have the right to exercise the remedies provided in the Indenture. See APPENDIX A—“DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—THE INDENTURE—Events of Default” and “—Remedies.”

## **Loss of Tax Exemption**

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

## **Force Majeure Events**

There are certain unanticipated events beyond the Authority’s control that could have a material adverse impact on the generation or collection of Sales Tax Receipts if they were to occur. These events include fire, flood, earthquake, epidemic, adverse health conditions or other unavoidable casualties or acts of God, freight embargo, labor strikes or work stoppages, civil commotion, new acts of war or escalation of existing war conditions, sabotage, terrorism or enemy action, pollution, unknown subsurface or concealed conditions affecting the environment, and any similar causes. No assurance can be provided that such events will not occur, and, if any such events were to occur, no prediction can be provided as to the actual impact or severity of the impact on the generation or collection of Sales Tax Receipts.

## **Forward-Looking Statements**

This Official Statement, including the appendices hereto, contain certain statements relating to future results that are forward-looking statements. When used in this Official Statement, the words “expects,” “forecasts,” “projects,” “intends,” “anticipates,” “estimates,” “assumes” and similar expressions identify forward-looking statements. Any forward-looking statement is subject to uncertainty and risks that could cause actual results to differ, possibly materially, from those contemplated in such forward-looking statements. Inevitably, some assumptions used to develop forward-looking statements will not be realized or unanticipated events and circumstances may occur. Therefore, bondholders and potential investors should be aware that there are likely to be differences between forward-looking statements and actual results; those differences could be material. The Authority does not undertake any obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

## **LEGAL MATTERS**

Legal matters incident to the issuance of the 2017 Second Lien Bonds are subject to the approving opinion of Mayer Brown LLP, Chicago, Illinois, and Pugh, Jones & Johnson, P.C., Chicago, Illinois, Co-Bond Counsel. The proposed form of the opinions to be delivered by Co-Bond Counsel is attached hereto as APPENDIX H—“PROPOSED FORM OF OPINIONS OF CO-BOND COUNSEL.” Approval of certain other legal matters will be passed upon for the Authority by its General Counsel and

by Duane Morris, LLP, Chicago, Illinois, Disclosure Counsel, and for the Underwriters by Hardwick Law Firm, LLC, Chicago, Illinois, Underwriters' Counsel.

## **TAX MATTERS**

### **Interest Not Exempt From State of Illinois Income Taxes**

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

### **Certain United States Federal Income Tax Consequences**

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

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

### **Summary of Co-Bond Counsel Opinion**

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

In rendering the foregoing opinions, Co-Bond Counsel will rely on, and will assume the accuracy of, certain representations and certifications and compliance with certain covenants of the Authority and the Trustee contained in various documents included in the transcript of proceedings, which are intended

to evidence and assure that the 2017 Second Lien Bonds are and will remain obligations the interest on which is excluded from gross income for federal income tax purposes. Co-Bond Counsel will not independently verify the accuracy of such certifications and representations and will not monitor compliance with such covenants.

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

Under the Code, interest on the 2017 Second Lien Bonds earned by certain foreign corporations doing business in the United States could be subject to the branch profits tax imposed by Section 884 of the Code, and interest on the 2017 Second Lien Bonds could be subject to the tax imposed by Section 1375 of the Code on excess net passive income of certain S corporations. Under the Code, the receipt of interest excluded from gross income for federal income tax purposes can have certain collateral federal income tax consequences, adversely affecting items of income, deductions or credits for certain taxpayers, including financial institutions, property and casualty insurance companies, recipients of Social Security and Railroad Retirement benefits, individuals otherwise eligible for the earned income credit and taxpayers who are deemed to incur or continue indebtedness to acquire or carry tax-exempt obligations. Co-Bond Counsel expresses no opinion regarding any such collateral consequences arising with respect to the 2017 Second Lien Bonds. Prospective purchasers of the 2017 Second Lien Bonds should consult their own tax advisors on the application of such collateral consequences.

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

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



## **Original Issue Discount**

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

The original issue discount on each of the Discount Bonds is treated as accruing daily over the term of such Discount Bond on the basis of a constant yield computed at the end of each six month period (or shorter period from the date of original issue). The amount of original issue discount accruing during such period will be added to the owner’s tax basis for the Discount Bonds. Such adjusted tax basis will be used to determine taxable gain or loss upon disposition of the Discount Bonds (including sale, acceleration, redemption prior to maturity or payment at maturity). An owner of a Discount Bond who disposes of it prior to maturity should consult such owner’s tax advisor as to the amount of original issue discount accrued over the period held and the amount of taxable gain or loss upon the sale or other disposition of such Discount Bond prior to maturity.

Owners who purchase Discount Bonds in the initial public offering but at a price different from the Offering Price or who do not purchase Discount Bonds in the initial public offering should consult their tax advisors with respect to the tax consequences of the ownership of such Discount Bonds.

Owners of Discount Bonds should consult their own tax advisors with respect to the state and local tax consequences of owning the Discount Bonds. It is possible that under the applicable provisions governing the determination of state or local income taxes, accrued original issue discount on the Discount Bonds may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment until a later year.

## **Market Discount**

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

## **Bond Premium**

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

## **Sale and Retirement of the 2017 Second Lien Bonds**

Holders of the 2017 Second Lien Bonds will recognize gain or loss on the sale, redemption, retirement or other disposition of such 2017 Second Lien Bonds. The gain or loss is measured by the difference between the amount realized on the disposition of the 2017 Second Lien Bond and the holder's adjusted tax basis in the 2017 Second Lien 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 2017 Second Lien Bond has been held for more than one year.

## **Backup Withholding and Information Reporting**

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

## **LITIGATION**

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

## **RATINGS**

S&P and KBRA have assigned the 2017 Second Lien Bonds ratings of “A+” (stable outlook) and “AA-” (stable outlook), respectively, and S&P and KBRA have assigned the Insured 2017 Second Lien Bonds ratings of “AA” (stable outlook) and “AA+” (stable outlook), respectively, based solely on the 2017 Bond Insurance Policy to be issued by AGM concurrently with the delivery of the Insured 2017 Second Lien Bonds.

There is no assurance that the credit ratings given to the 2017 Second Lien Bonds will be maintained for any period of time or that the ratings may not be lowered or withdrawn entirely by the rating agencies, if, in their judgment, circumstances so warrant. The Authority does not undertake and has no responsibility to oppose any downward revision or withdrawal of any one or both of the ratings. Any downward revision or withdrawal of one or both of the ratings may have an adverse effect on the market price of the 2017 Second Lien Bonds. The ratings reflect only the views of such organizations and an explanation of the significance of the ratings may be obtained from the credit rating agencies.

## **FINANCIAL ADVISOR**

Columbia Capital Management, LLC, Chicago, Illinois, serves as Financial Advisor to the Authority with respect to the sale of the 2017 Second Lien Bonds. The Financial Advisor has not conducted a detailed investigation of the affairs of the Authority to determine the completeness or accuracy of this Official Statement. Because of its limited participation, the Financial Advisor has not independently verified any of the data contained herein and has no responsibility for the accuracy or completeness thereof.

## **CONTINUING DISCLOSURE UNDERTAKING**

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

In August of 2013, the Authority made certain filings with the Electronic Municipal Market Access system (“EMMA”) of the Municipal Securities Rulemaking Board to address previous incomplete filings and to fulfill previous continuing disclosure undertaking filing obligations for certain of the Authority’s outstanding debt obligations, including 2012 operating data for Sales Taxes and 2012 operating data for 5307 Program grants and 5309/5337 Program formula funds that were respectively filed sixteen and eleven days after the due date. In addition, the rating agencies took certain rating actions with respect to the ratings of Ambac Assurance Corporation, Assured Guaranty Corp., and Assured Guaranty Municipal Corp., which provided municipal bond insurance policies relating to certain series of the Authority’s capital grant receipts revenue bonds, Public Building Commission of Chicago bonds and the Pension Bonds. Event notices with respect to such rating changes were not filed with EMMA as required by the Rule. The Authority made such required filings on May 29, 2014, June 4, 2014 and June 10, 2014. Also, on June 19, 2014, Moody's Investor Service downgraded the rating of the Authority's capital grants receipts revenue bonds. The Authority filed the event notice on October 9, 2014. As of the date hereof, the Authority is in compliance with the continuing disclosure obligations related to its outstanding bonds. In order to ensure future compliance, the Authority has established certain

procedures, including its development of a checklist and a tickler system, to ensure timely and complete filings.

## **UNDERWRITING**

Loop Capital Markets, LLC, on behalf of itself and the other underwriters listed on the cover hereof (the “Underwriters”), is purchasing the 2017 Second Lien Bonds, subject to certain conditions set forth in a bond purchase agreement relating to the 2017 Second Lien Bonds (the “Bond Purchase Agreement”).

Pursuant to the Bond Purchase Agreement, the Underwriters have agreed to purchase the 2017 Second Lien Bonds at a purchase price of \$312,700,966 (representing the principal amount of the 2017 Second Lien Bonds, less the Underwriters’ discount of \$1,626,652, plus net original issue premium of \$18,107,618). The initial public offering prices of the 2017 Second Lien Bonds may be changed from time to time by the Underwriters after the 2017 Second Lien Bonds have been released for sale. The Bond Purchase Agreement provides that the Underwriters will purchase all of the 2017 Second Lien Bonds if any are purchased and that the obligation to make such purchase is subject to certain terms and conditions set forth in the Bond Purchase Agreement, including, among others, the approval of certain legal matters by Underwriters’ Counsel.

Loop Capital Markets, one of the Underwriters of certain Series of the 2017 Second Lien Bonds, has entered into a distribution agreement with UBS Financial Services Inc. (“UBSFS”) for the retail distribution of certain securities offerings at the original issue prices. Pursuant to the distribution agreement, UBSFS will purchase such 2017 Second Lien Bonds from Loop Capital Markets at the original issue prices less a negotiated portion of the selling concession applicable to any 2017 Second Lien Bonds that the firm sells.

PNC Bank, National Association, currently has, and from time to time in the future may have, banking or other credit relationships with the Authority. PNC Capital Markets LLC is acting as an Underwriter of the Bonds. PNC Capital Markets LLC and PNC Bank, National Association are both wholly owned subsidiaries of The PNC Financial Services Group, Inc.

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## MISCELLANEOUS

This Official Statement is not to be construed as a contract or agreement between the Authority and the purchasers, holders or beneficial owners of any of the 2017 Second Lien Bonds. All of the summaries of the 2017 Second Lien Bonds, the Indenture, applicable legislation, and other agreements and documents in this Official Statement are made subject to the provisions of the 2017 Second Lien 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.

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

### CHICAGO TRANSIT AUTHORITY

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

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**APPENDIX A**

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

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

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

“*Additional Second Lien Bonds*” means Second Lien Bonds authorized and delivered on original issuance as described below under the heading “THE INDENTURE—Additional Second Lien Bonds.”

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

“*Annual Coverage Requirement*” means, with respect to any Bond Year, the aggregate of the Annual Second Lien Debt Service Requirement for such Bond Year.

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

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

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

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

“*Available Sales Tax Receipts*” means the Sales Tax Receipts remaining after the satisfaction of all monthly amounts then due on the First Lien Obligations pursuant to the PBC Lease, the 2008 Indenture and the 2010 Indenture, respectively.

“*Bond Insurance Policy*” means any municipal bond insurance policy insuring and guaranteeing the payment of the principal of and interest on a Series of Second Lien 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 016-137 adopted by the Chicago Transit Board on November 16, 2016 and entitled: “Ordinance Authorizing The Execution And Delivery Of One or More Supplemental Indentures Under Which The Chicago Transit Authority May Issue One Or More Series Of Corporate Purpose Debt Obligations Payable From The Sales Tax Receipts Fund; Authorizing The Issuance of Sales Tax Receipts Revenue Bonds, Series 2017; Authorizing The Execution And Delivery Of A Master Trust Indenture And First Supplemental Indenture Under Which the Chicago Transit Authority May Issue Second Lien Obligations Payable From The Sales Tax Receipts Fund; And Authorizing the Issuance Of Second Lien Sales Tax Receipts Revenue Bonds, Series 2017.”

“*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 Second Lien 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 Second Lien 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” 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.

“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.

“Corporate Purpose Debt Obligation” means any bond, note, installment contract, financing contract, lease or other evidence of indebtedness (other than a Pension and Retirement Obligation or the PBC Lease) that is payable from or secured by a pledge of or lien on the Sales Tax Receipts Fund on a parity with the senior lien on or pledge of the Sales Tax Receipts Fund granted by the 2010 Indenture.

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

“Cost of Construction” means with respect to the 2017 Project, the cost of acquisition, construction and equipping thereof, including the cost of acquisition of all land, rights of way, property, rights, easements and interests, acquired by the Authority for such construction, the cost of all machinery and equipment, financing charges, financial advisory fees, interest prior to and during construction and for such period after completion of construction as the Authority shall determine, the cost of design, engineering and legal expenses, plans, specifications, surveys, estimates of cost and revenues, other expenses necessary or incident to determining the feasibility or practicability of constructing the 2017 Project, administrative expenses and such other costs, expenses and funding as may be necessary or incident to the construction, the financing of such construction and the placing of the 2017 Project in operation.

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

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

“Credit Facility” means, as to any particular Series of Second Lien 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 Second Lien Bond the interest on which is payable on the Interest Payment Dates provided therefor in the Supplemental Indenture authorizing such Current Interest Bond. The term “Current Interest Bond” also includes any Capital Appreciation and Income Bond from and after the Interest Commencement Date specified therefor.

“Date of Issuance” means the date of original issuance and delivery of the 2017 Second Lien Bonds.

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

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

“*DTC*” means The Depository Trust Company, as securities depository for the 2017 Second Lien Bonds.

“*DTC Participant*” means any securities broker or dealer, bank, trust company, clearing corporation or other organization depositing 2017 Second Lien Bonds with DTC.

“*Event of Default*” means any event so designated and specified as described below under the heading “THE INDENTURE—Events of Default.”

“*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 Lien Obligations*” means the Pension and Retirement Debt Obligations, the Corporate Purpose Debt Obligations and the PBC Senior Pledge Rights.

“*First Supplemental Indenture*” means the First Supplemental Indenture, dated as of January 1, 2017, 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 January 1, 2017, by and between the Authority and the Trustee, securing Chicago Transit Authority Second Lien Sales Tax Receipts Revenue Bonds, as from time to time amended and supplemented.

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

“*Insured 2017 Second Lien Bonds*” means the 2017 Second Lien Bonds maturing on December 1, 2046 in the original principal amount of \$10,000,000 and the 2017 Second Lien Bonds maturing on December 1, 2051 in the original principal amount of \$25,000,000 insured by the 2017 Second Lien Bond Insurer.

“*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 Capital Appreciation and Income 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 June 1, 2017 and each June 1 and December 1 thereafter.

“*Interest Period*” means the period from the date of any Second Lien Parity Obligation to and including the date 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.

“*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
  - 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 or Federal Home Loan Mortgage Corporation
  - obligations of the Resolution Funding Corporation
  - obligations of the Tennessee Valley Authority
  - 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 in the highest classification by any two Rating Services 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 by any two Rating Services and which matures not more than 270 calendar days after the date of purchase;
- (vi) investments in a money market fund rated the equivalent of “AAA” or better by any two Rating Services;
- (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 any two Rating Services; 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 the equivalent of “AAA” by any two Rating Services or general obligations of states with a rating of the equivalent of “A” or better by any two Rating Services;

(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 unsecured, unsecured and unguaranteed obligation rated (an “unsecured rating”) the equivalent of “A-” by any Rating Service 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 Service has been informed of the proposal to invest in such investment and each Rating Service has confirmed that such investment will not adversely affect the rating then assigned by such Rating Service to any Parity Obligations.

“*Junior Indebtedness*” means indebtedness permitted to be issued or incurred pursuant to the Indenture.

“*LIBOR*” means the London interbank offered rate as administered by the Ice Benchmark Administration (or any other Person that takes over the administration of such rate for United States Dollars for a period equal in length to one month as displayed on pages LIBOR01 or LIBOR02 of the Reuters screen that displays such rate (or, in the event such rate does not appear on a Reuters page or screen, on any successor or substitute page on such screen that displays such rate, or on the appropriate page of such other information service that publishes such rate from time to time as selected by the

Trustee in its reasonable discretion) at approximately 11:00 a.m., London time, two London Business Days prior to the date of calculation, as the rate for dollar deposits in the London interbank market with a comparable maturity.

“*Local Government Debt Reform Act*” means the Local Government Debt Reform Act, 30 Illinois Compiled Statutes 350, as the same may be amended and supplemented from time to time.

“*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 Second Lien Debt Service Requirement occurring in the then current and any succeeding Bond Year.

“*Optional Tender Bonds*” means any Second Lien 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 Optional Tender Bonds for payment or purchase.

“*Outstanding*,” when used with reference to Second Lien Parity Obligations, means, as of any date, all Second Lien 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 Second Lien 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) Second Lien Parity Obligations (or portions of Second Lien Parity Obligations) for the redemption or purchase in lieu thereof for 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 Second Lien Parity Obligations (or portions of Second Lien 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) Second Lien Bonds in lieu of or in substitution for which other Second Lien Bonds shall have been authenticated and delivered;

(iv) Second Lien Parity Obligations deemed to have been paid as described below under the heading “THE INDENTURE—Defeasance”; 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 Second Lien Bonds have been authenticated and delivered under such Supplemental Indenture.

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

“*Paying Agent*” means (a) with respect to Second Lien Bonds, any bank, national banking association or trust company designated by ordinance of the Chicago Transit Board or by an Authorized Officer as paying agent for the Second Lien 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 Second Lien 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 Senior Pledge Rights*” means the provisions of Section 31 of the PBC Lease pursuant to which the Authority agreed that it will not pledge the sales taxes revenues it receives from RTA pursuant to Section 4.01 (now Section 4.03.3) of the RTA Act to secure its debt on a priority basis with respect to its rent and other payment obligations under the PBC Lease if the maximum annual debt service on all debt so secured exceeds 75% of the sales tax revenue received from the RTA pursuant to said Section 4.01 (now Section 4.03.3) during the preceding Fiscal Year, without equally and ratably securing its obligations under the PBC Lease.

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

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

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

“*Principal*” or “*principal*” means (i) with respect to any Capital Appreciation Bond, the Accreted Amount thereof (the difference between the stated amount to be paid at maturity and the Accreted Amount being deemed unearned interest) except as used in the Indenture in connection with the authorization and issuance of Second Lien Bonds and with the order of priority of payments of Second Lien 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 Second Lien 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 Second Lien 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 Second Lien 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.

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

“*Qualified Reserve Credit Instrument*” means a letter of credit, surety bond or non-cancelable insurance policy issued by a domestic or foreign bank, insurance company or other financial institution whose debt obligations are rated the equivalent of “A” or better by any one Rating Service 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 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 at least investment grade (as defined by the applicable Rating Service), without regard to sub-category designations; *provided, however* that if three or more Rating Services have assigned ratings to any Outstanding Bonds then such investment grade 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 statistical rating organization by the U.S. Securities and Exchange Commission.

“*Record Date*” means the fifteenth (15<sup>th</sup>) 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 Second Lien 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 Second Lien Bond in a Supplemental Indenture.

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

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

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

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

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

“*Second Lien Bond*” or “*Second Lien Bonds*” means any bond or bonds, including any 2017 Second Lien Bond, any Additional Second Lien Bond, and any Second Lien Refunding Bond, authenticated and delivered under and pursuant to the Indenture.

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

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

“*Second Lien Consolidated Reserve Requirement*” means, as of the date of calculation, the lesser of (i) the maximum amount of Second Lien Principal Requirement and Second Lien Interest Requirement on the Second Lien Consolidated Reserve Fund Bonds in the current or any succeeding Bond Year, (ii) 150 percent of the average Second Lien Principal Requirement and Second Lien Interest Requirement on the Second Lien Consolidated Reserve Fund Bonds, or (iii) 10 percent of the original principal amount of the Second Lien Consolidated Reserve Fund Bonds.

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

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

“*Second Lien Interest Requirement*” for any Bond Year or any Interest Period, as the context may require, as applied to Second Lien 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 Second Lien Bonds or Section 207 Obligations during such Bond Year or Interest Period if the interest on the Second Lien Bonds or Section 207 Obligations were deemed to accrue daily during such Bond Year or Interest Period in equal amounts, and employing the methods of calculation set forth (i) in the Indenture as described under the heading “*Variable Interest Rates*” in the case of a Qualified Swap Agreement and (ii) in the Indenture as described under the heading “*Optional Tender Bonds and Variable Rate Bonds*” in the cases of Optional Tender Bonds and Variable Rate Bonds; *provided, however*, that interest expense shall be excluded from the determination of Second Lien Interest Requirement to the extent that such interest is to be paid from the proceeds of Second Lien Bonds allocable to the payment of such interest as provided in the Supplemental Indenture authorizing the issuance of a Series of Second Lien 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 Second Lien Bonds, except to the extent such interest exceeds the interest otherwise payable on such Second Lien Bonds, shall not be included in the determination of Second Lien Interest Requirement.

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

“*Second Lien Principal Requirement*” for any Bond Year, as applied to the Second Lien 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 on the preceding Principal Payment Date, if any, that occurs

- (i) one year or less before the Applicable Principal Payment Date, or
- (ii) one year prior to the 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 Second Lien 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 as described below under the heading “THE INDENTURE—Optional Tender Bonds and Variable Rate Bonds” in the cases of Optional Tender Bonds and Variable Rate Bonds, if such principal or Accreted Amounts 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 Second Lien 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 Second Lien 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.

“*Second Lien Refunding Bonds*” means Second Lien Bonds issued pursuant to the provisions of the Indenture as described below under the heading “THE INDENTURE—Refunding Bonds.”

“*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 Second Lien Bonds as described below under the heading “THE INDENTURE—Credit Facilities to Secure 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.

“*Section 206 Obligations*” means any payment obligations incurred by the Authority to any one or more Swap Providers as described below under the heading “THE INDENTURE—Hedging Transactions.”

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

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

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

“*State*” means the State of Illinois.

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

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

“*Subordinated Indebtedness*” means indebtedness permitted to be issued or incurred pursuant to the provisions of the 2010 Indenture.

“*Supplemental Indenture*” means any Supplemental Indenture authorized under the Indenture.

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

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

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

“*Trustee*” means Zions Bank, a division of ZB, National Association, Chicago, Illinois, and any successor or successors appointed under the Indenture.

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

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

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

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

“*2010 Trustee*” means U.S. Bank National Association, Chicago, Illinois, and any successor or successors appointed under the 2010 Indenture.

“*2017 Project*” means, collectively, the capital improvements to the Transportation System set forth in the First Supplemental Indenture, and such additional capital improvements as may hereinafter be designated as part of the 2017 Project pursuant to an ordinance of the Authority filed with the Trustee.

“*2017 Second Lien Bond Insurer*” means Assured Guaranty Municipal Corp., a New York-domiciled insurance company.

“*2017 Second Lien Bonds*” means the \$296,220,000 principal amount of the Second Lien Sales Tax Receipts Revenue Bonds, Series 2017, of the Authority authorized by the Bond Ordinance and the First Supplemental Indenture.

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

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

## **THE INDENTURE**

*The following is a summary of certain provisions of the Indenture pursuant to which the 2017 Second Lien Bonds will be issued not summarized elsewhere in this Official Statement. This summary does not purport to be complete or definitive, and is qualified in its entirety by reference to the Indenture, copies of which are on file with the Trustee.*

### **Authorization of Second Lien Bonds**

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

### **Variable Interest Rates**

In determining the Second Lien Interest Requirement for the purpose of determining Annual Second Lien Debt Service Requirements and the Maximum Annual Second Lien Debt Service Requirement and for the purpose of determining the amount of any deposit of Sales Tax Receipts, as described below under the heading “—Deposit and Application of Sales Tax Receipts,” interest on variable rate indebtedness, including Variable Rate Bonds and variable rate interest payments for Section

207 Obligations or under Qualified Swap Agreements, shall be calculated at the lower of (1) the maximum rate of interest permitted for such variable rate indebtedness under the terms of the Variable Rate Bonds, Section 207 Obligations or the Qualified Swap Agreement and (2) the highest rate of (a) the actual rate on the date of calculation or if the indebtedness is not yet outstanding, the initial rate (if established and binding), (b) if the indebtedness has been outstanding for at least 12 months, the average rate over the 12 months immediately preceding the date of calculation, (c) if interest on the indebtedness is excludable from gross income under the applicable provisions of the Code, the average rate over the 12 months immediately preceding the date of calculation of the Securities Industry and Financial Markets Association Municipal Swap Index, (d) if interest is not so excludable, an interest rate equal to LIBOR plus 150 basis points, and (e) the interest rate set forth in a Certificate filed with the Trustee. For the purposes of this paragraph, in the event that either the Securities Industry and Financial Markets Association Municipal Swap Index or LIBOR becomes unavailable or otherwise (in the Authority's reasonable determination) ceases to be a market-accepted index, the Authority, upon prior notice to the Trustee, may select an alternate index that the Authority reasonably determines has become acceptable to the municipal debt markets with respect to such matters.

### **Optional Tender Bonds and Variable Rate Bonds**

If any of the Outstanding Second Lien Bonds constitute Optional Tender Bonds, then in determining the Second Lien Interest Requirement and the Second Lien Principal Requirement of a Series of Second Lien 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 Second Lien Bonds constitute Variable Rate Bonds, the interest rate used in determining the Second Lien Interest Requirement for such Variable Rate Bonds shall be the interest rate determined as described above under the heading “—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 as described above under the heading “—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 Second Lien Bonds under the Indenture. In determining the Second Lien Interest Requirement or the Second Lien Principal Requirement of any Section 207 Obligation, such Section 207 Obligation shall be deemed to be Outstanding only to the extent that, on the date of computation, there are unpaid drawings or advances under the terms of the Credit Facility that created the Section 207 Obligation.

### **Additional Second Lien Bonds**

One or more Series of Second Lien Bonds entitled to the benefit, protection and security of the Indenture and constituting a Series of Additional Second Lien Bonds may be authorized and delivered upon original issuance for the purpose of financing any lawful project or purpose of the Authority, refund any First Lien Obligation, to pay costs and expenses incident to the issuance of such Additional Second Lien Bonds and to make deposits into any Fund, Sub-Fund, Account or Sub-Account under the Indenture or any Supplemental Indenture. Any such Series shall be authenticated and delivered by the Trustee only upon receipt by it (in addition to the documents required by the Indenture with respect to Additional Second Lien Bonds) of a Certificate of an Authorized Officer stating that the aggregate amount of all Available Sales Tax Receipts received by the Authority for any period of 12 consecutive calendar months out of the 18 calendar months next preceding the date of issuance of such Series were at least equal to 150 percent of the Maximum Annual Coverage Requirement as of the time immediately following the issuance of such Series. In applying the foregoing test, if any of the Second Lien Bonds Outstanding immediately prior to or after the issuance of the Additional Second Lien Bonds to be issued constitute Optional Tender Bonds or Variable Rate Bonds, the provisions set forth as described above under the captions “—Variable Interest Rates” and “—Optional Tender Bonds and Variable Rate Bonds” shall be

applied in determining the Annual Second Lien Debt Service Requirements of such Second Lien Bonds and of any Outstanding Section 207 Obligations.

### **Additional First Lien Obligations**

The Authority may also issue additional First Lien Obligations pursuant to the 2008 Indenture or the 2010 Indenture for the purpose of financing any lawful project or purpose of the Authority. Such additional First Lien Obligations may be issued only upon delivery to the 2010 Trustee, among other things, of a certificate of the Authority stating the aggregate amount of all Sales Tax Receipts received by the Authority for any period of 12 consecutive calendar months out of the 18 calendar months next preceding the date of issuance of such Series was at least equal to 200 percent of the Maximum Annual Coverage Requirement as of the time immediately following the issuance of such Series. *See* “SECURITY FOR THE 2017 SECOND LIEN BONDS—Additional Bonds” herein.

### **Refunding Bonds**

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

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

(1) Such instructions to the Trustee as necessary to comply with all requirements as described below under the heading “—Defeasance” so that the Second Lien Bonds and Section 207 Obligations to be refunded or advance refunded will be paid or deemed to be paid as described below under the heading “—Defeasance.”

(2) Either (i) moneys in an amount sufficient to effect payment of the principal and Redemption Price, if applicable, and interest due and to become due on the Second Lien 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 Second Lien 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 as described below under the heading “—Defeasance.”

(3) a Certificate (a) stating that the aggregate amount of all Available Sales Tax Receipts received by the Authority for any period of 12 consecutive calendar months out of the 18 calendar months next preceding the date of issuance of such Series were at least equal to 150 percent of the Maximum Annual Coverage Requirement as of the time immediately following the issuance of such Series, or (b) evidencing that the aggregate of the Annual Second Lien Debt Service Requirements for the then current and each future such Bond Year on account of all Second Lien Bonds and Section 207 Obligations Outstanding as of the time immediately after the issuance of such Second Lien Refunding Bonds does not exceed the aggregate of the Annual Second Lien Debt Service Requirements for the corresponding Bond

Year on account of all the Second Lien Bonds and Section 207 Obligations Outstanding as of the time immediately prior to the issuance of such Second Lien Refunding Bonds.

In applying the foregoing tests set forth in clause (3) of the preceding paragraph, if any of the Second Lien Bonds Outstanding immediately prior to or after the issuance of the Second Lien Refunding Bonds to be issued constitute Optional Tender Bonds or Variable Rate Bonds, the provisions set forth as described above under the headings “—Variable Interest Rate” and “—Optional Tender Bonds and Variable Rate Bonds” in the Indenture shall be applied in determining the Annual Second Lien Debt Service Requirements of such Bonds and of any Outstanding Section 207 Obligations.

### **Hedging Transactions**

If the Authority shall enter into a Qualified Swap Agreement with a Swap Provider requiring the Authority to pay a fixed interest rate on a notional amount, or requiring the Authority to pay a variable interest rate on a notional amount, and the Authority has made a determination that such Qualified Swap Agreement was entered into for the purpose of providing substitute interest payments for Second Lien 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 Second Lien Interest Requirements, the interest rate on the Second Lien Bonds of such maturity or maturities shall be determined as if such Second Lien 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 Available Sales Tax Receipts shall be made from amounts on deposit to the credit of the appropriate Sub-Fund or Account in the Debt Service Fund designated by Supplemental Indenture to the extent that the amount then held in such Sub-Fund or Account is 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 Second Lien Debt Service Fund designated by Supplemental Indenture.

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

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

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

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



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

### **Credit Facilities to Secure Second Lien 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 Second Lien Bonds, or in the event Owners of such Second Lien Bonds have the right to require purchase thereof, to secure the payment of the purchase price of such Second Lien 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 Second Lien Parity Obligation under the Indenture (a "Section 207 Obligation") to the same extent as any Series of Second Lien 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 Second Lien Parity Obligations.

### **Source of Payment; Pledge of Receipts**

The Indenture provides that the Second Lien Parity Obligations are limited obligations of the Authority payable solely from (i) the Available Sales Tax Receipts on deposit in the Sales Tax Receipts Fund, subject and subordinate however to the PBC Senior Pledge Rights and the senior pledge of or lien on the Sales Tax Receipts Fund as security for the payment of Pension and Retirement Debt Payments and the Corporate Purpose Debt Payments, (ii) all moneys, securities and earnings thereon in all Funds, Sub-Funds, Accounts and Sub-Accounts established under the Indenture or any Supplemental Indenture, subject however to the right of the Authority to make periodic withdrawals in accordance with the 2008 Indenture and the 2010 Indenture, and (iii) any and all other moneys and securities furnished from time to time to the Trustee by the Authority or on behalf of the Authority or by any other persons to be held by the Trustee under the terms of the Indenture; provided, that the application of moneys to the payments due to a Swap Provider under a Qualified Swap Agreement is expressly limited to the extent provided in the Indenture. 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 Second Lien 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 Second Lien Parity Obligations under the

Indenture, without any physical delivery or further act, and the lien and pledge shall be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the Authority, irrespective of whether such parties have notice of it.

### **Deposit and Application of Sales Tax Receipts**

Pursuant to the 2008 Indenture the Authority has established the Sales Tax Receipts Fund as a special fund of the Authority held by the Authority as part of the Trust Estate subject to the PBC Senior Pledge Rights and the senior pledge of or lien on the Sales Tax Receipts Fund as security for the payment of Pension and Retirement Debt Payments and Corporate Purpose Debt Payments. In the Indenture, the Authority covenants to cause the Sales Tax Receipts Fund to be continued in the event that the 2008 Indenture is terminated. The Authority also establishes the Second Lien Debt Service Fund to be held and administered by the Trustee. Subject to use and application in accordance with the 2008 Indenture, the 2010 Indenture and the Indenture in the case of the Sales Tax Receipts Fund and the Indenture in the case of the Second Lien Debt Service Fund and the Second Lien Consolidated Debt Service Reserve Fund, all of the Available Sales Tax Receipts held in the Sales Tax Receipts Fund and the moneys and securities held in the Second Lien Debt Service Fund are pledged as security for the payment of the principal of, redemption premium, if any, and interest on the Second Lien 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. The Sales Tax Receipts shall first be applied in accordance with the terms of the 2008 Indenture and the 2010 Indenture, as applicable, with respect to the First Lien Obligations.

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

Each withdrawal from the Sales Tax Receipts Fund is subject to the contractual obligations of the Authority to make monthly withdrawals from the Sales Tax Receipts Fund for the payment of Pension and Retirement Debt Payments and the Corporate Purpose Debt Payments on a senior basis with the payments to the Second Lien 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 Senior Pledge Rights are in effect, the Authority may make monthly allocations from the Sales Tax Receipts Fund, on a senior basis with the payments to the Second Lien Debt Service Fund, and sufficient to provide for the payment, in equal monthly installments, of the next payment of PBC Annual Rent. Each month, after making all the payments required by this paragraph, and, if no Event of Default then exists, the Authority may withdraw all remaining moneys in the Sales Tax Receipts Fund free from the lien of the Indenture.

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

on deposit in the Second Lien 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 Second Lien 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 Second Lien Debt Service Fund in excess of the amounts required to be disbursed as required in the preceding paragraph, then the Authority, pursuant to the written direction of the Authority expressed in a Certificate filed with the Trustee, may direct the withdrawal of such excess amount free from the lien of the Indenture.

The Indenture creates and establishes with the Trustee a separate and segregated Sub-Fund within the Second Lien Debt Service Fund (the "Series 2017 Dedicated Sub-Fund"). Moneys on deposit in the Series 2017 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 2017 Second Lien Bonds and shall not be used or available for the payment of any other Second Lien Parity Obligations, except as expressly provided in the Indenture.

### **Second Lien Consolidated Debt Service Reserve Fund**

A Second Lien Consolidated Debt Service Reserve Fund is established under the Indenture for the benefit and security of Second Lien Consolidated Reserve Fund Bonds to be maintained in an amount equal to the Second Lien Consolidated Reserve Requirement, which requirement may be satisfied in whole or in part with one or more Qualified Reserve Credit Instruments. **The 2017 Second Lien Bonds are not designated as Second Lien Consolidated Reserve Fund Bonds.**

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

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

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

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

Each Supplemental Indenture authorizing the issuance of a Series of Second Lien Consolidated Reserve Fund Bonds shall provide for the transfer of moneys held in the Sub-Fund of the Debt Service Fund established in such Supplemental Indenture to fund any reimbursement amount due under any Qualified Reserve Credit Instrument and to cure any deficiency in the Consolidated Debt Service Reserve Fund. Any priority established by a Supplemental Indenture with respect to application of moneys in a Sub-Fund established with respect to a Series of Second Lien Consolidated Reserve Fund Bonds, after making provision for any money deposited for the payment of the principal of and interest on such Series, shall next provide (i) first, for monthly payments to the provider of any Qualified Reserve Credit Instrument of amounts sufficient to fully restore the coverage of such Qualified Reserve Credit Instrument within one year of the date of initial draw thereunder and (ii) second, for monthly transfers to the Second Lien Consolidated Debt Service Reserve Fund sufficient to fully restore the amount held on the Second Lien Consolidated Debt Service Reserve Fund to the Second Lien Consolidated Reserve Requirement within one year of the initial deficiency in the Second Lien Consolidated Debt Service Reserve Fund. If, at the time that any payment or transfer required to be made by these paragraphs is to be made, there are then Outstanding two or more Series of Second Lien Consolidated Reserve Fund Bonds, then each Series and its associated Sub-Fund shall be charged for its Allocable Share of the amounts due under this paragraph.

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

At the direction of the Authority expressed in a Certificate filed with the Trustee, moneys in the Second Lien Consolidated Debt Service Reserve Fund may be withdrawn from the Second Lien Consolidated Debt Service Reserve Fund and deposited with the Trustee for the payment of the Principal or Redemption Price of or the interest on Bonds as described below under the heading “—Defeasance,” provided that immediately after such withdrawal the amount held in the Second Lien Consolidated Debt Service Reserve Fund equals or exceeds the Second Lien Consolidated Reserve Requirement.

### **Second Lien Debt Service Reserve Accounts**

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

## **Deposits into the Series 2017 Dedicated Sub-Fund and Accounts**

On the 25<sup>th</sup> day of each month, or if such day is not a Business Day, the immediately preceding Business Day, commencing February 24, 2017 (each such date referred to as the “Deposit Date”) there shall be deposited into the Series 2017 Dedicated Sub-Fund from amounts on deposit in the Second Lien Debt Service Fund, an amount necessary to raise the amount on deposit into the 2017 Dedicated Sub-Fund, when combined with amounts already on deposit therein, to equal the aggregate of the amounts set forth in the paragraph below, which amounts shall have been calculated by the Trustee on the 5<sup>th</sup> day of each month (such aggregate amount with respect to any Deposit Date being referred to as the “Series 2017 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 2017 Dedicated Sub-Fund are insufficient to make any required deposit, the deposit shall be made up on the next Deposit Date after required deposits into other Accounts having a higher priority shall have been made in full:

First: for deposit into the 2017 Interest Account, an amount equal to the lesser of (i) (a) prior to the June 23, 2017 Deposit Date, an amount equal to the total amount due on the 2017 Second Lien Bonds on the first Interest Payment Date (other than interest payable on such Interest Payment Date from the 2017 Capitalized Interest Account and available in the 2017 Capitalized Interest Account) divided by the number of months between the date of the First Supplemental Indenture and the first Interest Payment Date; and (b) commencing on the June 23, 2017 Deposit Date, one-sixth of the interest due on the 2017 Second Lien Bonds on the next Interest Payment Date; or (ii) the amount required so that the sum held in the 2017 Interest Account, when added to the interest payable from the 2017 Capitalized Interest Account on the next Interest Payment Date and available in the 2017 Capitalized Interest Account, will equal the interest due on the 2017 Second Lien Bonds on such Interest Payment Date; and

Second: commencing on December 24, 2040 for deposit into the 2017 Principal Account, an amount equal to the lesser of (i) one-twelfth of the Principal due on the 2017 Second Lien Bonds on the first day of December next ensuing, or (ii) the amount required so that the sum then held in the 2017 Principal Account will equal the Principal due on the 2017 Second Lien Bonds on the first day of December next ensuing.

In addition to the Series 2017 Deposit Requirement, there shall be deposited into the Series 2017 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 2017 Dedicated Sub-Fund and to one or more accounts in the Series 2017 Dedicated Sub-Fund.

Upon calculation by the Trustee of each Series 2017 Deposit Requirement under the Indenture, the Trustee shall notify the Authority of the Series 2017 Deposit Requirement and the Deposit Date to which it relates together with such supporting documentation and calculations as the Authority may reasonably request.

## **Covenant Against Pledge of Sales Tax Receipts**

In accordance with the 2008 Indenture, the 2010 Indenture and the Indenture, the Authority shall not issue any bonds or other evidences of indebtedness or incur any indebtedness, other than the Second Lien Parity Obligations, Qualified Swap Agreements, the PBC Lease, the Pension and Retirement Debt Obligations, the Corporate Purpose Debt Obligations and Junior Indebtedness, which are secured by a pledge of or lien on the Sales Tax Receipts or the moneys, securities or funds held or set aside by the

Authority or by the Trustee under the Indenture, and shall not, except as expressly authorized in the Indenture, create or cause to be created any lien or charge on the Available Sales 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 free from the lien of the Indenture as provided in the Indenture or from the Second Lien Debt Service Fund as provided in the Indenture or from the Second Lien Consolidated Debt Service Reserve Fund as provided in the Indenture or (b) payable from, or secured by the pledge of, the Available Sales Tax Receipts to be derived on and after such date as the pledge of the Trust Estate provided in the Indenture shall be discharged and satisfied as described below under the heading “—Defeasance.”

### **Project Account**

The Trustee shall apply moneys in the 2017 Project Account for the payment of costs of issuance of the 2017 Second Lien Bonds, as directed in a Certificate filed with the Trustee.

The Trustee shall make payment of the Costs of Construction of the 2017 Project from the 2017 Project Account as provided in the paragraphs below.

At the direction of the Authority expressed in a Certificate of an Authorized Officer filed with the Trustee, moneys in the 2017 Project Account shall be applied to pay such amounts as are required to be paid to the United States of America pursuant to Section 148(f) of the Code. The Trustee shall withdraw from the 2017 Project Account and pay to the Authority the amounts stated in a Certificate of an Authorized Officer filed with the Trustee and directing such withdrawal.

The Trustee shall, during construction of the 2017 Project, pay from the 2017 Project Account to the Authority, upon its requisitions therefor, at one time or from time to time, a sum or sums aggregating not more than \$5,000,000, exclusive of and in addition to reimbursements as hereinafter authorized, such sums and such reimbursements to be used by the Authority as a revolving fund for the payment of Costs of Construction that cannot conveniently be paid as otherwise provided hereafter. Such revolving fund shall be reimbursed by the Trustee from time to time for such expenses so paid, by payments from the appropriate Project Account upon requisitions of the Authority accompanied by its certificate specifying the payee and the amount and particular purpose of each payment from such revolving fund for which such reimbursement is requested and certifying that each such amount so paid was necessary for the payment of an expense described in the subsection and that such expense could not conveniently be paid except from such revolving fund. In making such reimbursements the Trustee may rely upon such requisitions and accompanying certificates.

The Trustee shall, during and upon completion of construction of the 2017 Project, make payments from the 2017 Project Account in addition to those made as described in the above paragraph, in the amounts, at the times, in the manner, and on the other terms and conditions described under this heading. Before any such payment shall be made, the Authority shall file with the Trustee:

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

(2) its certificate attached to the requisitions certifying: (a) that obligations in the stated amounts have been incurred by the Authority in or about the construction of the 2017 Project, and that each item thereof is a proper charge against the 2017 Project Account and is a proper Cost of Construction and has not been paid, (b) that there has not been filed with or served upon the Authority

notice of any lien, right to lien, or attachment upon, or claim affecting the right to receive payment of, any of the moneys payable under such requisition, or if any such lien, attachment or claim has been filed or served upon the Authority, that such lien, attachment or claim has been released or discharged, and (c) that such requisition contains no item representing payment on account of any retained percentages which the Authority is at the date of such certificate entitled to retain.

Upon receipt of each such requisition and accompanying certificates the Trustee shall transfer from the 2017 Project Account to the credit of a special account in the name of the Authority, an amount equal to the total of the amounts to be paid as set forth in such requisition, the amounts in such special account to be held solely for the payment of the obligations set forth in such requisition. In making such transfer, the Trustee may rely upon such requisition and accompanying certificates. Each such obligation shall be paid by check or wire transfer signed by an Authorized Officer drawn on such special account to the order of the Person named in and in accordance with the requisition. Moneys deposited to the credit of such special account shall be deemed to be a part of the 2017 Project Account until paid out as above provided. If for any reason the Authority should decide prior to the payment of any item in a requisition to stop payment of such item, an Authorized Officer shall give notice of such decision to the Trustee and thereupon the Trustee shall transfer the amount of such item from such special account to the 2017 Project Account.

