Back to Basics

President's 2008 Budget Recommendations

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Ron Huberman, President

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Back to Basics

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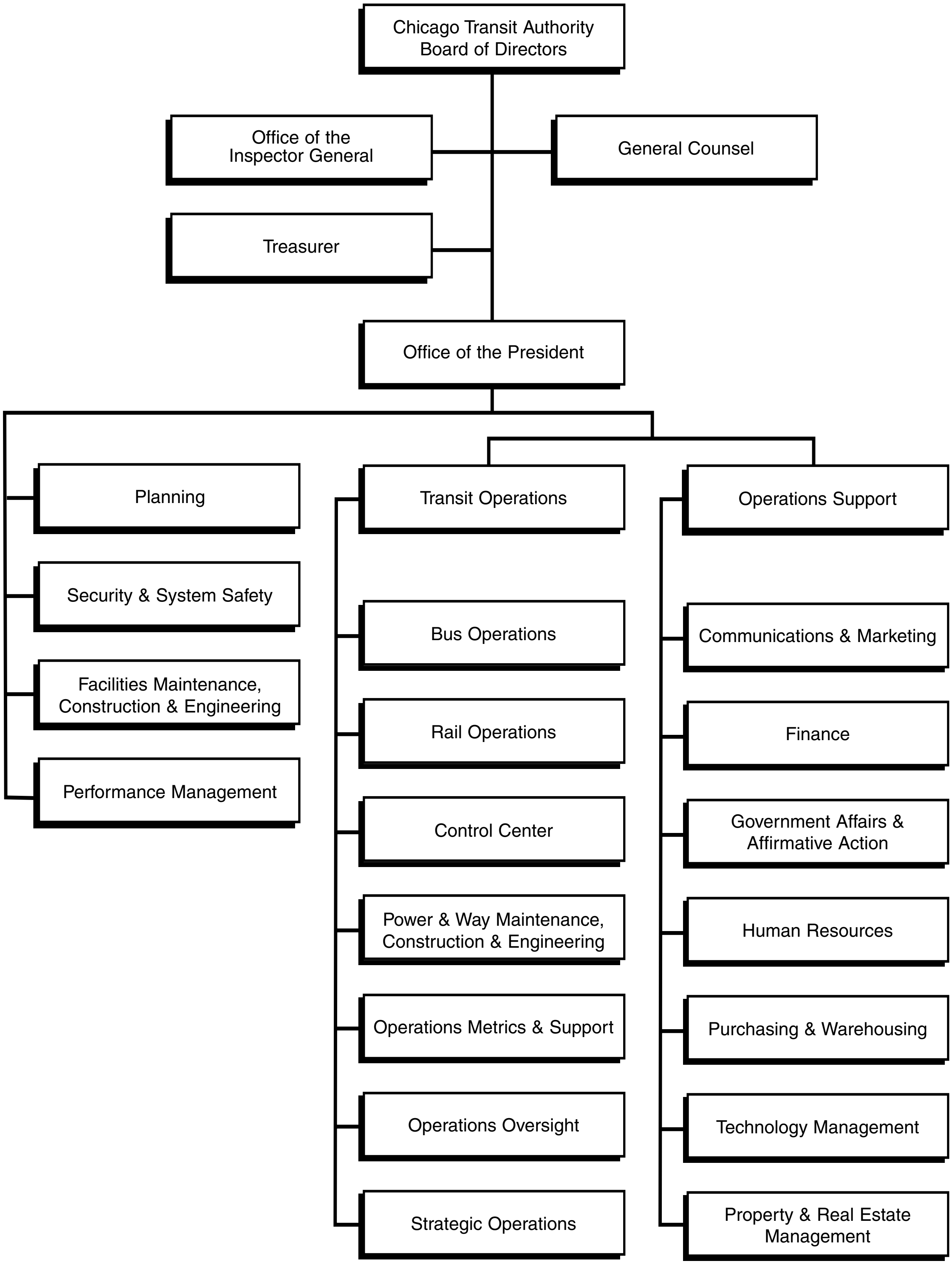

Letter from the President

Dear CTA Customer,

The enclosed 2008 budget proposal lays out the current fiscal position of the CTA and the challenges associated with years of insufficient state funding. What this document does not do is tell the story of the hundreds of thousands of CTA riders and employees who will be put through great hardship due to the service cuts, fare increases and lay-offs described in these pages. It is important for our riders to know that all of us at the CTA do not want to see this budget become reality. We remain hopeful that the Illinois General Assembly will pass a long-term funding solution that will solve the region's transit issues. If such legislation is passed, the CTA will immediately modify this budget to restore both service and fares to their original levels. At this point, we are out of options, and therefore must present this budget to meet our fiscal requirements. However, we will continue to fight for state funding in order to avoid the hardships certain to occur under the budget presented here.