The Trustee shall withdraw from the 2017 Project Account and pay to the Authority free from the lien of the Indenture any balance in the 2017 Project Account, or any part thereof, in the amounts, at the times, in the manner, and on the other terms and conditions set forth in this paragraph. Before any such withdrawal and payment shall be made, the Authority shall file with the Trustee its certificate certifying: (1) that the 2017 Project has been completed or substantially completed, and (2) that a sum stated in the certificate is sufficient to pay, and is required to be reserved in such Project Account to pay, all Costs of Construction then remaining unpaid, including the estimated amount of any such items the amount of which is not finally determined and all claims against the Authority arising out of the construction thereof. Upon receipt of such requisition and accompanying certificates, the Trustee shall withdraw from the 2017 Project Account and pay to, or upon the order of, the Authority the amount stated in such requisition, provided that no such withdrawal shall be made if it would reduce the amount in the 2017 Project Account below the amount stated in the respective certificate of the Authority as required to be reserved in the 2017 Project Account. Moneys so withdrawn from the Project Accounts may be reappropriated by the Chicago Transit Board if such appropriation is permitted by State law and will not adversely affect the exclusion from gross income under the Code of interest on the 2017 Second Lien Bonds.

## **Depositaries**

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

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

and to the extent directed by an Authorized Officer, on time deposit, provided that such moneys on deposit be available for use when needed. Such Fiduciary shall allow and credit on such moneys such interest, if any, as it customarily allows upon similar funds of similar size.

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

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

### **Investment of Certain Moneys**

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

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

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

### **Extension of Payment of Second Lien Bonds**

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



Indenture shall be deemed to limit the right of the Authority to issue Second Lien Refunding Bonds and such issuance shall not be deemed to constitute an extension of maturity of Second Lien Bonds.

### **Indebtedness and Liens**

The Authority shall not issue any bonds or other evidences of indebtedness or incur any indebtedness, other than the Second Lien Parity Obligations, Qualified Swap Agreements, the PBC Lease, the Pension and Retirement Debt Obligations, the Corporate Purpose Debt Obligations and Junior Indebtedness, which are secured by a pledge of or lien on the Sales Tax Receipts or the moneys, securities or funds held or set aside by the Authority or by the Trustee under the Indenture, and shall not, except as expressly authorized in the Indenture, create or cause to be created any lien or charge on the Available Sales 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 free from the lien of the Indenture as described in under “—Deposit and Application of Sales Tax Receipts” or from the Second Lien Debt Service Fund or from the Second Lien Consolidated Debt Service Reserve Fund or (b) payable from, or secured by the pledge of, the Available Sales Tax Receipts to be derived on and after such date as the pledge of the Trust Estate provided in the Indenture shall be discharged and satisfied.

### **Construction of the 2017 Project**

The Authority shall include the construction of the 2017 Project (and the payment of the 2017 Second Lien Bonds from Available Sales Tax Receipts on deposit in the Sales Tax Receipts Fund and other designated funds) in each five-year capital improvement plan that the Authority prepares and submits to the RTA in accordance with the Regional Transportation Authority Act.

### **Payment of Lawful Charges**

The Authority shall pay or cause to be discharged, or will make adequate provision to satisfy and discharge, all judgments and court orders, and all lawful claims and demands for labor, materials, supplies or other objects which, if unsatisfied or unpaid, might by law become a lien upon the Available Sales Tax Receipts; provided, however, that nothing in this paragraph shall require the Authority to pay or cause to be discharged, or make provision for, any such lien or charge, so long as the validity thereof shall be contested in good faith and by appropriate legal proceedings.

### **Accounts and Reports**

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

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

## **Tax Covenants**

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

## **Events of Default**

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

(a) if a default shall occur in the due and punctual payment of the principal or Redemption Price of any Second Lien 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 Second Lien Parity Obligation, when and as such interest shall become due and payable;

(c) if a default shall occur in the due and punctual payment of the Purchase Price on any Optional Tender Bonds;

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

(e) 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 Second Lien 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 Second Lien Bonds or (b) the Person entitled to payment under any other Outstanding Second Lien Parity Obligation; or

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

## **Application of Funds After Default**

The Authority covenants that if an Event of Default shall happen and shall not have been remedied, the Authority, upon demand of the Trustee, shall pay over or cause to be paid over (1) if any Pension and Retirement Debt Obligation is then outstanding, to the 2008 Trustee, (2) if no Pension and Retirement Debt Obligation is then outstanding and any Corporate Purpose Debt Obligation is then outstanding, to the 2010 Trustee and (3) if no Pension and Retirement Debt Obligation and no Corporate

Purpose Debt Obligation is then outstanding, to the Trustee (a) amounts on deposit in the Sales Tax Receipts Fund, and (b) all Sales Tax Receipts for deposit as promptly as practicable after receipt thereof.

During the continuance of an Event of Default, if no Pension and Retirement Debt Obligation and no Corporate Purpose Debt Obligation is then outstanding, the Trustee shall provide for the equitable distribution of the amounts on deposit in the Sales Tax Receipts Fund for the payment of the PBC Annual Rent, if then subject to the PBC Senior Pledge Rights, and for the payment of Second Lien Parity Obligations.

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

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

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

First: to the payment to the persons entitled thereto of all installments of interest then due on the Second Lien Parity Obligations in the order of the maturity of such installments, together with accrued and unpaid interest on the Second Lien 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 Second Lien 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 Second Lien 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 Second Lien 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 Second Lien 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 Second Lien 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 consequent thereon.

For purposes of the provisions of the Indenture summarized under this caption, interest on Second Lien 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 Second Lien 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 Second Lien 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 herein contained, or in aid of the execution of any power herein granted, 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 Second Lien 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 Second Lien 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 Second Lien 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 Second Lien 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, and the Owners of at least a majority in principal amount of the Second Lien 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 Second Lien 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 herein provided; 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 Second Lien Bonds, subject only to the provisions of the Indenture.

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

### **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 Second Lien 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 Second Lien Bonds then Outstanding have consented to any request, consent, directive, waiver or other action permitted to be taken by the Owners of the Second Lien Bonds pursuant to the Indenture; provided, however, that such Credit Bank or Bond Insurer shall cease to be so regarded as Owner of such Second Lien 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 Second Lien 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 Second Lien 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 hereof for any one or more of the following purposes:

(1) to authorize a Series of Second Lien 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 Second Lien 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 Second Lien Bonds is held in book-entry only form;
- (9) to provide for the establishment of any Debt Service Reserve Account;
- (10) to provide for the appointment of any successor Fiduciary;
- (11) to conform the provisions of the Indenture to the provisions of the Act, the RTA Act, the Code, or other applicable law; and
- (12) to make any other change which, in the judgment of the Trustee, is not to the prejudice of the Trustee, any Bond Insurer, any Swap Provider, any Credit Bank or the Owners.

### **Powers of Amendment**

Except for Supplemental Indentures described under the caption “—Supplemental Indentures” above, any modification or amendment of the Indenture and of the rights and obligations of the Authority and of the Owners of the Second Lien Bonds under the Indenture, in any particular, may be made by a Supplemental Indenture with the written consent given as described under this heading and below under the heading “—Consent of Owners” (i) of the Owners of at least a majority in principal amount of the Second Lien Bonds Outstanding at the time such consent is given, and (ii) in case less than all of the several Series of Second Lien Bonds then Outstanding are affected by the modification or amendment, of the Owners of at least a majority in principal amount of the Second Lien 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 Second Lien Bonds of any specified like Series and maturity remain Outstanding, the consent of the Owners of such Second Lien Bonds shall not be required and such Second Lien Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Second Lien 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 Second Lien 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 Second Lien Bond, or shall reduce the percentages or otherwise affect the classes of Second Lien 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 Second Lien Bonds of such Series. The Trustee may in its discretion determine whether or not the rights of the Owners of Second Lien 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 Second Lien 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 as described above under the heading “—Powers of Amendment” to take effect when and as provided under this caption. The rights of an owner of an Insured Bond to take any action described in this paragraph are abrogated and the Bond Insurer may exercise the rights of the Owner of any Insured Bond that is entitled to the benefits of a Bond Insurance Policy issued by the Bond Insurer for the purpose of any approval, request, demand, consent, waiver or other instrument of similar purpose described in the provisions of this paragraph. 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 described in this paragraph. 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 Second Lien 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 described in this paragraph. A certificate or certificates by the Trustee delivered to the Authority that consents have been given by the Owners of the Second Lien Bonds described in such certificate or certificates of the Trustee shall be conclusive. Any such consent shall be binding upon the Owner of the Second Lien Bonds giving such consent and upon any subsequent Owner of such Second Lien 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 Second Lien Bonds by filing with the Trustee, prior to the time when the Trustee’s written statement hereafter referred to in this paragraph to is filed, a written revocation, with proof that such Second Lien 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 this paragraph, 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 Second Lien 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 Second Lien Bonds and will be effective as described in this paragraph, 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 as described in this paragraph 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 Second Lien 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 Second Lien 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 Second Lien 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 Second Lien 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 Second Lien Bonds and to the Trustee shall thereupon be discharged and satisfied.

Second Lien 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 described under this heading if the Authority shall have delivered to or deposited with the Trustee (i) irrevocable instructions to pay or redeem all of said Second Lien 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 Second Lien 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 Second Lien Bonds on and prior to each specified redemption date or maturity date thereof, as the case may be, (iv) if any of said Second Lien Bonds are not to be redeemed within the next succeeding 60 days, irrevocable instructions to mail to all Owners of said Second Lien Bonds a notice that such deposit has been made with the Trustee and that said Second Lien Bonds are deemed to have been paid as described in this paragraph 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 Second Lien Bonds, (v) if any of said Second Lien 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 Second Lien 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 Second Lien Bonds are no longer Outstanding under the Indenture. The Trustee shall execute a certificate confirming the defeasance of said Second Lien Bonds and the satisfaction of the foregoing conditions. The Defeasance Obligations and moneys deposited with the Trustee as described in this paragraph shall be held in trust for the payment of the principal or Redemption Price, if applicable, and interest on said Second Lien 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 Second Lien 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 Second Lien 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 Second Lien 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 Second Lien Bonds as described in this paragraph. Second Lien 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 Second Lien Bonds to be redeemed shall be reduced by the Principal amount of Second Lien Bonds so purchased. Second Lien 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 as described in the above paragraph, plus accrued interest, and such purchases shall be made in such manner as the Trustee shall determine. No purchase shall be made by the Trustee pursuant to this paragraph if such purchase would result in the Trustee holding less than the moneys and Defeasance Obligations required to be held for the payment of all other Second Lien Bonds deemed to be paid pursuant to the Indenture.

The Authority may purchase with any available funds any Second Lien Bonds deemed to be paid pursuant to the Indenture as described in this paragraph. Second Lien 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 Second Lien Bonds on the redemption date. The Trustee shall proceed to call for redemption the remainder of the Second Lien Bonds due on the redemption date and shall pay to the Authority on the redemption date the Redemption Price of and interest on such Second Lien Bonds upon surrender of such Second Lien Bonds to the Trustee. Second Lien 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 Second Lien Bonds upon surrender of such Second Lien 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 Second Lien 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 Second Lien Parity Obligations which remain unclaimed for two years after the date when Second Lien 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 Second Lien 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 Second Lien 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 Second Lien Parity Obligation.

### **Rights of Bond Insurers**

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

**APPENDIX B**

**SALES TAX RECEIPTS**

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**SALES TAX RECEIPTS**

*Sales Tax Receipts consist of RTA Sales Tax, State Sales Tax and Public Transportation Funds that are transferred by the RTA to the Authority and deposited by the Authority into Sales Tax Receipts Fund. Set forth below is a detailed description of the components of Sales Tax Receipts. For additional information on Sales Tax Receipts, see “SOURCES OF PAYMENT OF THE 2017 SECOND LIEN BONDS” in this Official Statement.*

**RTA Sales Tax**

RTA Sales Tax consists of the RTA sales and use taxes imposed by the RTA under the RTA Act. The following table sets forth the components of the RTA Sales Tax and associated tax rates currently:

RTA Tax	Description	Rate		
		Cook County		Collar Counties
		Food and Drug Sales	General Sales	All Sales
<b>Retailer’s Occupation Tax</b>	Tax upon all persons engaged in the Northeastern Illinois Transit Region in the business of selling tangible personal property at retail or, applicable to (i) sales of food for human consumption that is to be consumed off the premises where it is sold (other than alcoholic beverages, soft drinks and food that has been prepared for immediate consumption) and prescription and nonprescription medicines, drugs, medical appliances and insulin, urine testing materials, syringes and needles used by diabetics (“Food and Drug Sales”), and (ii) sales of tangible personal property at retail (the “General Sales”).	1.25%	1.00%	0.75%
<b>Service Occupation Tax</b>	Tax upon all persons in the Northeastern Illinois Transit Region engaged in the business of making sales of service, who as an incident to making the sales of service, transfer tangible personal property within the Northeastern Illinois Transit Region, either in the form of tangible personal property or in the form of real estate as an incident to a sale of service.	1.25%	1.00%	0.75%
<b>Use Tax</b>	Tax imposed upon the privilege of using in the Northeastern Illinois Transit Region any item of tangible personal property that is purchased outside the Northeastern Illinois Transit Region at retail from a retailer, and <i>that is titled or registered with an agency of State</i> . The tax shall be collected from persons whose Illinois address for titling or registration purposes is given as being in the metropolitan region.		Titled or registered property (e.g. cars, boats and aircraft) 1.00%	Titled or registered property (e.g. cars, boats and aircraft) 0.75%

On or before the 25th day of each calendar month, the Department of Revenue prepares and certifies to the Comptroller of the State of Illinois (the “State Comptroller”) and to the RTA: (i) the amount of RTA Sales Tax collected in the Collar Counties, (ii) the amount of RTA Sales Tax collected within the City of Chicago, and (iii) the amount of RTA Sales Tax collected in that portion of Cook County outside of Chicago, each amount less refunds to taxpayers. Within 10 days after receipt of the Department of Revenue’s certification of RTA Sales Tax, the State Comptroller orders to be drawn for payment: (1) two-thirds of the amounts certified in item (i) above to the RTA Sales Tax Fund, (2) one-third of the amounts certified in item (i) to the Collar Counties, and (3) the amounts certified in items (ii) and (iii) above to the RTA Sales Tax Fund.

**State Sales Tax**

Under state tax reform legislation passed by the Illinois General Assembly in 2008, the State is required to provide local units of governments with State sales tax revenue to replace taxes lost to the local units of government under the legislation. The following table describes the components of the State Sales Tax and associated tax rates.

<b>State Tax</b>		<b>State Sales Tax</b>	
		<b>Rate</b>	
<b>State Tax</b>	<b>Description</b>	<b>Food and Drug Sales</b>	<b>General Sales</b>
<b>Retailer’s Occupation Tax</b>	Tax imposed upon persons engaged in the State in the business of selling tangible personal property to purchasers for use or consumption.	1.00%	6.25%
<b>Service Occupation Tax</b>	Tax imposed on all upon persons engaged in the state in the business of making sales of service on all tangible personal property transferred as an incident of a sale of service.	1.00%	6.25%
<b>Use Tax</b>	Tax imposed upon the privilege of using in the State tangible personal property purchased in a sale at retail from a retailer.	1.00%	6.25%
<b>Service Use Tax</b>	Tax imposed upon the privilege of using in the State real or tangible personal property acquired as an incident to the purchase of a service from a serviceman.	1.00%	6.25%

In general, 20 percent of the 6.25 percent net State use tax on General Sales and 100 percent of the 1.00 percent net State use tax on Food and Drug Sales are deposited in the State and Local Sales Tax Reform Fund maintained by the State Treasurer. Additionally, 4 percent of the 6.25 percent net State Sales Tax on General Sales, and 4 percent of the 6.25 percent net State use tax on titled or registered tangible personal property are deposited monthly in the County and Mass Transit District Fund. After certain deductions, 10 percent of the money paid into the State and Local Sales Tax Reform Fund is transferred into the Regional Transportation Authority Occupation and Use Tax Replacement Fund. Of the money paid into the County and Mass Transit District Fund, amounts attributable to retail sales occurring (or vehicles titled or registered) in Cook County are transferred to the RTA Sales Tax Fund.

## Public Transportation Funds

Public Transportation Funds represent State money dedicated to public transportation in Illinois in addition to amounts paid for public transportation out of the State Sales Tax. Public Transportation Funds received by the RTA are separated into amounts that must be distributed to the Service Boards pursuant to statutorily prescribed formula allocations (the “Formula PTF”) and are allocable to the Service Boards at the discretion of the RTA Board (“Discretionary PTF”). The following table sets forth the calculation of Formula PTF and Discretionary PTF.

### Public Transportation Funds

Type	Description
<b>Formula PTF</b>	<p>25% of the net revenue (after taxpayer refunds for overpayments), before the deduction of serviceman and retailer discounts, realized by the RTA from (i) 20% of the proceeds of the RTA Sales Tax collected in Cook County on Food and Drug Sales, (ii) 25% of the State Sales Tax collected in Cook County on General Sales, and (iii) one-third of the RTA Sales Tax collected in the Collar Counties on Food and Drug Sales and General Sales, plus</p> <p>5% of the net revenue, before deduction of servicemen and retailer discounts, realized from RTA Sales Tax, plus</p> <p>5% of amounts deposited into the RTA Tax Fund from the Regional Transportation Authority Occupation and Use Tax Replacement Fund and the County and Mass Transit District Fund, plus</p> <p>30% of the revenue realized by the Authority as financial assistance from the City of Chicago from the proceeds of the tax imposed by the City of Chicago under the Illinois Municipal Code on the privilege of transferring title to, or beneficial interest in, real property located in the City of Chicago (the “Real Estate Transfer Tax”).</p>
<b>Discretionary PTF</b>	<p>25% of the net revenue (after taxpayer refunds for overpayments), before the deduction of serviceman and retailer discounts, realized by the RTA from (i) 80% the proceeds of the RTA Sales Tax collected in Cook County on Food and Drug Sales, (ii) 75% of the proceeds of the RTA Sales Tax collected in Cook County on General Sales and (ii) one-third of the RTA Sales Tax collected in the Collar Counties on Food and Drug Sales and General Sales, plus</p> <p>25% of amounts deposited into the RTA Tax Fund from the Regional Transportation Authority Occupation and Use Tax Replacement Fund and the County and Mass Transit District Fund.</p>

Public Transportation Funds are paid from the State’s General Revenue Fund into the Public Transportation Fund for the benefit of local units of government responsible for public transportation. No

moneys are to be paid from the Public Transportation Fund to the RTA for any fiscal year until the RTA has certified to the Governor, the Comptroller, and the Mayor of the City of Chicago that the RTA has adopted for that fiscal year an annual budget and two-year financial plan meeting the requirements of the RTA Act.

Within six months of the end of each fiscal year, the RTA is required to determine whether the aggregate of all “system generated revenues” for public transportation in the Northeastern Illinois Transit Region which is provided by, or under grant or purchase of service contracts with, the Service Boards equals 50 percent of the aggregate of all costs of providing public transportation. System generated revenues include all the proceeds of fares and charges for services provided, contributions received in connection with public transportation from units of local government other than the RTA (except for contributions received by the Authority from the Real Estate Transfer Tax, and from grants may by the Illinois Department of Transportation to units of local government, districts, and carriers for the acquisition, construction, extension, reconstruction, and improvement of mass transportation), and all other revenues properly included consistent with generally accepted accounting principles. System generated revenues do not include the proceeds from any borrowing, and all revenues and receipts, including but not limited to fares and grants received from federal, State or any unit of local government or other entity, derived from providing ADA paratransit service. If the RTA makes any payment to the State pursuant to the foregoing, the RTA must reduce the amount provided to a Service Board from funds transferred in proportion to the amount by which that Service Board failed to meet its required system generated revenues recovery ratio. The Transportation System has never failed to meet the requirement.

Also within six months of the end of each fiscal year, the RTA is required to determine whether the aggregate of all fares charged and received for ADA paratransit services equals the system generated ADA paratransit services revenue recovery ratio percentage of the aggregate of all costs of providing the ADA paratransit services. If system generated revenues are less than 10.0 percent of costs, the RTA Board is required to remit an amount equal to the amount of the deficit to the State for deposit into the General Revenue Fund. The Transportation System has never failed to meet the requirement.

### **Allocations of RTA Tax Funds**

As described above, RTA Sales Tax, State Sales Tax and Public Transportation Funds are ultimately deposited in the RTA Sales Tax Fund maintained by the State Treasurer. After providing for the payment of outstanding RTA bonds and notes issued under the provisions of RTA Act, amounts in the RTA Sales Tax Fund are distributed to the RTA. Of the amount received by the RTA in the form of RTA Sales Tax and State Sales Tax, the RTA is entitled to withhold 15.0 percent for its general corporate purposes. After making special fund deposits for ADA paratransit, community mobility and RTA innovation, coordination and enhancement (“ICE”) programs, remaining RTA Sales Tax and State Sales Tax and a portion of Public Transportation Funds are then distributed to the Service Boards, as RTA Formula Funds, in accordance with statutorily-required formula allocations. Additionally, the RTA distributes to the Service Boards discretionary operating funds, as RTA Discretionary Funds, that were derived from the RTA’s 15.0 percent retention of RTA Sales Tax and State Sales Tax and the remaining portion of Public Transportation Funds. Although the RTA Act does not specify how RTA Discretionary Funds are to be allocated, the RTA has historically allocated nearly half of the RTA Sales Tax and State Sales Tax and between 90.0 and 99.0 percent of Discretionary PTF to the Authority. The percentage allocations of RTA Formula Funds and RTA Discretionary Funds to the Service Boards are set forth in the following tables. All allocations of RTA Formula Funds and RTA Discretionary Funds constitute Sales Tax Receipts.



## Allocations of RTA Formula Funds

RTA Sales Tax	Percentage Allocations		
	Authority	Metra	Pace
85% of 80% of taxes on Food and Drug Sales in Chicago.	100		
85% of 80% of taxes on Food and Drug Sales in Cook County but outside of Chicago.	30	55	15
85% of 75% of taxes on General Sales in Chicago and property titled or registered in Chicago	100		
85% of 75% of taxes on General Sales in Cook County, but sold outside of Chicago, or property titled or registered in Cook County but outside of Chicago.	30	55	15
85% of 50% of taxes on Food and Drug Sales, General sales and property titled or registered in Collar Counties.		70	30
20% of taxes on Food and Drug Sales in Cook County, 25% of taxes on General Sales in Cook County (and property titled or registered in the County), and 50% of taxes on Food and Drug Sales, General sales and property titled or registered in Collar Counties (after required deposits into other funds for ADA paratransit, community mobility and ICE programs).	48	39	13
<b>State Sales Tax</b>			
85% of State Sales Tax received by the RTA attributable to retail sales within the City of Chicago.	100		
85% of State Sales Tax received by the RTA attributable to retail sales within Cook County but outside of the City of Chicago. <sup>(1)</sup>	30	55	15
<b>Public Transportation Funds</b>			
The State's contribution of an amount equal to the RTA State Sales Tax and State Sales Tax distributable to the RTA as Formula PTF, and the State's contribution of an amount equal to 5% of the Real Estate Transfer Tax <sup>(2)</sup> (after required deposits into other funds for ADA paratransit, community mobility and ICE programs).	48	39	13
The State's contribution of an amount equal to 25% of the Real Estate Transfer Tax. <sup>(2)</sup>	100		

<sup>(1)</sup> All of the State use tax received by the RTA from the State and Local Tax Reform Fund are allocated among the Service Boards on the basis of each Service Board's "distribution ratio." The distribution ratio is the ratio of the total amount of RTA Sales Tax distributed to a Service Board for the immediately preceding calendar year to the total amount of RTA Sales Tax distributed to all of the Service Boards for the immediately preceding calendar year.

<sup>(2)</sup> Public Transportation Funds represent State matching funds determined in part by reference to the Real Estate Transfer Tax paid to the Authority from the City of Chicago. Public Transportation Funds do not represent the actual Real Estate Transfer Tax collected by the City of Chicago and paid to the Authority. The Real Estate Transfer Tax is not part of Sales Tax Receipts. See "THE AUTHORITY—Operations—Public Funding."

**Allocations of RTA Discretionary Funds**

<b>Sales Taxes</b>	<b>Percentage Allocations</b>		
	<b>Authority</b>	<b>Metra</b>	<b>Pace</b>
Amounts authorized by ordinance by the RTA Board from the 15% of RTA Sales Tax and State Sales Tax retained by the RTA (after payment of RTA debt service and operating expenses).	48	39	13
<b>Formula PTF</b>			
25% of (i) 80% the proceeds of the RTA Sales Tax collected in Cook County on Food and Drug Sales, (ii) 75% of the proceeds of the RTA Sales Tax collected in Cook County on General Sales, and (iii) one-third of the RTA Taxes collected in the Collar Counties; and (iv) the amount of State Sales Tax deposited into the RTA Tax Fund.	98		2

**APPENDIX C**

**SELECTED ECONOMIC AND DEMOGRAPHIC INFORMATION**

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## SELECTED ECONOMIC AND DEMOGRAPHIC INFORMATION

The Authority’s revenue is affected by various economic and demographic factors, including population, economic conditions, employment, fuel costs and consumer and producer prices. Set forth below are selected and comparative statistics demonstrating trends in population, economic activity and prices for the sectors and years cited. Information presented for the Northeastern Illinois Transit Region is for Cook County and the Collar Counties of DuPage, Kane, Lake, McHenry and Will, collectively. The Chicago Metropolitan Statistical Area (“Chicago MSA”) represents the Northeastern Illinois Transit Region and the Counties of DeKalb, Grundy, and Kendall in Illinois, the Counties of Jasper, Lake, Newton and Porter in Indiana, and the County of Kenosha in Wisconsin. Chicago MSA information is presented where no comparable information is available for the Northeastern Illinois Transit Region.

### Population 1980—2015 (most current)

Year	Northeastern Illinois Transit Region		
	Region	Cook County	Chicago
1980	7,103,624	5,253,655	3,005,072
1990	7,261,176	5,105,067	2,783,726
2000	8,091,720	5,376,741	2,896,016
2010	8,316,650	5,194,675	2,695,598
2015 Estimate <sup>(1)</sup>	8,401,315	5,238,216	2,720,546

Source: U.S. Census Bureau, <http://quickfacts.census.gov/qfd/states> (accessed November 8, 2016).

<sup>(1)</sup> As of July 1, 2015.

### Gross Domestic Product Percent Change from Preceding Period<sup>(1)</sup> 2006-2016

Year	United States	State of Illinois	Chicago MSA
2006	5.8%	5.9%	5.7%
2007	4.5	4.0	4.2
2008	1.7	-0.5	-1.0
2009	-2.0	-0.8	-1.8
2010	3.8	2.1	2.6
2011	3.7	4.0	3.4
2012	4.1	4.9	5.5
2013	3.3	1.1	0.9
2014	4.2	3.0	3.7
2015	3.7	4.4	5.2
2016 <sup>(2)</sup>	2.7	Unavailable	Unavailable

Source: U.S. Department of Commerce, Bureau of Economic Analysis, <http://www.bea.gov/national/>, <http://www.bea.gov/regional/> (accessed November 8, 2016).

<sup>(1)</sup> GDP percent change based on current dollars.

<sup>(2)</sup> Comparing first three quarters of 2016 to first three quarters of 2015.

**Per Capita Personal Income  
2006—2015 (most current)**

<b>Year</b>	<b>United States</b>	<b>State of Illinois</b>	<b>Chicago MSA</b>	<b>Cook County</b>
2006	\$38,144	\$40,124	\$43,635	\$44,227
2007	39,821	42,265	45,913	47,017
2008	41,082	43,358	46,910	47,916
2009	39,376	40,994	44,099	44,644
2010	40,277	41,699	44,691	45,361
2011	42,453	43,718	46,877	47,382
2012	44,267	45,638	49,110	49,734
2013	44,462	46,610	49,123	49,683
2014	46,414	48,508	50,690	51,280
2015	48,112	50,295	Unavailable	Unavailable

Source: U.S. Department of Commerce, Bureau of Economic Analysis, <http://www.bea.gov/national/>, <http://www.bea.gov/regional/> (accessed November 8, 2016); Federal Reserve Bank of St. Louis, FRED Economic Data, <https://fred.stlouisfed.org/> (accessed November 8, 2016).

**Employment  
2006 – 2016  
(in thousands)**

<b>Calendar Year-End</b>	<b>State of Illinois</b>	<b>Chicago MSA</b>	<b>Cook County</b>	<b>City of Chicago</b>
2006	5,951	4,532	2,481	1,242
2007	5,985	4,561	2,483	1,245
2008	5,851	4,441	2,386	1,200
2009	5,584	4,227	2,281	1,149
2010	5,644	4,226	2,348	1,202
2011	5,701	4,327	2,378	1,217
2012	5,779	4,404	2,409	1,233
2013	5,835	4,475	2,416	1,236
2014	5,923	4,545	2,469	1,264
2015	5,974	4,610	2,495	1,277
2016 <sup>(1)</sup>	6,016	4,653	2,521	1,291

Source: Federal Reserve Bank of St. Louis, FRED Economic Data, <https://fred.stlouisfed.org/> (accessed November 8, 2016).

<sup>(1)</sup> September 2016 data.

**Annual Unemployment Rates  
2006—2016**

<b>Calendar Year-End</b>	<b>United States</b>	<b>State of Illinois</b>	<b>Chicago MSA</b>	<b>Cook County</b>	<b>City of Chicago</b>
2006	4.4%	4.5%	4.2%	4.4%	4.8%
2007	5.0	5.5	5.2	5.4	5.9
2008	7.3	7.9	7.4	7.5	8.1
2009	9.9	11.2	11.0	11.3	11.9
2010	9.3	9.5	9.4	9.7	10.1
2011	8.5	9.3	9.3	9.7	10.2
2012	7.9	9.1	9.1	9.6	10.0
2013	6.7	8.4	8.1	8.6	9.0
2014	5.6	6.1	5.9	6.0	6.3
2015	5.0	6.1	5.7	5.7	6.0
2016 <sup>(1)</sup>	5.0	5.5	5.2	5.5	5.9

Source: Federal Reserve Bank of St. Louis, FRED Economic Data, <https://fred.stlouisfed.org/> (accessed November 8, 2016).

<sup>(1)</sup> September 2016 data.

**Percentage of Total Non-Farm Employment by Major Industry Sector  
September 2016**

<b>Sector</b>	<b>Chicago Metropolitan Division</b>	<b>Illinois</b>	<b>United States</b>
Trade, Transportation and Utilities .....	19.8%	20.1%	18.9%
Education and Health Services .....	15.5	15.2	15.7
Government .....	11.5	13.9	15.4
Professional and Business Services .....	18.9	15.7	14.0
Leisure and Hospitality .....	10.2	9.9	10.8
Manufacturing .....	7.5	9.4	8.5
Financial Activities .....	6.7	6.2	5.8
Construction .....	3.6	3.5	4.6
Other Services .....	4.4	4.3	3.9
Information .....	1.9	1.6	1.9
Mining and Logging .....	0.0	0.1	0.5

Source: U.S. Bureau of Labor Statistics, [http://www.bls.gov/regions/midwest/il\\_chicago\\_md.htm](http://www.bls.gov/regions/midwest/il_chicago_md.htm);  
<http://www.bls.gov/regions/midwest/illinois.htm>; "Current Employment Statistics (National)," <http://www.bls.gov/web/empsit/ceseeb1a.htm>.

**Largest Non-Government Employers in Chicago Area<sup>(1)</sup>  
2015 (most current)**

<b>Employer</b>	<b>Number of Employees</b>
Advocate Health Care Bank, N.A.	18,308
University of Chicago	16,197
Northwestern Memorial Healthcare	15,317
JPMorgan Chase	14,158
United Continental Holdings Inc.	14,000
Health Care Service Corp	13,006
Walgreens Boots Alliance Inc.	13,006
Presence Health	10,500
Abbott Laboratories	10,000
Northwestern University	9,708

Source: Crain's Chicago Business, Crain Communications, Inc., [http://www.chicagobusiness.com/section/lists?djoPage=view\\_html&djoPid=1643](http://www.chicagobusiness.com/section/lists?djoPage=view_html&djoPid=1643) (accessed November 8, 2016).

<sup>(1)</sup> Includes Northeastern Illinois Transit Region and Lake County, Indiana.

**Tourism—City of Chicago  
2010-2015 (most current)  
(in millions)**

	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
Visitations	39.3	43.7	46.5	48.5	50.17	52.7

Source: Choose Chicago, <http://www.choosechicago.com/articles/view/research-statistics/927/?fmid=1748> (accessed November 8, 2016).



**Retail Fuel Prices  
2006-2016  
(\$ per gallon)**

Year	Gasoline (Unleaded Regular)	On-Highway Diesel Fuel
2006	\$2.589	\$2.705
2007	2.801	2.885
2008	3.266	3.803
2009	2.350	2.467
2010	2.788	2.992
2011	3.527	3.840
2012	3.644	3.968
2013	3.526	3.922
2014	3.367	3.825
2015	2.448	2.707
2016 <sup>(1)</sup>	2.208	2.394

Source: U.S. Department of Labor, Bureau of Labor Statistics; US City Average per Gallon; U.S. Energy Information Administration, [http://www.eia.gov/totalenergy/data/monthly/pdf/sec9\\_6.pdf](http://www.eia.gov/totalenergy/data/monthly/pdf/sec9_6.pdf) (accessed November 8, 2016).

<sup>(1)</sup> September 2016 data.

**Consumer Price Index (All Urban Consumers)  
Year-to-Year Changes<sup>(1)</sup>  
2006-2016**

Year	U.S. City Average	Chicago MSA
2006	3.2%	2.0%
2007	2.9	3.3
2008	3.8	3.8
2009	-0.4	-1.2
2010	1.6	1.4
2011	3.2	2.7
2012	2.1	1.5
2013	1.5	1.1
2014	1.6	1.7
2015	0.1	-0.3
2016 <sup>(2)</sup>	0.7	0.3

Source: U.S. Department of Labor, Bureau of Labor Statistics, <http://www.bls.gov/cpi/> (accessed November 8, 2016).

<sup>(1)</sup> Not seasonally adjusted.

<sup>(2)</sup> Average from January through September 2016.

**Producer Price Index  
Year-to-Year Changes  
2006-2016**

<b>Year</b>	<b>Industrial Commodities</b>	<b>Gasoline</b>	<b>Diesel Fuel (No. 2)</b>
2006	5.4%	17.0%	14.7%
2007	3.8	12.5	8.5
2008	9.8	18.5	38.0
2009	-9.3	-32.2	-44.4
2010	7.3	26.2	29.0
2011	8.0	31.2	35.8
2012	0.0	2.5	3.1
2013	0.4	-3.5	-2.6
2014	0.6	-5.6	-5.7
2015	-7.5	-35.8	-39.5
2016 <sup>(1)</sup>	-4.0	-25.9	-31.6

Source: U.S. Department of Labor, Bureau of Labor Statistics, <http://www.bls.gov/ppi/> (accessed November 8, 2016).

<sup>(1)</sup> Average from January 2016 through September 2016.

**APPENDIX D**

**CHICAGO TRANSIT AUTHORITY  
FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION  
YEARS ENDED DECEMBER 31, 2015 AND 2014**

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**CHICAGO TRANSIT AUTHORITY  
CHICAGO, ILLINOIS**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**  
Years Ended December 31, 2015 and 2014  
(With Independent Auditor's Report Thereon)

CHICAGO TRANSIT AUTHORITY  
Chicago, Illinois

FINANCIAL STATEMENTS  
Years Ended December 31, 2015 and 2014

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## INDEPENDENT AUDITOR'S REPORT

Chicago Transit Board  
Chicago Transit Authority  
Chicago, Illinois

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities and fiduciary activities of the Chicago Transit Authority (CTA), as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the CTA's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the CTA's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the CTA's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and fiduciary activities of the CTA, as of December 31, 2015 and 2014, and the changes in its financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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(Continued)

### ***Emphasis of Matter***

As discussed in Notes 13 and 14 to the financial statements, in June 2012 the GASB issued GASB Statement No. 68, "Accounting and Financial Reporting for Pensions." Also, in November 2013 the GASB issued GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date." Statements 68 and 71 are effective for the CTA's fiscal year ending December 31, 2015. These Statements replace the requirements of Statement No. 27, "Accounting for Pensions by State and Local Governmental Employers" and Statement No. 50, "Pension Disclosures." Statements 68 and 71 establish standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources and expenses as well as identified the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value and attribute that present value to periods of employee service. Note disclosures and required supplementary information requirements about pensions are also addressed. As a result, net position was restated as of January 1, 2015, for the cumulative effect of the application of this pronouncement. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the CTA's basic financial statements. The accompanying supplementary schedules of expenses and revenues – budget and actual for the years ended December 31, 2015 and 2014, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying schedules of expenses and revenues – budget and actual are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying schedules of expenses and revenues – budget and actual are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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(Continued)



**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated April 29, 2016 on our consideration of the CTA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the CTA's internal control over financial reporting and compliance.



Crowe Horwath LLP

Chicago, Illinois  
April 29, 2016

CHICAGO TRANSIT AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Years Ended December 31, 2015 and 2014

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## **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, 2015 and 2014. 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 2015**

- Net position totaled (\$337,263,000) at December 31, 2015.
- Net position decreased \$1,222,740,000 in 2015, which compares to an increase of \$52,518,000 in 2014.
- Total net capital assets were \$4,994,363,000 at December 31, 2015, an increase of 3.55% over the balance at December 31, 2014 of \$4,823,134,000.

## **Financial Highlights for 2014**

- Net position totaled \$885,477,000 at December 31, 2014.
- Net position increased \$52,518,000 in 2014, which compares to an increase of \$280,102,000 in 2013.
- Total net capital assets were \$4,823,134,000 at December 31, 2014, an increase of 8.57% over the balance at December 31, 2013 of \$4,442,538,000.

## **The Financial Statements**

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

## **Overview of the Financial Statements for Business-Type Activities**

The financial statements consist of the (1) Statements of Net Position, (2) Statements of Revenues, Expenses, and Changes in Net Position, (3) Statements of Cash Flows, and (4) Notes to the Financial Statements. The financial statements are prepared on the accrual basis of accounting, meaning that all expenses are recorded when incurred and all revenues are recognized when earned, in accordance with U.S. generally accepted accounting principles.

## **Statements of Net Position**

The Statements of Net Position reports all financial and capital resources for the CTA (excluding fiduciary activities). The statements are presented in the format where assets, plus deferred outflows of resources, less liabilities, less deferred inflows of resources, equals net position, formerly known as equity. Assets and liabilities are presented in order of liquidity and are classified as current (convertible into cash within one year) and noncurrent. The focus of the Statements of Net Position is to show a picture of the liquidity and health of the organization as of the end of the year.

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(Continued)

CHICAGO TRANSIT AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Years Ended December 31, 2015 and 2014

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

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

**Statements of Revenues, Expenses, and Changes in Net Position**

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

**Statements of Cash Flows**

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

**Notes to Financial Statements**

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

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(Continued)

CHICAGO TRANSIT AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Years Ended December 31, 2015 and 2014

**Financial Analysis of the CTA's Business-Type Activities**

**Statements of Net Position**

The following table reflects a condensed summary of assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position of the CTA as of December 31, 2015, 2014, and 2013:

Summary of Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position December 31, 2015, 2014, and 2013 (In thousands of dollars)			
	2015	2014	2013
Assets:			
Current assets	\$ 786,311	\$ 673,418	\$ 677,410
Capital Assets, net	4,994,363	4,823,134	4,442,538
Noncurrent assets	463,726	954,950	1,942,841
Total assets	6,244,400	6,451,502	7,062,789
Total deferred outflows of resources	168,657	12,015	10,054
Total assets and deferred outflows of resources	\$ 6,413,057	\$ 6,463,517	\$ 7,072,843
Liabilities:			
Current liabilities	\$ 681,843	\$ 648,886	\$ 738,733
Long-term liabilities	6,068,477	4,929,154	5,500,128
Total liabilities	6,750,320	5,578,040	6,238,861
Total deferred inflows of resources	-	-	1,023
Net position			
Net investment in capital assets	2,726,057	2,727,982	2,610,183
Restricted:			
Payment of leasehold obligations	7,813	28,358	51,585
Debt service	47,857	78,405	77,661
Unrestricted (deficit)	(3,118,990)	(1,949,268)	(1,906,470)
Total net position	(337,263)	885,477	832,959
Total liabilities, deferred inflows and net position	\$ 6,413,057	\$ 6,463,517	\$ 7,072,843

*Year Ended December 31, 2015*

Current assets increased by \$112,893,000 primarily due to higher cash and investment balances.

Capital assets (net) increased by 3.55% to \$4,994,363,000 due to an increase in vehicle purchases. The CTA's capital improvement projects were funded primarily by the Federal Transit Administration (FTA), the Illinois Department of Transportation (IDOT), the Regional Transportation Authority (RTA), and CTA bonds.

Other non-current assets decreased by 51.44% to \$463,726,000 due to both the early termination of several lease/leaseback transactions and capital spending of bond proceeds.

Current liabilities increased 5.08% to \$681,843,000 primarily due to higher accounts payable and other accrued expenses.

(Continued)

CHICAGO TRANSIT AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Years Ended December 31, 2015 and 2014

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Long-term liabilities increased 23.11% to \$6,068,477,000. The increase is primarily due to the recording of a net pension liability associated with the employee, supplemental and board pension plans in accordance with GASB 68.

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

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

The deficit in unrestricted net position, represents assets available for operations, increased 60.0% over the prior year.

*Year Ended December 31, 2014*

Current assets is slightly lower than prior year due to lower accounts receivable balances.

Capital assets (net) increased by 8.57% to \$4,823,134,000 due to an increase in vehicle purchases. The CTA's capital improvement projects were funded primarily by the Federal Transit Administration (FTA), the Illinois Department of Transportation (IDOT), the Regional Transportation Authority (RTA), and CTA bonds.

Other non-current assets decreased by 50.85% to \$954,950,000 primarily due the acceleration of the purchase option date related to a lease/leaseback transaction.

Current liabilities decreased 12.16% to \$648,886,000 primarily due to lower capital lease obligations and accounts payable.

Long-term liabilities decreased 10.38% to \$4,929,154,000. The decrease is primarily due to the lower capital lease obligations associated with the acceleration of the purchase option date for certain capital lease agreements.

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

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

The deficit in unrestricted net position, represents assets available for operations, increased 2.24% over the prior year.

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(Continued)

CHICAGO TRANSIT AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Years Ended December 31, 2015 and 2014

**Statements of Revenues, Expenses, and Changes in Net Position**

The following table reflects a condensed summary of the revenues, expenses, and changes in net position (in thousands) for the years ended December 31, 2015, 2014, and 2013:

**Table 2**  
Condensed Summary of Revenues, Expenses, and Changes in Net Position  
Years ended December 31, 2015, 2014, and 2013  
(In thousands of dollars)

	<b>2015</b>	<b>2014</b>	<b>2013</b>
Operating revenues	\$ 630,812	\$ 623,628	\$ 615,029
Operating expenses:			
Operating expenses	1,365,957	1,331,898	1,280,661
Depreciation	450,035	419,151	365,560
Total operating expenses	<u>1,815,992</u>	<u>1,751,049</u>	<u>1,646,221</u>
Operating loss	(1,185,180)	(1,127,421)	(1,031,192)
Nonoperating revenues:			
Public funding from the RTA	793,008	739,238	753,308
Build America Bond subsidy	10,019	9,998	9,925
Interest revenue from leasing transactions	14,279	75,589	111,151
Other nonoperating revenues	37,013	50,106	52,857
Total nonoperating revenues	<u>854,319</u>	<u>874,931</u>	<u>927,241</u>
Nonoperating expenses	<u>(234,505)</u>	<u>(246,571)</u>	<u>(289,518)</u>
Change in net position before capital contributions	(565,366)	(499,061)	(393,469)
Capital contributions	<u>564,590</u>	<u>551,579</u>	<u>673,571</u>
Change in net position	(776)	52,518	280,102
Total net position, beginning of year	885,477	832,959	552,857
Cumulative effect of a change in accounting principle	(1,221,964)	-	-
Total net position, end of year	<u>\$ (337,263)</u>	<u>\$ 885,477</u>	<u>\$ 832,959</u>

*Year Ended December 31, 2015*

Total operating revenues increased by \$7,184,000, or 1.15% primarily due to increases in both farebox and advertising revenue.

Farebox and pass revenue increased \$3,809,000 despite no change to the fare policy. CTA's ridership increased by 0.34% or 1,748,000 million rides over the prior year. CTA's average fare of \$1.14 was \$0.01 higher than 2014. In 2015, CTA launched the Ventra mobile application which allows customers greater flexibility and access to load value or check balances on their Ventra accounts.

(Continued)

CHICAGO TRANSIT AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Years Ended December 31, 2015 and 2014

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In 2015, CTA provided approximately 73,145,000 million free rides, a decrease of 5,113,000 million or 6.53% over 2014. The Illinois General Assembly passed legislation to allow senior citizens aged 65 and over who live in the RTA service region to take free fixed route public transit rides on CTA, Metra and Pace beginning March 17, 2008. The Chicago City Council passed an ordinance to provide free CTA rides for active military personnel beginning May 1, 2008 and disabled veterans beginning August 1, 2008. The Illinois General Assembly also enacted legislation to require free rides on fixed-route transit to be made available to any Illinois resident who has been enrolled as a person with a disability in the Illinois Circuit Breaker program. In 2011, the free ride program was modified to subject the participants to a means test. Under this program seniors who do not qualify to ride free pay a reduced fare.

Total operating expenses increased \$64,943,000, or 3.71%. The increase is primarily driven by higher depreciation and labor expense. Depreciation expense increased \$30,884,000 due to the increase in vehicle, equipment and track structure assets. Labor expense increased \$36,365,000 due negotiated wage increases and the related increase in fringe benefit cost.

*Year Ended December 31, 2014*

Total operating revenues increased by \$8,599,000, or 1.40% primarily due to increases in farebox revenue.

In 2014, CTA completed the transition to a new fare collection system, Ventra. There were no changes to the fare policy however riders continued to transition from passes to other fare media options. CTA's ridership decreased by 2.8% or 15 million rides, however the combined fare and pass revenue increased due to the structure of the fare policy and rider preference. CTA's average fare of \$1.13 was \$0.05 higher than 2013.

In 2014, CTA provided approximately 78.3 million free rides, a decrease of 1.7 million or 2.16% over 2013. The Illinois General Assembly passed legislation to allow senior citizens aged 65 and over who live in the RTA service region to take free fixed route public transit rides on CTA, Metra and Pace beginning March 17, 2008. The Chicago City Council passed an ordinance to provide free CTA rides for active military personnel beginning May 1, 2008 and disabled veterans beginning August 1, 2008. The Illinois General Assembly also enacted legislation to require free rides on fixed-route transit to be made available to any Illinois resident who has been enrolled as a person with a disability in the Illinois Circuit Breaker program. In 2011, the free ride program was modified to subject the participants to a means test. Under this program seniors who do not qualify to ride free pay a reduced fare.

Total operating expenses increased \$104,828,000, or 6.37%. The increase is primarily driven by higher depreciation, labor and materials expenses. Depreciation expense increased \$53,591,000 due to the increase in vehicle, equipment and track structure assets. Labor expense increased \$27,085,000 due negotiated wage increases and an increase in actuarial estimates for fringe benefit costs including workers compensation and pension. Materials expense was also impacted by the 2014 polar vortex and increased \$20,610,000 over prior year.

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(Continued)

CHICAGO TRANSIT AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Years Ended December 31, 2015 and 2014

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

**Table 3**  
Operating Revenues and Expenses  
Years ended December 31, 2015, 2014, and 2013  
(In thousands of dollars)

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Operating Revenues:			
Farebox revenue	\$ 365,212	\$ 364,144	\$ 323,302
Pass revenue	221,896	219,155	250,727
Total farebox and pass revenue	<u>587,108</u>	<u>583,299</u>	<u>574,029</u>
Advertising and concessions	31,241	27,561	25,677
Other revenue	12,463	12,768	15,323
Total operating revenues	<u>\$ 630,812</u>	<u>\$ 623,628</u>	<u>\$ 615,029</u>
Operating Expenses:			
Labor and fringe benefits	\$ 1,034,424	\$ 998,059	\$ 970,974
Materials and supplies	83,507	80,963	60,353
Fuel	49,830	59,476	61,836
Electric power	28,818	33,568	26,174
Purchase of security services	14,431	13,628	24,160
Other	134,223	121,309	122,993
Operating expense before provisions	1,345,233	1,307,003	1,266,490
Provision for injuries and damages	20,724	24,895	14,171
Provision for depreciation	450,035	419,151	365,560
Total operating expenses	<u>\$ 1,815,992</u>	<u>\$ 1,751,049</u>	<u>\$ 1,646,221</u>

Capital Asset and Debt Administration

**Capital Assets**

The CTA invested \$11,503,792,000 (not adjusted for inflation) in capital assets, including buildings, vehicles, elevated railways, signal and communication equipment, as well as other equipment as of December 31, 2015. Net of accumulated depreciation, the CTA's capital assets at December 31, 2015 totaled \$4,994,363,000. This amount represents a net increase (including additions and disposals, net of depreciation) of \$171,229,000, or 3.55%, over the December 31, 2015 balance primarily due to the purchase of new rail vehicles and overhauls on aging bus and rail fleets.

The CTA invested \$11,032,581,000 (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, 2014. Net of accumulated depreciation, the CTA's capital assets at December 31, 2014 totaled \$4,823,134,000. This amount represents a net increase (including additions and disposals, net of depreciation) of \$380,596,000, or 8.57%, over the December 31, 2013 balance primarily due to the purchase of new rail vehicles and overhauls on aging bus and rail fleets.

Additional information on the capital assets can be found in note 6 of the audited financial statements.

(Continued)



CHICAGO TRANSIT AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Years Ended December 31, 2015 and 2014

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**Debt Administration**

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

At December 31, 2015, the CTA had \$206,713,000 in capital lease obligations outstanding, a decrease from the prior year due to the early termination of three lease transactions. The bonds payable liability decreased \$83,367,000 primarily due to debt service payments.

At December 31, 2014, the CTA had \$386,303,000 in capital lease obligations outstanding, a decrease from the prior year due to the acceleration of the purchase option of one lease transaction. The bonds payable liability increased \$514,644,000 due to one new bond issuance in 2014.

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

**2016 Budget and Economic Factors**

On November 18, 2015, the CTA Board adopted an annual operating budget for fiscal year 2016. After adoption, the budget was submitted to and approved by the RTA on December 17, 2015. The 2016 budget is balanced at \$1.475 billion, with no service reductions and no transfers of capital funds. The 2016 budget is 3.3% higher than the 2015 forecast, with increases in labor expense due to full year impact of prior contractual wage increases, in contracts due to inflation, and in debt service to account for capital bonds issued in 2014. Increases were offset by additional fare and pass revenue driven by increase ridership, higher advertising, charter and concession revenue, and savings in fuel. System-generated revenue is projected to be \$684.5 million in 2016, representing a marginal decrease from 2015 forecast. Public funding is projected to be \$790.5 million, representing a 4.2% increase over 2015 forecast. The Chicago-area unemployment rate has dropped from as high as 10.4 percent in 2010 to 5.7 percent in 2015. The total number of employed in the Chicago region is 3.7 million in 2015. This is the fifth consecutive year of gains in employment and the highest total since 2008, before the recession. The economic recovery is expected to continue to increase public funding from sales tax receipts and the Real-Estate Transfer Tax. Final estimates from 2015 show a public funding total of \$754.5 million, marginally lower than revised estimates.

The 2016 budget introduces, builds on and accelerates several new initiatives, service improvements and technology upgrades to benefit riders and improve the customer experience. Additionally, the agency in 2016 will continue with the more than \$5 billion in system-improvement projects completed, begun or announced, adding new technologies to improve the commuting experience, and bringing the agency's massive infrastructure into a state of good repair to improve reliability and safety. For a fifth straight year, the CTA will not transfer capital funds to cover operating costs. CTA continues its efforts to streamline management and non-union personnel where the CTA eliminated 100 positions in non-customer-facing areas, maintaining a lean management-to-worker ratio and continue to grow advertising revenue to offset operating costs and keep fares affordable for customers.

Major projects completed in 2015 include many new and enhanced services:

The new mobile Ventra app provides for seamlessly integrated fare payment across CTA, Metra and Pace; 4G wireless connection through CTA's 22 miles of subway tunnels; the return of express bus service to Western and Ashland, two of three of CTA's busiest bus routes; and the launch of Loop Link service, connecting 30,000 bus customers to the Loop each weekday with faster, more efficient service.

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(Continued)

CHICAGO TRANSIT AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Years Ended December 31, 2015 and 2014

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Other major infrastructure and revenue fleet projects completed or started in 2015 included:

The CTA completed upgrades to key power substations on the Red and Brown Lines, track upgrades to address slow zones over 7.5 miles of track; placed into service the remaining of the new 5000 Series railcars, a total 714 new cars have been added in recent years representing approximately 55% of the rail fleet; placed into service 278 new buses; completed the overhauled of 1000 buses over 55% of CTA's bus fleet; and begun the overhaul of 258 railcars.

Among the capital projects to continue or begin in 2016:

Rehabilitation of the O'Hare Blue Line will continue with upgrades made to five more stations and advance design work to begin on an additional six stations and two power substations; Continuation of the complete reconstructions of the 95th Street and Wilson stations on the Red Line—transforming decades-old stations into modern transit hubs; Work on the new Washington-Wabash station continued which will replace two century-old stations and serve as a gateway to Millennium Park and the Loop; Accessibility improvements to the historic Quincy Loop 'L' station; Ongoing planning for the Red-Purple Modernization and Red Line Extension, projects; Continuing signal improvements to modernize Brown and Purple Express tracks between Armitage and the Merchandise Mart stations; Award contract to pursue next-generation rail cars, the 7000-series to eventually provide for up to 846 new modern cars providing for a reliable rail fleet as rail ridership grows; and place into service an additional 125 buses.

### **Legislation**

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

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

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(Continued)

CHICAGO TRANSIT AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Years Ended December 31, 2015 and 2014

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

Public Act 95-708 also addressed retiree healthcare. In addition to the separation between pension and healthcare that was mandated by Public Act 94-839, Public Act 95-708 provides funding and benefit changes to the retiree healthcare benefits. First, all CTA employees will be required to contribute 3% of their compensation into the new retiree healthcare trust. Second, all employees will be eligible for retiree healthcare, but after January 18, 2008, only those employees who retire at or after the age of 55 with 10 years of continuous service will actually receive the benefit. Third, retiree, dependent and survivor premiums can be raised up to 45% of the premium cost. Finally, the CTA has been given the authorization to issue \$640 million in pension obligation bonds to fund the healthcare trust. Subsequent to the 2008 legislation, the Board of Trustees of the Retiree Healthcare Trust amended the eligibility requirements to receive postemployment health benefits. After 2010, employees will be eligible for retiree healthcare at or after the age of 55 with 20 years of continuous service.

The pension and retiree healthcare bonds were issued on August 6, 2008 and \$1.1 billion was deposited in the pension trust and \$528.8 million was deposited in the healthcare trust.

**Contacting the CTA's Financial Management**

This financial report is designed to provide our bondholders, patrons, and other interested parties with a general overview of the CTA's finances and to demonstrate the CTA's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Chicago Transit Authority's Chief Financial Officer, 567 W. Lake Street, Chicago, IL 60661.

CHICAGO TRANSIT AUTHORITY  
Business-Type Activities  
Statements of Net Position  
December 31, 2015 and 2014  
(In thousands of dollars)

	<u>2015</u>	<u>2014</u>
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 85,438	\$ 16,506
Cash and cash equivalents restricted for damage reserve	97,010	105,994
Investments	<u>107,192</u>	<u>86,032</u>
Total cash, cash equivalents, and investments	<u>289,640</u>	<u>208,532</u>
<b>Grants receivable:</b>		
Due from the RTA	310,502	273,431
Unbilled work in progress	110,810	109,401
Other	<u>28</u>	<u>-</u>
Total grants receivable	<u>421,340</u>	<u>382,832</u>
Accounts receivable, net	36,072	42,834
Materials and supplies, net	34,174	33,975
Prepaid expenses and other assets	<u>5,085</u>	<u>5,245</u>
Total current assets	<u>786,311</u>	<u>673,418</u>
<b>Noncurrent assets:</b>		
<b>Other noncurrent assets:</b>		
Restricted assets for repayment of leasing commitments	84,692	271,173
Bond proceeds held by trustee	378,431	665,931
Assets held by trustee for supplemental retirement plans	603	518
Net pension asset - supplemental retirement plans	<u>-</u>	<u>17,328</u>
Total other noncurrent assets	<u>463,726</u>	<u>954,950</u>
<b>Capital assets:</b>		
<b>Capital assets not being depreciated:</b>		
Land	120,257	115,982
Construction in process	<u>635,299</u>	<u>760,040</u>
Capital assets not being depreciated	<u>755,556</u>	<u>876,022</u>
Capital assets being depreciated	10,748,236	10,156,559
Less accumulated depreciation	<u>(6,509,429)</u>	<u>(6,209,447)</u>
Total capital assets being depreciated, net	<u>4,238,807</u>	<u>3,947,112</u>
Total capital assets, net	<u>4,994,363</u>	<u>4,823,134</u>
Total noncurrent assets	<u>5,458,089</u>	<u>5,778,084</u>
Total assets	<u>6,244,400</u>	<u>6,451,502</u>
<b>Deferred outflows of resources</b>		
Deferred loss on refunding	18,870	8,607
Pension outflows - CTA Retirement Plan	146,920	-
Pension outflows - CTA Supplemental Plans	2,867	-
Accumulated decrease in fair value of hedging derivatives	<u>-</u>	<u>3,408</u>
Total deferred outflows of resources	<u>168,657</u>	<u>12,015</u>
Total assets and deferred outflows of resources	<u>\$ 6,413,057</u>	<u>\$ 6,463,517</u>

(Continued)

CHICAGO TRANSIT AUTHORITY  
Business-Type Activities  
Statements of Net Position  
December 31, 2015 and 2014  
(In thousands of dollars)

	<u>2015</u>	<u>2014</u>
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	\$ 183,494	\$ 154,563
Accrued payroll, vacation pay, and related liabilities	138,262	122,383
Accrued interest payable	22,407	22,335
Advances, deposits, and other	31,765	18,173
Unearned passenger revenue	59,639	49,073
Other unearned revenue	4,148	2,213
Unearned operating assistance	38,136	36,278
Derivative instrument liability	-	3,408
Current portion of long-term liabilities	<u>203,992</u>	<u>240,460</u>
Total current liabilities	<u>681,843</u>	<u>648,886</u>
Long-term liabilities:		
Self-insurance claims, less current portion	190,045	181,039
Capital lease obligations, less current portion	190,867	363,733
Bonds payable, less current portion	4,106,567	4,173,714
Certificates of participation payable, less current portion	29,775	36,724
Net pension liability	1,470,041	-
Net pension obligation	-	84,130
Net other postemployment benefits obligation	4,637	4,213
Other long-term liabilities	<u>76,545</u>	<u>85,601</u>
Total long-term liabilities	<u>6,068,477</u>	<u>4,929,154</u>
Total liabilities	<u>6,750,320</u>	<u>5,578,040</u>
Net position:		
Net investment in capital assets	2,726,057	2,727,982
Restricted:		
Payment of leasehold obligations	7,813	28,358
Debt service	47,857	78,405
Unrestricted (deficit)	<u>(3,118,990)</u>	<u>(1,949,268)</u>
Total net position	<u>(337,263)</u>	<u>885,477</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 6,413,057</u>	<u>\$ 6,463,517</u>

CHICAGO TRANSIT AUTHORITY  
Business-Type Activities  
Statements of Revenues, Expenses, and Changes in Net Position  
Years ended December 31, 2015 and 2014  
(In thousands of dollars)

	<u>2015</u>	<u>2014</u>
Operating revenues:		
Fare box revenue	\$ 365,212	\$ 364,144
Pass revenue	<u>221,896</u>	<u>219,155</u>
Total fare box and pass revenue	<u>587,108</u>	<u>583,299</u>
Advertising and concessions	31,241	27,561
Other revenue	<u>12,463</u>	<u>12,768</u>
Total operating revenues	<u>630,812</u>	<u>623,628</u>
Operating expenses:		
Labor and fringe benefits	1,034,424	998,059
Materials and supplies	83,507	80,963
Fuel	49,830	59,476
Electric power	28,818	33,568
Purchase of security services	14,431	13,628
Maintenance and repairs, utilities, rent, and other	<u>134,223</u>	<u>121,309</u>
	1,345,233	1,307,003
Provisions for injuries and damages	20,724	24,895
Provision for depreciation	<u>450,035</u>	<u>419,151</u>
Total operating expenses	<u>1,815,992</u>	<u>1,751,049</u>
Operating expenses in excess of operating revenues	<u>(1,185,180)</u>	<u>(1,127,421)</u>
Nonoperating revenues (expenses):		
Public funding from the RTA	793,008	739,238
Build America Bond subsidy	10,019	9,998
Reduced-fare subsidies	14,606	28,321
Operating grant revenue	13,957	10,567
Contributions from local government agencies	5,000	5,000
Investment income	2,606	1,784
Gain (loss) on sale of assets	-	2,739
Recognition of leasing transaction proceeds	844	1,695
Interest expense on bonds and other financing	(202,523)	(199,397)
Interest revenue from leasing transactions	14,279	75,589
Interest expense on leasing transactions	<u>(31,982)</u>	<u>(47,174)</u>
Total nonoperating revenues, net	<u>619,814</u>	<u>628,360</u>
Change in net position before capital contributions	<u>(565,366)</u>	<u>(499,061)</u>
Capital contributions	<u>564,590</u>	<u>551,579</u>
Change in net position	(776)	52,518
Total net position – beginning of year	885,477	832,959
Cumulative effect of a change in accounting principle	<u>(1,221,964)</u>	<u>-</u>
Total net position – end of year	<u>\$ (337,263)</u>	<u>\$ 885,477</u>

CHICAGO TRANSIT AUTHORITY  
Business-Type Activities  
Statements of Cash Flows  
Years ended December 31, 2015 and 2014  
(In thousands of dollars)

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Cash received from fares	\$ 597,674	\$ 590,538
Payments to employees	(985,903)	(950,641)
Payments to suppliers	(309,790)	(321,061)
Other receipts	<u>65,993</u>	<u>54,294</u>
Net cash flows provided by (used in) operating activities	<u>(632,026)</u>	<u>(626,870)</u>
Cash flows from noncapital financing activities:		
Public funding from the RTA	757,795	744,530
Build America Bond subsidy	10,019	9,998
Reduced-fare subsidies	14,606	28,321
Operating grant revenue	13,957	10,567
Contributions from local governmental agencies	<u>5,000</u>	<u>5,000</u>
Net cash flows provided by (used in) noncapital financing activities	<u>801,377</u>	<u>798,416</u>
Cash flows from capital and related financing activities:		
Interest income from assets restricted for payment of leasehold obligations	14,279	75,589
Interest expense on bonds	(209,531)	(203,697)
Decrease (increase) in restricted assets for repayment of leasing commitments	186,481	1,232,511
Repayment of lease obligations	(218,627)	(1,325,720)
Proceeds from issuance of bonds	1,330	600,154
Repayment of bonds payable	(95,442)	(85,151)
Repayment of other long-term liabilities	(8,649)	(11,245)
Payments for acquisition and construction of capital assets	(611,258)	(747,007)
Proceeds from the sale of property and equipment	-	3,859
Capital grants	<u>563,153</u>	<u>530,984</u>
Net cash flows provided by (used in) capital and related financing activities	<u>(378,264)</u>	<u>70,277</u>
Cash flows from investing activities:		
Purchases of unrestricted investments	(107,192)	(86,032)
Proceeds from maturity of unrestricted investments	86,032	20
Restricted cash and investment accounts:		
Purchases	-	(600,154)
Withdrawals	287,415	354,816
Investment revenue	<u>2,606</u>	<u>1,784</u>
Net cash flows provided by (used in) investing activities	<u>268,861</u>	<u>(329,566)</u>
Net increase (decrease) in cash and cash equivalents	59,948	(87,743)
Cash and cash equivalents – beginning of year	<u>122,500</u>	<u>210,243</u>
Cash and cash equivalents – end of year	<u>\$ 182,448</u>	<u>\$ 122,500</u>

(Continued)

CHICAGO TRANSIT AUTHORITY  
Business-Type Activities  
Statements of Cash Flows  
Years ended December 31, 2015 and 2014  
(In thousands of dollars)

	<u>2015</u>	<u>2014</u>
Reconciliation of operating expenses in excess of operating revenues to net cash flows used in operating activities:		
Operating expenses in excess of operating revenues	\$ (1,185,180)	\$ (1,127,421)
Adjustments to reconcile operating expenses in excess of operating revenues to net cash flows used in operating activities:		
Depreciation	450,035	419,151
(Increase) decrease in assets:		
Pension outflows	(67,519)	-
Accounts receivable	6,762	6,047
Materials and supplies	(199)	10,412
Prepaid expenses and other assets	160	1,835
Net pension asset	-	718
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	18,925	(10,985)
Accrued payroll, vacation pay, and related liabilities	15,879	15,332
Self-insurance reserves	3,587	18,116
Unearned passenger revenue	10,566	7,239
Other unearned revenue	1,935	742
Advances, deposits, and other	13,592	7,176
Accrued pension costs and OPEB	99,431	24,768
Net cash flows used in operating activities	<u>\$ (632,026)</u>	<u>\$ (626,870)</u>
Noncash investing and financing activities:		
Recognition of leasing proceeds	\$ 844	\$ 1,695
Accretion of interest on lease/leaseback obligations	8,653	73,513
Retirement of fully depreciated capital assets	150,054	157,423
Purchases of capital assets in accounts payable at year-end	55,835	45,829
RTA assistance not received	310,502	273,431
Capital grant assistance not received		
Unbilled work in progress	110,810	109,401
Debt defeasance	197,159	-

See accompanying notes to financial statements.



CHICAGO TRANSIT AUTHORITY  
Fiduciary Activities  
Statements of Fiduciary Net Position  
Qualified Supplemental Retirement Plan  
December 31, 2015 and 2014  
(In thousands of dollars)

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	<u>2015</u>	<u>2014</u>
<b>Assets:</b>		
Contributions from employees	\$ 42	\$ 383
Investments at fair value:		
Short-term investments	1,407	1,493
Government agencies	7,976	8,104
Equity mutual funds	7,859	8,704
Common stock	<u>20,591</u>	<u>23,447</u>
Total investments at fair value	<u>37,833</u>	<u>41,748</u>
Securities lending collateral	<u>19,223</u>	<u>19,895</u>
Total assets	<u>57,098</u>	<u>62,026</u>
<b>Liabilities:</b>		
Accounts payable and other liabilities	-	85
Securities lending collateral obligation	<u>19,223</u>	<u>19,895</u>
Total liabilities	<u>19,223</u>	<u>19,980</u>
Net position restricted for pensions	<u>\$ 37,875</u>	<u>\$ 42,046</u>

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CHICAGO TRANSIT AUTHORITY  
Fiduciary Activities  
Statements of Changes in Fiduciary Net Position  
Qualified Supplemental Retirement Plan  
Years ended December 31, 2015 and 2014  
(In thousands of dollars)

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	<u>2015</u>	<u>2014</u>
Additions:		
Contributions:		
Employee	\$ 34	\$ 82
Employer	<u>1,155</u>	<u>1,119</u>
Total contributions	<u>1,189</u>	<u>1,201</u>
Investment income:		
Net increase (decrease) in fair value of investments	(2,953)	(2,363)
Investment income	<u>2,063</u>	<u>4,365</u>
Total investment income	<u>(890)</u>	<u>2,002</u>
Total additions	<u>299</u>	<u>3,203</u>
Deductions:		
Benefits paid to participants or beneficiaries	4,233	4,349
Administrative fees	<u>237</u>	<u>311</u>
Total deductions	<u>4,470</u>	<u>4,660</u>
Net increase (decrease)	(4,171)	(1,457)
Net position restricted for pensions		
Beginning of year	<u>42,046</u>	<u>43,503</u>
End of year	<u>\$ 37,875</u>	<u>\$ 42,046</u>

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CHICAGO TRANSIT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
Years Ended December 31, 2015 and 2014

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**NOTE 1 - ORGANIZATION**

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

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

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

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

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

The CTA participates in the Employees' Retirement Plan, which is a single-employer, defined benefit pension plan covering substantially all full-time permanent union and nonunion employees. The Employees' Plan is governed by Illinois state statute (40 ILCS 5/22-101). The fund, established to administer the Employees' Retirement Plan, is not a fiduciary fund or a component unit of the CTA. This fund is a legal entity separate and distinct from the CTA. This plan is administered by its own board of trustees comprised of 5 union representatives, 5 representatives appointed by the CTA, and a professional fiduciary appointed by the RTA. The CTA has no direct authority and assumes no fiduciary responsibility with regards to the Employees' Retirement Plan. Accordingly, the accounts of this fund are not included in the accompanying financial statements.

The CTA participates in the Retiree Health Care Trust (RHCT), which provides and administers health care benefits for CTA retirees and their dependents and survivors. The Retiree Health Care Trust was established by Public Acts 94-839 and 95-708. The RHCT is not a fiduciary fund or a component unit of the CTA. This trust is a legal entity separate and distinct from the CTA. This trust is administered by its own board of trustees comprised of three union representatives, three representatives appointed by the CTA and a professional fiduciary appointed by the RTA. The CTA has no direct authority and assumes no fiduciary responsibility with regards to the RHCT. Accordingly, the accounts of this fund are not included in the accompanying financial statements.

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(Continued)

CHICAGO TRANSIT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
Years Ended December 31, 2015 and 2014

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**NOTE 1 - ORGANIZATION** (Continued)

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

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

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

The financial statements for the CTA's business-type activities are used to account for the CTA's activities that are financed and operated in a manner similar to a private business enterprise. Accordingly, the CTA maintains its records on the accrual basis of accounting. Under this basis, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred, depreciation of assets is recognized, and all assets and liabilities associated with the operation of the CTA are included in the Statements of Net Position.

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

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

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(Continued)

CHICAGO TRANSIT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
Years Ended December 31, 2015 and 2014

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

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

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

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

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

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

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

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

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

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

*Bond proceeds held by trustee:* During various fiscal years, the CTA issued Capital Grant Receipt Revenue Bonds. The proceeds from each sale were placed in trust accounts restricted for financing the costs of capital improvement projects associated with each issuance. For more detailed information see Notes 8 and 9.

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(Continued)

CHICAGO TRANSIT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
Years Ended December 31, 2015 and 2014

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

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

Capitalized interest cost is amortized on the same basis as the related asset is depreciated. Projects funded with bond proceeds incurred \$77,357,000 and \$83,043,000 of interest expense for the years ended December 31, 2015 and 2014, respectively. Of those interest costs incurred, \$3,257,000 and \$4,646,000 were capitalized during the years ended December 31, 2015 and 2014, respectively.

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

	<u>Years</u>
Buildings	40
Elevated structures, tracks, tunnels, and power system	20-40
Transportation vehicles:	
Bus	7-12
Rail	25
Signal and communication	10-20
Other equipment	3-10

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

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

Included with the CTA's *other equipment* capital assets, the CTA has capitalized an intangible asset, computer software. The CTA follows the same capitalization policy and estimated useful life for its intangible asset as it does for its *other equipment* capital assets. The CTA also amortizes the intangible asset utilizing the straight-line method.

Deferred Outflows of Resources: A deferred outflow of resources is a consumption of net assets by the government that is applicable to a future reporting period.

Self-insurance: The CTA is self-insured for various risks of loss, including public liability and property damage, workers' compensation, and health benefit claims, as more fully described in note 16. A liability for each self-insured risk is provided based upon the present value of the estimated ultimate cost of settling claims using a case-by-case review and historical experience. A liability for claims incurred but not reported is also provided.

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(Continued)

CHICAGO TRANSIT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
Years Ended December 31, 2015 and 2014

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

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

Bond Premiums: Bond premiums are amortized over the life of the bonds using the bonds outstanding method.

Pensions: For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Pension Plans (the Plans) and additions to/deductions from the Plans fiduciary net position have been determined on the same basis as they are reported by the Plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. For more detailed information see Notes 13 and 14.

Net Position: Net position is displayed in three components as follows:

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

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

*Unrestricted* – This component of net position that does not meet the definition of "restricted" or "net investment in capital assets."

Retirement Plan: The CTA has a retirement plan for all nontemporary, full-time employees with service greater than one year. Pension expense is recorded on an annual basis based on the results of an actuarial valuation in conformity with GASB 68. For more detailed information see note 13.

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

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

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(Continued)

CHICAGO TRANSIT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
Years Ended December 31, 2015 and 2014

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

Reclassifications: Certain amounts from the prior year have been reclassified to conform to the current year presentation. The reclassifications had no effect on net position or change in net position.

Implementation of New Accounting Standards:

In January 2012, the GASB issued Statement No. 68, Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27. This Statement specifies accounting, financial reporting and disclosure requirements for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts. The requirements of this Statement became effective for CTA during fiscal year 2015 and implemented as of January 1, 2015. The fiscal year 2014 financial statements have not been restated for the implementation of GASB 68 as it is not deemed practical. The implementation of GASB Statement No. 68 resulted in a reduction of CTA's net position by \$1,221,964,000 which included deferred outflows of resources and recognition of net pension liabilities as of January 1, 2015.

In November 2013, GASB issued Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, Accounting and Financial Reporting for Pensions. The requirements of this statement became effective for CTA during fiscal year 2015 simultaneously with the provisions of Statement 68.

New Pronouncements:

In February 2015, the GASB issued Statement No. 72 – Fair Value Measurement and Application. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. This Statement is effective for the CTA's financial periods beginning after June 15, 2015.

In June 2015, GASB issued Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, Accounting and Financial Reporting for Pensions, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, Financial Reporting for Pension Plans, and Statement 68 for pension plans and pensions that are within their respective scopes. The provisions in Statement 73 are effective for fiscal years beginning after June 15, 2015—except those provisions that address employers and governmental non-employer contributing entities for pensions that are not within the scope of Statement 68, which are effective for financial statements for fiscal years beginning after June 15, 2016.

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(Continued)



CHICAGO TRANSIT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
Years Ended December 31, 2015 and 2014

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

In June 2015, GASB issued statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans. This Statement replaces Statements No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, as amended, Statement 43, and Statement No. 50, Pension Disclosures. The provisions in Statement 74 are effective for fiscal years beginning after June 15, 2016.

In June 2015, GASB issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. This Statement replaces the requirements of Statements No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2017.

In June 2015, GASB issued Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). This Statement supersedes Statement No. 55, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015.

In August 2015, GASB issued Statement No. 77, Tax Abatement Disclosures. This Statement requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015.

In December 2015 GASB issued Statement No. 78, Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans. This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan. The requirements of this Statement are effective for reporting periods beginning after December 15, 2015.

In December 2015 GASB issued Statement No. 79 Certain External Investment Pools and Pool Participants. This statement addresses accounting and financial reporting for certain external investment pools and pool participants. It establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The requirements of this Statement are effective for reporting periods beginning after June 15, 2015, except for provisions on portfolio quality, custodial credit risk, and shadow pricing which are effective for reporting periods beginning after December 15, 2015.

In January 2016 GASB issued Statement No. 80 Blending Requirements for Certain Component Units. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016.

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(Continued)

CHICAGO TRANSIT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
Years Ended December 31, 2015 and 2014

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

In March 2016 GASB issued Statement No. 81 Irrevocable Split-Interest Agreements. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively.

In March 2016 GASB issued Statement No. 82 Pension Issues. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.

Management has not yet determined the impact of these statements on the basic financial statements.

**NOTE 3 - BUDGET AND BUDGETARY BASIS OF ACCOUNTING**

The CTA is required under Section 4.01 of the Regional Transportation Authority Act to submit for approval an annual budget to the RTA by November 15 prior to the commencement of each fiscal year. The budget is prepared on a basis consistent with GAAP, except for the exclusion of certain income and expenses. For 2015 and 2014, these amounts include provision for injuries and damage in excess of (or under) budget, depreciation expense, pension expense in excess of pension contributions, actuarial adjustments, revenue from leasing transactions, interest income and expense from sale/leaseback transactions, and capital contributions.

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

Prior to 2009, the RTA funded the budgets of the service boards rather than the actual operating expenses in excess of system-generated revenue. Under this funding policy favorable variances from budget remain as unearned operating assistance to the CTA, and can be used in future years with RTA approval. At the end of 2009, the RTA changed the funding policy to reflect actual collections rather than the budgeted funding marks. This new policy shifts the risk of shortfalls from actual collections to the respective service boards.

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(Continued)

CHICAGO TRANSIT AUTHORITY  
 NOTES TO FINANCIAL STATEMENTS  
 Years Ended December 31, 2015 and 2014

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

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

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

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

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

Most of the CTA's public funding for operating needs is funneled through the RTA. The RTA allocates funds to the service boards based on a formula included in the 1983 Regional Transportation Authority Act and the 2008 Legislation (P.A. 95-0708) approved by Illinois lawmakers to provide increased operating funds to the Northeastern Illinois Transit System. Other funds are allocated based on the RTA's discretion.

The funding "marks" represent the amount of funds that each Service Board can expect to receive from the RTA and other sources.

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

		<b>2015</b>	<b>2014</b>
1983 Legislation	Illinois state sales tax allocation	\$ 360,575	\$ 343,087
1983 Legislation	RTA discretionary funding and other	214,471	196,254
2008 Legislation	Illinois state sales tax allocation & PTF	143,239	136,747
2008 Legislation	Real estate transfer tax	74,723	63,150
	Final public funding	\$ 793,008	\$ 739,238

Reduced-fare subsidies from the State of Illinois were \$14,606,000 and \$28,321,000 during the years ended December 31, 2015 and 2014, respectively, for discounted services provided to the elderly, disabled, or student riders.

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(Continued)

CHICAGO TRANSIT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
Years Ended December 31, 2015 and 2014

**NOTE 5 - CASH, CASH EQUIVALENTS, AND INVESTMENTS**

Cash, Cash Equivalents, and Investments of the Business-type Activities

Cash, cash equivalents, and investments are reported in the Statements of Net Position of the business-type activities as follows as of December 31, 2015 and 2014 (in thousands of dollars):

	<u>2015</u>	<u>2014</u>
Current assets:		
Cash and cash equivalents	\$ 85,438	\$ 16,506
Restricted for injury and damage reserve	97,010	105,994
Investments	107,192	86,032
Noncurrent assets:		
Bond proceeds held by trustee	378,431	665,931
Held by trustee for supplemental retirement plan	603	518
Total	<u>\$ 668,674</u>	<u>\$ 874,981</u>

Cash, cash equivalents, and investments of the business-type activities consist of the following as of December 31, 2015 and 2014 (in thousands of dollars):

	<u>2015</u>	<u>2014</u>
Investments:		
Certificates of deposit	\$ 20	\$ 20
Money market mutual funds	52,066	49,502
U.S. government agencies	297,551	319,047
U.S. Treasury bills	48,365	85,070
Municipal bonds	36,964	26,181
Commercial paper	208,216	373,512
Total Investments	643,182	853,332
Deposits with financial institutions	25,492	21,649
Total deposits and investments	<u>\$ 668,674</u>	<u>\$ 874,981</u>

Investment Policy: CTA investments are made in accordance with the Public Funds Investment Act (30 ILCS 235/1) (the Act) and, as required under the Act, the Chicago Transit Authority Investment Policy (the Investment Policy). The Investment Policy does not apply to the Employees Retirement Plan or the Retiree Healthcare Trust, which are separate legal entities. Additionally, the CTA Investment Policy does not apply to the Supplemental Retirement Plan, which is directed by the Employee Retirement Review Committee. In accordance with the Act and the Investment Policy, CTA invests in the following types of securities:

1. United States Treasury Securities (Bonds, Notes, Certificates of Indebtedness, and Bills). CTA may invest in obligations of the United States government, which are guaranteed by the full faith and credit of the United States of America as to principal and interest.
2. United States Agencies. CTA may invest in bonds, notes, debentures, or other similar obligations of the United States or its agencies. Agencies include: (a) federal land banks, federal intermediate credit banks, banks for cooperative, federal farm credit bank, or other entities authorized to issue debt obligations under the Farm Credit Act of 1971, as amended; (b) federal home loan banks and the federal home loan mortgage corporation; and (c) any other agency created by an act of Congress.

(Continued)

CHICAGO TRANSIT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
Years Ended December 31, 2015 and 2014

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

3. Bank Deposits. CTA may invest in interest-bearing savings accounts, interest-bearing certificates of deposit, or interest-bearing time deposits or other investments constituting direct obligations of any bank as defined by the Illinois Banking Act (205 ILCS 5/1 et seq.), provided that any such bank must be insured by the Federal Deposit Insurance Corporation (the FDIC).
4. Commercial Paper. CTA may invest in short-term obligations (commercial paper) of corporations organized in the United States with assets exceeding \$500 million, provided that: (a) such obligations are at the time of purchase at the highest classification established by at least two standard rating services and which mature not later than 270 days from the date of purchase; and (b) such purchases do not exceed 10% of the corporation's outstanding obligations.
5. Mutual Funds. CTA may invest in mutual funds which invest exclusively in United States government obligations and agencies.
6. Discount Obligations. CTA may invest in short-term discount obligations of the Federal National Mortgage Association.
7. Investment Pool. CTA may invest in a Public Treasurers' Investment Pool created under Section 17 of the State Treasurer Act (15 ILCS 505/17).
8. Repurchase Agreements. CTA may invest in repurchase agreements for securities that are authorized investments under the Investment Policy, subject to all of the requirements of the Act, provided that: (a) the securities shall be held by an authorized custodial bank; and (b) each transaction must be entered into under terms of an authorized master repurchase agreement.
9. Investment Certificates. CTA may invest in investment certificates issued by FDIC-insured savings banks or FDIC-insured savings and loan associations.
10. Interest-bearing bonds of any county, township, city, village, incorporated town, municipal corporation, or school district, of the State of Illinois, of any other state, or of any political subdivision or agency of the State of Illinois or of any other state, whether the interest earned thereon is taxable or tax-exempt under federal law. The bonds shall be registered in the name of the Authority or held under a custodial agreement at a bank. The bonds shall be rated, at the time of purchase, no lower than 'A' category by at least two accredited rating agencies with nationally recognized expertise in rating bonds of states and their political subdivisions. The maturity of the bonds authorized by this subsection (10) shall, at the time of purchase, not exceed 10 years; provided that a longer maturity is authorized if the Authority has a put option to tender the bonds within 10 years from the date of purchase. These securities shall show on their face that they are fully payable as to principal and interest, where applicable, if any, within ten years from the date of purchase.

**Custodial Credit Risk:** Custodial credit risk for deposits is the risk that in the event of a financial institution failure, the CTA's deposits may not be returned. The CTA's investment policy requires that deposits which exceed the amount insured by the FDIC be collateralized, at the rate of 102% of such deposits, by bonds, notes, certificates of indebtedness, treasury bills or other securities which are guaranteed by the full faith and credit of the United States of America as to principal and interest or, at the rate of 110% of such deposit, by: bonds, notes, debentures, or other similar obligations of agencies of the United States of America. As of December 31, 2015 and 2014, the CTA's bank balances were fully insured or collateralized.

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(Continued)

CHICAGO TRANSIT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
Years Ended December 31, 2015 and 2014

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

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

Instrument type	Term of investment
U.S. treasuries	3 years
Repurchase agreements	330 days
Certificates of deposit	365 days
Commercial paper	270 days
U.S. Government agencies	3 years
Government money market funds	n.a.
Federal National Mortgage Assn.	3 years
Municipal bonds (callable)	10 years
Mutual funds	n.a.
Investment pool	n.a.

As of December 31, 2015, the maturities for the CTA's fixed-income investments are as follows (in thousands of dollars):

	Fair value	Investment maturities (by years)		
		Less than 1	1 - 5	5+
Money market mutual funds	\$ 52,066	\$ 52,066	\$ -	\$ -
U.S. government agencies	297,551	225,706	71,845	-
U.S. treasury bills	48,365	48,365	-	-
Municipal bonds	36,964	17,864	19,100	-
Commercial paper	208,216	208,216	-	-
Total	\$ 643,162	\$ 552,217	\$ 90,945	\$ -

As of December 31, 2014, the maturities for the CTA's fixed-income investments are as follows (in thousands of dollars):

	Fair value	Investment maturities (by years)		
		Less than 1	1-5	5+
Money market mutual funds	\$ 49,502	\$ 49,502	\$ -	\$ -
U.S. government agencies	319,047	251,848	67,199	-
U.S. treasury bills	85,070	36,351	48,719	-
Municipal bonds	26,181	6,174	20,007	-
Commercial paper	373,512	373,512	-	-
Total	\$ 853,312	\$ 717,387	\$ 135,925	\$ -

(Continued)

CHICAGO TRANSIT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
Years Ended December 31, 2015 and 2014

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

**Credit Risk:** Credit risk is the risk that the CTA will not recover its investments due to the failure of the counterparty to fulfill its obligation. As of December 31, 2015, the CTA had the following fixed-income investments which are rated by both Moody's and Standard and Poor's (in thousands of dollars):

	Fair value	Credit ratings				Not rated
		A1P1 or AAA	A2P2 or AA	A3P3 or A	B	
Money market mutual funds	\$ 52,066	\$ -	\$ -	\$ -		\$ 52,066
U.S. government agencies	297,551	-	297,551	-		-
U.S. treasury bills	48,365	-	48,365	-		-
Municipal bonds	36,964	2,662	16,342	12,978	4,982	-
Commercial paper	208,216	208,216	-	-		-
Total	<u>\$ 643,162</u>	<u>\$ 210,878</u>	<u>\$ 362,258</u>	<u>\$ 12,978</u>	<u>\$ 4,982</u>	<u>\$ 52,066</u>

As of December 31, 2014, the CTA had the following fixed-income investments which are rated by both Moody's and Standard and Poor's (in thousands of dollars):

	Fair value	Credit ratings				Not rated
		A1P1 or AAA	A2P2 or AA	A3P3 or A	B	
Money market mutual funds	\$ 49,502	\$ -	\$ -	\$ -		\$ 49,502
U.S. government agencies	319,047	-	319,047	-		-
U.S. treasury bills	85,070	-	85,070	-		-
Municipal bonds	26,181	7,461	8,110	10,610		-
Commercial paper	373,512	373,512	-	-		-
Total	<u>\$ 853,312</u>	<u>\$ 380,973</u>	<u>\$ 412,227</u>	<u>\$10,610</u>		<u>\$ 49,502</u>

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

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

**Concentration of Credit Risk:** Except for investments in certificates of deposits and commercial paper, the CTA does not restrict the amount which may be invested in authorized investments of a single issuer or financial institution. No more than 30 percent of the maximum portfolio percentage amount allowed for investment in certificates of deposit may be invested in certificates of deposit of a single issuer of such certificates. No more than 25 percent of the maximum portfolio percentage amount allowed for investment in commercial paper may be invested in commercial paper of a single issuer of such commercial paper.