For the past several years, the CTA has incurred severe funding shortfalls. The last time the CTA's funding structure was altered was over 24 years ago. Since then, the public subsidy for the CTA has not kept up with the rate of inflation. In fact, if funding since 1987 had kept up with inflation, the CTA would have received an additional 1.6 billion dollars to operate our buses and trains. Many of us were hoping that this year would see a stable and lasting solution for public transportation, and we remain optimistic that needed funding and reform legislation will pass before the end of the year.

Despite the CTA's challenges, many things are trending in a positive direction at the agency. Ridership is up for the year, after adjusting for paratransit, we continue to make meaningful strides toward the elimination of slow zones and we have focused our limited resources on those issues most important to you, our customer. The CTA and its unions have also agreed to an unprecedented 5-year contract that enables the CTA to reduce costs and manage itself more like a business, while providing lasting retirement and health care security for our employees. However, this historic union agreement can only become reality with enabling state legislation, adding to the urgency for action from our legislative leaders.

The CTA is required by law to prepare a balanced budget. Unless a new funding solution is found before November 4, 2007, the CTA will be forced to implement a plan to increase fares between \$0.25 and \$1.00, eliminate 39 bus routes, and lay off more than 600 CTA employees. On top of these changes, the 2008 budget proposal contained in this document describes proposed steps necessary to avoid a looming \$158.0 million deficit for next year. In order to comply with the state's balanced budget requirement, a second, and significantly more painful series of service cuts, fare increases and lay-offs must be implemented on January 6, 2008. These changes include the elimination of 43 additional bus routes, 1,799 more layoffs, and a minimum \$0.25 increase in fares. In total, this would represent 82 bus routes eliminated, 2,436 CTA employees laid-off, and a transit card fare increase of 63% on rail service and a cash fare increase of 38% on bus service.

The CTA has tried to minimize this funding gap through a number of actions, including the elimination of more than 240 administrative positions, primarily from CTA headquarters, deferred pay increases for non-union employees, restricted non-critical overtime and a number of performance management based belt-tightening actions. While the CTA will continue to look for every opportunity to become more efficient and to apply private sector best-practices to our daily operations, there is simply no way we can manage our way out of a \$158.0 million deficit.

All of us at the CTA understand that these service cuts and fare increases will cause you tremendous hardship. You will face less service on the street, and in some cases no service at all. Those of you who are able to switch to alternate routes will find those buses and trains more crowded. We have sought to minimize the impact wherever we could. To limit the impact on those least able to pay, fares will not be increased for those reduced pass users who are senior citizens, students or individuals with disabilities.

Regardless of our fiscal challenges, on-time, clean, safe, courteous and efficient will be the guiding principles that inform all of our efforts. This is why we're going "Back to Basics." No matter our funding level, we're committed to working smarter and building on the gains we have experienced to date so that we can provide the service you expect and deserve.

Sincerely yours,

Ron Huberman

Ron Huberman
President

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2007 Operating Budget Summary

A. INTRODUCTION

The Chicago Transit Authority (CTA) ended calendar year 2007 as it started, facing significant uncertainty regarding three major components of its business:

- the level of state funding the Authority will receive,
- the level of services that can be provided to customers, and
- the level of fares customers will face.

While the year started out full of hope, it is not clear whether the State legislature will act in time to provide funding to stave off the service cuts and fare increases slated for November 4, 2007.

The Illinois Auditor General Report stated current revenues are insufficient to fund operations.

According to the Illinois Auditor General Report, the Regional Transportation Authority's (RTA) Service Boards (CTA, Metra and Pace) are facing a serious financial shortfall and revenues are insufficient to pay the cost of current operations and capital renewal programs, and are certainly not great enough to fund new services.

The original 2007 budget anticipated $110.0 million of new transit funding from the State of Illinois, bringing total public funding for the CTA to $580.5 million. This funding level would have allowed the CTA to maintain current service and fare levels. It has long been recognized that funding for mass transit in the Chicagoland region is insufficient. Since 2006, the CTA has worked with the RTA, Metra and Pace to develop a unified regional mass transit funding plan and to implement the recommendations of the Illinois Auditor General, including the development of reforms to address the CTA's pension and retiree healthcare problems.