(Continued)

CHICAGO TRANSIT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
Years Ended December 31, 2015 and 2014

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

As of December 31, 2015, the CTA had investments in the U.S. Bank (10.68%), Federal Home Loan Bank (FHLB) (24.52%), Federal Home Loan Mortgage Corporation (FHLMC) (6.94%), Treasury Bills (7.52%), Federal National Mortgage Association (FNMA) (7.48%) and Goldman Sachs – Amalgamated (7.00%) that exceeded 5 percent of the total investment balance. As of December 31, 2014, the CTA had investments in the U.S. Bank (17.8%), Federal Home Loan Bank (FHLB) (15.6%), Credit Suisse Ag (12.41%), Federal Home Loan Mortgage Corporation (FHLMC) (12.2%), Treasury Bills (10.0%) and Federal National Mortgage Association (FNMA) (9.3%) that exceeded 5 percent of the total investment balance.

**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, 2015 and 2014 (in thousands of dollars):

	<u>2015</u>	<u>2014</u>
Investments, at fair value:		
Short-term investments	\$ 1,407	\$ 1,493
U.S. government agency commingled funds	7,976	8,104
Equity mutual funds	7,859	8,704
Common stock	20,591	23,447
Total	<u>\$ 37,833</u>	<u>\$ 41,748</u>

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

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

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(Continued)



CHICAGO TRANSIT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 5 - CASH, CASH EQUIVALENTS, AND INVESTMENTS** (Continued)

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

Asset class	Allocation
U.S. large cap equities	39.00%
U.S. mid size cap equities	14.00
U.S. small cap equities	12.00
Non-U.S. equities	10.00
U.S. fixed income	25.00
	100.00%

As of December 31, 2015, the maturities for the Plan's fixed-income investments are as follows (in thousands):

	Fair value	Investment Maturities (in years)	
		Less than 1	1 - 5
Short-term investment funds	\$ 1,407	\$ 1,407	\$ -
U.S. government agency commingled funds	7,976	7,976	-
Total	\$ 9,383	\$ 9,383	\$ -

As of December 31, 2014, the maturities for the Plan's fixed-income investments are as follows (in thousands):

	Fair value	Investment Maturities (in years)	
		Less than 1	1 - 5
Short-term investment funds	\$ 1,493	\$ 1,493	\$ -
U.S. government agency commingled funds	8,104	8,104	-
Total	\$ 9,597	\$ 9,597	\$ -

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

As of December 31, 2015, the Plan had the following fixed-income investments which are rated by both Moody's and Standard and Poor's (in thousands of dollars):

	Fair value	Credit ratings	
		Government Secured	Not Rated
Short-term investment funds	\$ 1,407	\$ -	\$ 1,407
U.S. government agency commingled funds	7,976	7,976	-
Total	\$ 9,383	\$ 7,976	\$ 1,407

(Continued)

CHICAGO TRANSIT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
Years Ended December 31, 2015 and 2014

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

As of December 31, 2014, the Plan had the following fixed-income investments which are rated by both Moody's and Standard and Poor's (in thousands of dollars):

	Fair value	Credit ratings	
		Government Secured	Not Rated
Short-term investment funds	\$ 1,493	\$ -	\$ 1,493
U.S. government agency commingled funds	8,104	8,104	-
Total	<u>\$ 9,597</u>	<u>\$ 8,104</u>	<u>\$ 1,493</u>

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

Foreign Currency Risk: Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. The Plan's foreign currency risk is limited to its investments in an international equity commingled fund with a fair value of \$4,222,000 and \$4,525,000 as of December 31, 2015 and 2014, respectively.

Securities Lending: The Qualified Supplemental Plan of the CTA participates in a domestic and international securities lending program whereby securities are loaned to investment brokers/dealers (borrower). Securities loaned are collateralized at 102% of the domestic equity and US dollar-denominated securities that can be loaned and not less than 105% of the borrowed securities if they are denominated in different currencies. The fair value of the securities loaned was approximately \$18,684,000 and \$19,411,000 as of December 31, 2015 and 2014, respectively. The fair value of the associated collateral received was approximately \$19,223,000 and \$19,895,000 as of December 31, 2015 and 2014, respectively.

**Restricted Assets for Repayment of Leasing Commitments**

The CTA has outstanding lease/leaseback obligations. When the CTA entered into these transactions it received advance payments. The CTA deposited a portion of the advance payment with a trustee, who was to purchase direct obligations of the U.S. government and other securities that would mature on the dates and in the amounts required to pay lease payments and the respective purchase option price. These investments are held by the trustee and are invested in U.S. Treasury strips, U.S. government obligations, or guaranteed investment contracts. Because these investments are insured by a third party and are held in U.S. Treasuries and government investment contracts they are not recorded at fair value but are recorded at amortized cost on the Statements of Net Position.

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CHICAGO TRANSIT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
Years Ended December 31, 2015 and 2014

**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 \$299,400,000 and \$339,638,000 have been entered into for federal and state (including local) capital grant contracts as of December 31, 2015 and 2014, respectively.

The CTA also has additional capital grant contracts, which are 100% funded by the RTA, IDOT, FEMA, IEMA, or CTA bonds. Commitments of approximately \$552,395,000 and \$714,494,000 have been entered into for these state and local capital grants as of December 31, 2015 and 2014, respectively. Changes in capital assets for the year ended December 31, 2015 are as follows (in thousands of dollars):

	<b>Balance at January 1, 2015</b>	<b>Increase</b>	<b>Decrease</b>	<b>Balance at December 31, 2015</b>
Capital assets not being depreciated:				
Land	\$ 115,982	\$ 4,275	\$ -	\$ 120,257
Construction in process	760,040	621,264	(746,005)	635,299
Total capital assets not being depreciated	<u>876,022</u>	<u>625,539</u>	<u>(746,005)</u>	<u>755,556</u>
Capital assets being depreciated:				
Land improvements	34,264	2,515	-	36,779
Buildings	2,524,837	125,587	-	2,650,424
Transportation vehicles	3,345,154	374,367	(138,239)	3,581,282
Elevated structure track	2,215,927	119,953	-	2,335,880
Signal and communication	1,333,615	78,762	(755)	1,411,622
Other equipment	702,762	40,546	(11,059)	732,249
Total capital assets being depreciated	<u>10,156,559</u>	<u>741,730</u>	<u>(150,053)</u>	<u>10,748,236</u>
Less accumulated depreciation for:				
Land improvements	26,300	1,768	-	28,068
Buildings	1,285,940	102,723	-	1,388,663
Transportation vehicles	2,038,669	169,010	(138,239)	2,069,440
Elevated structure track	1,404,266	78,249	-	1,482,515
Signal and communication	908,269	54,816	(755)	962,330
Other equipment	546,003	43,469	(11,059)	578,413
Total accumulated depreciation	<u>6,209,447</u>	<u>450,035</u>	<u>(150,053)</u>	<u>6,509,429</u>
Total capital assets being depreciated, net	<u>3,947,112</u>	<u>291,695</u>	<u>-</u>	<u>4,238,807</u>
Total capital assets, net	<u>\$ 4,823,134</u>	<u>\$ 917,234</u>	<u>\$ (746,005)</u>	<u>\$ 4,994,363</u>

(Continued)

CHICAGO TRANSIT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
Years Ended December 31, 2015 and 2014

**NOTE 6 - CAPITAL ASSETS** (Continued)

Changes in capital assets for the year ended December 31, 2014 are as follows (in thousands of dollars):

	<b>Balance at January 1, 2014</b>	<b>Increase</b>	<b>Decrease</b>	<b>Balance at December 31, 2014</b>
Capital assets not being depreciated:				
Land	\$ 116,462	\$ 583	\$ (1,063)	\$ 115,982
Construction in process	922,428	846,771	(1,009,159)	760,040
Total capital assets not being depreciated	<u>1,038,890</u>	<u>847,354</u>	<u>(1,010,222)</u>	<u>876,022</u>
Capital assets being depreciated:				
Land improvements	30,294	3,970	-	34,264
Buildings	2,389,939	135,153	(255)	2,524,837
Transportation vehicles	2,883,979	551,127	(89,952)	3,345,154
Elevated structure track	1,989,728	226,199	-	2,215,927
Signal and communication	1,265,079	73,980	(5,444)	1,333,615
Other equipment	727,990	36,601	(61,829)	702,762
Total capital assets being depreciated	<u>9,287,009</u>	<u>1,027,030</u>	<u>(157,480)</u>	<u>10,156,559</u>
Less accumulated depreciation for:				
Land improvements	24,674	1,626	-	26,300
Buildings	1,201,543	84,651	(254)	1,285,940
Transportation vehicles	1,924,395	204,276	(90,002)	2,038,669
Elevated structure track	1,306,794	97,472	-	1,404,266
Signal and communication	855,669	57,987	(5,387)	908,269
Other equipment	570,286	37,497	(61,780)	546,003
Total accumulated depreciation	<u>5,883,361</u>	<u>483,509</u>	<u>(157,423)</u>	<u>6,209,447</u>
Total capital assets being depreciated, net	<u>3,403,648</u>	<u>543,521</u>	<u>(57)</u>	<u>3,947,112</u>
Total capital assets, net	<u>\$ 4,442,538</u>	<u>\$ 1,390,875</u>	<u>\$ (1,010,279)</u>	<u>\$ 4,823,134</u>

(Continued)

CHICAGO TRANSIT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
Years Ended December 31, 2015 and 2014

**NOTE 7 - LONG-TERM OBLIGATIONS**

Changes in long-term obligations for the year ended December 31, 2015 are as follows (in thousands of dollars):

	Balance at January 1, 2015*	Additions	Reductions	Balance at December 31, 2015	Amount due beyond one year	Amount due within one year
Self insurance claims (note 14)	\$ 280,254	\$ 224,516	\$ (220,929)	\$ 283,841	\$ 190,045	\$ 93,796
Capital lease obligations:						
Capital lease obligations (note 8)	386,303	8,653	(188,243)	206,713	184,982	21,731
Premium on capital lease obligation	4,617	-	(418)	4,199	4,199	-
Unearned rev. – leasing trans. (note 8)	9,967	-	(8,281)	1,686	1,686	-
Total capital lease obligations	<u>400,887</u>	<u>8,653</u>	<u>(196,942)</u>	<u>212,598</u>	<u>190,867</u>	<u>21,731</u>
Bonds payable:						
Bonds payable (note 9)	4,177,025	176,920	(269,360)	4,084,585	4,012,125	72,460
Premium on bonds payable	85,369	21,568	(12,495)	94,442	94,442	-
Total bonds payable	<u>4,262,394</u>	<u>198,488</u>	<u>(281,855)</u>	<u>4,179,027</u>	<u>4,106,567</u>	<u>72,460</u>
Certificates of participation (note 10)	43,486	-	(6,762)	36,724	29,775	6,949
Net pension liability (note 13 & 14)	1,371,034	99,007	-	1,470,041	1,470,041	-
Net OPEB obligation (note 15)	4,213	424	-	4,637	4,637	-
Other long-term liabilities:						
Fare system purchase agreement (note 11)	94,230	-	(8,649)	85,581	76,525	9,056
Other	20	-	-	20	20	-
Total other long-term liabilities	<u>94,250</u>	<u>-</u>	<u>(8,649)</u>	<u>85,601</u>	<u>76,545</u>	<u>9,056</u>
Total	<u>\$ 6,456,518</u>	<u>\$ 531,088</u>	<u>\$ (715,137)</u>	<u>\$ 6,272,469</u>	<u>\$ 6,068,477</u>	<u>\$ 203,992</u>

\* Beginning balances have been restated due to implementation of GASB 68.

Changes in long-term obligations for the year ended December 31, 2014 are as follows (in thousands of dollars):

	Balance at January 1, 2014	Additions	Reductions	Balance at December 31, 2014	Amount due beyond one year	Amount due within one year
Self insurance claims (note 14)	\$ 262,138	\$ 235,530	\$ (217,414)	\$ 280,254	\$ 181,039	\$ 99,215
Capital lease obligations:						
Capital lease obligations (note 8)	1,608,763	73,513	(1,295,973)	386,303	349,149	37,154
Premium on capital lease obligation	5,049	-	(432)	4,617	4,617	-
Unearned rev. – leasing trans. (note 8)	11,662	-	(1,695)	9,967	9,967	-
Total capital lease obligations	<u>1,625,474</u>	<u>73,513</u>	<u>(1,298,100)</u>	<u>400,887</u>	<u>363,733</u>	<u>37,154</u>
Bonds payable:						
Bonds payable (note 9)	3,700,755	555,000	(78,730)	4,177,025	4,088,345	88,680
Premium on bonds payable	46,995	45,154	(6,780)	85,369	85,369	-
Total bonds payable	<u>3,747,750</u>	<u>600,154</u>	<u>(85,510)</u>	<u>4,262,394</u>	<u>4,173,714</u>	<u>88,680</u>
Certificates of participation (note 10)	49,907	-	(6,421)	43,486	36,724	6,762
Net pension obligation (note 13 & 14)	59,455	24,675	-	84,130	84,130	-
Net OPEB obligation (note 15)	4,120	93	-	4,213	4,213	-
Other long-term liabilities:						
Fare system purchase agreement (note 11)	102,490	-	(8,260)	94,230	85,581	8,649
Other	3,005	-	(2,985)	20	20	-
Total other long-term liabilities	<u>105,495</u>	<u>-</u>	<u>(11,245)</u>	<u>94,250</u>	<u>85,601</u>	<u>8,649</u>
Total	<u>\$ 5,854,339</u>	<u>\$ 933,965</u>	<u>\$ (1,618,690)</u>	<u>\$ 5,169,614</u>	<u>\$ 4,929,154</u>	<u>\$ 240,460</u>

(Continued)

CHICAGO TRANSIT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
Years Ended December 31, 2015 and 2014

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**NOTE 8 - CAPITAL LEASE OBLIGATIONS**

Capital Lease – 2008 Bus Lease: During 2008, the CTA entered into a lease-purchase agreement to finance the purchase of 150 sixty foot New Flyer articulated hybrid buses and certain related parts and equipment with a book value of \$51,810,000 and \$61,815,000 at December 31, 2015 and 2014, respectively. The terms of the 2008 agreement allow CTA to lease the buses for 12 years and retain ownership at the conclusion of the lease. Lease payments are due every June 1 and December 1 of each year. During 2013, CTA terminated the 2008 agreement and entered into a 2013 lease-purchase agreement with the same term and reduced rental payments. A deferred loss on refunding of \$3,207,000 was recorded at the time of the 2013 transaction. The remaining unamortized loss of \$1,518,000 is recorded as a deferred outflow of resources. The present value of the future payments to be made by the CTA under the lease of approximately \$55,799,000 is reflected in the accompanying December 31, 2015 Statements of Net Position as a capital lease obligation.

Capital Lease – Public Building Commission: In 2003, the Public Building Commission of Chicago (PBC) issued revenue bonds for the benefit of the CTA in the amount of \$119,020,000. The bonds were issued to pay costs associated with the acquisition of real property and construction of a building, and facilities, including certain furniture, fixtures, and equipment. The real property, building and facilities, and all furniture, fixtures, and equipment are owned by the PBC and leased to the CTA for use as its headquarters. On October 26, 2006, the Public Building Commission of Chicago (PBC) issued Building Refunding Revenue Bonds for the benefit of the CTA in the amount of \$91,340,000. The proceeds of the bonds were used to advance refund the Public Building Commission of Chicago, Series 2003 bonds. The principal amount of the bonds refunded was \$111,120,000.

The proceeds from the sale of the 2006 bonds are being held in escrow under an escrow refunding agreement and have been invested in United States Treasury obligations. The principal amount of such obligations, together with interest earned thereon, will permit the payment of principal and interest on the refunded bonds up to an including their respective call dates. The refunded bonds are treated in the financial statements as defeased obligations. Accordingly, neither the trust account assets nor the refunded bonds appear in the accompanying financial statements. This refunding decreased annual debt service payments over 27 years by approximately \$388,000, resulting in an economic gain of approximately \$20,404,000. Based upon the requirements of GASB Statement No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Accounts*, the CTA recorded a deferred amount (loss) on refunding of \$2,395,000. The remaining unamortized portion of \$932,000 is recorded as a deferred outflow of resources in the accompanying December 31, 2015 Statements of Net Position.

The bonds are payable from and secured by the lease entered into between the Commission and the CTA and are considered a general obligation of the CTA payable from any lawfully available funds. The bond premium related to this transaction is presented as such on the Statements of Net Position. The present value of the future payments to be made by the CTA under the lease of approximately \$72,285,000 is reflected in the accompanying December 31, 2015 Statements of Net Position 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 \$4,440 and \$9,221 at December 31, 2015 and 2014, respectively. 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. On October 1, 2014, CTA exercised an option to early terminate the 2003 bus lease and therefore no capital lease obligation is reflected as of December 31, 2015 or 2014.

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(Continued)

CHICAGO TRANSIT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
Years Ended December 31, 2015 and 2014

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**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 \$0 and \$2,805 at December 31, 2015 and 2014, respectively. 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. During 2012, CTA submitted notice to exercise the purchase option for lots 1 and 2 and accordingly lot 2 terminated in December 2013 and Lot 1 terminated in December 2014 and therefore no capital lease obligation is reflected as of December 31, 2015 or 2014.

During 1998, the CTA entered into lease and leaseback agreements with three third party investors pertaining to certain property, railway tracks and train stations on the Green Line, with a book value of \$157,183,000 and \$169,824,000 at December 31, 2015 and 2014, respectively. The 1998 Agreement, which provides certain cash and tax benefits to the third parties, also provides for a trust established by the CTA to lease the rail line to an equity investor trust (the 1998 Equity Trust), which would then lease the facilities back to another trust established by the CTA under a separate lease (the 1998 Lease). In 2008, one of the three investors chose to unwind the transaction and the corresponding agreements were terminated. On March 6, 2015, another investor chose to unwind the transaction and the corresponding agreements were terminated. The present value of the future payments to be made by the CTA under the single remaining lease and leaseback of approximately \$78,629,000 is reflected in the accompanying December 31, 2015 Statements of Net Position as a capital lease obligation.

During 1997, the CTA entered into four lease and leaseback agreements (the 1997 Agreements) with a third party pertaining to certain of its facilities having a book value of \$33,276,000 and \$35,907,000 at December 31, 2015 and 2014, respectively. The 1997 Agreements, which provide certain cash and tax benefits to the third party, also provide for a trust established by the CTA to lease the facilities to an equity investor trust (the Equity Trust), which would then lease the facilities back to another trust established by the CTA under separate leases (the Leases). The CTA received certain funds as prepayment by the Equity Trust. The funds were deposited in designated investment accounts sufficient to meet the payments required under the Leases and are recorded as assets restricted for repayment of leasing commitments. The Equity Trust has a security interest in the deposits to guarantee the payments due by the CTA and may take possession of the facilities upon a default by the CTA under the Lease. No other lease payments are required until the end of each lease. On April 7, 2015, CTA exercised an option to early terminate the 1997 Agreements and therefore no capital lease obligation is reflected as of December 31, 2015.

During 1996, the CTA entered into similar lease and leaseback agreements (the 1996 Agreements) with a third party pertaining to certain of its facilities, with a book value of \$35,800,000 and \$38,163,000 at December 31, 2015 and 2014, respectively. The 1996 Agreements, which provide certain cash and tax benefits to the third party, also provide for a trust established by the CTA to lease the facilities to an equity investor trust (the 1996 Equity Trust), which would then lease the facilities back to another trust established by the CTA under a separate lease (the 1996 Lease). On April 7, 2015, CTA exercised an option to early terminate the 1997 Agreements and therefore no capital lease obligation is reflected as of December 31, 2015.

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 with a book value of \$20,692,000 and \$29,524,000 at December 31, 2015 and 2014, respectively. At inception, 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. On October 1, 2014, CTA exercised an option to early terminate the 1995 Agreements and therefore no capital lease obligation is reflected as of December 31, 2015 or 2014.

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(Continued)

CHICAGO TRANSIT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
Years Ended December 31, 2015 and 2014

**NOTE 8 - CAPITAL LEASE OBLIGATIONS (Continued)**

Change in Capital Lease Obligations: Changes in capital leases for the year ended December 31, 2015 are as follows (in thousands of dollars):

2015	Beginning balance	Additions*	Principal paid	Ending balance	Interest paid	Due in one year
1998 (Green)	\$ 136,629	\$ 6,655	\$ (64,655)	\$ 78,629	\$ 6,655	\$ 7,268
1997 (Garages)	53,931	1,014	(54,945)	-	1,014	-
1996 (Skokie/Racine)	53,576	984	(54,560)	-	984	-
Total lease/leasebacks	244,136	8,653	(174,160)	78,629	8,653	7,268
2006 PBC lease	74,690	-	(2,405)	72,285	6,187	2,530
2008 Bus Lease	67,477	-	(11,678)	55,799	1,408	11,933
Total capital lease obligation	<u>\$ 386,303</u>	<u>\$ 8,653</u>	<u>\$ (188,243)</u>	<u>\$ 206,713</u>	<u>\$ 16,248</u>	<u>\$ 21,731</u>

\* Additions include accretion of interest.

Change in Capital Lease Obligations: Changes in capital leases for the year ended December 31, 2014 are as follows (in thousands of dollars):

2014	Beginning balance	Additions*	Principal paid	Ending balance	Interest paid	Due in one year
2003 (Buses)	\$ 16,763	\$ 398	\$ (17,161)	-	\$ 5,025	-
2002 (Buses)	61,761	3,789	(65,550)	-	3,789	-
1998 (Green)	149,455	10,246	(23,072)	136,629	10,246	23,072
1997 (Garages)	50,159	3,772	-	53,931	3,772	-
1996 (Skokie/Racine)	49,908	3,668	-	53,576	3,668	-
1995 (Pickle)	1,124,828	51,640	(1,176,468)	-	73,463	-
Total lease/leasebacks	1,452,874	73,513	(1,282,251)	244,136	99,963	23,072
2006 PBC lease	76,985	-	(2,295)	74,690	3,783	2,405
2008 Bus Lease	78,904	-	(11,427)	67,477	1,408	11,677
Total capital lease obligation	<u>\$ 1,608,763</u>	<u>\$ 73,513</u>	<u>\$ (1,295,973)</u>	<u>\$ 386,303</u>	<u>\$ 105,154</u>	<u>\$ 37,154</u>

\* Additions include accretion of interest.

Future Minimum Lease Payments: As of December 31, 2015 future minimum lease payments for capital leases, in the aggregate, are as follows (in thousands of dollars):

2016	\$ 21,731
2017	14,855
2018	99,717
2019	15,651
2020	9,537
2021 - 2025	17,900
2026 - 2030	23,250
2031 - 2033	17,180
Total minimum lease payments	219,821
Less interest	13,108
	<u>\$ 206,713</u>

(Continued)



CHICAGO TRANSIT AUTHORITY  
 NOTES TO FINANCIAL STATEMENTS  
 Years Ended December 31, 2015 and 2014

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**NOTE 9 - BONDS PAYABLE**

2004 Series Capital Grant Receipts Revenue Bonds (Federal Transit Administration Section 5307 Urbanized Area Formula Funds): On October 20, 2004, the CTA issued Capital Grant Receipts Revenue Bonds, "2004 Project," in the amount of \$250,000,000, along with a premium of \$26,713,000, in anticipation of the receipt of grants from the federal government. The bonds were issued to provide funds to finance or reimburse the CTA for prior expenditures relating to a portion of the costs of capital improvements to the Transportation System referred to as the "2004 Project." The Federal Transit Administration's section 5307 program is a formula grant program for metropolitan areas providing capital, operating or planning assistance for mass transportation.

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

The Capital Grant Receipts Revenue Bonds, Refunding Series 2010 refunded the maturities dated June 1, 2010 through June 1, 2011 of the 5307 (Series 2004A, 2004B and 2006A) and 5309 (Series 2008 and 2008A) bonds.

The Capital Grant Receipts Revenue Bonds, Refunding Series 2011 refunded the maturity dated June 1, 2016 of the 5307 Series 2004B bonds and the maturities dated June 1, 2013 and June 1, 2016 through June 1, 2020 of the 5307 Series 2006A bonds.

The Capital Grant Receipts Revenue Bonds, Refunding Series 2015 5307 bonds refunded the maturity dated June 1, 2016 of the 5307 Series 2004B bonds and the maturities dated June 1, 2018 through June 1, 2021 of the 5307 Series 2006A bonds.

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

		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016		\$ 19,055	\$ 500	\$ 19,555
	Total	<u>\$ 19,055</u>	<u>\$ 500</u>	<u>\$ 19,555</u>

2006A Series Capital Grant Receipts Revenue Bonds (Federal Transit Administration Section 5307 Urbanized Area Formula Funds): On November 1, 2006, the CTA issued Capital Grant Receipts Revenue Bonds, "2006 Project," in the amount of \$275,000,000, along with a premium of \$19,652,000, in anticipation of the receipt of grants from the federal government. The bonds were issued to provide funds to finance or reimburse the CTA for expenditures relating to a portion of the costs of capital improvements to the Transportation System referred to as the "2006 Project." The Federal Transit Administration's section 5307 program is a formula grant program for metropolitan areas providing capital, operating or planning assistance for mass transportation.

The Series 2006A bonds bear interest ranging from 4.0% to 5.0%. Interest is payable semiannually on June 1 and December 1 and the bonds mature serially through June 1, 2021.

The Capital Grant Receipts Revenue Bonds, Refunding Series 2010 refunded the maturities dated June 1, 2010 through June 1, 2011 of the 5307 (Series 2004A, 2004B and 2006A) and 5309 (Series 2008 and 2008A) bonds.

The Capital Grant Receipts Revenue Bonds, Refunding Series 2011 refunded the maturity dated June 1, 2016 of the 5307 Series 2004B bonds and the maturities dated June 1, 2013 and June 1, 2016 through June 1, 2020 of the 5307 Series 2006A bonds.

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(Continued)

CHICAGO TRANSIT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
Years Ended December 31, 2015 and 2014

**NOTE 9 - BONDS PAYABLE** (Continued)

The Capital Grant Receipts Revenue Bonds, Refunding Series 2015 5307 bonds refunded the maturity dated June 1, 2016 of the 5307 Series 2004B bonds and the maturities dated June 1, 2018 through June 1, 2021 of the 5307 Series 2006A bonds.

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ -	\$ 1,236	\$ 1,236
2017	24,720	618	25,338
Total	<u>\$ 24,720</u>	<u>\$ 1,854</u>	<u>\$ 26,574</u>

2008 Series (5309 Fixed Guideway Modernization Program) and 2008A Series (5307 Urbanized Area Formula Program) Capital Grant Receipts Revenue Bonds: On April 16, 2008, the CTA issued Capital Grant Receipts Revenue Bonds, "2008 Project," in the amount of \$250,000,000, along with a premium of \$18,637,000, in anticipation of the receipt of grants from the federal government. The bonds were issued to provide funds to finance or reimburse the CTA for expenditures relating to a portion of the costs of capital improvements to the Transportation System referred to as the "2008 Project." The Federal Transit Administration's section 5307 program is a formula grant program for metropolitan areas providing capital, operating or planning assistance for mass transportation. The section 5309 program is a formula grant program providing capital assistance for the modernization of existing rail systems.

The Series 2008 (5309) and 2008A (5307) bonds bear interest ranging from 3.5% to 5.25%. Interest is payable semiannually on June 1 and December 1 and the bonds mature serially through June 1, 2026.

The Capital Grant Receipts Revenue Bonds, Refunding Series 2010 refunded the maturities dated June 1, 2010 through June 1, 2011 of the 5307 (Series 2004A, 2004B and 2006A) and 5309 (Series 2008 and 2008A) bonds.

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

	<u>2008 (5309)</u>		<u>2008A (5307)</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 7,700	\$ 5,529	\$ -	\$ 5,250	\$ 7,700	\$ 10,779
2017	8,085	5,134	-	5,250	8,085	10,384
2018	8,490	4,720	-	5,250	8,490	9,970
2019	8,910	4,274	-	5,250	8,910	9,524
2020	9,380	3,794	-	5,250	9,380	9,044
2021	9,870	3,288	-	5,250	9,870	8,538
2022	10,390	2,757	18,005	4,777	28,395	7,534
2023	10,935	2,197	18,955	3,807	29,890	6,004
2024	11,510	1,608	19,950	2,786	31,460	4,394
2025	12,115	987	20,995	1,711	33,110	2,698
2026	12,750	335	22,095	580	34,845	915
Total	<u>\$ 110,135</u>	<u>\$ 34,623</u>	<u>\$ 100,000</u>	<u>\$ 45,161</u>	<u>\$ 210,135</u>	<u>\$ 79,784</u>

(Continued)

CHICAGO TRANSIT AUTHORITY  
 NOTES TO FINANCIAL STATEMENTS  
 Years Ended December 31, 2015 and 2014

**NOTE 9 - BONDS PAYABLE** (Continued)

2008A Series (5309 Fixed Guideway Modernization Program) Capital Grant Receipts Revenue Bonds: On November 20, 2008, the CTA issued Capital Grant Receipts Revenue Bonds, "2008 Project," in the amount of \$175,000,000, along with a premium of \$3,760,000, in anticipation of the receipt of grants from the federal government. The bonds were issued to provide funds to finance or reimburse the CTA for expenditures relating to a portion of the costs of capital improvements to the Transportation System referred to as the "2008 Project." The section 5309 program is a formula grant program providing capital assistance for the modernization of existing rail systems.

The Series 2008A (5309) bonds bear interest ranging from 5.0% to 6.0%. Interest is payable semiannually on June 1 and December 1 and the bonds mature serially through June 1, 2026.

The Capital Grant Receipts Revenue Bonds, Refunding Series 2010 refunded the maturities dated June 1, 2010 through June 1, 2011 of the 5307 (Series 2004A, 2004B and 2006A) and 5309 (Series 2008 and 2008A) bonds.

The Capital Grant Receipts Revenue Bonds, Refunding Series 2015 5337 bonds refunded the maturities dated June 1, 2016, 2024 thru 2026 of the 5337 Series 2008A bonds.

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

	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2016	\$ 7,480	\$ 4,220	\$ 11,700
2017	9,440	3,785	13,225
2018	9,935	3,264	13,199
2019	10,480	2,703	13,183
2020	11,055	2,138	13,193
2021	11,610	1,572	13,182
2022	12,190	977	13,167
2023	12,800	336	13,136
Total	\$ 84,990	\$ 18,995	\$ 103,985

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

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

(Continued)

CHICAGO TRANSIT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
Years Ended December 31, 2015 and 2014

**NOTE 9 - BONDS PAYABLE** (Continued)

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

The Series 2008A and 2008B bonds bear interest ranging from 5.1% to 6.9%. Scheduled interest on the 2008A and 2008B bonds will be funded through June 1, 2009 and June 1, 2010, respectively, with bond proceeds and interest earnings thereon. Interest is payable semiannually on June 1 and December 1 and the bonds mature serially on June 1, 2013 through June 1, 2040.

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 30,550	\$ 126,024	\$ 156,574
2017	32,475	124,099	156,574
2018	34,520	122,053	156,573
2019	36,695	119,878	156,573
2020	39,010	117,566	156,576
2021	41,465	115,109	156,574
2022	44,080	112,496	156,576
2023	47,120	109,455	156,575
2024	50,370	106,205	156,575
2025	53,845	102,730	156,575
2026	57,560	99,015	156,575
2027	61,530	95,044	156,574
2028	65,775	90,799	156,574
2029	70,310	86,261	156,571
2030	75,165	81,410	156,575
2031	80,350	76,225	156,575
2032	85,895	70,681	156,576
2033	91,820	64,755	156,575
2034	98,150	58,421	156,571
2035	104,925	51,649	156,574
2036	112,165	44,411	156,576
2037	119,905	36,672	156,577
2038	128,170	28,400	156,570
2039	137,015	19,558	156,573
2040	146,470	10,105	156,575
Total	<u>\$ 1,845,335</u>	<u>\$ 2,069,021</u>	<u>\$ 3,914,356</u>

(Continued)

CHICAGO TRANSIT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
Years Ended December 31, 2015 and 2014

**NOTE 9 - BONDS PAYABLE** (Continued)

2010A Sales Tax Receipts Revenue Bonds and Taxable Series 2010B Sales Tax Receipts Revenue Bonds (Build America Bonds): On March 23, 2010, the CTA issued the Sales Tax Receipts Revenue Bonds, Series 2010A and Taxable Series 2010B Build America Bonds, in the amount of \$550,000,000, along with a premium of \$5,186,000. The bonds were issued to provide funds to finance or reimburse the CTA for expenditures relating to the purchase of new rail cars, overhaul and rehabilitation of existing rail cars, and the purchase and installation of upgrades for rail system components. The American Recovery and Reinvestment Act of 2009 created the Build America Bond (BAB) Program. This program allows state and local governments to issue taxable bonds for capital projects and to receive a federal subsidy payment from the U.S. Treasury Department for a portion of their borrowing costs.

The Series 2010A and 2010B bonds bear interest ranging from 4.0% to 6.2%. Scheduled interest on the 2010 bonds was funded through December 1, 2010 with proceeds of the 2010 bonds and interest earnings thereon. Interest is payable semiannually on June 1 and December 1 and the bonds mature serially on June 1, 2015 through June 1, 2040.

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

	<u>2010A</u>		<u>2010B</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 7,675	\$ 1,905	\$ -	\$ 30,798	\$ 7,675	\$ 32,703
2017	9,925	1,521	-	30,798	9,925	32,319
2018	10,415	1,034	-	30,798	10,415	31,832
2019	10,915	536	-	30,798	10,915	31,334
2020	-	-	11,510	30,798	11,510	30,798
2021	-	-	12,095	30,214	12,095	30,214
2022	-	-	12,720	29,583	12,720	29,583
2023	-	-	13,405	28,900	13,405	28,900
2024	-	-	14,135	28,167	14,135	28,167
2025	-	-	14,930	27,372	14,930	27,372
2026	-	-	15,855	26,447	15,855	26,447
2027	-	-	16,835	25,464	16,835	25,464
2028	-	-	17,880	24,420	17,880	24,420
2029	-	-	18,985	23,311	18,985	23,311
2030	-	-	20,155	22,134	20,155	22,134
2031	-	-	21,400	20,885	21,400	20,885
2032	-	-	22,725	19,558	22,725	19,558
2033	-	-	24,135	18,149	24,135	18,149
2034	-	-	31,820	16,653	31,820	16,653
2035	-	-	33,785	14,680	33,785	14,680
2036	-	-	35,875	12,585	35,875	12,585
2037	-	-	38,090	10,361	38,090	10,361
2038	-	-	40,455	7,999	40,455	7,999
2039	-	-	42,955	5,491	42,955	5,491
2040	-	-	45,610	2,828	45,610	2,828
	<u>\$ 38,930</u>	<u>\$ 4,996</u>	<u>\$ 505,355</u>	<u>\$ 549,191</u>	<u>\$ 544,285</u>	<u>\$ 554,187</u>

(Continued)

CHICAGO TRANSIT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
Years Ended December 31, 2015 and 2014

**NOTE 9 - BONDS PAYABLE** (Continued)

2010 (5307 Urbanized Area Formula Program & 5309 Fixed Guideway Modernization Program) Refunding Series Capital Grant Receipts Revenue Bonds: On May 6, 2010, the CTA issued the tax-exempt Capital Grant Receipts Revenue Bonds backed by the pledge of Federal Transit Administration Section 5307 Urbanized Area Formula Program and 5309 Fixed Guideway Modernization Program Funds, in the amount of \$90,715,000, along with a premium of \$1,876,000, in anticipation of the receipt of grants from the federal government pursuant to a full funding grant agreement. The bonds were issued to provide funds to refund a portion of the outstanding 5307 (Series 2004A, 2004B and 2006A) and 5309 (Series 2008 and 2008A) bonds.

The Series 2010 bonds bear interest at 5.00%. Interest is payable semiannually on June 1 and December 1, and the bonds mature serially on June 1, 2027 and June 1, 2028.

Net proceeds of \$45,778,000 were deposited into an irrevocable trust with an escrow agent to provide for 2011 debt service payments on the 5307 (Series 2004A, 2004B and 2006A) and 5309 (Series 2008 and 2008A) bonds. As a result, a portion of the 5307 (Series 2004A, 2004B and 2006A) and 5309 (Series 2008 and 2008A) bonds then outstanding are considered to be defeased and the 2011 liability has been removed from the Statements of Net Position. The CTA refunded the various bonds using the proceeds from the 2010 Series bonds which increased its total debt service payments over the next 19 years by \$78,527,992 and resulted in an economic loss (difference between the present values of the debt service payments on the old and new debt) of \$3,099,253. The defeased debt had a zero balance as of December 31, 2015 and 2014.

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

	<u>2010 5307</u>		<u>2010 5309</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ -	\$ 3,195	\$ -	\$ 1,341	\$ -	\$ 4,536
2017	-	3,195	-	1,341	-	4,536
2018	-	3,195	-	1,341	-	4,536
2019	-	3,195	-	1,341	-	4,536
2020	-	3,195	-	1,341	-	4,536
2021	-	3,195	-	1,341	-	4,536
2022	-	3,195	-	1,341	-	4,536
2023	-	3,195	-	1,341	-	4,536
2024	-	3,195	-	1,341	-	4,536
2025	-	3,195	-	1,341	-	4,536
2026	-	3,195	-	1,341	-	4,536
2027	31,170	2,415	13,085	1,014	44,255	3,429
2028	32,725	818	13,735	343	46,460	1,161
	<u>\$ 63,895</u>	<u>\$ 38,378</u>	<u>\$ 26,820</u>	<u>\$ 16,108</u>	<u>\$ 90,715</u>	<u>\$ 54,486</u>

2011 (5307 Urbanized Area Formula Program) Refunding Series Capital Grant Receipts Revenue Bonds: On October 26, 2011, the CTA issued the tax-exempt Capital Grant Receipts Revenue Bonds backed by the pledge of Federal Transit Administration Section 5307 Urbanized Area Formula Program, in the amount of \$56,525,000, along with a premium of \$1,805,528, in anticipation of the receipt of grants from the federal government pursuant to a full funding grant agreement. The bonds were issued to provide funds to refund a portion of the outstanding 5307 (Series 2004B and 2006A) bonds.

(Continued)

CHICAGO TRANSIT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
Years Ended December 31, 2015 and 2014

**NOTE 9 - BONDS PAYABLE** (Continued)

The Series 2011 bonds bear interest ranging from 4.5% to 5.25%. Interest is payable semiannually on June 1 and December 1, and the bonds mature serially from June 1, 2022 to June 1, 2029.

Net proceeds of \$57,534,862 were deposited into an irrevocable trust with an escrow agent to provide for debt service payments on the 5307 (Series 2004B and 2006A) bonds. As a result, a portion of the 5307 (Series 2004B and 2006A) bonds then outstanding are considered to be defeased and the related liability has been removed from the Statements of Net Position. The CTA refunded the various bonds using the proceeds from the 2011 Series bonds which increased its total debt service payments over the next 18 years by \$34,252,000 and resulted in an economic loss (difference between the present values of the debt service payments on the old and new debt) of \$9,214,000. The balance of the defeased debt was \$48,470,000 and \$48,470,000 as of December 31, 2015 and 2014.

The difference between the reacquisition price and the net carrying amount of the bonds refunded by the Capital Grant Receipts Revenue Bonds, Refunding Series 2011 of \$6,794,000 was deferred and is being amortized over 18 years. The deferred amount ending balance for the year ended December 31, 2015 and 2014 was \$4,842,000 and \$5,310,000, respectively, and recorded as a deferred outflow of resources in the accompanying Statements of Net Position. Amortization of the deferred amount on the refunding was \$468,000 and \$469,000 for the year ended December 31, 2015 and 2014, respectively.

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ -	\$ 2,865	\$ 2,865
2017	-	2,865	2,865
2018	-	2,865	2,865
2019	-	2,865	2,865
2020	-	2,865	2,865
2021	-	2,865	2,865
2022	6,595	2,700	9,295
2023	6,920	2,353	9,273
2024	7,285	1,980	9,265
2025	7,665	1,594	9,259
2026	8,060	1,187	9,247
2027	-	975	975
2028	-	975	975
2029	20,000	488	20,488
Total	<u>\$ 56,525</u>	<u>\$ 29,442</u>	<u>\$ 85,967</u>

**2011 Sales Tax Receipts Revenue Bonds:** On October 26, 2011, the CTA issued the Sales Tax Receipts Revenue Bonds, Series 2011, in the amount of \$476,905,000, along with a premium of \$21,392,000. The bonds were issued to pay for, or reimburse the CTA for prior expenditures relating to (i) the purchase of rail cars to replace existing cars and (ii) the finance of any other capital project designated by the CTA Board as part of the 2011 Project.

The Series 2011 bonds bear interest ranging from 5.0% to 5.25%. Scheduled interest on the 2010 bonds will be funded through December 1, 2015 with proceeds of the 2011 bonds and interest earnings thereon. Interest is payable semiannually on June 1 and December 1 and the bonds mature serially on December 1, 2021 through December 1, 2040.

(Continued)

CHICAGO TRANSIT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
Years Ended December 31, 2015 and 2014

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**NOTE 9 - BONDS PAYABLE** (Continued)

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ -	\$ 24,965	\$ 24,965
2017	-	24,965	24,965
2018	-	24,965	24,965
2019	-	24,965	24,965
2020	-	24,965	24,965
2021	14,090	24,965	39,055
2022	14,800	24,261	39,061
2023	15,540	23,521	39,061
2024	16,360	22,705	39,065
2025	17,220	21,846	39,066
2026	18,120	20,942	39,062
2027	19,075	19,991	39,066
2028	20,080	18,989	39,069
2029	21,135	17,935	39,070
2030	22,250	16,825	39,075
2031	23,425	15,657	39,082
2032	24,655	14,428	39,083
2033	25,950	13,133	39,083
2034	27,315	11,771	39,086
2035	28,755	10,337	39,092
2036	30,265	8,827	39,092
2037	31,860	7,238	39,098
2038	33,540	5,566	39,106
2039	35,305	3,805	39,110
2040	37,165	1,951	39,116
	<u>\$ 476,905</u>	<u>\$ 429,518</u>	<u>\$ 906,423</u>

2014 Sales Tax Receipts Revenue Bonds: On July 10, 2014, the CTA issued Sales and Transfer Tax Receipts Revenue Bonds, Series 2014 in the amount of \$550,000,000, along with a premium of \$45,154,000. The bonds were issued to provide funds to finance, in whole or in part, capital projects contemplated by the Authority's Capital Plan.

The Series 2014 bonds bear interest ranging from 5.0% to 5.25%. Interest is payable semiannually on June 1 and December 1 and the bonds mature serially December 1, 2041 through December 1, 2049.

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(Continued)



CHICAGO TRANSIT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
Years Ended December 31, 2015 and 2014

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**NOTE 9 - BONDS PAYABLE** (Continued)

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ -	\$ 28,597	\$ 28,597
2017	-	28,597	28,597
2018	-	28,597	28,597
2019	-	28,597	28,597
2020	-	28,597	28,597
2021	-	28,597	28,597
2022	-	28,597	28,597
2023	-	28,597	28,597
2024	-	28,597	28,597
2025	-	28,597	28,597
2026	-	28,597	28,597
2027	-	28,597	28,597
2028	-	28,597	28,597
2029	-	28,597	28,597
2030	-	28,597	28,597
2031	-	28,597	28,597
2032	-	28,597	28,597
2033	-	28,597	28,597
2034	-	28,597	28,597
2035	-	28,597	28,597
2036	-	28,597	28,597
2037	-	28,597	28,597
2038	-	28,597	28,597
2039	-	28,597	28,597
2040	-	28,597	28,597
2041	50,180	28,597	78,777
2042	52,690	26,088	78,778
2043	55,325	23,453	78,778
2044	58,090	20,687	78,777
2045	60,995	17,783	78,778
2046	64,195	14,580	78,775
2047	67,565	11,210	78,775
2048	71,115	7,663	78,778
2049	74,845	3,929	78,774
	<u>\$ 555,000</u>	<u>\$ 868,915</u>	<u>\$ 1,423,915</u>

Capital Grant Receipts Revenue Bonds, Refunding Series 2015: On September 16, 2015, the CTA issued Capital Grant Receipts Revenue Bonds backed by the pledge of Federal Transit Administration Section 5307 Urbanized Area Formula Program Funds and Section 5337 State of Good Repair Formula Program Funds, in the amount of \$176,920,000 along with a premium of \$21,569,000, in anticipation of the receipt of grants from the federal government pursuant to a full funding grant agreement. The bonds were issued to refund a portion of the outstanding 5307 (Series 2004B and 2006A) and 5337 (Series 2008A) bonds.

The Series 2015 bond bear interest at 5.00%. Interest is payable semiannually on June 1 and December 1, commencing December 1, 2015 and the bonds mature serially June 1, 2018 through June 1, 2026.

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(Continued)

CHICAGO TRANSIT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
Years Ended December 31, 2015 and 2014

**NOTE 9 - BONDS PAYABLE** (Continued)

The remaining net proceeds of \$197,158,672 were deposited into an irrevocable trust with an escrow agent to provide for debt service payments on the 5307 (Series 2004B and 2006A) and 5337 (Series 2008A) bonds. As a result, a portion of the 5307 (Series 2004B and 2006A) and 5337 (Series 2008A) bonds then outstanding are considered to be defeased and the related liability has been removed from the Statements of Net Position. The CTA refunded the various bonds using the proceeds from the 2015 Series bonds which reduced its total debt service payments over the next 10 years by \$10,043,000 and resulted in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$9,856,000. The defeased debt had a balance of \$180,680,000 as of December 31, 2015.

The difference between the reacquisition price and the net carrying amount of the bonds refunded by the Capital Grant Receipts Revenue Bonds, Refunding Series 2015 of \$12,281,000 was deferred and is being amortized over the next 10 years. The deferred amount ending balance for the year ended December 31, 2015 was \$11,579,000. Amortization of the deferred amount on the refunding was \$702,000 for the year ended December 31, 2015.

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

	<u>2015 (5307)</u>		<u>2015 (5337)</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ -	\$ 6,564	\$ -	\$ 2,283	\$ -	\$ 8,847
2017	-	6,564	-	2,283	-	8,847
2018	27,000	5,889	290	2,275	27,290	8,164
2019	31,275	4,432	305	2,260	31,580	6,692
2020	31,585	2,860	320	2,245	31,905	5,105
2021	41,410	1,035	335	2,228	41,745	3,263
2022	-	-	350	2,211	350	2,211
2023	-	-	370	2,193	370	2,193
2024	-	-	13,855	1,838	13,855	1,838
2025	-	-	14,550	1,128	14,550	1,128
2026	-	-	15,275	382	15,275	382
	<u>\$ 131,270</u>	<u>\$ 27,344</u>	<u>\$ 45,650</u>	<u>\$ 21,326</u>	<u>\$ 176,920</u>	<u>\$ 48,670</u>

(Continued)

CHICAGO TRANSIT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
Years Ended December 31, 2015 and 2014

**NOTE 9 - BONDS PAYABLE (Continued)**

The total bond debt service requirements to maturity for all outstanding bonds are as follows (in thousands of dollars):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 72,460	\$ 245,272	\$ 317,732
2017	84,645	241,015	325,660
2018	90,650	236,246	326,896
2019	98,580	231,094	329,674
2020	102,860	225,614	328,474
2021 - 2025	650,835	1,027,372	1,678,207
2026 - 2030	689,605	826,020	1,515,625
2031 - 2035	725,105	619,967	1,345,072
2036 - 2040	1,014,845	348,782	1,363,627
2041 - 2045	277,280	116,608	393,888
2046 - 2049	277,720	37,382	315,102
	<u>\$ 4,084,585</u>	<u>\$ 4,155,372</u>	<u>\$ 8,239,957</u>

**NOTE 10 - CERTIFICATES OF PARTICIPATION**

In August 2008, Certificates of Participation (COP) totaling \$78,430,000 were issued on behalf of the CTA. The COPs were used to finance the purchase of 200 (40 ft.) New Flyer low floor buses and certain related parts and equipment. On August 1, 2008, the CTA entered into an installment purchase agreement. The obligation of the CTA to make installment payments is an unconditional obligation of the CTA and is payable from legally available funds. The installment agreement requires the CTA to make annual COP payments which are remitted to the COP holders. Scheduled maturity dates occur at various times through December 1, 2020. During 2013, CTA terminated the original 2008 agreement and entered into three new agreements with the same terms and reduced interest rates. The total principal and interest remaining to be paid on the COPs as of December 31, 2015, is \$39,558,000. Principal and interest paid in 2015 was approximately \$7,912,000.

As of December 31, 2015, debt service requirements to maturity are as follows (in thousands of dollars):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 6,949	\$ 963	\$ 7,912
2017	7,142	770	7,912
2018	7,339	572	7,911
2019	7,543	369	7,912
2020	7,751	160	7,911
	<u>\$ 36,724</u>	<u>\$ 2,834</u>	<u>\$ 39,558</u>

(Continued)

CHICAGO TRANSIT AUTHORITY  
 NOTES TO FINANCIAL STATEMENTS  
 Years Ended December 31, 2015 and 2014

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**NOTE 11 – FARE COLLECTION SYSTEM PURCHASE AGREEMENT**

CTA entered into a purchase agreement to finance a fare collection system with a value of \$102,900,000. Under the purchase agreement, the CTA will make monthly payments of approximately \$1,067,603 over the ten year term to finance the design, acquisition and installation of the open standards fare system. The present value of the future payments to be made by the CTA under the purchase agreement of approximately \$85,581,000 is reflected in the accompanying December 31, 2015 Statements of Net Position as an other long term liability.

The purchase agreement requirements to maturity are as follows (in thousands of dollars):

	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2016	\$ 9,056	\$ 3,755	\$ 12,811
2017	9,483	3,328	12,811
2018	9,929	2,882	12,811
2019	10,397	2,414	12,811
2020	10,886	1,925	12,811
2021 - 2023	35,830	2,603	38,433
	<u>\$ 85,581</u>	<u>\$ 16,907</u>	<u>\$ 102,488</u>

**NOTE 12 – TIFIA LOANS**

2014 TIFIA Loan

On April 24, 2014, CTA entered into a definitive loan agreement with the United States Department of Transportation (USDOT), an agency of the United States of America, acting by and through the Federal Highway Administrator under the Transportation Infrastructure Finance and Innovation Act (TIFIA) loan program to finance certain projects that are a part of the Authority's 95th Street Terminal Improvement Project.

The principal amount of the TIFIA Loan shall not exceed \$79,200,000; provided, the maximum principal amount of the TIFIA loan disbursed by the USDOT, together with the amount (excluding any interest that is capitalized) of any other credit assistance provided under TIFIA, cannot exceed thirty-three percent (33%) of reasonably anticipated eligible project costs. Further, total federal funding, inclusive of the TIFIA loans and all federal direct or indirect grants, cannot exceed eighty percent (80%) of reasonably anticipated eligible project costs.

As evidence of CTA's obligation to repay the TIFIA Loan, CTA has issued to the lender a registered fare box receipts revenue bonds in the amount of \$79,200,000 million dated April 24, 2014 with a maturity date of December 1, 2050 bearing an interest rate of 3.5%, with a loan amortization schedule.

2015 TIFIA Loan

On February 3, 2015, CTA entered into a definitive loan agreement with the United States Department of Transportation (USDOT), an agency of the United States of America, acting by and through the Federal Highway Administrator under the Transportation Infrastructure Finance and Innovation Act (TIFIA) loan program to finance certain projects that are a part of the Authority's "Your New Blue" capital improvement program.

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(Continued)

CHICAGO TRANSIT AUTHORITY  
 NOTES TO FINANCIAL STATEMENTS  
 Years Ended December 31, 2015 and 2014

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**NOTE 12 – TIFIA LOANS** (Continued)

The principal amount of the TIFIA Loan shall not exceed \$120,000,000; provided, the maximum principal amount of the TIFIA loan disbursed by the USDOT, together with the amount (excluding any interest that is capitalized) of any other credit assistance provided under TIFIA, cannot exceed thirty-three percent (33%) of reasonably anticipated eligible project costs. Further, total federal funding, inclusive of the TIFIA loans and all federal direct or indirect grants, cannot exceed eighty percent (80%) of reasonably anticipated eligible project costs.

As evidence of CTA’s obligation to repay the TIFIA Loan, CTA has issued to the lender two fare box receipts revenue bonds in the amounts of \$42,600,000 million with a maturity date of December 1, 2029, bearing an interest rate of 2.02%, and \$77,400,000 million with a maturity date of December 1, 2052, bearing an interest rate of 2.31%.

As of December 31, 2015 no drawdowns had occurred on either of the TIFIA loans. No balance is presented on the Statements of Net Position as of December 31, 2015 or 2014.

**NOTE 13 – EMPLOYEES’ RETIREMENT PLAN PENSION DISCLOSURES**

GASB Statements No. 68 *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27* and No.71 *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*

**General Information about the Retirement Plan for Chicago Transit Authority Employees**

*Plan Description.* The CTA participates in a single employer defined benefit pension plan covering substantially all full-time permanent union and non-union employees. The Retirement Plan for Chicago Transit Authority Employees (the Employees’ Plan) is governed by Illinois state statute (40 ILCS 5/22-101). Substantially all non-temporary, full-time employees who have completed one year of continuous service (“Service”) participate in the Employees’ Plan. The Employees’ Plan issues a separate stand-alone financial report which is available at <http://www.ctaretirement.org/index.asp>.

*Contributions.* Prior to 2008, contribution requirements of the Employees’ Plan were governed by collective bargaining agreements. After 2008, contribution requirements are governed by Illinois state statute (40 ILCS 5/22-101).

Actual contributions made to the Employees’ Plan during the years ended December 31, 2015 and 2014 are as follows (in thousands of dollars):

	Employees’ Plan	
	2015	2014
Employer contributions	\$ 82,628	\$ 82,268
Employee contributions	58,709	58,566
Total	\$ 141,337	\$ 140,834

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(Continued)

CHICAGO TRANSIT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
Years Ended December 31, 2015 and 2014

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**NOTE 13 – EMPLOYEES’ RETIREMENT PLAN PENSION DISCLOSURES** (Continued)

*Benefit terms.* Substantially all non-temporary, full-time employees who have completed one year of continuous service (“Service”) participate in the Employee Plan. Employees are entitled to annual pension benefits upon normal retirement at age 65, in an amount generally based on a percentage, not to exceed 70%, of their average annual compensation in the highest four of the 10 preceding years. For employees retiring on or after January 1, 2001, the percentage is 2.15% multiplied by the employee’s number of continuous years of participating service. The Employee Plan permits early retirement at age 55 with three years of service, generally with reduced benefits. However, in the event of early retirement by an employee who has 25 years or more of continuous service, regardless of their age, benefits will not be reduced. In accordance with Public Act 095-0708, for all employees hired on or after January 18, 2008, eligibility for an unreduced pension benefit has changed to age 64 with 25 years of service and early retirement is age 55 with 10 years of service. Benefits are paid monthly equal to one-twelfth of the annual benefit for the retiree’s lifetime. Married employees can elect to receive their pension benefits in the form of a joint and survivor option. In addition to retirement benefits, the Employee Plan also provides disability and death benefits.

*Employees covered by the benefit terms.* The following participants were covered by the benefit terms as of January 1, 2014:

	<u>Employees’ Plan</u>
Retirees and beneficiaries currently receiving benefits	9,693
Terminated employees entitled to but not yet receiving benefits	95
Active plan members	<u>8,186</u>
Total	<u><u>17,974</u></u>

***Net Pension Liability***

The CTA’s net pension liability was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2014.

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(Continued)

CHICAGO TRANSIT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
Years Ended December 31, 2015 and 2014

**NOTE 13 – EMPLOYEES’ RETIREMENT PLAN PENSION DISCLOSURES** (Continued)

*Actuarial assumptions and calculations.* The total pension liability was determined using the following actuarial assumptions, applied to the periods included in the measurement:

<b>Employee Plan</b>	
Actuarial valuation date	January 1, 2014
Measurement date	December 31, 2014. Census data was collected as of January 1, 2014. Liabilities measured as of the census date were projected to December 31, 2014, assuming no demographic gains or losses.
Investment return	8.25% per annum, compounded annually, including inflation, net of expenses
Inflation	3.25% per annum
Salary increases	Service graded table starting at 9% with 4% ultimate rate after 5 years of service
Future ad hoc benefit increases	None assumed
Mortality	RP-2000 Blue Collar Table, generational to 2016 based on Scale BB and then fully generational.
Early retirement age	55
Normal retirement age	65
Actuarial cost method	Entry Age Normal - Level Percentage of Pay
Experience study	The actuarial assumptions used were based on the results of an actuarial experience study for the period January 1, 2008 through December 31, 2013.

Best estimates of arithmetic real rates of return for each major asset class included in the Employees’ Plan target asset allocation as of January 1, 2015 are summarized in the following table (note that the rates shown below include the inflation components):

	<b>Employees’ Plan</b>	
	<b>Target Allocation</b>	<b>Estimate of expected long-term rate of return</b>
Fixed income	17%	1.23%
Domestic equities	28	9.27
International equities	21	8.66
Venture capital and partnerships	10	12.41
Real estate	12	6.83
Hedge funds	7	4.72
Infrastructure	5	6.61

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

(Continued)

CHICAGO TRANSIT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
Years Ended December 31, 2015 and 2014

**NOTE 13 – EMPLOYEES’ RETIREMENT PLAN PENSION DISCLOSURES** (Continued)

*Discount rate.* The discount rate used to measure the total pension liability was 8.25%. The projection of cash flows used to determine the discount rate assumed that Employees’ Plan members and employer contributions will continue to follow the current funding policy. Based on those assumptions, the Employees’ Plan fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Changes in Net Pension Liability (in thousands of dollars):*

	<b>Employees’ Plan</b>		
	<b>Increase (Decrease)</b>		
	<b>Total Pension Liability (a)</b>	<b>Plan Fiduciary Net Position (b)</b>	<b>Net Pension Liability (a) - (b)</b>
Balance as of 12/31/13 - Measurement date	\$ 3,220,533	\$ 1,892,715	\$ 1,327,818
Change for the year:			
Service cost	49,066	-	49,066
Interest	259,593	-	259,593
Benefit payments	(246,038)	(246,038)	-
Contributions - Employer	-	82,268	(82,268)
Contributions - Employee	-	58,566	(58,566)
Net investment income, net of expenses	-	71,524	(71,524)
Administrative expenses	-	(3,123)	3,123
Net changes	62,621	(36,803)	99,424
Balance as of 12/31/14 - Measurement date	\$ 3,283,154	\$ 1,855,912	\$ 1,427,242

Plan fiduciary net position as a percentage of the total net pension liability - 2015	56.53%
Plan fiduciary net position as a percentage of the total net pension liability - 2014	58.77%

*Sensitivity of the net pension liability to changes in discount rate.* The following presents the net pension liability of the Employees’ Plan, calculated using the discount rate of 8.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.25%) or 1-percentage-point higher (9.25%) than the current rate (in thousands of dollars):

	<b>Employees’ Plan</b>		
	<b>1% Decrease (7.25%)</b>	<b>Current Discount Rate (8.25%)</b>	<b>1% Increase (9.25%)</b>
Employees’ Plan net pension liability	\$ 1,752,257	\$ 1,427,242	\$ 1,149,201

*Pension plan fiduciary net position.* Detailed information about the pension plan’s fiduciary net position is available in the separately issued CTA Employees’ Retirement Plan financial report.

(Continued)



CHICAGO TRANSIT AUTHORITY  
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**NOTE 13 – EMPLOYEES’ RETIREMENT PLAN PENSION DISCLOSURES** (Continued)

***Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.***

For the year ended December 31, 2015, CTA recognized pension expense of \$117,567,000. At December 31, 2015, CTA reported deferred outflows of resources related to pensions from the following source:

	<b>Employee Plan Deferred Outflow of Resources (in thousands)</b>
Difference between projected and actual earnings on pension plan	\$ 64,125
Employer contribution made after measurement date	82,795
Balance as of 12/31/15	\$ 146,920

CTA reported \$82,795,000 as a deferred outflows of resources related to pensions resulting from contributions paid subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in the pension expense as follows:

<b>Employees' Plan</b>	<b>Amortization per year (in thousands)</b>
<b>Year Ended December 31:</b>	
2016	\$ 16,031
2017	16,031
2018	16,031
2019	16,032
Total Amortization	\$ 64,125

(Continued)

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**NOTE 13 – EMPLOYEES’ RETIREMENT PLAN PENSION DISCLOSURES** (Continued)

GASB Statement No. 27, Accounting for Pensions by State and Local Governmental Employers

**Net Pension Obligation**

*Actuarial Assumptions for fiscal year 2014.* The net pension obligation for fiscal year 2014 was computed as part of an actuarial valuation performed and dated as of the first day of the fiscal period, January 1, 2014. Significant actuarial assumptions are shown below:

The CTA’s annual pension cost for the prior year and related information for fiscal year end 2014 is as follows (in thousands of dollars):

**Employees’ Plan**

Actuarial valuation date	January 1, 2014
Contribution rates:	
CTA	14.25%
Plan members	10.125%
Annual pension cost (APC)	\$107,029
Actual contributions:	
CTA	\$82,198
Plan members	\$58,404
Actuarial cost method	Projected unit credit
Amortization method	Level dollar
Remaining amortization period	30 years - Open
Asset valuation method	Fair market value
Actuarial assumptions:	
Investment rate of return	8.25%
Projected salary increases	Service graded table starting at 9% with 4% ultimate rate after 5 years of service
Includes inflation at	3.25

The short-term salary increase and inflation assumptions for the Employees’ Plan were updated to reflect the current economic environment and salary programs in place, and the pay increases embedded into the current collective bargaining agreements.

The following represents the significant components of the APC and changes in net pension obligation (NPO) during the years ended December 31, 2014, 2013 and 2012 (in thousands of dollars):

	<b>Employees’ Plan</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
Annual Required Contribution	\$ 107,096	\$ 100,956	\$ 107,569
Interest on NPO	3,672	1,955	(1,862)
Adjustment to ARC	(3,739)	(1,973)	1,879
Annual pension cost	107,029	100,938	107,586
Contributions made	82,198	79,431	62,678
Increase (decrease) in NPO	24,831	21,507	44,908
NPO, beginning of year	44,511	23,004	(21,904)
NPO, end of year	<u>\$ 69,342</u>	<u>\$ 44,511</u>	<u>\$ 23,004</u>

(Continued)

CHICAGO TRANSIT AUTHORITY  
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**NOTE 13 – EMPLOYEES’ RETIREMENT PLAN PENSION DISCLOSURES (Continued)**

*Funded Status and Funding Progress.* The schedule of funding progress for the Employees’ Plan is included in the Required Supplementary Information to present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. The data for the most recent valuation is as follows (in thousands of dollars):

Actuarial valuation date	Employees’ Plan					
	Actuarial value of assets (a)	Actuarial accrued liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	Percentage of covered payroll ((b-a)/c)
1/1/2014	\$ 1,892,714	\$ 3,105,567	\$ 1,212,853	60.9%	\$ 550,616	220.3%

**NOTE 14 – SUPPLEMENTAL PLANS PENSION DISCLOSURES**

GASB Statements No. 68 *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27* and No.71 *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*

**General Information about the Supplemental Plans**

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

Each of the Supplemental plans are administered by the Employee Retirement Review Committee (EERC) of the CTA, whose members are appointed by the Board of Directors of the CTA, which retains oversight of the plan administration. The plans are each established by CTA ordinances, which grant the EERC operational authority and can be modified by the CTA Board.

*Contributions.* The Board and Non-Qualified plans are administered on a pay as you go basis. The CTA contributes to the Qualified plan based on an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability.

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CHICAGO TRANSIT AUTHORITY  
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**NOTE 14 – SUPPLEMENTAL PLANS PENSION DISCLOSURES** (Continued)

The CTA's annual pension cost for the current year and related information for fiscal years ended December 31, 2015 and 2014 for each plan are as follows (in thousands of dollars):

	<u>Qualified Supplemental</u>	<u>Non-Qualified Supplemental</u>	<u>Board Plan</u>
Actual 2015 contributions:			
CTA	\$1,164	\$2,683	\$328
Plan members	\$34	\$0	\$10
Actual 2014 contributions:			
CTA	\$1,130	\$3,023	\$333
Plan members	\$82	\$0	\$13

*Benefit terms.*

Qualified and Non-Qualified Plans: Employees of the CTA in certain employment classifications established by Board ordinance are eligible to participate based on age and service credit, generally as follows: at age 65, at age 55 with three years of pensionable service or with twenty five years of pensionable service. Disability and death benefits are provided to employees.

Benefits are based on the highest average annual compensation ("AAC") over any four calendar years out of the final ten years prior to retirement. For normal retirement and disability retirees, the benefit is the lessor of 1% of AAC per year of service or the excess of 75% of AAC over the benefit payable under the Retirement Plan for CTA Employees. For early retirees, the benefit is the lessor of 1% of AAC per year of service or the excess of 75% of AAC multiplied by the ratio of service completed at early retirement to service projected to age 65 over the benefit payable under the Retirement Plan for CTA Employees, with this benefit commencing at age 65. Benefits can commence prior to age 65 under certain conditions, generally as follows: any time after age 55 with a 5% reduction for each year under age 65 or with twenty five years of service with no reduction. A minimum benefit is payable to an employee under normal, early or disability retirement equal to one-sixth of 1% of AAC multiplied by years of service limited to a maximum of 5% of AAC, with the minimum benefit commencing at early retirement. Termination benefits available to employees who complete ten years of service are as follows: the lessor of 1% of AAC per year of service or the excess of 75% of AAC over the benefit payable under the Retirement Plan for CTA Employees, with the benefit commencing at age 65.

Qualified and Non-Qualified participants who retire on or after February 1, 1984 may receive credit for service with certain other governmental agencies, if satisfying certain conditions and making required application and contributions. In addition to the increased supplemental benefits attributable to such "bridged" service, the Supplemental Plan is responsible for paying any additional benefits that the employees would be eligible for under the Retirement Plan for CTA Employees had they received this additional bridged service under both plans.

(Continued)

CHICAGO TRANSIT AUTHORITY  
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**NOTE 14 – SUPPLEMENTAL PLANS PENSION DISCLOSURES** (Continued)

Board Plan: Individuals appointed to the Chicago Transit Board are eligible to participate based on age and service credit, generally as follows: at age 65 with completion of two years of service or at age 50 with completion of five years of service.

Benefits are based, generally, on provisions of the Retirement Plan for CTA Employees and the Supplemental Plan, to provide benefits to members of the Board comparable to what they would receive if employees of the CTA participating in those plans – with certain additional conditions and provisions, including specified minimum benefits, intended to take into account the anticipated periods of service by individuals as members of the Board.

Participants in the Board Plan may receive credit for service with certain other governmental agencies, if satisfying certain conditions and making required application and contributions – generally on terms similar to those applying to Qualified and Non-Qualified Plan participants receiving credit for bridged service.

*Employees covered by the benefit terms.* The following participants were covered by the benefit terms as of January 1, 2016 and January 1, 2015:

	<u>Qualified</u>	<u>Non-Qualified</u>	<u>Board</u>	<u>Total</u>
<b><i>Participants as of January 1, 2016</i></b>				
Retirees and beneficiaries currently receiving benefits	123	358	20	501
Terminated employees entitled to but not yet receiving benefits	12	9	4	25
Active plan members	9	-	2	11
Total	<u>144</u>	<u>367</u>	<u>26</u>	<u>537</u>
<b><i>Participants as of January 1, 2015</i></b>				
Retirees and beneficiaries currently receiving benefits	125	366	19	510
Terminated employees entitled to but not yet receiving benefits	11	8	5	24
Active plan members	10	-	4	14
Total	<u>146</u>	<u>374</u>	<u>28</u>	<u>548</u>

(Continued)

CHICAGO TRANSIT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 14 – SUPPLEMENTAL PLANS PENSION DISCLOSURES (Continued)**

**Net Pension Liabilities**

*Actuarial assumptions and calculations.* The total pension liabilities in the December 31, 2015 actuarial valuation were determined using the following actuarial assumptions, applied to the periods included in the measurement:

Actuarial valuation date	December 31, 2015
Measurement date	December 31, 2015
Investment return	
Qualified	7.00% per year
Non-Qualified and Board	3.57% per year at 12/31/15
Inflation	2.50%
Salary increases	3.50% per year
Future ad hoc benefit increases	0.00% per year
Mortality	RP-2000 Mortality projected to 2015 based on Scale AA
Early retirement age	
Qualified and Non-Qualified	55 with completion of three years of pensionable service. For employees hired before January 1, 2000, with 25 years of service, there is no age requirement.
Normal retirement age	
Qualified and Non-Qualified	65 with completion of three years of service
Board	65 with completion of two years of service or age 50 with completion of five years of service
Actuarial cost method	Entry Age Normal

Best estimates of arithmetic real rates of return for each major asset class included in the Supplemental Plans target asset allocation as of December 31, 2015 and 2014 are summarized in the following table (note that the rates shown below include the inflation components):

	<b>Target Allocation</b>	<b>Estimate of expected long-term rate of return</b>
U.S. Large Size Company Equities	39%	7.1%
U.S. Mid Size Company Equities	14%	7.2%
U.S. Small Size Company Equities	12%	8.0%
Non-U.S. Equities	10%	8.2%
<b>Total Equities</b>	<b>75%</b>	
U.S. Fixed Income	25%	2.6%
<b>Total Fixed Income</b>	<b>25%</b>	
<b>Total Assets</b>	<b>100%</b>	

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CHICAGO TRANSIT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 14 – SUPPLEMENTAL PLANS PENSION DISCLOSURES** (Continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

*Discount rate.* The discount rates used to measure the total pension liabilities in 2015 were 7.00% for the Qualified and 3.57% for the Non-Qualified and Board. The projection of cash flows used to determine the discount rate assumed that the System's contributions will continue to follow the current funding policy. Based on those assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

*Changes in Net Pension Liabilities (in thousands of dollars):*

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
<b>Qualified</b>			
Balance as of 12/31/14	\$ 52,118	\$ 42,046	\$ 10,072
Change for the year:			
Service cost	52	-	52
Interest	3,488	-	3,488
Differences between expected and actual experience	(2,145)	-	(2,145)
Changes in assumptions	67	-	67
Benefit payments	(4,245)	(4,245)	-
Contributions - Employer	-	1,164	(1,164)
Contributions - Employee	-	34	(34)
Net investment income, net of expenses	-	(878)	878
Administrative expenses	-	(246)	246
Net changes	<u>(2,783)</u>	<u>(4,171)</u>	<u>1,388</u>
Balance as of 12/31/15	<u>\$ 49,335</u>	<u>\$ 37,875</u>	<u>\$ 11,460</u>

Plan fiduciary net position as a percentage of the total pension liability - 2015	76.77%
Plan fiduciary net position as a percentage of the total pension liability - 2014	80.67%

(Continued)

CHICAGO TRANSIT AUTHORITY  
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**NOTE 14 – SUPPLEMENTAL PLANS PENSION DISCLOSURES** (Continued)

*Changes in Net Pension Liabilities Continued (in thousands of dollars):*

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
<b>Non-Qualified</b>			
Balance as of 12/31/14	\$ 28,105	\$ -	\$ 28,105
Change for the year:			
Service cost	-	-	-
Interest	949	-	949
Differences between expected and actual experience	498	-	498
Changes in assumptions	57	-	57
Benefit payments	(2,683)	(2,683)	-
Contributions - Employer	-	2,683	(2,683)
Contributions - Employee	-	-	-
Net investment income, net of expenses	-	-	-
Administrative expenses	-	-	-
Net changes	<u>(1,179)</u>	<u>-</u>	<u>(1,179)</u>
Balance as of 12/31/15	<u>\$ 26,926</u>	<u>\$ -</u>	<u>\$ 26,926</u>

Plan fiduciary net position as a percentage of the total pension liability - 2015	0.00%
Plan fiduciary net position as a percentage of the total pension liability - 2014	0.00%

**Board**

Balance as of 12/31/14	\$ 5,128	\$ 88	\$ 5,040
Change for the year:			
Service cost	46	-	46
Interest	176	-	176
Differences between expected and actual experience	(514)	-	(514)
Changes in assumptions	3	-	3
Benefit payments	(358)	(358)	-
Contributions - Employer	-	328	(328)
Contributions - Employee	-	10	(10)
Net investment income, net of expenses	-	-	-
Administrative expenses	-	-	-
Net changes	<u>(647)</u>	<u>(20)</u>	<u>(627)</u>
Balance as of 12/31/15	<u>\$ 4,481</u>	<u>\$ 68</u>	<u>\$ 4,413</u>

Plan fiduciary net position as a percentage of the total pension liability - 2015	1.52%
Plan fiduciary net position as a percentage of the total pension liability - 2014	1.72%

(Continued)



CHICAGO TRANSIT AUTHORITY  
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**NOTE 14 – SUPPLEMENTAL PLANS PENSION DISCLOSURES** (Continued)

*Changes in Net Pension Liabilities Continued (in thousands of dollars):*

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
<b>Total</b>			
Balance as of 12/31/14	\$ 85,351	\$ 42,134	\$ 43,217
Change for the year:			
Service cost	98	-	98
Interest	4,613	-	4,613
Differences between expected and actual experience	(2,161)	-	(2,161)
Changes in assumptions	127	-	127
Benefit payments	(7,286)	(7,286)	-
Contributions - Employer	-	4,175	(4,175)
Contributions - Employee	-	44	(44)
Net investment income, net of expenses	-	(878)	878
Administrative expenses	-	(246)	246
Net changes	(4,609)	(4,191)	(418)
Balance as of 12/31/15	<u>\$ 80,742</u>	<u>\$ 37,943</u>	<u>\$ 42,799</u>
Plan fiduciary net position as a percentage of the total pension liability - 2015			46.99%
Plan fiduciary net position as a percentage of the total pension liability - 2014			49.37%

(Continued)

CHICAGO TRANSIT AUTHORITY  
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**NOTE 14 – SUPPLEMENTAL PLANS PENSION DISCLOSURES** (Continued)

*Sensitivity of the net pension liability to changes in discount rate.* The following presents the net pension liability of the Qualified, Non-qualified, and Board plans, calculated using the discount rates disclosed above for each plan, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage point higher than the current rate (in thousands of dollars):

<u>Plan</u>	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
<b>Qualified Discount Rate</b>			
Qualified Plan - 2015 - 7.00%	\$ 15,973	\$ 11,460	\$ 7,599
Qualified Plan - 2014 - 7.00%	14,804	10,072	6,023
<b>Non-Qualified Discount Rate</b>			
Non-Qualified Plan - 2015 - 3.57%	29,138	26,926	25,001
Non-Qualified Plan - 2014 - 3.56%	30,469	28,105	26,053
<b>Board Discount Rate</b>			
Board Plan - 2015 - 3.57%	4,948	4,413	3,970
Board Plan - 2014 - 3.56%	5,633	5,040	4,528

**Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.**

For the year ended December 31, 2015, CTA recognized pension expense and reported deferred outflows and inflows of resources related to pensions from the following sources (in thousands of dollars):

	<u>Qualified</u>	<u>Non-Qualified</u>	<u>Board</u>
<b>Pension expense</b>	<u>\$ (420)</u>	<u>\$ 1,505</u>	<u>\$ (194)</u>
<b>Deferred Outflows of Resources</b>			
Difference between projected and actual earnings on pension plan:	\$ 2,971	\$ -	\$ -
Assumption changes:	-	-	1
Balance as of 12/31/15	<u>\$ 2,971</u>	<u>\$ -</u>	<u>\$ 1</u>
<b>Deferred Inflows of Resources</b>			
Difference between expected and actual non-investment experience	\$ -	\$ -	\$ (105)
<b>Total Deferred Outflows (Inflows)</b>	<u>\$ 2,971</u>	<u>\$ -</u>	<u>\$ (104)</u>

(Continued)

CHICAGO TRANSIT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 14 – SUPPLEMENTAL PLANS PENSION DISCLOSURES** (Continued)

CTA reported did not report a deferred outflows of resources related to pensions resulting from contributions paid subsequent to the measurement date for any Supplemental Plan. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in the pension expense as follows:

<u>Year Ended December 31:</u>	<u>Qualified</u>	<u>Non-Qualified</u>	<u>Board</u>
2016	\$ 809	\$ -	\$ (104)
2017	809	-	-
2018	809	-	-
2019	544	-	-
Total Amortization	<u>\$ 2,971</u>	<u>\$ -</u>	<u>\$ (104)</u>

GASB Statements No. 67 *Financial Reporting for Pensions Plans—an amendment of GASB Statement No. 25*

*Investments.* The Board and Non-Qualified plans are administered on a pay as you go basis. The Non-Qualified plan does not have any associated assets. The Board plan has a limited reserve held in cash or cash equivalents, which is not actively managed or associated with an investment policy. The Qualified plan's investment policy is established and may be amended by the CTA's Employment Retirement Review Committee. The primary objective of the policy is to provide a documented structure for the implementation of investment strategies which suggests the highest probability of maximizing the level of investment return within acceptable parameters for the total Fund's volatility and risk.

For the year ended December 31, 2015 and 2014, the annual money-weighted rate of return on Qualified plan assets, net of pension plan investment expense, was -2.7% and 4.2%, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

*Actuarial assumptions:* The total pension liability was determined by an actuarial valuation as of December 31, 2015 and 2014, using the following actuarial assumptions, applied to all periods included in the measurement:

	<u>12/31/2015</u>	<u>12/31/2014</u>
Inflation	2.50% per year	2.50% per year
Salary increases	3.50% per year	3.50% per year
Investment rate of return (Discount rate)		
Qualified Plan	7.00% per year	7.00% per year
Non-Qualified and Board Plan	3.57% per year	3.56% per year

Mortality rates were based on the RP-2000 Mortality projected to 2015 and 2014 based on Scale AA .

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CHICAGO TRANSIT AUTHORITY  
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**NOTE 14 – SUPPLEMENTAL PLANS PENSION DISCLOSURES** (Continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of December 31, 2015 and 2014 (see the discussion of the pension plan's investment policy). The 3.57% and 3.56% rates used for the Non-qualified and Board plans represents the 20-year municipal bond rate as of December 31, 2015 and 2014, respectively. The 7.00% rate used for the Qualified plan relates to fixed income government securities.

GASB Statement No. 27, Accounting for Pensions by State and Local Governmental Employers

**Net Pension Obligation**

*Actuarial Assumptions for fiscal year 2014.* The net pension obligation for fiscal year 2014 was computed as part of an actuarial valuation performed and dated as of December 31, 2014. Significant actuarial assumptions are shown below.

The CTA's annual pension cost for the prior year and related information for fiscal year end 2014 for each plan are as follows (in thousands of dollars):

	<u>Qualified</u>	<u>Non-Qualified</u>	<u>Board</u>
Contribution rates:			
CTA	Actuarial	Pay-Go Funding	Pay-Go Funding
Plan members	None	None	10.125%
Annual pension cost (APC)	\$1,848	\$2,897	\$303
Actuarial valuation date	December 31, 2014	December 31, 2014	December 31, 2014
Actuarial cost method	Projected unit credit	Projected unit credit	Projected unit credit
Amortization method	Level dollar	Level dollar	Level dollar
Remaining amortization period	15 years - Closed	7 years - Closed	30 years - Open
Asset valuation method	Fair market value	Fair market value	Fair market value
Actuarial assumptions:			
Investment rate of return	7.0%	4.0%	4.0%
Projected salary increases	3.5%	3.5%	3.5%
Includes inflation at	2.5%	N/A	N/A

(Continued)

CHICAGO TRANSIT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 14 – SUPPLEMENTAL PLANS PENSION DISCLOSURES** (Continued)

The following represents the significant components of the APC and changes in net pension obligation (asset) (NPO) during the year ended December 31, 2014, 2013 and 2012 (in thousands of dollars):

	Supplemental Retirement Plans		
	Qualified	Non-Qualified	Board
NPO - December 31, 2011	\$ (19,343)	\$ 14,394	\$ 1,363
Annual Required Contribution	2,267	4,116	331
Interest on NPO	(1,354)	720	63
Adjustment to ARC	1,981	(2,025)	(84)
Annual pension cost	2,894	2,811	310
Contributions made	2,267	3,299	338
Increase (decrease) in NPO	627	(488)	(28)
NPO - December 31, 2012	\$ (18,716)	\$ 13,906	\$ 1,367
Annual Required Contribution	1,927	4,295	331
Interest on NPO	(1,311)	626	63
Adjustment to ARC	1,981	(2,108)	(84)
Annual pension cost	2,597	2,813	310
Contributions made	1,927	3,114	338
Increase (decrease) in NPO	670	(301)	(28)
NPO - December 31, 2013	(18,046)	13,605	1,339
Annual Required Contribution	1,130	4,595	325
Interest on NPO	(1,263)	611	60
Adjustment to ARC	1,981	(2,309)	(82)
Annual pension cost	1,848	2,897	303
Contributions made	1,130	3,023	333
Increase (decrease) in NPO	718	(126)	(30)
NPO - December 31, 2014	<u>\$ (17,328)</u>	<u>\$ 13,479</u>	<u>\$ 1,309</u>

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CHICAGO TRANSIT AUTHORITY  
 NOTES TO FINANCIAL STATEMENTS  
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**NOTE 14 – SUPPLEMENTAL PLANS PENSION DISCLOSURES (Continued)**

*Funded Status and Funding Progress.* The schedule of funding progress for the Supplemental Plans is included in the Required Supplementary Information. The data for the most recent valuation is as follows (in thousands of dollars):

	Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	Percentage of covered payroll ((b-a)/c)
Qualified Supplemental Plan	12/31/14	\$ 42,046	\$ 52,017	\$ 9,971	80.8%	\$ 1,443	691.0%
Non-Qualified Supplemental Plan	12/31/14	-	27,167	27,167	0.0%	-	N/A
Board Supplemental Plan	12/31/14	88	4,951	4,863	1.8%	125	3890.4%

**NOTE 15 - OTHER POSTEMPLOYMENT BENEFITS**

Plan Descriptions – Other Postemployment Benefits (OPEB)

Employees' Plan – Retiree Healthcare Benefits: In accordance with Public Act 95-708, all retiree healthcare benefits are to be paid from the Retiree Health Care Trust (RHCT), a single employer defined benefit plan. The RHCT was established in May 2008 and began paying for all retiree healthcare benefits in February 2009. For financial reporting purposes, the postemployment healthcare benefits are considered, in substance, a postemployment healthcare plan administered by the RHCT. Members are eligible for health benefits based on their age and length of service with CTA. The legislation provides that CTA will have no future responsibility for retiree healthcare costs. The RHCT issues a separate stand-alone financial report which is available at <http://www.ctaretirement.org/index.asp>.

Supplemental and Board Plans – Retiree Healthcare Benefits: Employees of the CTA in certain employment classifications are eligible to participate in the supplemental retirement plan, a single employer defined benefit plan. Members of the Supplemental Plan with bridged service or service purchased through the Voluntary Termination Program are eligible for Supplemental Healthcare benefits if they retired under the Supplemental Plan and do not immediately qualify for healthcare benefits under the CTA RHCT. Supplemental Healthcare Plan benefits are administered through the CTA's healthcare program covering active members. Supplemental healthcare benefits cease when the member becomes eligible for healthcare coverage under the RHCT. Certain members not eligible for benefits under the RHCT will continue to receive benefits through the CTA's healthcare program covering active members. The benefits are dependent on the amount of bridged service and the amount of service at the CTA that is credited in the Employees Plan.

Chicago Transit Board members participate in a separate Board Member Retirement Plan, a single employer defined benefit plan, and a Supplemental Plan. Board members with greater than five years of service are eligible for healthcare benefits immediately after termination or retirement.

The Supplemental and Board Plans do not issue separate stand-alone financial reports.

Funding Policy - OPEB

Supplemental and Board Plan – Retiree Healthcare Benefits: Funding for the Supplemental and Board Retiree Healthcare Plans are on a pay-as-you-go basis.

(Continued)

CHICAGO TRANSIT AUTHORITY  
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**NOTE 15 - OTHER POSTEMPLOYMENT BENEFITS (Continued)**

*Annual OPEB Cost and Net OPEB Obligation.* The annual OPEB cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the net OPEB obligation during the year ended December 31, 2015 (dollar amounts in thousands):

	<b>Supplemental &amp; Board Plans</b>
Annual required contribution	\$ 1,138
Interest on net OPEB obligation	169
Adjustment to ARC	(362)
Annual OPEB cost	945
Expected employer contribution	521
Increase (decrease) in net OPEB obligation	424
Net OPEB obligation – December 31, 2014	4,213
Net OPEB obligation – December 31, 2015	\$ 4,637

The following table shows the components of the annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the net OPEB obligation during the year ended December 31, 2014 (dollar amounts in thousands):

	<b>Supplemental &amp; Board Plans</b>
Annual required contribution	\$ 1,061
Interest on net OPEB obligation	185
Adjustment to ARC	(351)
Annual OPEB cost	895
Expected employer contribution	802
Increase (decrease) in net OPEB obligation	93
Net OPEB obligation – December 31, 2013	4,120
Net OPEB obligation – December 31, 2014	\$ 4,213

(Continued)

CHICAGO TRANSIT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
Years Ended December 31, 2015 and 2014

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**NOTE 15 - OTHER POSTEMPLOYMENT BENEFITS** (Continued)

The annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2015 and the two preceding years were as follows (dollar amounts in thousands):  
Supplemental and Board Plan:

Year ended	Annual OPEB cost (AOC)	Actual contributions	Percentage of AOC contributed	Net OPEB obligation
2015	\$ 945	\$ 520	55.0%	\$ 4,637
2014	895	802	89.6%	4,213
2013	996	810	81.3%	4,120
2012	951	704	74.0%	3,934

Funded Status and Funding Progress - OPEB

Supplemental and Board Plans – Retiree Healthcare Benefits:

As of January 1, 2016, the plan was not funded. The actuarial accrued liability for benefits was \$12,140,000, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$12,140,000. The covered payroll (annual payroll of active employees covered by the plan) was \$402,000, and the ratio of the UAAL to the covered payroll was 3,019.9 percent.