Contingency Plan to Address 2007 Budget Deficit (in millions)	
Administrative Cuts	$38.1
Capital funds transfer	$56.9
Service Cuts	$7.5
Fare Increase	$7.5
TOTAL	$110.0

Several transit funding bills have been proposed to ensure that the RTA, CTA, Metra and Pace have adequate resources to serve their regional transit customers. Despite significant bi-partisan support, final legislation has yet to be passed. As a result, in order to comply with the statutory requirements for a balanced budget, the RTA directed the CTA, Metra and Pace to amend their 2007 budgets to reflect the lack of new funding. Even after instituting more than $38.0 million in administrative cuts and transferring almost $57.0 million from capital funding to operations, it was not possible to close the budget gap without proposing service cuts and fare increases.

2007 Operating Budget Summary

Therefore the CTA Board approved a contingency plan, scheduled to take effect on September 16, 2007. This plan was to have cut service by 8.0 percent and increased fares by 11-50 percent. Subsequently, on September 12, 2007 Governor Rod Blagojevich offered the RTA an advance on the 2008 state appropriation for reduced fare and paratransit reimbursements as a stopgap measure to delay cuts and to give the General Assembly additional time to pass funding and reform legislation.

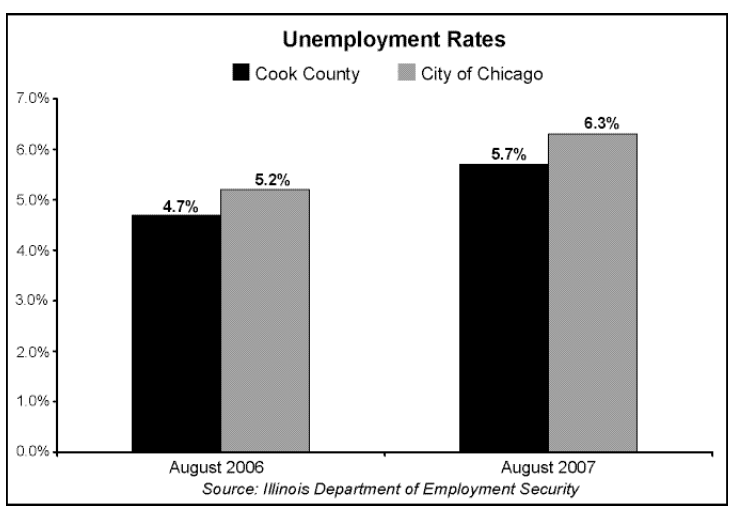
1. 2007 ACCOMPLISHMENTS

Under a new administration since May of 2007, the CTA has primarily focused on improving the core components of its business that impact its customers directly. In 2007, a performance management initiative was implemented to ensure that the CTA delivers safe, clean, on-time, courteous and efficient service. The functions of customer service and customer communications were restructured and consolidated to ensure that customers get timely and accurate information. In addition, the CTA refocused its efforts on bus, rail car and rail station cleanliness. Personnel have been redistributed to ensure that buses and rail cars receive more frequent general and deep cleanings. The floors of rail cars are being sealed with a wax protectant that repels dirt and grime to allow for easier cleaning and a shinier appearance, and this effort will be expanded to buses in the near future. Glass etched with graffiti is being replaced more frequently, elevator floors are being replaced and asphalt and concrete repairs were made to improve the safety and cleanliness of bus turnarounds and rail stations.

In June of 2007 the CTA received an historic five-year arbitration award with all 17 of its labor unions. The arbitration provided a 17.1 percent increase in wages over the five-year period ending December 31, 2011 for Locals 241 and 308, which represents approximately 85 percent of all of the CTA's employees. More significantly, the arbitration award also imposed much needed reforms by creating a retiree healthcare trust, increasing pension contributions and employee contributions to the healthcare trust. The arbitration award is contingent on the passage of proposed mass transit legislation that would, among other things, provide authorization for the issuance of a pension obligation bond for $450.0 million for the healthcare trust and $1.0 billion for the pension plan. These reforms would also allow the CTA to comply with the State directive to achieve and maintain a 90 percent funded ratio for its employee pension plan by 2058.