As of January 1, 2015, the plan was not funded. The actuarial accrued liability for benefits was \$12,963,000, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$12,963,000. The covered payroll (annual payroll of active employees covered by the plan) was \$741,000, and the ratio of the UAAL to the covered payroll was 1,749.9 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.

In the actuarial valuation of the Supplemental and Board Plans as of January 1, 2016, and January 1, 2015, the projected unit credit cost method was used. The actuarial assumptions included a 4.0 percent investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and a medical and prescription trend rate of 8.25 percent initial to 5.0 ultimate. The Supplemental Plan UAAL is being amortized as a level dollar over a 14 year closed period. The Board Plan UAAL is amortized as a level dollar open 30 year amortization.

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(Continued)



CHICAGO TRANSIT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
Years Ended December 31, 2015 and 2014

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**NOTE 15 - OTHER POSTEMPLOYMENT BENEFITS** (Continued)

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

<u>Plan year</u>	<u>Trend rate</u>
2016	8.25%
2017	7.75%
2018	7.25%
2019	6.75%
2020	6.25%
2021	5.75%
2022	5.25%
2023 and after	5.00%

**NOTE 16 - RISK MANAGEMENT**

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

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

CTA purchases property insurance for damage to CTA property including rolling stock. This insurance program is effective July 29, 2015 to July 29, 2016. Property limit of liability is \$130,000,000 per occurrence, and is purchased in two layers. The first/primary layer provides a \$25,000,000 limit. The excess layer provides the \$105,000,000 limit excess and above the primary. The basic policy deductible is \$250,000 per each occurrence, with some exceptions as defined more fully in the policy.

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

The RTA provides excess liability insurance to protect the self-insurance programs for general liability and terrorism currently maintained by the CTA. There are three insurance policies in effect from June 15, 2015 to June 15, 2016. The first policy provides \$15,000,000 in excess of the \$15,000,000 self-insured retention and \$30,000,000 in the aggregate. The second policy provides \$20,000,000 in excess of the \$30,000,000 and \$40,000,000 in the aggregate. The third policy provides \$50,000,000 in excess of \$50,000,000 and \$100,000,000 in the aggregate. In 2015 and 2014, no CTA claim existed that is expected to exceed the \$15,000,000 self-insured retention under this insurance policy.

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(Continued)

CHICAGO TRANSIT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
Years Ended December 31, 2015 and 2014

**NOTE 16 - RISK MANAGEMENT** (Continued)

The CTA participates in a Joint Self-Insurance Fund (the Fund) with the RTA that permits the CTA to receive monies necessary to pay injury and damage claims in excess of \$2,500,000 per occurrence up to the total balance in the Fund or a maximum of \$47,500,000. The CTA is obligated to reimburse the Fund for the principal amount borrowed plus a floating interest rate. However, reimbursement payments, including interest, cannot exceed \$3,500,000 in any one year. No borrowings were made from the Fund in fiscal years 2015 or 2014.

Settlements did not exceed coverage for any of the past four years, and there has been no significant reduction in coverage during that period.

Self-insured liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. The estimate for injury and damage claims is adjusted for a current trend rate and discount factor of 2.0% and 2.0%, respectively. The estimate for workers' compensation claims is adjusted for a current trend rate and discount factor of 4.5% and 3.0%, respectively. Changes in the balance of claims liabilities during the past two years are as follows (in thousands of dollars):

	<u>Injury and damage</u>	<u>Group health and dental</u>	<u>Workers' compensation</u>	<u>Total</u>
Balance at January 1, 2013	\$ 79,895	\$ 15,728	\$ 161,448	\$ 257,071
Funded*	5,896	141,888	55,817	203,601
Funding (excess)/deficiency per actuarial requirement	8,275	-	642	8,917
Payments*	<u>(12,319)</u>	<u>(139,316)</u>	<u>(55,816)</u>	<u>(207,451)</u>
Balance at December 31, 2013	81,747	18,300	162,091	262,138
Funded*	3,500	144,337	57,603	205,440
Funding (excess)/deficiency per actuarial requirement	21,395	-	8,695	30,090
Payments*	<u>(13,379)</u>	<u>(144,699)</u>	<u>(59,336)</u>	<u>(217,414)</u>
Balance at December 31, 2014	93,263	17,938	169,053	280,254
Funded*	13,000	142,050	60,498	215,548
Funding (excess)/deficiency per actuarial requirement	7,724	-	1,244	8,968
Payments*	<u>(17,867)</u>	<u>(140,305)</u>	<u>(62,757)</u>	<u>(220,929)</u>
Balance at December 31, 2015	<u>\$ 96,120</u>	<u>\$ 19,683</u>	<u>\$ 168,038</u>	<u>\$ 283,841</u>

(Continued)

CHICAGO TRANSIT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
Years Ended December 31, 2015 and 2014

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**NOTE 16 - RISK MANAGEMENT** (Continued)

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

**NOTE 17 - ACCOUNTING FOR DERIVATIVES AND HEDGING ACTIVITIES**

Fuel related derivative transactions are executed in accordance with the policies established by CTA's Energy Price Risk Management Policy ("the EPRM Policy"). The primary objective of the EPRM Policy is to identify opportunities to effectively manage the CTA's energy commodity costs to acceptable levels, establish guidelines for reporting and monitoring of energy commodity costs where the CTA uses financial instruments to manage price risks and to establish guidelines for the CTA's purchase of fixed price energy from its physical providers under existing contractual relationships with its providers. The Energy Price Risk Management Committee oversees the execution of the EPRM Policy with the assistance of an Energy Advisor.

The EPRM Policy explicitly prohibits the Authority from entering into contracts for more than its annual volume of energy usage. The EPRM Policy goals are to achieve budget objectives and reduce price volatility. Price risk management transactions are not intended to be speculative in nature. The EPRM Policy shall limit the amount and time period for which energy costs may be hedged through either derivative contracts or fixed price purchase contracts, as detailed below:

- Up to 100% of the volume of energy consumed may be hedged for a period of not to exceed 18 months
- Up to 50% of the volume of energy consumed may be hedged for a period of not to exceed 19-24 months
- 0% of volume of energy consumed may be hedged for a period beyond 24 months

The CTA used 16.4 million and 17.3 million gallons of diesel fuel to operate revenue vehicles during 2015 and 2014, respectively. The CTA has entered into heating oil commodity swap contracts to hedge changes in cash flows due to market price fluctuations related to expected purchases of diesel fuel for CTA buses.

On September 10, 2014, CTA obtained approval from the Board to enter into a fixed price purchase agreement with the provider of diesel fuel and terminate the hedging contracts, primarily due to the increased volatility and risks associated with the hedging agreements. As of December 31, 2015 all hedging contracts were terminated.

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(Continued)

CHICAGO TRANSIT AUTHORITY  
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Years Ended December 31, 2015 and 2014

**NOTE 17 - ACCOUNTING FOR DERIVATIVES AND HEDGING ACTIVITIES (Continued)**

At December 31, 2015, the CTA's outstanding commodity swaps fair value along with the changes in fair values of commodity swaps held during the year then ended are as follows:

<b>Commodity Swaps</b>							
<b>Notional Amount (Gallons)</b>	<b>Effective Date</b>	<b>Maturity Date</b>	<b>Fair Value 1/1/2015</b>	<b>Fair Value 12/31/2015</b>	<b>Change in Fair Value</b>	<b>Terms (Per Gallon)</b>	
						<b>Receive</b>	<b>Pay</b>
<b>Counterparty: J.P. Morgan Chase</b>							
126,000	01/01/15	12/31/15	\$(1,495,063)	\$ -	\$ 1,495,063	Variable	2.8450
126,000	01/01/15	12/31/15	406,140	-	(406,140)	Variable	2.1234
126,000	01/01/15	03/31/15	(162,679)	-	162,679	Variable	2.8850
126,000	01/01/15	03/31/15	(158,899)	-	158,899	Variable	2.8750
84,000	01/01/15	03/31/15	(102,152)	-	102,152	Variable	2.8600
252,000	01/01/15	09/30/15	(653,814)	-	653,814	Variable	2.8870
168,000	01/01/15	03/31/15	(234,545)	-	234,545	Variable	2.9200
84,000	01/01/15	12/31/15	(228,270)	-	228,270	Variable	2.9075
126,000	04/01/15	06/30/15	(140,036)	-	140,036	Variable	2.8250
126,000	04/01/15	06/30/15	(143,816)	-	143,816	Variable	2.8350
84,000	04/01/15	06/30/15	(91,594)	-	91,594	Variable	2.8180
168,000	04/01/15	06/30/15	(221,995)	-	221,995	Variable	2.8950
42,000	07/01/15	09/30/15	(127,275)	-	127,275	Variable	2.8800
42,000	07/01/15	09/30/15	33,582	-	(33,582)	Variable	2.1347
42,000	10/01/15	12/31/15	(120,482)	-	120,482	Variable	2.8750
42,000	10/01/15	12/31/15	32,688	-	(32,688)	Variable	2.1755
<b>Total</b>			<u><u>\$(3,408,210)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 3,408,210</u></u>		

(Continued)

CHICAGO TRANSIT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 17 - ACCOUNTING FOR DERIVATIVES AND HEDGING ACTIVITIES (Continued)**

At December 31, 2014, the CTA's outstanding commodity swaps fair value along with the changes in fair values of commodity swaps held during the year then ended are as follows:

<b>Commodity Swaps</b>							
<b>Notional Amount (Gallons)</b>	<b>Effective Date</b>	<b>Maturity Date</b>	<b>Fair Value 1/1/2014</b>	<b>Fair Value 12/31/2014</b>	<b>Change in Fair Value</b>	<b>Terms (Per Gallon)</b>	
						<b>Receive</b>	<b>Pay</b>
<b>Counterparty: J.P. Morgan Chase</b>							
126,000	01/01/14	01/31/14	\$ 17,976	\$ -	\$ (17,976)	Variable	2.9225
84,000	01/01/14	03/31/14	14,022	-	(14,022)	Variable	2.9985
126,000	01/01/14	03/31/14	31,990	-	(31,990)	Variable	2.9695
126,000	01/01/14	03/31/14	96,978	-	(96,978)	Variable	2.7975
126,000	01/01/14	03/31/14	73,363	-	(73,363)	Variable	2.8600
168,000	01/01/14	03/31/14	27,289	-	(27,289)	Variable	3.0000
84,000	01/01/14	03/31/14	(210)	-	210	Variable	3.0550
126,000	01/01/14	03/31/14	29,157	-	(29,157)	Variable	2.9770
126,000	01/01/14	03/31/14	38,414	-	(38,414)	Variable	2.9525
84,000	01/01/14	03/31/14	35,055	-	(35,055)	Variable	2.9150
168,000	04/01/14	06/30/14	35,526	-	(35,526)	Variable	2.9550
126,000	04/01/14	06/30/14	95,930	-	(95,930)	Variable	2.7715
168,000	04/01/14	06/30/14	94,932	-	(94,932)	Variable	2.8370
84,000	04/01/14	06/30/14	8,324	-	(8,324)	Variable	2.9925
126,000	04/01/14	06/30/14	37,406	-	(37,406)	Variable	2.9265
126,000	04/01/14	06/30/14	34,197	-	(34,197)	Variable	2.9350
84,000	04/01/14	06/30/14	31,985	-	(31,985)	Variable	2.8985
84,000	04/01/14	06/30/14	30,349	-	(30,349)	Variable	2.9050
84,000	07/01/14	09/30/14	13,364	-	(13,364)	Variable	2.9525
126,000	07/01/14	09/30/14	40,419	-	(40,419)	Variable	2.8985
168,000	07/01/14	09/30/14	48,107	-	(48,107)	Variable	2.9100
84,000	07/01/14	09/30/14	29,964	-	(29,964)	Variable	2.9150
84,000	07/01/14	09/30/14	27,198	-	(27,198)	Variable	2.8975
84,000	09/01/14	12/31/14	12,732	-	(12,732)	Variable	2.9350
126,000	09/01/14	12/31/14	38,887	-	(38,887)	Variable	2.8825
168,000	09/01/14	12/31/14	44,311	-	(44,311)	Variable	2.8975
84,000	09/01/14	12/31/14	27,809	-	(27,809)	Variable	2.8750
252,000	09/01/14	12/31/14	7,963	-	(7,963)	Variable	3.0100
126,000	01/01/15	12/31/15	-	(1,495,063)	(1,495,063)	Variable	2.8450
126,000	01/01/15	12/31/15	-	406,140	406,140	Variable	2.1234
126,000	01/01/15	03/31/15	-	(162,679)	(162,679)	Variable	2.8850
126,000	01/01/15	03/31/15	-	(158,899)	(158,899)	Variable	2.8750
84,000	01/01/15	03/31/15	-	(102,152)	(102,152)	Variable	2.8600

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CHICAGO TRANSIT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 17 - ACCOUNTING FOR DERIVATIVES AND HEDGING ACTIVITIES (Continued)**

<b>Commodity Swaps</b>							
<b>Notional Amount (Gallons)</b>	<b>Effective Date</b>	<b>Maturity Date</b>	<b>Fair Value 1/1/2014</b>	<b>Fair Value 12/31/2014</b>	<b>Change in Fair Value</b>	<b>Terms (Per Gallon)</b>	
						<b>Receive</b>	<b>Pay</b>
<b>Counterparty: J.P. Morgan Chase</b>							
252,000	01/01/15	09/30/15	\$ -	\$ (653,814)	\$ (653,814)	Variable	2.8870
168,000	01/01/15	03/31/15	-	(234,545)	(234,545)	Variable	2.9200
84,000	01/01/15	12/31/15	-	(228,270)	(228,270)	Variable	2.9075
126,000	04/01/15	06/30/15	-	(140,036)	(140,036)	Variable	2.8250
126,000	04/01/15	06/30/15	-	(143,816)	(143,816)	Variable	2.8350
84,000	04/01/15	06/30/15	-	(91,594)	(91,594)	Variable	2.8180
168,000	04/01/15	06/30/15	-	(221,995)	(221,995)	Variable	2.8950
42,000	07/01/15	09/30/15	-	(127,275)	(127,275)	Variable	2.8800
42,000	07/01/15	09/30/15	-	33,582	33,582	Variable	2.1347
42,000	10/01/15	12/31/15	-	(120,482)	(120,482)	Variable	2.8750
42,000	10/01/15	12/31/15	-	32,688	32,688	Variable	2.1755
<b>Total</b>			<b><u>\$ 1,023,437</u></b>	<b><u>\$ (3,408,210)</u></b>	<b><u>\$ (4,431,647)</u></b>		

(Continued)

**NOTE 17 - ACCOUNTING FOR DERIVATIVES AND HEDGING ACTIVITIES** (Continued)

The fair value of the hedging derivative instruments is included on the Statements of Net Position as a Deferred Inflow (positive) or Deferred Outflow (negative) measured at fair market value based on quoted market prices. Related gains and/or losses are deferred on the Statements of Net Position until the derivative is settled then recognized as part of Fuel in the Statement of Revenues, Expenses and Changes in Net Position. The valuation of market changes for contracts entered into and settled resulted in a net increase of \$0 and \$2,580,094 to the cost of fuel during the fiscal years ended December 31, 2015 and 2014, respectively.

The CTA follows GASB 53, Accounting and Financial Reporting for Derivative Instruments. This GASB provides guidance on the recognition, measurement and disclosure of derivative instruments entered into by state and local governments.

For accounting purposes, in order to qualify as a hedge, the relationship between the derivative and the underlying asset must result in a hedge that is “effective” in mitigating risk. If the hedge transaction is considered “ineffective” the valuation of the instrument is considered investment income or loss on the Statements of Revenues, Expenses and Changes in Net Position. GASB 53 outlines five methods for evaluating hedge effectiveness:

- Critical Terms
- Synthetic Instrument
- Dollar Offset
- Regression Analysis
- Other Quantitative Methods

For purposes of performing effectiveness testing, the CTA can use any or all of the evaluation methods and is not limited to using the same method from period to period. Therefore, if the result of any one prescribed evaluation method indicates the hedge is ineffective the CTA may apply another method to verify effectiveness. The CTA’s commodity swaps have been evaluated using the Regression Analysis method and have been determined to be effective.

The following risks are generally associated with commodity swap agreements:

*Credit risk* – the risk that the counterparty fails to make required payments or otherwise comply with the terms of the swap agreement. This non-performance would usually result from financial difficulty, but could also occur for physical, legal, or business reasons. This risk is mitigated by establishing minimum credit quality criteria, establishing maximum credit limits, requiring collateral on counterparty downgrade.

The CTA will deem a counterparty as qualified if (a) the counterparty has demonstrated experience in successfully executing derivative contracts with other municipal entities, (b) it indicates a willingness to accept one way collateral should the CTA and its advisors so recommend, and (c)(i) its credit rating by one of three nationally recognized rating agencies is in the AA category and A+ or better by either of the remaining two agencies furnishing such ratings or (ii) its payments pursuant to the derivative contract are unconditionally guaranteed by an entity with credit ratings that satisfy the criteria set forth in (c)(i). The CTA will require that if any qualified counterparty is downgraded and no longer deemed qualified, the contract is subject to the termination provisions in the Master Agreement, unless the additional risk can be mitigated by a substitute guarantor or the contract is collateralized.

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(Continued)

CHICAGO TRANSIT AUTHORITY  
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**NOTE 17 - ACCOUNTING FOR DERIVATIVES AND HEDGING ACTIVITIES** (Continued)

A counterparty that does not satisfy the aforementioned rating criteria shall be required to post an appropriate level of collateral as determined by the CTA. Collateral, if and as required by the Master Agreement and any credit support annex, shall be maintained with a mutually agreeable third party or trustee and shall be periodically marked to market by the agent or trustee. Collateral, if and as required, shall generally be provided in a manner satisfactory to CTA that its interests are: (a) perfected, (b) not a matter of preference, and (c) not subject to stay in the event of bankruptcy of the derivative contract counterparty. CTA shall not be required to provide collateral as party to a derivative contract unless it is clearly in the best interest of the CTA.

In 2014, CTA entered into a fixed price purchase agreement with the provider of diesel fuel and terminated the hedging contracts. As of December 31, 2015 all hedging contracts were terminated. The credit ratings for each of CTA's counterparties at December 31, 2014 were:

<u>Counterparty</u>	<u>Moody's</u>	<u>Fitch</u>	<u>Standard &amp; Poor's</u>
J.P. Morgan Chase	Aa3	A+	A+

CTA's net credit exposure to any single counterparty (or guarantor thereof) generally should not exceed \$50 million. CTA may increase its aggregate position beyond this limit to a particular counterparty if the amount in excess of the limit for that counterparty is fully collateralized. In measuring CTA's aggregate position with a counterparty, a calculation of net offset is permitted in such circumstances as two derivative contracts in which the market values offset one another.

*Basis Risk* – The risk that there is a mismatch between the variable rate payment received from the swap counterparty and the variable rate paid for diesel fuel purchases. The CTA mitigates this risk by conducting an extensive survey of relevant products and indices, and selecting one that has a strong correlation with the price changes of the cost of diesel fuel. CTA's standard practice is to purchase diesel fuel from oil vendors with pricing determined by industry publications (OPIS pricing). The spot prices published in such publications reflect the weekly delivered price by city and fuel grade. The NYMEX heating oil futures contract has proven to be an effective means of hedging the volatile price of diesel spot prices. Many providers of financial services offer over the counter (OTC) swaps referencing the price of the NYMEX futures heating oil contract.

*Termination Risk* – The risk that there will be a mandatory early termination of the commodity swap that would result in the CTA either paying or receiving a termination payment. Mandatory terminations generally result when a counterparty or the CTA suffers degraded credit quality, illiquidity, bankruptcy, or failure to perform. The CTA mitigates this risk by establishing minimum credit quality criteria, establishing maximum credit limits, and requiring collateral on counterparty downgrade and employing credit rating surveillance. The CTA seeks to minimize the risks it carries by actively managing its derivative contracts. This will entail frequent monitoring of market conditions by CTA's Energy Advisor and the swap counterparty for emergent opportunities and risks. No termination event occurred during 2014.

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

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(Continued)



## **NOTE 18 - COMMITMENTS AND CONTINGENCIES**

Defeased Debt: On October 26, 2006, the PBC issued Building Refunding Revenue Bonds for the benefit of the CTA in the amount of \$91,340,000. The proceeds of the bonds were used to advance refund the Public Building Commission of Chicago, Series 2003 bonds. The outstanding balance of the defeased debt was \$64,300,000 as of December 31, 2015.

### Lease Transactions:

#### **Green Line**

During 1998, the CTA entered into three lease and leaseback transactions, 1998-NL, 1998-PB and 1998-JH with third party investors pertaining to certain property, railway tracks and train stations on the Green Line. The CTA's payments associated with these agreements were guaranteed by American International Group Inc. (AIG) as the "Debt Payment Undertaker." During 2008, AIG's credit rating was downgraded amid the U.S. mortgage meltdown and global economic crisis. This rating downgrade provided the third party investors with the option under their respective agreements to require CTA to replace AIG as the Debt Payment Undertaker. In 2008, one of the three investors chose to unwind the transaction and the corresponding 1998-NL agreement was terminated. Another transaction, 1998-PB, was terminated on March 6, 2015. The remaining investor, on the 1998-JH transaction, entered into a conditional forbearance agreement that allows CTA to continue to use AIG as long as the rating does not fall below BB by Standard & Poor's and Ba2 by Moody's.

## **NOTE 19 – SUBSEQUENT EVENTS**

### TIFIA Loan Agreement

On March 30<sup>th</sup>, 2016, CTA entered into a third definitive loan agreement with the United States Department of Transportation (USDOT), an agency of the United States of America, acting by and through the Federal Highway Administration under the Transportation Infrastructure Finance and Innovation Act (TIFIA) loan program to finance certain projects that are part of the Authority's Rail Car Purchase Program.

The aggregate principal amount of the loan shall not exceed \$254,930,402, (excluding any interest that is capitalized in accordance with the terms of the loan); provided, however, in no event shall the maximum principal amount of the TIFIA loan disbursed by the USDOT, together with the amount (excluding any interest that is capitalized) of any other credit assistance provided under TIFIA Act, cannot exceed thirty-three percent (33%) of reasonable anticipated eligible project costs. Further, total federal funding, inclusive of the TIFIA loan and all federal direct or indirect grants, shall not exceed eighty percent (80%) of reasonably eligible project costs.

As evidence of CTA's obligation to repay the TIFIA Loan, CTA has issued to the lender registered receipts revenue bonds in the aggregate principal amount not to exceed \$254,930,402, comprising two (2) tranches in the principal amounts of \$147,018,363 ("Tranche A-1") and \$107,912,039 ("Tranche A-2") and bearing an interest rate of 2.64%, with corresponding loan amortization schedules for each tranche. The final maturity date for the Tranche A-1 is December 1, 2049 and the earlier of (a) the last semi-annual payment date occurring no later than thirty-four (34) years from the substantial completion date and (b) December 1, 2056.

**REQUIRED SUPPLEMENTARY INFORMATION**

CHICAGO TRANSIT AUTHORITY  
Required Supplementary Information – Pension  
Schedules of Funding Progress (Unaudited)  
Year Ended December 31, 2015  
(In thousands of dollars)  
as required by GASB 25

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	Percentage of covered payroll ((b-a)/c)
Employees' Plan – Pension:						
1/1/2014	\$ 1,892,714	\$ 3,105,567	\$ 1,212,853	60.9%	\$ 550,616	220.3%
1/1/2013	1,702,788	2,867,335	1,164,547	59.4	548,515	212.3
1/1/2012	1,662,196	2,808,184	1,145,988	59.2	541,354	211.7
1/1/2011	1,909,967	2,724,191	814,224	70.1	528,288	154.1
1/1/2010	1,936,849	2,588,462	651,613	74.8	567,173	114.9
1/1/2009	1,995,953	2,632,356	636,403	75.8	578,521	110.0
1/1/2008	941,864	2,531,440	1,589,576	37.2	571,314	278.2
1/1/2007	1,007,305	2,466,106	1,458,801	40.8	562,567	259.3
1/1/2006	1,144,669	2,354,125	1,209,456	48.6	547,532	220.9
1/1/2005	1,313,087	2,291,162	978,075	57.3	544,442	179.6
Qualified Supplemental Plan:						
12/31/2014	\$ 42,046	\$ 52,017	\$ 9,971	80.8%	\$ 1,443	691.0%
1/1/2014	43,503	53,344	9,841	81.6	1,647	597.5
1/1/2013	37,040	54,716	17,676	67.7	2,282	774.6
1/1/2012	34,251	55,898	21,647	61.3	2,486	870.8
1/1/2011	35,626	55,705	20,079	64.0	4,259	471.4
1/1/2010	32,345	51,348	19,002	63.0	7,265	261.6
1/1/2009	22,434	36,519	14,085	61.4	11,691	120.5
1/1/2008	19,457	15,974	(3,483)	121.8	13,551	-25.7
1/1/2007	18,937	15,503	(3,434)	122.2	14,840	-23.1
1/1/2006	17,001	10,064	(6,937)	168.9	14,871	-46.6
Non-Qualified Supplemental Plan:						
12/31/2014	\$ -	\$ 27,167	\$ 27,167	0.0%	\$ -	0.0%
1/1/2014	-	27,678	27,678	-	-	-
1/1/2013	-	28,963	28,963	-	-	-
1/1/2012	-	29,979	29,979	-	-	-
1/1/2011	-	32,045	32,045	-	-	-
1/1/2010	-	30,696	30,696	-	-	-
1/1/2009	-	31,459	31,459	-	-	-
1/1/2008	-	32,887	32,887	-	-	-
1/1/2007	-	33,104	33,104	-	-	-
1/1/2005	408	45,959	45,551	0.9	15,953	285.5
Board Supplemental Plan:						
12/31/2014	\$ 88	\$ 4,951	\$ 4,863	1.8%	\$ 125	3890.4%
1/1/2014	75	4,848	4,772	1.5	139	3,433.1
1/1/2013	70	4,778	4,708	1.5	150	3138.7
1/1/2012	57	4,693	4,636	1.2	175	2469.1
1/1/2011	47	4,773	4,726	1.0	200	2363.0
1/1/2010	35	4,246	4,210	0.8	200	2105.1
1/1/2009	45	3,257	3,212	1.4	200	1606.0
1/1/2008	56	3,193	3,137	1.8	200	1568.5
1/1/2007	50	3,312	3,262	1.5	200	1631.0
1/1/2006	47	3,270	3,223	1.4	175	1841.7

\*During the year ended December 31, 2005, the CTA established a qualified trust for members of the supplement retirement plan retiring after March 2005 (Qualified 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 Postemployment Benefits  
Schedules of Funding Progress (Unaudited)  
Year Ended December 31, 2015  
(In thousands of dollars)  
as required by GASB 45

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	Percentage of covered payroll ((b-a)/c)
Supplemental & Board Plan - Healthcare:						
1/1/2016	\$ -	\$ 12,140	\$ 12,140	0.0%	\$ 402	3,017.3%
1/1/2015	-	12,963	12,963	-	741	1,749.9
1/1/2014	-	11,869	11,869	-	581	2,041.8
1/1/2013	-	13,168	13,168	-	752	1,750.5
1/1/2012	-	13,138	13,138	-	887	1,481.2
1/1/2011	-	18,400	18,400	-	2,219	829.2
1/1/2010	-	18,967	18,967	-	3,580	529.8
1/1/2009	-	16,830	16,830	-	4,420	380.8
1/1/2008	-	6,287	6,287	-	2,771	226.9
1/1/2007	-	6,796	6,796	-	3,332	204.0

CHICAGO TRANSIT AUTHORITY  
Other Postemployment Benefits  
Required Supplementary Information –  
Schedules of Employer Contributions (Unaudited)  
Year Ended December 31, 2015  
(In thousands of dollars)  
as required by GASB 45

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Supplemental and Board Plans - Healthcare		
Year ended	Annual required contribution	Percentage contributed
12/31/15	\$ 1,138	45.7%
12/31/14	1,061	75.7
12/31/13	1,141	71.0
12/31/12	1,080	65.2
12/31/11	1,606	44.1
12/31/10	1,785	29.7
12/31/09	1,645	24.6

CHICAGO TRANSIT AUTHORITY  
 Employees' Plan  
 Required Supplementary Information -  
 Schedules of Net Pension Liability and Related Ratios (Unaudited)  
 Year Ended December 31, 2015  
 (In thousands of dollars)  
 as required by GASB 68

	2015
<b>Employees' Plan</b>	
Total Pension Liability	\$ 3,283,154
Plan Fiduciary Net Position	1,855,912
Plan's Net pension Liability	\$ 1,427,242
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	56.53%
Covered Employee Payroll	564,828
Plan's Net pension Liability as a percentage of Covered Employee Payroll	252.69%

The amounts presented for each fiscal year were determined as of the yearend that occurred one year prior.

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

CHICAGO TRANSIT AUTHORITY  
Supplemental Plans  
Required Supplementary Information -  
Schedules of Net Pension Liability and Related Ratios (Unaudited)  
Year Ended December 31, 2015  
(In thousands of dollars)  
as required by GASB 67/68

	<u>2015</u>	<u>2014</u>
<b>Supplemental Qualified Plan</b>		
Total Pension Liability	\$ 49,335	\$ 52,118
Plan Fiduciary Net Position	37,875	42,046
Plan's Net pension Liability	<u>\$ 11,460</u>	<u>\$ 10,072</u>
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	76.77%	80.67%
Covered Employee Payroll	1,355	1,443
Plan's Net pension Liability as a percentage of Covered Employee Payroll	845.71%	697.92%
<b>Supplemental Non-Qualified Plan</b>		
Total Pension Liability	\$ 26,926	\$ 28,105
Plan Fiduciary Net Position	-	-
Plan's Net pension Liability	<u>\$ 26,926</u>	<u>\$ 28,105</u>
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	0%	0%
Covered Employee Payroll	-	-
Plan's Net pension Liability as a percentage of Covered Employee Payroll	N/A	N/A
<b>Board Member Plan</b>		
Total Pension Liability	\$ 4,481	\$ 5,128
Plan Fiduciary Net Position	68	88
Plan's Net pension Liability	<u>\$ 4,413</u>	<u>\$ 5,040</u>
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	1.53%	1.72%
Covered Employee Payroll	75	125
Plan's Net pension Liability as a percentage of Covered Employee Payroll	5883.44%	4031.43%

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

CHICAGO TRANSIT AUTHORITY  
 Employees' Plan  
 Required Supplementary Information -  
 Schedules of Changes in Net Pension Liability - Employees' Retirement Plan (Unaudited)  
 Year Ended December 31, 2015  
 (In thousands of dollars)  
 as required by GASB 68

<b>Employees' Plan</b>	<b>2015</b>
<b>Total Pension Liability</b>	
Total Pension Liability - Beginning	\$ 3,220,533
Service Cost	49,066
Interest	259,593
Changes of Benefit Terms	-
Differences Between Expected and Actual Experience	-
Changes of Assumptions	-
Benefit Payments, Including Refunds of Member Contributions	(246,038)
Net Change in Total Pension Liability	62,621
Total Pension Liability - Ending	\$ 3,283,154
<b>Plan Fiduciary Net Position</b>	
Plan Fiduciary Net Position - Beginning	\$ 1,892,715
Contributions - Employer	82,268
Contributions - Member	58,566
Net Investment Income	71,524
Benefit Payments, Including Refunds of Member Contributions	(246,038)
Administrative Expense	(3,123)
Other	-
Net Change in Plan Fiduciary Net Position	(36,803)
Plan Fiduciary Net Position - Ending	1,855,912
CTA Net Pension Liability - Ending	\$ 1,427,242

The amounts presented for each fiscal year were determined as of the yearend that occurred one year prior.

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.



CHICAGO TRANSIT AUTHORITY  
Supplemental Plans  
Required Supplementary Information -  
Schedules of Changes in Net Pension Liability - Qualified Supplemental Plan (Unaudited)  
Year Ended December 31, 2015  
(In thousands of dollars)  
as required by GASB 67/68

<b>Qualified</b>	<u>2015</u>	<u>2014</u>
<b>Total Pension Liability</b>		
Total Pension Liability - Beginning	\$ 52,118	\$ 53,464
Service Cost	52	61
Interest	3,488	3,578
Changes of Benefit Terms	-	-
Differences Between Expected and Actual Experience	(2,145)	(554)
Changes of Assumptions	67	-
Benefit Payments, Including Refunds of Member Contributions	<u>(4,245)</u>	<u>(4,431)</u>
Net Change in Total Pension Liability	<u>(2,783)</u>	<u>(1,346)</u>
Total Pension Liability - Ending	<u><u>\$ 49,335</u></u>	<u><u>\$ 52,118</u></u>
<b>Plan Fiduciary Net Position</b>		
Plan Fiduciary Net Position - Beginning	\$ 42,046	\$ 43,503
Contributions - Employer	1,164	1,130
Contributions - Member	34	82
Net Investment Income	(878)	2,073
Benefit Payments, Including Refunds of Member Contributions	(4,245)	(4,431)
Administrative Expense	(237)	(311)
Other	<u>(9)</u>	<u>-</u>
Net Change in Plan Fiduciary Net Position	(4,171)	(1,457)
Plan Fiduciary Net Position - Ending	<u><u>37,875</u></u>	<u><u>42,046</u></u>
CTA Net Pension Liability - Ending	<u><u>\$ 11,460</u></u>	<u><u>\$ 10,072</u></u>

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

CHICAGO TRANSIT AUTHORITY  
Supplemental Plans  
Required Supplementary Information -  
Schedules of Changes in Net Pension Liability - Non-Qualified Supplemental Plan (Unaudited)  
Year Ended December 31, 2015  
(In thousands of dollars)  
as required by GASB 67/68

<b>Non-Qualified</b>	<u>2015</u>	<u>2014</u>
<b>Total Pension Liability</b>		
Total Pension Liability - Beginning	\$ 28,105	\$ 27,205
Service Cost	-	-
Interest	949	1,209
Changes of Benefit Terms	-	-
Differences Between Expected and Actual Experience	498	341
Changes of Assumptions	57	2,373
Benefit Payments, Including Refunds of Member Contributions	<u>(2,683)</u>	<u>(3,023)</u>
Net Change in Total Pension Liability	<u>(1,179)</u>	<u>900</u>
Total Pension Liability - Ending	<u><u>\$ 26,926</u></u>	<u><u>\$ 28,105</u></u>
<b>Plan Fiduciary Net Position</b>		
Plan Fiduciary Net Position - Beginning	\$ -	\$ -
Contributions - Employer	2,683	3,023
Contributions - Member	-	-
Net Investment Income	-	-
Benefit Payments, Including Refunds of Member Contributions	(2,683)	(3,023)
Administrative Expense	-	-
Other	<u>-</u>	<u>-</u>
Net Change in Plan Fiduciary Net Position	-	-
Plan Fiduciary Net Position - Ending	<u><u>-</u></u>	<u><u>-</u></u>
CTA Net Pension Liability - Ending	<u><u>\$ 26,926</u></u>	<u><u>\$ 28,105</u></u>

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

CHICAGO TRANSIT AUTHORITY  
Supplemental Plans  
Required Supplementary Information -  
Schedules of Changes in Net Pension Liability - Board Supplemental Plan (Unaudited)  
Year Ended December 31, 2015  
(In thousands of dollars)  
as required by GASB 67/68

<b>Board</b>	<u>2015</u>	<u>2014</u>
<b>Total Pension Liability</b>		
Total Pension Liability - Beginning	\$ 5,128	\$ 4,698
Service Cost	46	45
Interest	176	216
Changes of Benefit Terms	-	-
Differences Between Expected and Actual Experience	(514)	(64)
Changes of Assumptions	3	566
Benefit Payments, Including Refunds of Member Contributions	(358)	(333)
Net Change in Total Pension Liability	<u>(647)</u>	<u>430</u>
Total Pension Liability - Ending	<u><u>\$ 4,481</u></u>	<u><u>\$ 5,128</u></u>
<b>Plan Fiduciary Net Position</b>		
Plan Fiduciary Net Position - Beginning	\$ 88	\$ 75
Contributions - Employer	328	334
Contributions - Member	10	12
Net Investment Income	-	-
Benefit Payments, Including Refunds of Member Contributions	(358)	(333)
Administrative Expense	-	-
Other	-	-
Net Change in Plan Fiduciary Net Position	<u>(20)</u>	<u>13</u>
Plan Fiduciary Net Position - Ending	<u><u>68</u></u>	<u><u>88</u></u>
CTA Net Pension Liability - Ending	<u><u>\$ 4,413</u></u>	<u><u>\$ 5,040</u></u>

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

CHICAGO TRANSIT AUTHORITY  
 Employees' Plan  
 Required Supplementary Information -  
 Schedules of Statutorily Determined Contributions (Unaudited)  
 Year Ended December 31, 2015  
 (In thousands of dollars)  
 as required by GASB 68

<b>Employees' Plan</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
Statutorily determined contribution	\$ 178,861	\$ 165,500	\$ 157,594	\$ 155,600	\$ 123,158	\$ 108,478	\$ 118,717	\$ 206,670	\$ 198,457	\$ 194,926
Contributions in relation to the statutorily determined contribution	<u>82,795</u>	<u>82,268</u>	<u>79,518</u>	<u>62,788</u>	<u>60,318</u>	<u>56,216</u>	<u>41,448</u>	<u>1,165,947</u>	<u>25,038</u>	<u>23,931</u>
Contribution deficiency (excess)	<u>\$ 96,066</u>	<u>\$ 83,232</u>	<u>\$ 78,076</u>	<u>\$ 92,812</u>	<u>\$ 62,840</u>	<u>\$ 52,262</u>	<u>\$ 77,269</u>	<u>\$ (959,277)</u>	<u>\$ 173,419</u>	<u>\$ 170,995</u>
Covered-employee payroll	Not available	\$ 564,827	\$ 550,616	\$ 548,515	\$ 541,354	\$ 528,288	\$ 567,173	\$ 594,139	\$ 571,314	\$ 562,567
Contributions as a percentage of covered-employee payroll	Not available	29.30%	28.62%	28.37%	22.75%	20.53%	20.93%	34.78%	34.74%	34.65%

**Notes to Schedule**

Valuation date: January 1, 2014

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age Normal Method
Amortization method	For pension expense; the difference between expected and actual liability experience and changes of assumptions are amortized over the average of the expected remaining service lives of all members. The difference between projected and actual earnings is amortized over a closed period of five years.
Remaining amortization period	5 Years - Closed
Asset valuation method	Market Value
Inflation	3.25%
Salary increases	Service graded table starting at 9% with 4% ultimate rate after 5 years of service
Investment rate of return	8.25% per annum, compounded annually, including inflation, net of expenses

CHICAGO TRANSIT AUTHORITY  
Supplemental Plans  
Required Supplementary Information -  
Schedules of Actuarially Determined Contributions (Unaudited)  
Year Ended December 31, 2015  
(In thousands of dollars)  
as required by GASB 67/68

<b>Qualified Plan</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
Actuarially determined contribution	\$ 1,164	\$ 1,130	\$ 1,926	\$ 2,267	\$ 2,207	\$ 2,577	\$ 2,410	\$ 230	\$ 200	\$ -
Contributions in relation to the actuarially determined contribution	<u>1,164</u>	<u>1,130</u>	<u>1,927</u>	<u>2,267</u>	<u>2,210</u>	<u>2,600</u>	<u>7,410</u>	<u>8,000</u>	<u>-</u>	<u>-</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1)</u>	<u>\$ -</u>	<u>\$ (3)</u>	<u>\$ (23)</u>	<u>\$ (5,000)</u>	<u>\$ (7,770)</u>	<u>\$ 200</u>	<u>\$ -</u>
Covered-employee payroll	\$ 1,355	\$ 1,443	\$ 1,647	\$ 2,282	\$ 2,486	\$ 4,259	\$ 7,265	\$ 11,691	\$ 13,551	\$ 14,840
Contributions as a percentage of covered-employee payroll	85.90%	78.30%	117.02%	99.33%	88.90%	61.05%	102.00%	68.43%	0.00%	0.00%
<b>Non-qualified Plan</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
Actuarially determined contribution	\$ 2,678	\$ 4,595	\$ 4,295	\$ 4,116	\$ 4,041	\$ 3,771	\$ 3,635	\$ 3,599	\$ 3,450	\$ 3,475
Contributions in relation to the actuarially determined contribution	<u>2,683</u>	<u>3,023</u>	<u>3,114</u>	<u>3,299</u>	<u>3,447</u>	<u>3,260</u>	<u>3,381</u>	<u>3,459</u>	<u>3,504</u>	<u>3,468</u>
Contribution deficiency (excess)	<u>\$ (5)</u>	<u>\$ 1,572</u>	<u>\$ 1,181</u>	<u>\$ 817</u>	<u>\$ 594</u>	<u>\$ 511</u>	<u>\$ 254</u>	<u>\$ 140</u>	<u>\$ (54)</u>	<u>\$ 7</u>
Covered-employee payroll	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions as a percentage of covered-employee payroll	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

CHICAGO TRANSIT AUTHORITY  
Supplemental Plans  
Required Supplementary Information -  
Schedules of Actuarially Determined Contributions (Unaudited)  
Year Ended December 31, 2015  
(In thousands of dollars)  
as required by GASB 67/68

<b>Board Member Plan</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
Actuarially determined contribution	\$ 379	\$ 324	\$ 331	\$ 348	\$ 372	\$ 361	\$ 288	\$ 282	\$ 287	\$ 275
Contributions in relation to the actuarially determined contribution	<u>328</u>	<u>333</u>	<u>338</u>	<u>323</u>	<u>323</u>	<u>323</u>	<u>266</u>	<u>263</u>	<u>284</u>	<u>292</u>
Contribution deficiency (excess)	<u>\$ 51</u>	<u>\$ (9)</u>	<u>\$ (7)</u>	<u>\$ 25</u>	<u>\$ 49</u>	<u>\$ 38</u>	<u>\$ 22</u>	<u>\$ 19</u>	<u>\$ 3</u>	<u>\$ (17)</u>
Covered-employee payroll	\$ 75	\$ 125	\$ 139	\$ 150	\$ 175	\$ 200	\$ 200	\$ 200	\$ 200	\$ 200
Contributions as a percentage of covered-employee payroll	437.23%	266.66%	242.12%	215.19%	184.45%	161.39%	133.17%	131.73%	142.09%	145.95%

**Notes to Schedule**

Valuation date: Actuarially determined contribution rates are calculated as of December 31, 2015

Methods and assumptions used to determine contribution rates:

Actuarial cost method      Entry Age Normal Method  
Amortization method      Level Dollar  
Remaining amortization period      Qualified: 13 Years - Closed

Unfunded Plans: pay as you go actuarially determined contributions as of January 1, 2015  
Prior remaining amortization period as of December 31, 2014.  
Non-qualified: 6 Years - Closed  
Board: 30 Years - Closed

Asset valuation method      Market Value  
Inflation      2.5%  
Salary increases      3.5% per year  
Investment rate of return      Qualified: 7.0% per year  
Non-qualified: 3.57% per year  
Board: 3.57% per year

CHICAGO TRANSIT AUTHORITY  
Supplemental Plans  
Required Supplementary Information -  
Schedule of Investment Returns (Unaudited)  
Year Ended December 31, 2015

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	<u>Year</u>	<u>Qualified Supplemental Plan</u>
Annual Money-Weighted Rate of Return, Net of Investment Expense	2015	-2.69%
	2014	4.20%

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

**SUPPLEMENTARY SCHEDULES**



CHICAGO TRANSIT AUTHORITY  
Schedule of Expenses and Revenues –  
Budget and Actual – Budgetary Basis  
Year ended December 31, 2015  
(In thousands of dollars)

	Original budget	Actual – budgetary basis	Variance favorable (unfavorable)
<b>Operating expenses:</b>			
Labor and fringe benefits	\$ 1,005,919	\$ 1,002,486	\$ 3,433
Materials and supplies	73,331	83,507	(10,176)
Fuel	55,396	49,830	5,566
Electric power	29,736	28,818	918
Purchase of security services	14,427	14,431	(4)
Other	261,394	252,054	9,340
Provision for injuries and damages	<u>3,500</u>	<u>13,000</u>	<u>(9,500)</u>
Total operating expenses	<u>1,443,703</u>	<u>1,444,126</u>	<u>(423)</u>
<b>System-generated revenues:</b>			
Fares and passes	589,212	587,108	(2,104)
Reduced-fare subsidies	28,322	14,606	(13,716)
Advertising and concessions	30,017	31,241	1,224
Investment income	682	1,123	441
Contributions from local governmental units	5,000	5,000	-
Other revenue	<u>34,286</u>	<u>36,440</u>	<u>2,154</u>
Total system-generated revenues	<u>687,519</u>	<u>675,518</u>	<u>(12,001)</u>
Operating expenses in excess of system-generated revenues	756,184	768,608	(12,424)
<b>Public funding from the RTA:</b>			
Operating assistance	<u>756,184</u>	<u>793,008</u>	<u>36,824</u>
	<u>756,184</u>	<u>793,008</u>	<u>36,824</u>
Change in net position – budgetary basis	<u>\$ -</u>	24,400	<u>\$ 24,400</u>
<b>Reconciliation of budgetary basis to GAAP basis:</b>			
Provision for depreciation		(445,179)	
Pension expense in excess of pension contributions		(6,456)	
Supplemental Retirement		3,734	
Incentive Retirement		768	
Workers Compensation		(1,244)	
Revenue from leasing transactions		844	
Provision for injuries and damages		(7,724)	
Interest expense on bond transactions		(118,289)	
Interest revenue on bond transactions		1,483	
Interest income from sale/leaseback		14,279	
Interest expense from sale/leaseback		(31,982)	
Capital contributions		<u>564,590</u>	
Change in net position – GAAP basis		<u>\$ (776)</u>	
<b>CTA recovery ratio:</b>			
Total operating expenses		\$ 1,444,126	
Less mandated security costs		(14,431)	
Less Pension Obligation Bond debt service		(156,574)	
Plus City of Chicago in-kind services		<u>22,000</u>	
Total operating expenses for recovery ratio calculation (B)		<u>\$ 1,295,121</u>	
Total system-generated revenues		\$ 675,518	
Plus Senior Free Rides		27,946	
Plus City of Chicago in-kind services		<u>22,000</u>	
Total system-generated revenues for recovery ratio calculation (A)		<u>\$ 725,464</u>	
Recovery ratio (A/B)		56.02%	

CHICAGO TRANSIT AUTHORITY  
Schedule of Expenses and Revenues –  
Budget and Actual – Budgetary Basis  
Year ended December 31, 2014  
(In thousands of dollars)

	Original budget	Actual – budgetary basis	Variance favorable (unfavorable)
<b>Operating expenses:</b>			
Labor and fringe benefits	\$ 973,700	\$ 965,868	\$ 7,832
Materials and supplies	61,800	80,963	(19,163)
Fuel	60,246	59,476	770
Electric power	27,444	33,568	(6,124)
Purchase of security services	14,087	13,628	459
Other	247,572	242,910	4,662
Provision for injuries and damages	<u>-</u>	<u>3,500</u>	<u>(3,500)</u>
Total operating expenses	<u>1,384,849</u>	<u>1,399,913</u>	<u>(15,064)</u>
<b>System-generated revenues:</b>			
Fares and passes	593,050	583,299	(9,751)
Reduced-fare subsidies	21,464	28,321	6,857
Advertising and concessions	29,651	27,561	(2,090)
Investment income	494	422	(72)
Contributions from local governmental units	5,000	5,000	-
Other revenue	<u>26,308</u>	<u>36,072</u>	<u>9,764</u>
Total system-generated revenues	<u>675,967</u>	<u>680,675</u>	<u>4,708</u>
Operating expenses in excess of system-generated revenues	708,882	719,238	(10,356)
<b>Public funding from the RTA:</b>			
Operating assistance	<u>708,882</u>	<u>739,238</u>	<u>30,356</u>
	<u>708,882</u>	<u>739,238</u>	<u>30,356</u>
Change in net position – budgetary basis	<u>\$ -</u>	20,000	<u>\$ 20,000</u>
<b>Reconciliation of budgetary basis to GAAP basis:</b>			
Provision for depreciation		(414,114)	
Pension expense in excess of pension contributions		2,116	
Supplemental Retirement		1,047	
Incentive Retirement		380	
Workers Compensation		(8,695)	
Revenue from leasing transactions		1,695	
Provision for injuries and damages		(21,395)	
Interest expense on bond transactions		(109,873)	
Interest revenue on bond transactions		1,363	
Interest income from sale/leaseback		75,589	
Interest expense from sale/leaseback		(47,174)	
Capital contributions		<u>551,579</u>	
Change in net position – GAAP basis		<u>\$ 52,518</u>	
<b>CTA recovery ratio:</b>			
Total operating expenses		\$ 1,399,913	
Less mandated security costs		(13,628)	
Less Pension Obligation Bond debt service		(156,574)	
Plus City of Chicago in-kind services		<u>22,000</u>	
Total operating expenses for recovery ratio calculation (B)		<u>\$ 1,251,711</u>	
Total system-generated revenues		\$ 680,675	
Plus Senior Free Rides		29,114	
Plus City of Chicago in-kind services		<u>22,000</u>	
Total system-generated revenues for recovery ratio calculation (A)		<u>\$ 731,789</u>	
Recovery ratio (A/B)			58.46%

## APPENDIX E

### FORM OF CONTINUING DISCLOSURE UNDERTAKING

CONTINUING DISCLOSURE UNDERTAKING  
FOR THE PURPOSE OF PROVIDING  
CONTINUING DISCLOSURE INFORMATION  
UNDER SECTION (B)(5) OF RULE 15c2-12

This Continuing Disclosure Undertaking (the “*Agreement*”) is executed and delivered by the Chicago Transit Authority (the “*Authority*”) in connection with the issuance of its \$296,220,000 Second Lien Sales Tax Receipts Revenue Bonds, Series 2017 (the “*2017 Second Lien Bonds*”). The 2017 Second Lien Bonds are being issued pursuant to the laws of the State of Illinois, including the Metropolitan Transit Authority Act, as amended (70 ILCS 3605/1 et seq.), the Local Government Debt Reform Act, as amended (30 ILCS 350/1 et seq.), and an ordinance adopted by the Chicago Transit Board, the Authority’s governing body, on November 16, 2016. The 2017 Second Lien Bonds are being issued pursuant to a Trust Indenture, dated as of January 1, 2017 (the “*Master Indenture*”), between the Authority and Zions Bank, a division of ZB, National Association, Chicago, Illinois, as trustee (the “*Trustee*”), as supplemented by the First Supplemental Indenture dated as of January 1, 2017 (the “*First Supplemental Indenture*,” and together with the Master Indenture, the “*Indenture*”), between the Authority and the Trustee.

In consideration of the issuance of the 2017 Second Lien Bonds by the Authority and the purchase of such 2017 Second Lien Bonds by the beneficial owners thereof, the Authority covenants and agrees as follows:

1. PURPOSE OF THIS AGREEMENT. This Agreement is executed and delivered by the Authority as of the date set forth below, for the benefit of the beneficial owners of the 2017 Second Lien Bonds and in order to assist the Participating Underwriters in complying with the requirements of the Rule (as defined below). The Authority represents that it will be the only obligated person with respect to the 2017 Second Lien Bonds at the time the 2017 Second Lien Bonds are delivered to the Participating Underwriters and that no other person is expected to become so committed at any time after issuance of the 2017 Second Lien 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 financial information and operating data described in Exhibit I hereto.

“*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 herein.

“*Audited Financial Statements*” means the audited financial statements of the Authority as described in Exhibit I hereto.

“*EMMA*” means the MSRB through its Electronic Municipal Market Access system for municipal securities disclosure or through any other electronic format or system prescribed by the MSRB for purposes of the Rule.

“*Event*” means the occurrence of any of the events set forth in Exhibit II hereto.

“*Events Disclosure*” means dissemination of a notice of an Event as set forth in Section 5 hereof.

“*MSRB*” means the Municipal Securities Rulemaking Board.

“*1934 Act*” means the Securities Exchange Act of 1934, as amended.

“*Participating Underwriter*” means each broker, dealer or municipal securities dealer acting as an underwriter in any primary offering of the 2017 Second Lien Bonds as defined in the Rule.

“*Rule*” means Rule 15c2-12 adopted by the SEC under the 1934 Act, as the same may be amended from time to time.

“*SEC*” means the Securities and Exchange Commission.

“*State*” means the State of Illinois.

“*Undertaking*” means the obligations of the Authority pursuant to Sections 4 and 5 hereof.

3. CUSIP NUMBER/FINAL OFFICIAL STATEMENT. The CUSIP Numbers of the 2017 Second Lien Bonds are as set forth in Exhibit III hereto. The Official Statement relating to the 2017 Second Lien Bonds dated January 10, 2017 is referred to herein as the “*Final Official Statement*.”

4. ANNUAL FINANCIAL INFORMATION DISCLOSURE. Subject to Section 9 of this Agreement, the Authority 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 hereto) to EMMA in such manner and format and accompanied by identifying information as is prescribed by the MSRB or the SEC at the time of delivery of such information and by such time so that such entities receive the information by the dates specified. MSRB Rule G-32 requires all EMMA filings to be in word searchable PDF format. This requirement extends to all documents to be filed with EMMA, including financial statements and other externally prepared reports. To the extent that the Annual Financial Information is included in the Authority's Audited Financial Statements, it need not be separately delivered.

If any part of the Annual Financial Information can no longer be generated because the operations to which it is related have been materially changed or discontinued, the Authority shall disseminate a statement to such effect as part of its Annual Financial Information for the year in which such event first occurs.

If any amendment or waiver is made to this Agreement, the Annual Financial Information for the year in which such amendment or waiver is made (or in any notice or supplement provided to EMMA) shall contain a narrative description of the reasons for such amendment or waiver and its impact on the type of information being provided.

5. EVENTS DISCLOSURE. Subject to Section 9 of this Agreement, the Authority hereby covenants that it will disseminate in a timely manner, not in excess of ten business days after the occurrence of the Event, notice of the occurrence of an Event to EMMA in such manner and format and accompanied by identifying information as is prescribed by the MSRB or the SEC at the time of delivery of such information. MSRB Rule G-32 requires all EMMA filings to be in word searchable PDF format. This requirement extends to all documents to be filed with EMMA, including financial

statements and other externally prepared reports. Notwithstanding the foregoing, notice of optional or unscheduled redemption of any 2017 Second Lien Bonds or defeasance of any 2017 Second Lien 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 under the Indenture.

6. DUTY TO UPDATE THE PROCEDURES. The Authority shall determine, in the manner it deems appropriate, the proper procedures for disseminating such information required to be disseminated under the Rule each time it is required to file such information with EMMA.

7. CONSEQUENCES OF FAILURE OF THE AUTHORITY TO PROVIDE INFORMATION. The Authority shall give notice in a timely manner to EMMA in the manner and format described in Section 5 above of any failure to provide Annual Financial Information Disclosure when the same is due hereunder.

In the event of a failure of the Authority to comply with any provision of this Agreement, the beneficial owner of any Bond may seek mandamus or specific performance by court order to cause the Authority to comply with its obligations under this Agreement. Any court action to enforce this Agreement must be initiated in the Circuit Court of Cook County, Illinois. A default under this Agreement shall not be deemed a default under the 2017 Second Lien Bonds, the Indenture, and the sole remedy under this Agreement in the event of any failure of the Authority to comply with this Agreement shall be an action to compel performance.

8. AMENDMENTS; WAIVER. Notwithstanding any other provision of this Agreement, the Authorized Officers (as defined in the Indenture), pursuant to authorization granted in the Indenture, may amend this Agreement, and any provision of this Agreement may be waived, if:

(a)(i) the amendment or the waiver is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of the Authority or type of business conducted;

(ii) 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

(iii) the amendment or waiver does not materially impair the interests of the beneficial owners of the 2017 Second Lien Bonds, as determined by parties unaffiliated with the Authority (such as the Trustee), or by approving vote of the beneficial owners of the 2017 Second Lien Bonds pursuant to the terms of the Indenture at the time of the amendment; or

(b) the amendment or waiver is otherwise permitted by the Rule.

9. TERMINATION OF UNDERTAKING. The Undertaking of the Authority shall be terminated hereunder if the Authority shall no longer have any legal liability for any obligation on or relating to repayment of the 2017 Second Lien Bonds under the Indenture.

10. DISSEMINATION AGENT. The Authority may, from time to time, appoint or engage a dissemination agent to assist it in carrying out its obligations under this Agreement, and may discharge any such agent, with or without appointing a successor dissemination agent.

11. ADDITIONAL INFORMATION. Nothing in this Agreement shall be deemed to prevent the Authority from disseminating 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 Disclosure or Event Disclosure, in addition to that which is required by this Agreement. If the Authority chooses to include any other information in any Annual Financial Information Disclosure or Event Disclosure in addition to that which is specifically required by this Agreement, the Authority shall have no obligation under this Agreement to update such other information or include it in any future Annual Financial Information Disclosure or Event Disclosure.

12. **BENEFICIARIES.** This Agreement has been executed to assist the Participating Underwriters in complying with the Rule; however, this Agreement shall inure solely to the benefit of the Authority and the beneficial owners of the 2017 Second Lien Bonds, and shall create no rights in any other person or entity.

13. **ASSIGNMENT.** The Authority shall not transfer its obligations under the Indenture unless the transferee agrees to assume all obligations of the Authority under this Agreement or to execute a continuing disclosure undertaking under the Rule.

14. **GOVERNING LAW.** This Agreement shall be governed by the laws of the State of Illinois, without giving effect to the conflict of laws provisions thereof.

IN WITNESS WHEREOF, the party hereto has caused this Continuing Disclosure Undertaking in connection with the Chicago Transit Authority's \$296,220,000 Second Lien Sales Tax Receipts Revenue Bonds, Series 2017 to be executed by its duly Authorized Officer as of the date below written.

Chicago Transit Authority

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Chicago Transit Authority

567 W. Lake St.

Chicago, IL 60661

Dated: January 24, 2017

## **EXHIBIT I**

### **ANNUAL FINANCIAL INFORMATION AND TIMING AND AUDITED FINANCIAL STATEMENTS**

Annual Financial Information means the financial information and operating data as set forth below. All or a portion of the Annual Financial Information and the Audited Financial Statements as set forth below may be set forth in other documents, including other official statements, which have been transmitted to EMMA, or may be included by specific reference to documents available to the public on the MSRB's internet website or filed with the SEC.

#### **I. Annual Financial Information:**

(a) Financial information and operating data (exclusive of Audited Financial Statements) generally consistent with that contained in the Final Official Statement under the tables captioned "RTA Allocations-2015" and "Sales Tax Receipts 2011-2016" under the heading "SOURCES OF PAYMENT OF THE 2017 SECOND LIEN BONDS," the table captioned "Debt Service Coverage" under the heading "DEBT SERVICE COVERAGE RATIOS," and the tables captioned "RTA Sales Tax" and "State Sales Tax" in APPENDIX C—"SALES TAX RECEIPTS."

(b) The Authority's Annual Financial Information (exclusive of Audited Financial Statements) will be provided to EMMA, not more than 210 days after the last day of the Authority's fiscal year, which currently is December 31.

(c) Audited Financial Statements as described in Part II are expected to be filed at the same time as the Annual Financial Information described in this Part I. If Audited Financial Statements are not available when the Annual Financial Information is filed, unaudited financial statements shall be included, and Audited Financial Statements will be filed when available.

#### **II. Audited Financial Statements:**

(d) Audited Financial Statements will be prepared in accordance with generally accepted accounting principles applicable to governmental units as in effect from time to time.

(e) Audited Financial Statements will be provided to EMMA within 30 days after availability to the Authority.



## EXHIBIT II

### EVENTS WITH RESPECT TO THE 2017 SECOND LIEN BONDS FOR WHICH EVENTS DISCLOSURE IS REQUIRED

- (a) principal and interest payment delinquencies;
- (b) non-payment related defaults, if material;
- (c) unscheduled draws on debt service reserves reflecting financial difficulties;
- (d) unscheduled draws on credit enhancements reflecting financial difficulties;
- (e) substitution of credit or liquidity providers, or their failure to perform;
- (f) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security;
- (g) modifications to rights of security holders, if material;
- (h) bond calls, if material, and tender offers (other than scheduled mandatory redemptions);
- (i) defeasances;
- (j) release, substitution or sale of property securing repayment of the securities, if material;
- (k) rating changes;
- (l) bankruptcy, insolvency, receivership or similar event of the Authority (such an event will be considered to have occurred when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the Authority in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Authority, or if the jurisdiction of the Authority has been assumed by leaving the Chicago Transit Board and the Authority's officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Authority);
- (m) the consummation of a merger, consolidation, or acquisition involving the Authority or the sale of all or substantially all of the assets of the Authority, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- (n) appointment of a successor or additional trustee or the change of name of a trustee, if material.

### EXHIBIT III

#### CUSIP NUMBERS

YEAR OF MATURITY (DECEMBER 1)	CUSIP NUMBER (16772P)
2046	BV7
2046	BU9
2051	BW5
2051	BT2

**APPENDIX F**

**PENSION PLANS AND POST-EMPLOYMENT HEALTHCARE**

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# PENSION PLANS AND POST-EMPLOYMENT HEALTHCARE

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## PENSION PLANS AND POST-EMPLOYMENT HEALTHCARE

### General Overview

**Retirement Plan.** The Authority contributes to the Retirement Plan for Chicago Transit Authority Employees, a trustee, single-employer defined benefit pension plan covering substantially all full-time permanent union and non-union Authority employees (the “Retirement Plan”). The Retirement Plan was first established by an agreement between the Authority and its collective bargaining units in 1949 (“Plan Agreement”), which has since been amended and is currently governed by Section 22-101 of the Illinois Pension Code (40 ILCS 5/22-101) (the “Pension Code”). The Authority’s contributions to the Retirement Plan and benefits for participants in the Retirement Plan are governed by the Plan Agreement and the Pension Code. This appendix describes, among other things, the current provisions of the Pension Code applicable to the Authority’s funding of the Retirement Plan; however, no assurance can be made that the Pension Code will not be amended in the future by the General Assembly.

The Retirement Plan is governed by an 11-member Board of Trustees (the “Retirement Board”) established under the Pension Code, which is separate and distinct from the Chicago Transit Board and the RTA Board. More information about the Retirement Board can be found below under the heading “Background Information Regarding the Retirement Plan” below.

The Retirement Plan’s primary sources of funding come from the Authority’s contributions, the employees’ contributions, and investment income on the Retirement Plan’s assets. The amount of benefits payable to participating employees under the Retirement Plan and the calculation of the Authority and employee contribution amounts and certain other provisions of the Retirement Plan are established under and governed by the Plan Agreement and the Pension Code. The Authority’s minimum contributions and the employee contributions, determined pursuant to statutorily prescribed formulas under the Pension Code, do not equal the Annual Required Contribution (or “ARC”, as defined below) as determined by the independent actuary engaged by the Retirement Plan. As of the 2016 Actuarial Valuation, the contributions made by the Authority and its employees have been in compliance with the Pension Code, but the Pension Code’s contribution requirements are at a level below the actuarially determined ARC and have resulted in an Unfunded Actuarial Accrued Liability (or “UAAL”, as defined below) of \$1.52 billion and a Funded Ratio (as defined below) of 53.3%. (See “Determination of Authority’s Contributions”, “The Actuarial Valuation – Authority’s Contributions Not Related to GASB Standards” and “Funded Status” below.)

Under the Pension Code, the funding of the Retirement Plan is subject to the following requirements:

- For each year through 2039, the estimated “funded ratio” of the Retirement Plan, which is the actuarial value of assets divided by the actuarial accrued liability, expressed as a percentage, must be at least 60%. If the funded ratio is projected to decline below 60% in any year before 2040, increased contributions will be required each year as a level percentage of payroll over the years remaining until 2040 so that the funded ratio does not decline below 60%.
- If the funded ratio actually declines below 60% in any year prior to 2040, increased contributions will be required each year as a level percentage of payroll during the years after the then current year so that the funded ratio is projected to reach at least 60% no later than 10 years after the then current year.
- Beginning in 2040, the minimum annual contribution to the Retirement Plan must be sufficient to bring the funded ratio to 90% by the end of 2059.

- Beginning in 2060, the minimum contribution must be an amount necessary to maintain the funded ratio at 90%.

Two-thirds of any increase in required contributions is to be paid by the Authority and one-third by participating employees.

***Supplemental Pension Plans.*** The Authority also maintains three other separate, non-statutory, single-employer defined benefit pension plans for a limited number of selected employees (collectively, the “Supplemental Pension Plans”): (i) a Chicago Transit Board member plan (the “Board Plan”) for Chicago Transit Board members; (ii) a supplemental pension plan for certain employees who retired or terminated employment prior to March 2005 (the “Closed Supplemental Plan”); and (iii) a supplemental pension plan for certain employees retiring after March 2005 (the “Open Supplemental Plan”). The Board Plan and the Closed Supplemental Plan are funded on a pay-as-you-go basis. The Open Supplemental Plan is a trusteed plan funded on an actuarially determined basis.

It should be noted that pursuant to legislation in 2008 (*see* “Legislative Changes Impacting the Retirement Plan” below), the Retirement Plan is the sole pension plan for Authority employees and all supplemental pension plans were closed to any new participants. In 2013, the Authority, although not required to by state law, closed the Board Plan to any new participants and the members subsequently appointed to the Chicago Transit Board have accordingly been informed that they will not be eligible to join the Board Plan. However, the Authority could in the future reverse or modify its decision to close the Board Plan. Additional information with respect to the Supplemental Pension Plans is presented below under the heading “Supplemental Pension Plans.”

***Retiree Health Care Trust.*** Prior to 2009, health care benefits for retirees and their dependents were administered by the Retirement Plan. Pursuant to amendments to the Pension Code enacted in 2008, the retiree health care benefits formerly administered by the Retirement Plan were transferred to a separate and newly created Retiree Health Care Trust (“RHCT”). The Authority does not have any obligation to provide or fund health care benefits for current or future retirees. However, Authority employees are required to contribute no less than three percent annually to the RHCT, which contributions are deducted from their paychecks and remitted by the Authority to the RHCT. Additional information with respect to the RHCT is presented below under the heading “Retiree Health Care Trust.”

***Pension Bonds.*** On August 6, 2008, the Authority issued its Pension and Retirement Debt Obligations (“Pension Bonds”) in two series in an aggregate amount of \$1,936.9 million. Proceeds of the Pension Bonds in the amount of approximately \$1,110.5 million were deposited in the Retirement Plan, and proceeds in the amount of approximately \$529.0 million were deposited into the RHCT. As a result of 2008 amendments to the Pension Code, the Authority’s required annual contributions to the Retirement Plan are reduced by the amount of yearly debt service paid on the Pension and Retirement Debt Obligations up to a maximum of 6% of total employee compensation paid by the Authority for the year.

## **Sources of Information**

Much of the information presented in this appendix regarding the Retirement Plan and the RHCT comes from and is prepared in reliance on public information made available by the Retirement Plan and the RHCT; documents produced by the Retirement Plan and the RHCT, including their respective actuarial valuations (the “Actuarial Valuations”) prepared by independent actuaries (the “Actuary” or “Actuaries”) and their respective financial statements (the “Financial Statements”) prepared by independent auditors; and the 2015 Annual Review by the State of Illinois Office of Auditor General’s “2015 Annual Review of Information Submitted by the Retirement Plan for the CTA Employees” and its “2015 Annual Review of Information Submitted by the Retiree Health Care Trust.”



Much of the information presented in this Appendix regarding the Supplemental Pension Plans comes from and is prepared in reliance on information contained in the Authority's audited financial statements for the years ended December 31, 2014 and 2015.

Such information is referred to collectively as the "Source Information." With the exception of the Authority's own financial statements, the Authority has not independently verified the Source Information and makes no representations nor expresses any opinion as to the accuracy or completeness of the Source Information, and such Source Information is not incorporated herein by reference. Any discussion herein with respect to actuarial assumptions, methodology, results or projections are strictly from the sources cited and should not be construed as statements or information from the Authority. To the Authority's knowledge, the Financial Statements for the Retirement Plan for the year ended December 31, 2015 and the Actuarial Valuations as of January 1, 2016 and the RHCT for the year ended December 31, 2015 and the Actuarial Valuations as of January 1, 2016, are the most recent financial statements and actuarial valuations available.

### **Cautionary Statement**

Certain information included in this Appendix, including information under the heading "Projection of Funded Status," relies on Source Information produced by the Actuaries. Actuarial assessments are "forward-looking" information that reflects the judgment of the Actuaries. When used in this Appendix, the words "estimate," "expect," "project," "intend," "anticipate," "believe," "may," "will," "continue" and similar expressions identify forward-looking statements. Any forward-looking statement is subject to uncertainty and risks that could cause actual results to differ, possibly materially, from those contemplated in such forward-looking statements. Some assumptions used to develop forward-looking statements will not be realized, or unanticipated events and circumstances may occur. Actuarial assessments are based upon a variety of assumptions, some of which may prove to be inaccurate or changed in the future. Therefore, investors should be aware that there are likely to be differences between forward-looking statements and actual results, and that those differences could be material.

As stated above, the Retirement Plan is governed by the Plan Agreement and the Pension Code. Certain aspects of the Retirement Plan, including the level of benefits for participants and required funding levels, are established pursuant to the Pension Code, including the 2008 Pension Reform (as defined below). *See* "Legislative Changes Impacting the Retirement Plan" below. Subsequent to 2008, various amendments to the Pension Code that could impact the Retirement Plan or the RHCT have been introduced and other amendments may be introduced in the future. It cannot be predicted whether any currently proposed amendments will be adopted in their present form or whether other amendments may be subsequently introduced or enacted and the economic impact of such amendments on the Retirement Plan, the RHCT or the Authority cannot be predicted and may be material.

## Legislative Changes Impacting the Retirement Plan

**2006 Pension Reform.** On June 6, 2006, Public Act 094-0839 (the “2006 Pension Reform”) was signed into law. The 2006 Pension Reform established a requirement that the Funded Ratio of the Retirement Plan reach 90% by the end of fiscal year 2058. The 2006 Pension Reform also required the RTA to begin monitoring the Authority’s payment of the required contributions and, starting January 1, 2009, to make payments to the Retirement Plan if the Authority failed to do so.

**2008 Pension Reform.** On January 18, 2008, the Governor signed Public Act 095-0708 (the “2008 Pension Reform”) into law. The 2008 Pension Reform made several significant changes to the Authority’s pension and retiree healthcare benefits, including, among other things:

- established the Retirement Plan as the exclusive retirement plan, other than employee self-funded deferred compensation plans, for Authority employees hired after the effective date of the 2008 Pension Reform, thereby closing the Open Supplemental Plan to new participants;
- established the RHCT as a separate entity and provided that the Authority shall have no responsibility to make contributions to the RHCT after the issuance of the Pension and Retirement Debt Obligations (defined below);
- established minimum contribution requirements to the Retirement Plan for the Authority and participating employees of 12% (subject to a reduction of up to 6% for debt service paid on outstanding pension funding bonds) and 6% of employee compensation, respectively;
- requires that the Funded Ratio of the Retirement Plan be at least 60% by the end of fiscal year 2009 through 2039, with adjustments in Authority and employee contribution levels as may be necessary to achieve 60% within ten years in the event that the Funded Ratio falls below 60% in a given year;
- changed the requirement that the Retirement Plan’s Funded Ratio be at least 90% from the end of fiscal year 2058 to the end of fiscal year 2059;
- established new minimum eligibility requirements for employees hired after the effective date of the 2008 Pension Reform to receive benefits under the Retirement Plan; and
- requires a Funded Ratio of at least 80% for any future early retirement incentive program.

**2013 Pension Reform.** In 2013, the General Assembly passed legislation known as Public Act 098-0599 (the “2013 Pension Reform”) that provided for a series of changes to pension benefits and contributions affecting four pension plans covering employees of the State of Illinois. The 2013 Pension Reform does not amend any of the provisions of the Pension Code applicable to the Retirement Plan or the RHCT. Section 5 of Article XIII of the Illinois Constitution (the “Pension Protection Clause”) provides as follows: “Membership in any pension retirement system of the State, any unit of local government or school district, or any agency or instrumentality thereof, shall be an enforceable contractual relationship, the benefits of which shall not be diminished or impaired.” Several groups have filed lawsuits challenging the constitutionality of the 2013 Pension Reform on the basis that it violates the Pension Protection Clause and the contract impairment clause, the equal protection clause or the taking clause under the Illinois Constitution. The 2008 Pension Reform is not the subject of these lawsuits. See “Litigation, Investigation and Labor Relations - Litigation” below. In December 2013, retired members of the Teachers’ Retirement System (“TRS”) filed the first lawsuit in Cook County seeking a court declaration that the 2013 Pension Reform violates the Pension Protection Clause of the Illinois

Constitution. *Heaton, et al v. Quinn, et al.*, No. 2013 CH 28406 (Cook County). Other groups have filed lawsuits on behalf of retired members of TRS, retired members of the State Employees' Retirement System, retired members of the State Universities Retirement System, and retired members of the General Assembly Retirement System. See *Illinois State Employees Association Retirees, et al. v. The Board of Trustees of the State Employees' Retirement System of Illinois*, No. 2014 CH 000003 (Sangamon County); *Retired State Employees Association, et al. v. Quinn, et al.*, No. 2014 MR 000001 (Sangamon County); and *Harrison, et al. v. Quinn, et al.*, No. 2014 CH 00048 (Sangamon County). On additional motions for partial summary judgment, judgment on the pleadings, and to strike an affirmative defense, the circuit court found the plaintiffs' challenge to be meritorious, declared Public Act 098-0599 to be unconstitutional in its entirety as a violation of the pension protection clause, and permanently enjoined its enforcement. This decision was appealed by the State, and the Illinois Supreme Court affirmed the circuit court's judgment declaring Public Act 098-0599 to be unconstitutional and to permanently enjoin its enforcement.

### **Background Information Regarding the Retirement Plan**

**General.** As stated in General Overview above, the Retirement Plan is a single-employer defined benefit retirement plan. "Single-employer" means that there is only one employer whose employees are eligible to participate in the plan. In this case, the Authority is the "single-employer". "Defined benefit" refers to the fact that the Retirement Plan pays a periodic benefit to retired employees (and upon their death to their surviving spouses and, in certain instances, their children) in an amount determined pursuant to a statutory formula on the basis of the employees' service credits and salary. Members have no segregated individual accounts in a defined benefit plan, and the amount of their benefits is not dependent on the investment performance of the plan assets. The Retirement Plan's fiscal year runs from January 1 to December 31. Each year, the Retirement Plan issues a separate, stand-alone Financial Statement.

As described in "Benefits and Membership" below, the benefits payable under the Retirement Plan accrue throughout the time a member is employed by the Authority. Although benefits accrue during employment, a member must satisfy certain age and service requirements in order for the member or a survivor to receive periodic retirement benefit payments upon the member's retirement or termination from the Authority's employ.

To fund the Retirement Plan, both employees and the employer make contributions to the Retirement Plan. Both the employees' contributions and the Authority's contributions are established and calculated in accordance with the Pension Code, which can only be amended by the General Assembly. See "Determination of Employees' Contribution" and "Determination of Authority's Contribution" below.

**Benefits and Membership.** Employees are entitled to annual pension benefits upon normal retirement at age 65, in an amount generally based on a percentage, multiplied by the number of years of continuous participating service, of their average annual compensation in the highest four of the 10 calendar years prior to retirement. As discussed below, the multiplier has been raised from time to time and ranges from 1.65% to 2.40% depending on the year in which individual participants retired. For employees retiring before December 1, 1987, the multiplier percentage was 1.65%. An amendment to the Plan Agreement between the Authority and its unions, signed September 1987, raised the multiplier percentage to 1.70% and 1.75% for retirements on or after December 1, 1987 and 1989, respectively. Another amendment to the Plan Agreement between the Authority and its unions, signed August 1993, raised the multiplier percentage to 1.80% and 1.85% for retirements on or after January 1, 1993 and January 1, 1995, respectively. The Arbitration Award of November 12, 2003, increased the multiplier percentage for service after June 1, 1949, to 2.00% from 1.85% for employees retiring from January 1,

2000 to December 31, 2000, and to 2.15% for employees retiring on and after January 1, 2001. The multiplier percentage for employees retiring before January 1, 2000 remained at 1.85%. During 1995, a Voluntary Early Retirement Incentive Program was offered, which provided a multiplier percentage of 2.05% for employees retiring after January 1, 1994. During 1997, the Retirement Plan offered a Voluntary Early Retirement Program to eligible employees who had 25 years of continuous service on or before December 31, 1999, and had not retired prior to January 1, 1997, in the form of a multiplier percentage of 2.40% for each year of continuous service, with a maximum retirement payment of 70% of the employee's annual compensation. All eligible employees who elected to participate were allowed to retire as soon as possible but no later than December 31, 1999. As stated above, the 2008 Pension Reform now requires a Funded Ratio of at least 80% for any future early retirement incentive program.

The Retirement Plan also permits early retirement for certain participants at age 55, generally with reduced benefits. The early retirement benefit of an employee hired before January 17, 2008, who has 25 years or more of continuous service, regardless of age, is not reduced; however, in accordance with the 2008 Pension Reform, for all employees hired after January 17, 2008, eligibility for an unreduced pension benefit has changed to age 64 with 25 years of service. Members with at least ten years of continuous service who retire before age 65 are eligible to defer payment of pension benefits until they reach age 65 rather than collect a reduced benefit. Married employees can elect to receive their pension benefits in the form of a joint and survivor annuity. Pension benefits are paid in monthly installments.

The Retirement Plan also provides lump-sum death benefits ranging from \$2,000 to \$8,000, based on age and years of service. In addition, any excess of the employee's contributions, plus interest, on such contributions over the amount of pension benefits paid by the Retirement Plan to the retiree prior to death (and the death of the spouse in case of a survivorship option) is paid to the designated beneficiary. Employees satisfying certain eligibility requirements are eligible for a disability allowance based on compensation and service to date of disability with a minimum benefit of \$400 per month.

The following Table 1 provides membership information for the Retirement Plan as of January 1, 2016, the date of the latest Actuarial Valuation.

**TABLE 1**  
**Membership of Retirement Plan**

<b>Active Members</b>	<b>Inactive/ Entitled to Benefits</b>	<b>Retirees and Beneficiaries</b>	<b>Total</b>
8,204	98	10,028	18,330

Source: Actuarial Valuation Report as of January 1, 2016 prepared by Buck Consultants, LLC

**Governance.** The Retirement Plan is governed by the 11-member Retirement Board appointed as follows: (i) five trustees are appointed by the Chicago Transit Board; (ii) three trustees are appointed by Amalgamated Transit Union, Local 241; (iii) one trustee is appointed by Amalgamated Transit Union, Local 308; (iv) one trustee is appointed by the recognized coalition of representatives of participants who are not represented by the Amalgamated Transit Union; and (v) one trustee is selected by the RTA Board. Trustees serve on the Retirement Board until a successor has been appointed, or until resignation, death, incapacity or disqualification. Under the Pension Code, each trustee casts individual votes and a simple majority vote is required for action by the Retirement Board, provided that the Retirement Board may require a supermajority vote with respect to the investment of assets of the Retirement Plan.

**Investments.** The Retirement Board manages the investments of the Retirement Plan. The Pension Code regulates the types of investments in which the Retirement Plan's assets may be invested. Retirement Board members are fiduciaries of the Retirement Plan and must discharge their duties with the care, prudence and diligence that a prudent person acting in a like capacity and familiar with such matters would use in a similar situation. In carrying out its investment duty, the Retirement Board may appoint investment managers with a discretionary authority to manage, in a fiduciary capacity, all or a portion of the Retirement Plan's assets.

The Retirement Board has adopted a formal investment policy for the Retirement Plan. This investment policy is separate from the investment policy adopted for the RHCT. According to the Investment Performance Summary for the Period Ending March 31, 2013 prepared by Gray & Company Global Investment Solutions, Atlanta, Georgia, the primary objective of the investment policy is to provide a documented structure for the implementation of investment strategies which suggests the highest probability of maximizing the level of investment return within acceptable parameters for the total Retirement Plan's volatility and risk. Any discussion herein with respect to assumptions, methodology, results or projections are strictly from the sources cited and should not be construed as statements or information from the Authority. As shown in Table 2 below, the Retirement Plan's assumed rate of return is currently 8.25%. According to the Auditor General's Report released November 2015, the State of Illinois Office of the Auditor General (the "Auditor General") concluded that, although "not unreasonable in the aggregate", the assumed rate of return is "at the upper end of investment return assumptions used by other plans."

The following Table 2 provides information on the investment returns experienced by the Retirement Plan for the period 2006 through 2015.

**TABLE 2**  
**Historical Investment Returns**

Fiscal Year	Total Rate of Return
2006	13.5%
2007	9.8
2008	(11.2)
2009	8.6
2010	12.6
2011	3.5 <sup>(1)</sup>
2012	11.3
2013	19.5
2014	5.2
2015	(0.2)
Assumed Rate <sup>(2)</sup>	8.25

Source: The Retirement Plan’s audited financial statements for the years ended December 31, 2006 through 2015.

- (1) Amended to conform to the Retirement Plan’s audited financial statements for the years ended December 31, 2011 and 2012.
- (2) Reflects the assumed rate of return for each fund as of December 31, 2015, as discussed in further detail under “Actuarial Assumptions–Assumed Investment Rate of Return” below.

**Determination of Employee Contributions.** Authority employees who are members of the Retirement Plan are required to contribute to the Retirement Plan as provided in the Pension Code. The Pension Code requires participating employees to contribute 6% of compensation, subject to adjustment as described in the “Determination of Authority’s and Employees’ Contributions” below. Beginning January 1, 2013, the employee contribution rate is 10.125% of compensation. In the 2016 Actuarial Report, the Actuaries state that the Funded Ratio has not met the standards set forth in ILCS 5/22-101(e) and that there is a need to increase the employee contribution rate to 11.962%, beginning January 1, 2017.

**Determination of Authority’s Contributions.** Contributions from the Authority to the Retirement Plan are based on requirements under the Pension Code. Under the Pension Code, the Authority’s required contributions are reduced by a credit of up to 6% for debt service on bonds issued by the Authority for the purposes of funding contributions to the Retirement Plan. Beginning January 1, 2013, the Authority contribution rate was 20.25% of compensation, less a 6% credit, for a net contribution rate of 14.25%. The dollar amounts contributed by the Authority for the years ended December 31, 2013, 2014 and 2015 were \$79,518,000, \$82,268,000 and \$82,800,000, respectively. The following Table 3 provides information on the annual contributions made by the Authority to the Retirement Plan for the period 2006 through 2015.

In the 2016 Actuarial Report, the Actuaries state that the Funded Ratio has not met the standards set forth in ILCS 5/22-101(e) and that there is a need to increase the Authority’s required contributions to 17.925% (which takes into account the 6% credit), beginning January 1, 2017.

Under the Pension Code, by September 15 of each year for the years 2009 through 2039, the Retirement Board is required to determine the estimated Funded Ratio of the Retirement Plan. If the Funded Ratio is projected to decline below 60% in any year before 2040, the Retirement Board is required to determine the increased contribution required each year as a level percentage of payroll over

the years remaining until 2040 so that the Funded Ratio does not decline below 60%. If the Funded Ratio actually declines below 60% in any year prior to 2040, the Retirement Board must also determine the increased contribution required each year as a level percentage of payroll during the years after the then current year so that the Funded Ratio is projected to reach at least 60% no later than 10 years after the then current year.

As of the January 1, 2016 Actuarial Valuation, the Funded Ratio remained below 60% at 53.3% for the Retirement Plan. Therefore, the Retirement Board increased contribution rates in compliance with the requirements under the Pension Code as described in the previous paragraph. The current contribution rates adopted by the Retirement Board pursuant to its ten-year plan now exceed the minimum requirements under the Pension Code to restore the Funded Ratio to 60%; however, the contribution rates are still less than the actuarially determined Annual Required Contribution.

Further, the Pension Code requires that, beginning in 2040, the minimum annual contribution to the Retirement Plan must be sufficient to bring the Funded Ratio to 90% by the end of 2059, and beginning in 2060, the minimum contribution must be an amount necessary to maintain the 90% Funded Ratio. Under the Pension Code, increased contributions necessary to meet these funding requirements during both of these periods will be funded two-thirds by the Authority and one-third by participating employees.

Under the Pension Code, the Retirement Board is required to file a report to the Authority, the representatives of its participating employees, the Auditor General and the RTA containing the determination of the Funded Ratio (see “The Actuarial Valuation – General” below). If the Auditor General finds that the determination of the Funded Ratio and the assumptions on which it is based are unreasonable, the Auditor General is authorized to issue a new determination of the Funded Ratio and establish increased contribution requirements.

Under provisions of the RTA Act, the RTA is required to continually review the Authority’s payment of the required contributions to the Retirement Plan. If the RTA determines that the Authority’s payment of any portion of the required contributions to the Retirement Plan is more than one month overdue, the RTA is required to pay, upon notice to the Authority, the Mayor of the City of Chicago, the Governor, the Auditor General and the General Assembly, those overdue contributions to the Retirement Board out of moneys otherwise payable to the Authority. Any such payments by the RTA will reduce the amount of Sales Tax Receipts otherwise available to the Authority to pay debt service on the Bonds. To date, the RTA has not taken any of the foregoing actions.

## **The Actuarial Valuation**

**General.** In addition to the process outlined above, the Pension Code requires that the Retirement Board annually submit to the Governor, General Assembly, the Auditor General, the Board of the Regional Transportation Authority and the Authority the amount of the required contributions for the next retirement system fiscal year and a copy of the Actuarial Valuation. The Actuarial Valuation measures the financial position and determines the Annual Required Contribution of the Retirement Plan for reporting purposes pursuant to GASB Statement No. 67 (“GASB 67”) which is applicable for fiscal years ending 2014 and later. GASB 67 replaces GASB 25 which is applicable for fiscal years ending prior to 2014.

Additionally, the Illinois State Auditing Act requires the Retirement Board to annually submit to the Auditor General the most recent audit and the Actuarial Valuation of the Retirement Plan by September 30. The Auditor General is required to examine the information submitted by the Retirement

Board and submit a report to the Illinois General Assembly regarding the Retirement Plan (the “Auditor General’s Report”).

A description of the calculations performed by the Retirement Plan’s Actuary in the Actuarial Valuations follows below. This information was derived from the Source Information.

GASB, which is part of a private non-profit corporation known as the Financial Accounting Foundation, promulgates standards regarding accounting and financial reporting for governmental entities. These principles have no legal effect and do not impose any legal liability on the Authority. The references to GASB principles in this section do not suggest and should not be construed to suggest otherwise.

***Actuaries and the Actuarial Process.*** GASB standards require disclosure of an “Annual Required Contribution,” which is the annual contribution amount that GASB standards would calculate is needed to fully fund the Retirement Plan over time. The Annual Required Contribution is a financial reporting requirement, but the Pension Code does not require contribution of the Annual Required Contribution level.