2. ECONOMIC CONDITIONS

Leading indicators during 2007 did not bode well for the CTA's financial position. While the region's economy added nearly 50,000 jobs to the local market between August 2006 and August 2007, the unemployment rate for the Chicagoland region increased from 4.4 percent in August 2006 to 5.5 percent in August 2007. The City of Chicago's unemployment rate increased from 5.2 percent in August 2006 to 6.3 percent in August 2007. Sales tax revenue through May 2007



2007 Operating Budget Summary

Sales tax revenue through May 2007 showed a year-over-year decrease of 0.9 percent in the region due to weak retail sales. While Chicago Midway Airport experienced double-digit growth in passenger travel during 2006, it grew by only 1.0 percent in 2007. The growth rate in passenger travel at O'Hare International Airport also fell from 1.2 percent in 2006 to 0.28 percent in 2007.

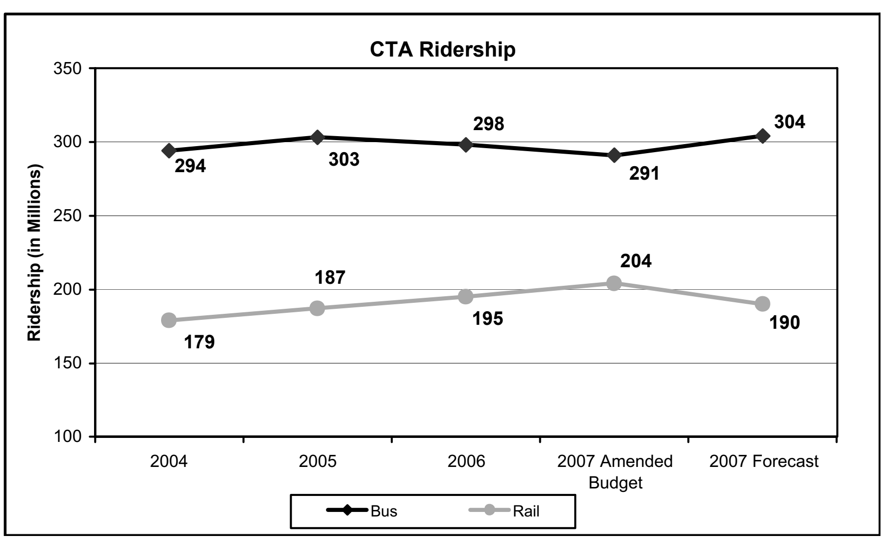
At the national level, the U.S. Gross Domestic Product (GDP) growth rate was 3.8 percent in the second quarter of 2007 after slowing to 0.6 percent in the first quarter. U.S. crude oil prices increased from $55.95 per barrel on December 29, 2006, to $67.84 on June 29, 2007, representing a 21.3 percent increase in six months. In mid-September, crude oil prices briefly topped at $80.00 per barrel. The rise in energy prices led to increases in the Consumer Price Index (CPI). For the first eight months of 2007, the CPI for all U.S. urban consumers was 3.7 percent. The Producer Price Index rose 2.2 percent for the same period. The recent collapse of the subprime mortgage market has fueled a credit crunch that may negatively impact consumer spending, the primary engine of the U.S. economy in the recent past.

B. RIDERSHIP

Ridership for 2007, including rail-to-rail platform transfers, is forecast at 493.6 million trips and includes ridership declines associated with the planned service cuts and fare increases to be implemented on November 4, 2007. Forecasted trips are 1.6 million fewer than the 2007 amended budget and 1.2 million fewer (0.2 percent) than 2006 actual ridership. However, when the loss of 1.2 million in para-transit trips is taken into account, the year-to-year ridership is nearly identical. Paratransit service was transitioned to Pace on July 1, 2006 as required by the State legislature.

2007 rail ridership is forecast at 189.5 million trips, which represents 14.8 million fewer trips (7.3 percent) than the amended 2007 budget, and 5.6 million fewer trips (2.9 percent) than in 2006.

Bus ridership grew in 2007 and is forecast at 304.1 million trips, which represents 13.2 million (4.6 percent) more than the amended budget, and 5.7 million (1.9 percent) more than 2006. Ridership growth occurred during both rush and non-rush hours. Weekday ridership increased 2.9 percent, while Saturday and Sunday ridership increased 3.3 percent and 5.0 percent, respectively between August 2006 and August 2007.