The Annual Required Contribution of the Retirement Plan consists of two components: (1) that portion of the present value of pension plan benefits which is allocated to the valuation year by the projected unit credit cost method (as described in “Actuarial Methods – Actuarial Accrued Liability” below), termed the “Normal Cost”; and (2) an amortized portion of any Unfunded Actuarial Accrued Liability.

In producing the Actuarial Valuations, the Retirement Plan’s Actuary uses demographic data (including employee age, salary and service credits), economic assumptions (including estimated future salary and interest rates), and decrement assumptions (including employee turnover, mortality and retirement rates) to calculate, as of the valuation date, the Normal Cost, the Actuarial Accrued Liability, the Actuarial Value of Assets (defined below), and the actuarial present values for the Retirement Plan. The Retirement Plan’s Actuary uses this data to determine the following fiscal year’s Annual Required Contribution.

The Actuarial Accrued Liability is an estimate of the present value of the benefits the Retirement Plan must pay as a result of current and retired employees past employment with the Authority and participation in the Retirement Plan. The Actuarial Accrued Liability is calculated by use of a variety of demographic and other data (such as employee age, salary and service credits) and various assumptions (such as estimated salary increases, interest rates, employee turnover, retirement date and age, mortality and disability rates). The Actuarial Value of Assets reflects the value of the investments and other assets held by the Retirement Plan. Various methods exist for calculating the Actuarial Value of Assets and the Actuarial Accrued Liability. For a discussion of the methods and assumptions used to calculate the Retirement Plan’s Actuarial Accrued Liability and Actuarial Value of Assets, see “Actuarial Methods” and “Actuarial Assumptions” below.

Any shortfall between the Actuarial Value of Assets and the Actuarial Accrued Liability is referred to as the “Unfunded Actuarial Accrued Liability” or “UAAL.” The UAAL represents the present value of benefits attributed to past service that are in excess of plan assets. In addition, the actuary will compute the “Funded Ratio,” which is the Actuarial Value of Assets divided by the Actuarial Accrued Liability, expressed as a percentage. The Funded Ratio and the UAAL provide one way of measuring the financial health of a pension plan. As described above, the Pension Code requires the Retirement Plan to maintain a Funded Ratio of 60% until 2039 and to achieve a Funded Ratio of 90% by 2059.



***Authority's Contributions Not Related to GASB Standards.*** The Authority's contributions to the Retirement Plan are not based on the Annual Required Contribution calculated pursuant to the Actuarial Valuation. Instead, the Authority's contributions are based on the formulas and amounts established in the Pension Code, as described in "Determination of Authority's Contributions" above. The Retirement Plan's Actuary has recommended that the Retirement Board consider, as appropriate, moving towards a contribution of the Annual Required Contribution over the next several years. The contribution rates adopted by the Retirement Board pursuant to its ten-year plan are higher than the minimum required by the Pension Code. The Retirement Board anticipates an annual review of contribution rates during the ten-year period.

A comparison of the actual contributions and the Annual Required Contribution (as calculated by the Actuary) for the past ten fiscal years is shown under the heading "Funded Status" below. The Retirement Plan's Annual Required Contribution is equal to its Normal Cost plus an amortization of the Retirement Plan's UAAL over a 30-year period. The Retirement Plan amortizes the UAAL on a level dollar basis.

***GASB Statements 67 and 68.*** In June, 2012, GASB issued GASB Statement No. 67 and GASB Statement No. 68 (together, the "Statements"), which promulgate new standards for employee pension accounting and financial reporting by state and local governments. The two new Statements replace some of the requirements of previous GASB statements (GASB Statements Nos. 25, 27 and 50) related to pension plans.

Some of the key changes imposed by the new Statements include: (1) requiring governments for the first time to recognize the difference between the total pension liability (i.e., the present value of projected benefit payments to employees based on their past service) and the assets (mostly investments reported at fair value) as a liability of the employer; (2) immediate recognition of annual service cost and interest on the pension liability and immediate recognition of the effect on the net pension liability of changes in benefit terms; (3) the effects on the net pension liability of differences between expected and actual investment returns will be recognized in pension expense over a closed 5-year period (previously 15-30-year period); (4) with respect to benefits not covered by projected plan assets, the use of a discount rate based on a yield or index rate on tax-exempt 20-year, AA-or-higher rated municipal bonds rather than the expected rate of return on plan investments; and (5) revising the presentation of pension liabilities in a government's financial statements. The use of the new standards may produce a higher UAAL than one determined under the current principles. GASB Statement No. 67 became effective for pension plans in fiscal years beginning after June 15, 2013 and GASB Statement No. 68 became effective for pension plans in fiscal years beginning after June 15, 2014.

## **Actuarial Methods**

The Retirement Plan's Actuary employs a variety of actuarial methods to arrive at the Actuarial Value of Assets and the Actuarial Accrued Liability.

***Actuarial Value of Assets.*** The Retirement Plan calculates its Actuarial Value of Assets by using the market value of assets. Prior to the Actuarial Valuation as of January 1, 2012, the Retirement Plan's former Actuary, PricewaterhouseCoopers LLP, calculated the Actuarial Value of Assets under the "Asset Smoothing Method," which smoothes investment gains and losses over a period of five years. Both the Asset Smoothing Method and the market value of assets methods are permitted under GASB rules. Under the Asset Smoothing Method, recognition of gains and losses is delayed, and therefore the Actuarial Value of Assets does not reflect the full impact of such gains or losses at the time of measurement. Use of the market value of assets in calculating the Actuarial Value of Assets has the advantage of better reflecting the true value of assets at the time of measurement. In the 2012 Actuarial

Valuation, the Retirement Plan's Actuary, Buck Consultants, LLC, stated that the market value approach also has the advantage of being the most readily understood by stakeholders.

The Retirement Plan's financial statements for the year ended December 31, 2015 states that the Funded Ratio of the Retirement Plan decreased from 58.25% at December 31, 2014 to 53.3% at December 31, 2015. See "Funded Status" below.

**Actuarial Accrued Liability.** As the final step in the Actuarial Valuation, the Actuary applies a cost method to allocate the total value of benefits to past, present and future periods of employee service. This allocation is accomplished by the development of the Actuarial Accrued Liability and the Normal Cost. Currently, the Retirement Plan uses projected unit credit cost method (the "PUC Method"). The PUC Method is a GASB-approved actuarial cost method. Under the PUC Method, the Normal Cost is computed as the present value of the unit of benefit attributable to that year for each active plan member. Under this method, the Actuarial Accrued Liability equals the actuarial present value of that portion of a member's projected benefit that is attributable to service to date, again, on the basis of future compensation projected to retirement.

The PUC Method, as compared to the entry age normal method, which is another commonly used actuarial cost method, will produce a more back-loaded growth in liabilities because the PUC Method allocates a higher portion of retirement costs closer to the time of retirement. Therefore, the PUC Method results in a slower accumulation of assets, which in turn requires smaller initial, and larger future, contributions. Deferring contributions in this manner increases the cost of the liabilities and the associated financial risks for the Retirement Plan.

**Actuarial Assumptions.** The Actuarial Valuation of the Retirement Plan uses a variety of assumptions in order to calculate the Actuarial Accrued Liability and the Actuarial Value of Assets. The assumptions are based on past and anticipated future experience. No assurance can be given that any of the assumptions underlying the Actuarial Valuations will reflect the actual results experienced by the Retirement Plan. Variances between the assumptions and actual results may cause an increase or decrease in the Actuarial Value of Assets, the Actuarial Accrued Liability, the UAAL, the Funded Ratio or the Annual Required Contribution. Additional information on the Retirement Plan's actuarial assumptions is available in the 2016 Actuarial Valuation. See "Source Information" above.

The actuarial assumptions used by the Retirement Plan are determined by the Retirement Board. The Retirement Plan periodically has an experience study performed to evaluate the actuarial assumptions in use. The purpose of an experience study is to validate that the actuarial assumptions used in the Actuarial Valuation continue to reasonably estimate the actual experience of a pension plan or, if necessary, to develop recommendations for modifications to the actuarial assumptions to ensure their continuing appropriateness. Traditionally, the Retirement Plan has commissioned an experience study once in every five year period. The Retirement Plan's most recent experience study was based on the period from January 1, 2008 to December 31, 2013 and was first used with the 2014 Actuarial Valuation. In the 2016 Actuarial Valuation, the Actuary stated that the actuarial assumptions developed are, in the aggregate, reasonable. However, the Actuary indicated that the mortality tables currently in use and adopted by the Retirement Board provides for some future mortality improvements. The next experience study will cover the period from January 1, 2014 through December 31, 2019 and be used for the Actuarial Valuation as of January 1, 2020. Any changes in assumptions as a result of the experience study may have an effect on the Annual Required Contribution, Actuarial Accrued Liability, UAAL and Funded Ratio, as well as the Projections (as defined below) and such effects may be material.

**Assumed Investment Rate of Return.** As described under the heading "Background Information Regarding the Retirement Plan – Investments" above, the Actuarial Valuation assumes an investment rate

of return on the assets of the Retirement Plan. The assumed investment rate of return is used by the Retirement Plan's Actuary as the discount rate to determine the present value of future payments to the Retirement Plan's members. Such a determination is part of the Actuary's process to develop the Actuarial Accrued Liability. As described above, the Retirement Plan assumed an average long-term investment rate of return of 8.25% for the fiscal year ended December 31, 2015. There can be no assurance that the actual rate of return earned by the Retirement Plan on its assets in any year will not be lower than the assumed rate of return. As shown in the table under the heading "Background Information Regarding the Retirement Plan – Investments" above, actual investment rates of return have varied substantially over the previous ten years. Changes in the Retirement Plan's assets as a result of market performance will lead to an increase or decrease in the UAAL and the Funded Ratio.

The Retirement Plan's assumed rate of return has been reduced by the Retirement Board in recent years. The assumed investment rate of return was 8.50% prior to January 1, 2013, 8.75% prior to January 1, 2011 and was 9% prior to January 1, 2008. A reduction in the assumed investment rate of return, independent of other changes, produces a larger Actuarial Accrued Liability, which, independent of other changes, increases the UAAL, decreases the Funded Ratio and increases the Annual Required Contribution. Any future decreases in the Retirement Plan's assumed rate of return may increase the UAAL, decrease the Funded Ratio and increase the Annual Required Contribution, which may require the Authority to increase its contributions to the Retirement Plan under the Pension Code, which could put additional financial strain on the Authority.

### **Funded Status**

*UAAL and Funded Ratio.* The fact that the contributions received from all sources by the Retirement Plan have historically been less than the Annual Required Contribution, in conjunction with other factors, has had the effect of increasing the Retirement Plan's UAAL over recent years.

According to the 2016 Actuarial Valuation, the Retirement Plan had a UAAL of approximately \$1.52 billion as of January 1, 2016. The 2016 Actuarial Valuation shows that the UAAL as of January 1, 2016 increased by approximately \$193.6 million from the UAAL as of January 1, 2015. The 2016 Actuarial Valuation states that Funded Ratio of the Retirement Plan decreased by 4.9% during this time.

The following Tables 3, 4, and 5, which were produced from information provided in the Financial Statements and the Actuarial Valuations of the Retirement Plan, summarize the current financial condition and the funding progress of the Retirement Plan.

**TABLE 3**  
**Annual Employer Contribution Status**  
**(\$ in thousands)**

<b>Fiscal Year Ended December 31</b>	<b>Annual Required Contribution</b>	<b>Actual Employer Contribution</b>	<b>Actual Employee Contribution</b>	<b>Actual Total Contribution</b>	<b>Percentage of Annual Required Contribution Contributed</b>
2006	\$194,926	\$ 23,931	\$11,971	\$ 35,902	18.4%
2007	198,457	25,038	12,549	37,587	18.9
2008 <sup>(1)</sup>	206,670	1,165,947	27,798	1,193,745	577.6
2009	118,717	41,448	25,666	67,114	56.5
2010	108,478	56,216	45,212	101,428	93.5
2011	123,158	60,318	47,169	107,487	87.3
2012	155,600	62,788	48,342	111,130	71.4
2013	157,594	79,518	56,792	136,310	86.5
2014	165,500	82,268	58,566	140,834	85.1
2015	178,861	82,800	58,993	141,793	79.3

Source: The Retirement Plan's audited financial statements for the years ended December 31, 2006 through 2015.

- (1) Includes in the Actual Employer Contribution the proceeds of the Authority's Pension and Retirement Debt Obligations. See "Determination of Authority's Contributions" above.

**TABLE 4**  
**Historical Funding Progress**  
**(\$ in thousands)**

<b>Fiscal Year</b>	<b>Actuarial Accrued Liability</b>	<b>Actuarial Value of Assets</b>	<b>UAAL</b>	<b>Funded Ratio</b>	<b>Payroll</b>	<b>UAAL to Payroll</b>
2006 <sup>(1)</sup>	\$2,466,106	\$1,007,305	\$1,458,801	40.8%	\$562,567	259.3
2007 <sup>(2)</sup>	2,531,440	941,864	1,589,576	37.2	571,314	278.2
2008	2,632,356	1,995,953	636,403	75.8	594,139	107.1
2009	2,588,462	1,936,849	651,613	74.8	567,173	114.9
2010 <sup>(3)</sup>	2,724,191	1,909,967	814,224	70.1	528,288	154.1
2011 <sup>(4)</sup>	2,808,184	1,662,196	1,145,988	59.2	541,354	211.7
2012	2,867,335	1,702,789	1,164,546	59.4	548,515	212.3
2013 <sup>(5)</sup>	3,105,567	1,892,714	1,212,853	60.9	550,616	220.3
2014	3,186,187	1,855,912	1,330,275	58.2	564,827	235.5
2015	3,267,121	1,743,216	1,523,904	53.3	573,548	265.7

Source: The Retirement Plan's audited financial statements for the years ended December 31, 2006 through 2015.

- (1) Effective January 1, 2007, retiree healthcare assets were marked to market value and disclosed under GASB 43. Previously, retiree health care assets were disclosed under GASB 25 and allocated in proportion to actuarial accrued liability.
- (2) Effective January 1, 2008, the assumed investment rate of return was changed from 9% to 8.75%.
- (3) Effective January 1, 2011, the assumed investment rate of return was changed from 8.75% to 8.50%.
- (4) Effective January 1, 2012, the actuarial value of assets was changed from being valued using the Asset Smoothing Method to using the market value method.
- (5) Effective January 1, 2013, the assumed investment rate of return was changed from 8.50% to 8.25%.

A variety of factors impact the Retirement Plan's UAAL and Funded Ratio. All other factors being equal, a lower return on investment than that assumed by the Retirement Plan's Actuary, and

insufficient contributions when compared to the Annual Required Contribution will cause an increase in the UAAL and a decrease in the Funded Ratio. Conversely, all other factors being equal, higher returns on investment than assumed, and contributions in excess of the Annual Required Contribution will decrease the UAAL and increase the Funded Ratio. In addition, legislative amendments, changes in actuarial assumptions and certain other factors (including, but not limited to, higher or lower incidences of retirement, disability, in-service mortality, retiree mortality or terminations than assumed) will have an impact on the UAAL and the Funded Ratio.

As stated in the Retirement Plan's Financial Statements for year ended December 31, 2015 (the "2015 Financial Statements"), the Funded Ratio decreased from fiscal year 2014 to fiscal year 2015 for a number of reasons, including market rate of returns of -0.2% compared to 8.25% assumed, payroll and salaries increased less than expected and demographic experience. The 2015 Financial Statements state that the decrease in the Funded Ratio from fiscal year 2013 to fiscal year 2014 was mainly caused by market rate of returns of 4.8% compared to 8.25% assumed, payroll and salaries increased slightly less than expected and demographic experience.

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**TABLE 5**  
**Statements of Changes in Fiduciary Net Positions**  
**For years ended December 31**  
**(\$ in thousands)**

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Beginning Net Assets .....	\$1,130,350	\$1,061,114	\$977,357	\$1,743,266	\$1,716,317	\$1,794,742	\$1,662,196	\$1,702,789	\$1,892,714	\$1,855,912
<b>Additions</b>										
Net Investment income (loss) ..	91,704	78,585	(221,744)	113,250	197,317	(13,018)	168,193	299,510	78,661	8,230
Employer contributions .....	23,931	25,038	1,165,947	41,448	56,216	60,318	62,788	79,518	82,269	82,800
Employee contributions .....	11,971	12,549	27,797	25,666	45,212	47,169	48,342	56,792	58,566	58,993
Other income .....	-	-	-	-	-	4	-	-	-	-
<b>Total Additions</b>	<b>\$ 127,606</b>	<b>\$ 116,172</b>	<b>\$ 972,000</b>	<b>\$ 180,364</b>	<b>\$ 298,745</b>	<b>\$ 94,473</b>	<b>\$ 279,323</b>	<b>\$ 435,820</b>	<b>\$ 219,496</b>	<b>\$ 150,023</b>
<b>Deductions</b>										
Benefit payments .....	193,423	197,275	201,865	203,109	216,164	221,732	232,433	238,539	245,746	253,436
Contribution refunds, including interest .....	1,068	1,053	1,763	2,051	2,128	2,879	4,022	4,932	7,137	6,354
Administrative expenses .....	2,351	1,061	2,463	2,153	2,028	2,408	2,275	2,424	3,415	2,929
<b>Total .....</b>	<b>\$ 196,842</b>	<b>\$ 199,929</b>	<b>\$ 206,091</b>	<b>\$ 207,313</b>	<b>\$ 220,320</b>	<b>\$ 227,019</b>	<b>\$ 238,730</b>	<b>\$ 245,895</b>	<b>\$ 256,298</b>	<b>\$ 262,719</b>
<b>Net Increase (Decrease) .....</b>	<b>(69,236)</b>	<b>(83,757)</b>	<b>765,909</b>	<b>(26,949)</b>	<b>78,425</b>	<b>(132,546)</b>	<b>40,593</b>	<b>189,925</b>	<b>(36,802)</b>	<b>(112,696)</b>
<b>Ending Net Assets .....</b>	<b><u>\$1,061,114</u></b>	<b><u>\$ 977,357</u></b>	<b><u>\$1,743,266</u></b>	<b><u>\$1,716,317</u></b>	<b><u>\$1,794,742</u></b>	<b><u>\$1,662,196</u></b>	<b><u>\$1,702,789</u></b>	<b><u>\$1,892,714</u></b>	<b><u>\$1,855,912</u></b>	<b><u>\$1,743,216</u></b>

Source: The Retirement Plan's audited financial statements for the years ended December 31, 2006 through 2015. Amounts in the table above may not sum due to rounding.

Note: Only amounts pertaining to the pension benefits under the Retirement Plan are shown in the table above. Changes to the Retirement Plan due to Public Act 94-839 and Public Act 95-708 effectively removed liability for retiree healthcare benefits from the Retirement Plan, effective January 1, 2009. See "OTHER POST-EMPLOYMENT BENEFITS" below.

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***Projection of Funded Status.*** The following Table 6 contains projections regarding the funding of the Retirement Plan (the “Projections”) that are based upon numerous variables that are subject to change. The Projections are forward-looking statements regarding future events based on the Retirement Plan’s actuarial assumptions and assumptions made regarding such future events, including that there are no changes to the current legislative structure and that all projected contributions to the Retirement Plan are made as required. See “Cautionary Statement” above. The Projections also assume stable membership and assume that all actuarial assumptions described in the 2016 Actuarial Valuation are exactly realized each year. No representation or assurance can be given that these assumptions will be realized or that actual events will not cause material changes to the data presented in this subsection. Further, the benefits provided under the Retirement Plan and the minimum funding requirements of the Retirement Plan are established under the Pension Code, which statutory provisions are subject to change by the State legislature.

The Projections rely on information produced by the Retirement Plan’s Actuary and were not independently verified by the Authority as to their validity, accuracy or conformance to any acceptable accounting, actuarial or reporting standards. The Projections should not be relied upon as being necessarily indicative of future results, and readers of this Official Statement are cautioned not to place undue reliance on the Projections. Neither the Authority, the Authority’s independent auditors, nor any other independent accountants, have compiled, examined, or performed any procedures with respect to the prospective financial information contained in the Projections, nor have they expressed any opinion or any other form of assurance on such information or its achievability, and assume no responsibility for, and disclaim any association with, the Projections.

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The following table sets forth the projected funded status of the Retirement Plan based on the 2016 Actuarial Valuation.

**TABLE 6**  
**Projected Actuarial Results**

Fiscal Year	Employee Contribution Percent	Employer Contribution Percent	Total Percent	Employee Contribution	Employer Contribution	Total Contribution	Actuarial Accrued Liability	Actuarial Value of Assets	Unfunded Accrued	Funded Ratio
									Actuarial Liabilities (UAAL)	
2016	10.125%	14.250%	24.375%	\$ 58,008,052	\$ 81,640,96	\$139,649,014	\$3,267,120,637	\$1,743,216,432	\$1,523,904,205	53.36%
2017	11.962	17.925	29.887	70,709,254	105,952,378	176,661,632	3,329,136,870	1,759,244,400	1,569,892,470	52.84
2018	11.962	17.925	29.887	73,006,864	109,395,170	182,402,034	3,391,579,560	1,807,575,946	1,584,003,614	53.30
2019	11.962	17.925	29.887	75,643,822	113,346,449	188,990,271	3,453,780,079	1,858,818,966	1,594,961,113	53.82
2020	11.962	17.925	29.887	78,912,028	118,243,605	197,155,633	3,516,206,241	1,914,431,986	1,601,774,255	54.45
2021	11.962	17.925	29.887	82,288,534	123,303,039	205,591,573	3,578,856,068	1,976,139,981	1,602,716,087	55.22
2022	11.962	17.925	29.887	85,731,018	128,461,336	214,192,354	3,641,367,699	2,044,355,319	1,597,012,380	56.14
2023	11.962	17.925	29.887	89,377,663	133,925,554	223,303,217	3,703,737,648	2,119,746,977	1,583,990,671	57.23
2024	11.962	17.925	29.887	93,155,763	139,586,745	232,742,508	3,766,364,241	2,203,846,654	1,562,517,587	58.51
2025	11.962	17.925	29.887	97,069,565	145,451,276	242,520,841	3,829,085,838	2,297,451,498	1,531,634,340	60.00
2026	11.962	17.925	29.887	101,223,321	151,675,360	252,898,681	3,891,100,219	2,400,822,451	1,490,277,768	61.70
2027	11.962	17.925	29.887	105,584,072	158,209,610	263,793,682	3,952,727,276	2,515,754,040	1,436,973,236	63.65
2028	11.962	17.925	29.887	110,236,986	165,181,645	275,418,631	4,014,002,117	2,643,800,562	1,370,201,555	65.86
2029	11.962	17.925	29.887	115,096,227	172,462,844	287,559,071	4,075,621,596	2,787,401,021	1,288,220,575	68.39
2030	11.962	17.925	29.887	120,141,795	180,023,239	300,165,034	4,138,418,743	2,948,911,413	1,189,507,330	71.26
2031	11.962	17.925	29.887	125,378,071	187,869,396	313,247,467	4,204,010,080	3,131,155,081	1,072,854,999	74.48
2032	11.962	17.925	29.887	130,782,442	195,967,429	326,749,871	4,274,388,093	3,337,693,559	936,694,543	78.09
2033	11.962	17.925	29.887	136,272,349	204,193,632	340,465,981	4,350,962,236	3,571,554,500	779,407,736	82.09
2034	11.962	17.925	29.887	141,902,572	212,630,089	354,532,661	4,435,090,107	3,835,634,156	599,455,951	86.48
2035	11.962	17.925	29.887	147,528,547	221,060,180	368,588,727	4,527,830,865	4,133,135,167	394,695,698	91.28
2036	11.962	17.925	29.887	153,319,040	229,736,788	383,055,828	4,630,761,362	4,467,182,353	163,579,009	96.47
2037	11.962	17.925	29.887	159,203,521	238,554,230	397,757,751	4,745,265,145	4,841,514,396	(92,249,251)	102.03
2038	11.962	17.925	29.887	164,916,567	247,114,790	412,031,357	4,870,897,262	5,258,421,980	(387,524,718)	107.96
2039	11.962	17.925	29.887	170,766,179	255,879,984	426,646,163	5,007,795,263	5,719,901,524	(712,106,261)	114.22
2040	11.962	17.925	29.887	176,833,306	264,971,107	441,804,413	5,157,198,118	6,230,261,464	(1,073,063,346)	120.81

Source: The Retirement Plan's 2016 Actuarial Valuation, prepared by Buck Consultants, LLC.



As shown in Table 6 above, the Actuary is projecting that Funded Ratio of the Retirement Plan will reach 120.81% by 2040 based on current assumptions, which include the assumption that the Authority will make contributions to the Retirement Plan equal to 17.925% from 2017 to 2040, which is higher than the minimum required by the Pension Code. As discussed above, under the Pension Code, the Retirement Plan is required to be at least 60% funded by 2040 and at least 90% funded by 2060 (see “Determination of Authority’s Contributions” above).

### Supplemental Pension Plans

As described under the heading “General Overview” above, in addition to the Retirement Plan, the Authority maintains three separate single-employer, defined benefit supplemental pension plans for a limited number of participants, and all three plans are currently closed to new participants. Information related to the Supplemental Pension Plans is presented in the Authority’s audited financial statements. This section summarizes the Supplemental Pension Plans based on the information in the Authority’s financial statements for the year ended December 31, 2015. The Supplemental Pension Plans do not issue separate stand-alone financial reports. Additional information related to the Supplemental Pension Plans is available in the Authority’s audited financial statements. See “Sources of Information” above.

The Supplemental Pension Plans provide benefits to employees of the Authority in certain employment classifications. Employees of the applicable employment classifications are eligible for retirement benefits under the Supplemental Pension Plans based on age and years of service. Except in limited circumstances, as further described in the Authority’s audited financial statements, participants in the Supplemental Pension Plans are not required to contribute to the Supplemental Pension Plans.

The following Table 7 shows the membership in the Supplemental Pension Plans as of December 31, 2015:

**TABLE 7**  
**Membership of Supplemental Pension Plans**

<b>Supplemental Pension Plan</b>	<b>Active Members</b>	<b>Inactive Members Not Yet Receiving Benefits</b>	<b>Retirees and Beneficiaries</b>	<b>Totals</b>
Open	9	12	123	144
Closed	-	9	358	367
Board	2	4	20	26
<b>Total</b>	<b>11</b>	<b>25</b>	<b>501</b>	<b>537</b>

Source: Financial Statements of the Authority for the year ended December 31, 2015.

The Authority currently funds the Open Supplemental Pension Plan at the amount of the Annual Required Contribution. The Authority currently funds the Closed Pension Plan and Board Pension Plan based on paying into the respective plans an amount equal to the amount of benefits to be paid to retirees in a given year on a “pay-as-you-go” basis.

The following table shows the Annual Required Contribution and actual Authority contribution levels for the Supplemental Pension Plans for the years ended December 31, 2012 through 2014:

**TABLE 8**  
**Annual Employer Contribution**  
**(\$ in thousands)**

<b>Pension Plan</b>	<b>Year Ended December 31</b>	<b>Annual Required Contribution</b>	<b>Actual Employer Contribution</b>	<b>Percentage of Annual Required Contribution Contributed</b>
Open	2012	\$2,267	\$2,267	100.0%
	2013	1,927	1,927	100.0
	2014	1,130	1,130	100.0
Closed	2012	4,116	3,299	80.2
	2013	4,295	3,114	72.5
	2014	4,595	3,023	65.7
Board	2012	331	338	102.1
	2013	331	338	102.1
	2014	325	333	102.4

Source: Financial Statements of the Authority for the year ended December 31, 2012 through 2015.

The following table shows the funding progress of the Supplemental Pension Plans for the previous three years:

**TABLE 9**  
**Funding Progress of the Supplemental Plans**  
**(\$ in thousands)**

<b>Pension Plan</b>	<b>Valuation Date December 31</b>	<b>Actuarial Accrued Liability</b>	<b>Actuarial Value of Assets</b>	<b>UAAL</b>	<b>Funded Ratio</b>
Open	2012	\$54,716	\$37,040	\$17,676	67.7%
	2013	53,344	43,503	9,841	81.6
	2014	52,017	42,046	9,971	80.8
Closed	2012	28,963	-	28,963	0.0
	2013	27,678	-	27,678	0.0
	2014	27,167	-	27,167	0.0
Board	2012	4,778	70	4,708	1.5
	2013	4,848	75	4,772	1.5
	2014	4,951	88	4,863	1.8

Source: Financial Statements of the Authority for the year ended December 31, 2015.

## **Retiree Health Care Trust**

As discussed in “General Overview” above, prior to 2009, retiree healthcare benefits were included as part of the Retirement Plan. The 2006 Pension Reform required the Authority to separate the funding of retiree healthcare benefits from the funding of its pension system by no later than January 1, 2009. The 2008 Pension Reform provided for the establishment of the RHCT, which is solely responsible for providing health care benefits to eligible Authority retirees and their dependents and survivors. The RHCT is established and administered under Section 22-101B of the Illinois Pension Code (40 ILCS 5/22-101B).

As discussed above, on August 6, 2008, the Authority issued the Pension Bonds and used \$528.8 million of the proceeds to fund the RHCT. Under the Pension Code, the RHCT was required to assume financial responsibility for health care benefits of retirees (and the dependents and survivors of retirees) no later than July 1, 2009. Further, the Pension Code provides that, after the issuance of the Pension Bonds, the Authority has no further obligation to provide or fund health care benefits for current or future retirees, dependents and survivors. As noted in General Overview above, Authority employees are required to contribute three percent of their compensation to the RHCT. The most recent Actuarial Valuation Report dated January 1, 2016 and Financial Statements for the RHCT dated December 31, 2015 show a Funded Ratio well exceeding 100% for each of the past three years. Due to the Authority having no financial obligation to the RHCT under the Pension Code, no additional information is presented in this Official Statement regarding the RHCT. See, however, “Cautionary Statement” above, regarding possible future changes in legislation affecting the Pension Code.

## **Other Post-Employment Benefits**

Certain participants in the Supplemental Pension Plans may not be eligible for healthcare coverage under the RHCT upon retirement. Such participants may be eligible to participate in a healthcare plan administered and funded by the Authority (the “OPEB Plan”). The paragraphs below detail the benefits, funding history and funded status of the OPEB Plan.

Benefits under the OPEB Plan are available for certain participants in the Supplemental Pension Plans with bridged service or service purchased through the Authority’s Voluntary Termination Program who are not yet, or might not be, eligible for healthcare benefits under the RHCT. Benefits under the OPEB Plan cease once the member becomes eligible for coverage under the RHCT or may continue, depending on the amount of service by the participant, for members who do not become eligible for benefits under RHCT. Members of the Chicago Transit Board are eligible for benefits under the OPEB Plan after five years of service. OPEB Plan benefits are administered through the Authority’s healthcare program for employees and, as such, funds the OPEB Plan on a self-insured “pay-as-you-go” basis. As of January 1, 2016, the OPEB Plan was not funded, resulting in a UAAL of \$12.1 million and no Funded Ratio.

Information related to the OPEB Plan is presented in the Authority’s audited financial statements. The OPEB Plan does not issue separate stand-alone financial reports. This section summarizes the OPEB Plan based on the information in the Authority’s audited financial statements for the year ended December 31, 2015. Additional information related to the OPEB Plan is available in the Authority’s audited financial statements. See “Sources of Information” above.

The following Table 10 shows the actuarially determined Annual Required Contribution and actual Authority contribution levels for the OPEB Plan for the years ended December 31, 2013 through 2015:

**TABLE 10**  
**Annual Employer Contribution**  
**(\$ in thousands)**

<b>Year Ended December 31</b>	<b>Annual Required Contribution</b>	<b>Actual Employer Contribution</b>	<b>Percentage of Annual Required Contribution Contributed</b>
2013	\$1,141	\$810	71.0%
2014	1,061	802	75.7
2015	1,138	521	45.7

Source: Financial Statements of the Authority for the year ended December 31, 2013 through 2015.

### **Litigation, Investigations and Labor Relations**

**Litigation.** In 2013, the Retirement Plan filed a claim against the Authority in the Chancery Division of the Circuit Court of Cook County, Illinois, seeking an accounting and damages of approximately \$7 million. (*Retirement Plan for Chicago Transit Authority Employees v. The Chicago Transit Authority*, Case No. 13 CH 14414). The Retirement Plan claims that, for a period of time prior to the establishment of the RHCT, the Authority administered the prescription drug program for retirees and that the Authority billed the Retirement Plan for the costs of the drugs but did not share in rebates from the prescription drug providers. On November 2, 2013, the Authority has filed a motion to dismiss the complaint. On February 27, 2014 the Authority’s motion to dismiss was denied. On April 23, 2014 the Authority filed its affirmative defense and counterclaims. Discovery is still ongoing. However, the Authority filed a motion for summary judgment in June 2016. The motion for summary judgment is fully briefed and set for hearing on November 9, 2016.

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

proceedings. Any judgment against the RHCT would have no impact against the Authority. A judgment against the Retirement Plan could have an impact on the Authority if the judgment causes the Retirement Plan's assets to fall below the statutorily required funded ratio because the Authority and its employees could be required under the Pension Code to increase their contributions to the Retirement Plan to address such a shortfall. See “—Background Information Regarding the Retirement Plan—*Determination of Authority's Contributions.*”

***Investigations.*** There are currently no known material investigations involving the Retirement Plan or the RHTC. Routine audits are in process.

***Labor Relations.*** There are currently no known labor relations matters that would impact the Retirement Plan or the RHCT.

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## **APPENDIX G**

### **DTC AND THE BOOK-ENTRY ONLY SYSTEM**

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## DTC AND THE BOOK-ENTRY ONLY SYSTEM

*The following information concerning DTC has been furnished by DTC for use in this Official Statement. Neither the Authority nor the Underwriters are responsible for its accuracy or completeness.*

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the 2017 Second Lien Bonds. The 2017 Second Lien Bonds will be issued as fully-registered bonds registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered 2017 Second Lien Bond certificate will be issued for each maturity of the 2017 Second Lien Bonds, each in the aggregate principal amount of such maturity and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of 2017 Second Lien Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2017 Second Lien Bonds on DTC’s records. The ownership interest of each actual purchaser of each 2017 Second Lien 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 2017 Second Lien 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 2017 Second Lien Bonds, except in the event that use of the book-entry system for the 2017 Second Lien Bonds is discontinued.

To facilitate subsequent transfers, all 2017 Second Lien 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 2017 Second Lien Bonds with DTC and their registration in the name of Cede & Co. or such other DTC Nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2017 Second Lien Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such 2017 Second Lien 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 2017 Second Lien Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2017 Second Lien Bonds, such as redemptions, tenders, defaults, and proposed amendments to the 2017 Second Lien Bond documents. For example, Beneficial Owners of 2017 Second Lien Bonds may wish to ascertain that the nominee holding the 2017 Second Lien Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 2017 Second Lien Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the 2017 Second Lien 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 2017 Second Lien Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the 2017 Second Lien Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Authority or the Trustee, as applicable, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its 2017 Second Lien Bonds purchased or tendered, through its Participant, to the tender agent, and shall effect delivery of such 2017 Second Lien Bonds by causing the Direct Participant to transfer the Participant's interest in the 2017 Second Lien Bonds, on DTC's records, to the tender agent. The requirement for physical delivery of 2017 Second Lien Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the 2017 Second Lien Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered 2017 Second Lien Bonds to the tender agent's DTC account.

DTC may discontinue providing its services as depository with respect to the 2017 Second Lien Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances,

in the event that a successor depository is not obtained, 2017 Second Lien Bonds are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, 2017 Second Lien Bond certificates will be printed and delivered to DTC.

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

NEITHER THE AUTHORITY NOR THE TRUSTEE HAS ANY RESPONSIBILITY OR OBLIGATION TO THE PARTICIPANTS OR THE BENEFICIAL OWNERS WITH RESPECT TO THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, CEDE & CO. OR ANY PARTICIPANT; THE PAYMENT BY DTC OR ANY PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OR PURCHASE PRICE OF, PREMIUM, IF ANY, OR INTEREST ON THE 2014 BONDS; ANY NOTICE WHICH IS PERMITTED OR REQUIRED TO BE GIVEN TO BENEFICIAL OWNERS UNDER THE INDENTURE; THE SELECTION BY DTC OR ANY PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE 2017 Second Lien Bonds; OR ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC.

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**APPENDIX H**

**PROPOSED FORM OF OPINIONS OF CO-BOND COUNSEL**

January 24, 2017

The Chicago Transit Board of the Chicago Transit Authority  
Chicago, Illinois

Zions Bank, a division of ZB, National Association  
Chicago, Illinois

Re: \$296,220,000 Chicago Transit Authority Second Lien  
Sales Tax Receipts Revenue Bonds, Series 2017

Ladies and Gentlemen:

We have examined a record of proceedings relating to the issuance of \$296,220,000 aggregate principal amount of Second Lien Sales Tax Receipts Revenue Bonds, Series 2017 (the “Bonds”) of the Chicago Transit Authority, a political subdivision, body politic and municipal corporation of the State of Illinois (the “Authority”) duly organized and existing under the Metropolitan Transit Authority Act, 70 Illinois Compiled Statutes 3605 (the “Act”). The Bonds are authorized and issued under and pursuant to the Act and the Local Government Debt Reform Act, 30 Illinois Compiled Statutes 350, and by virtue of Ordinance Number 016-137 adopted by the Chicago Transit Board on November 16, 2016 (the “Bond Ordinance”). The Bonds are issued and secured under the Trust Indenture dated as of January 1, 2017 (the “Indenture”) by and between the Authority and Zions Bank, a division of ZB, National Association, as trustee (the “Trustee”), as supplemented by the First Supplemental Indenture dated as of January 1, 2017 (the “First Supplemental Indenture”) by and between the Authority and the Trustee. The Bonds are Second Lien Bonds and Second Lien Parity Obligations under the Indenture.

The Bonds are dated January 24, 2017 and bear interest from their date payable on June 1, 2017 and semiannually thereafter on each June 1 and December 1. The Bonds mature on December 1 in each of the following years in the respective principal amount set opposite each such year in the following table and bear interest at the respective rate of interest per annum set forth opposite such principal amount:

<u>Year</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
2046	\$131,990,000	5.00%
2046	\$10,000,000	4.00%
2051	\$129,230,000	5.00%
2051	\$25,000,000	5.00%

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 by lot within a single maturity, on December 1, 2026 and on any date thereafter, at a redemption price equal to the principal amount thereof to be redeemed, plus accrued interest to the redemption date.

The Bonds maturing on December 1, 2046 in the original principal amount of \$131,990,000, December 1, 2046 in the original principal amount of \$10,000,000, December 1, 2051 in the original principal amount of \$129,230,000 and December 1, 2051 in the original principal amount of \$25,000,000 are term bonds subject to mandatory redemption in accordance with the provisions of the Indenture and the First Supplemental Indenture, in part and by lot, at a redemption price equal to the principal amount thereof to be redeemed, by the application of annual sinking fund installments on December 1 of the years and in the principal amounts set forth in the following tables:

2046 Term Bonds (\$131,990,000 principal amount)		2046 Term Bonds (\$10,000,000 principal amount)	
Year	Principal Amount	Year	Principal Amount
2041	\$19,400,000	2041	\$1,510,000
2042	\$20,380,000	2042	\$1,565,000
2043	\$21,395,000	2043	\$1,630,000
2044	\$22,465,000	2044	\$1,695,000
2045	\$23,585,000	2045	\$1,765,000
2046*	\$24,765,000	2046*	\$1,835,000
*final maturity		*final maturity	

2051 Term Bonds (\$129,230,000 principal amount)		2051 Term Bonds (\$25,000,000 principal amount)	
Year	Principal Amount	Year	Principal Amount
2047	\$23,385,000	2047	\$4,525,000
2048	\$24,560,000	2048	\$4,750,000
2049	\$25,785,000	2049	\$4,990,000
2050	\$27,075,000	2050	\$5,235,000
2051*	\$28,425,000	2051*	\$5,500,000
*final maturity		*final maturity	

The Bonds and all other Second Lien 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 (a) the Sales Tax Receipts Fund held by the Authority, subject and subordinate however to (i) the PBC Senior Pledge Rights, (ii) the senior pledge and lien created by the 2008 Indenture with respect to Pension and Retirement Debt Obligations and (iii) the senior pledge and lien created by the 2010 Indenture with respect to the Corporate Purpose Debt Obligations (all capitalized terms as defined in the Indenture); and (b)

the Second Lien Debt Service Fund held by the Trustee under the Indenture, subject to the allocation of the Second Lien Debt Service Fund into dedicated sub-funds, including the Series 2017 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 be or become, an indebtedness or obligation of the State of Illinois or any political subdivision of the State (other than the Authority) or of any municipality within the State, nor shall any Bond be or become an indebtedness of the Authority within the purview of any constitutional limitation or provision.

Based upon our examination of said record of proceedings, we are of the opinion that:

1. The Authority has all requisite power and authority under the Constitution and the laws of the State of Illinois to adopt the Bond Ordinance, to enter into the Indenture and the 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.

2. The Bond Ordinance has been duly adopted by the Chicago Transit Board and is in full force and effect.

3. The Indenture and the 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.

4. The Bonds have been duly authorized and issued, are the legal, valid and binding limited obligations of the Authority payable from the Series 2017 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.

5. All Second Lien 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 Second Lien Parity Obligations, subject to application of the Trust Estate in accordance with the terms of the Indenture, including periodic withdrawals of moneys free from the lien of the Indenture.

6. Under existing law and assuming continuing compliance with certain covenants made by the Authority to satisfy pertinent requirements of the Internal Revenue Code of 1986, as amended (the "Code"), (i) interest on the Bonds is excluded from the gross income of the owners thereof for federal income tax purposes and (ii) will not be treated as a specific item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. However, interest on the Bonds is includable in corporate earnings and profits and therefore must be taken into account when computing, for example, corporate alternative minimum taxable income for purposes of the corporate alternative minimum tax. Failure by the Authority to comply with such covenants could cause the interest on the Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds. Ownership of the Bonds may also result in collateral federal income tax consequences to certain taxpayers, and we express no opinion regarding any such collateral tax consequences arising with respect to the Bonds. In rendering this opinion, we have relied upon and assume the correctness of certain representations and certifications of the Authority with respect to certain material facts

solely within the Authority's knowledge relating to the property financed or refinanced with the proceeds of the Bonds and the application of the proceeds of the Bonds.

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

In rendering the foregoing opinion, we advise you that the enforceability (but not the validity or binding effect) of the Bonds, the Indenture and the 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 submitted,



**APPENDIX I**

**SPECIMEN MUNICIPAL BOND INSURANCE POLICY**

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# MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

ASSURED GUARANTY MUNICIPAL CORP. ("AGM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of AGM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which AGM shall have received Notice of Nonpayment, AGM will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by AGM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in AGM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by AGM is incomplete, it shall be deemed not to have been received by AGM for purposes of the preceding sentence and AGM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, AGM shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by AGM hereunder. Payment by AGM to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AGM under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless AGM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to AGM which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

AGM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to AGM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to AGM and shall not be deemed received until received by both and (b) all payments required to be made by AGM under this Policy may be made directly by AGM or by the Insurer's Fiscal Agent on behalf of AGM. The Insurer's Fiscal Agent is the agent of AGM only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of AGM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, AGM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to AGM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of AGM, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, ASSURED GUARANTY MUNICIPAL CORP. has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY MUNICIPAL CORP.

By \_\_\_\_\_  
Authorized Officer

A subsidiary of Assured Guaranty Municipal Holdings Inc.  
1633 Broadway, New York, N.Y. 10019  
(212) 974-0100

Form 500NY (5/90)

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