2007 Operating Budget Summary

C. BUDGET OVERVIEW

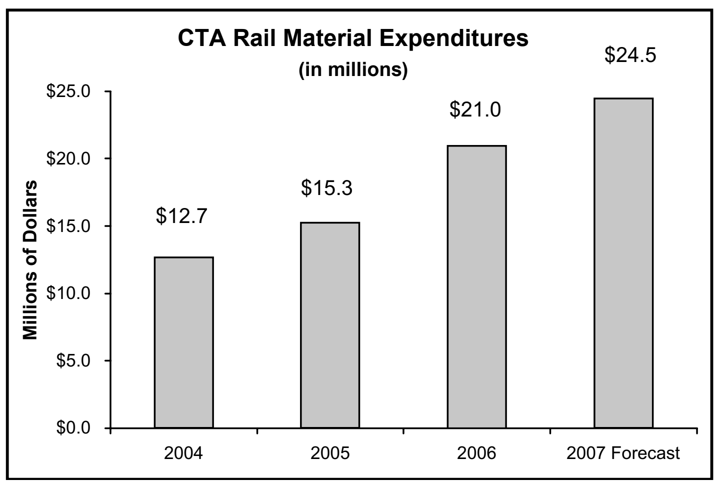
The budget overview includes a summary of the CTA's operating expenses and revenues, including system-generated and publicly funded.

1. OPERATING EXPENSES

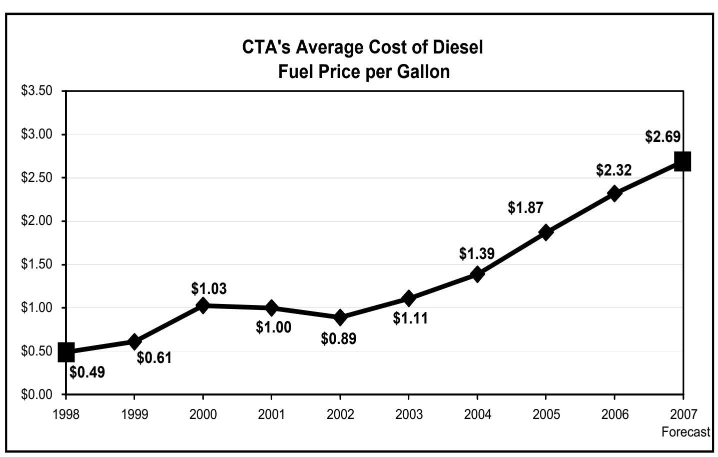
Operating expenses for 2007 are estimated at $1.079 billion, which is $4.8 million less than the amended 2007 budget. Operating expenses were dominated by costs associated with providing bus and rail operations, which account for 65.1 percent of total expenses. Operations support services represent another 10.6 percent of expenses while Facilities Maintenance expenses represent 15.6 percent of total expenses. Administrative expenses comprise the remaining 8.7 percent.

Labor: Labor expenses are projected at $788.9 million, which is $16.1 million (2.0 percent) less than the 2007 amended budget. This is due to administrative cuts and efficiencies, an exempt employee pay freeze, a selective hiring freeze and labor arbitration savings. Benefits, excluding paid time off provided to employees, equal approximately 27.0 percent of the CTA's labor costs. During 2007, the CTA implemented cost-saving measures that resulted in a reduction of 75 administrative positions.

Material: Material costs are comprised primarily of bus and rail car replacement parts and other materials used in day-to-day system maintenance. This category has increased dramatically since 2004. Vehicle part expenses for the rail system have doubled during this period and continue to increase in 2007. The 2007 forecast is $81.4 million, which is $5.6 million higher than the amended 2007 budget. The lack of capital funding to replace buses and rail cars that are beyond their useful life, coupled with insufficient funds to overhaul vehicles at their quarter- and mid-life intervals, are the primary generators of these rising material costs.



Fuel: Escalating energy prices are a key driver of the CTA's operating expenses. Fuel for revenue equipment is forecast at $68.6 million for 2007, an increase of $8.8 million (14.8 percent) more than the amended 2007 budget and $11.1 million (19.4 percent) more than 2006. Fuel consumption is forecast at 25.5 million



gallons, which is slightly higher than the amended 2007 budget. The 2007 amended budget assumed an average price of $2.50 per gallon; however, fuel prices are currently estimated to end the year at a net average price of $2.69 per gallon.

Power: The cost to power the rail system is forecast at $29.1 million, which is greater than the amended budget by $1.0 million or 3.6 percent. This increase is due to unusually cold weather experienced during the winter.

Provision for Injuries and Damages: These expenses relate to claims and litigation for incidents that occur on CTA property or with CTA vehicles. The 2007 forecast for this category is $25.0 million, the same as the 2007 amended budget.

Purchase of Security Services: Security services are provided by the Chicago, Evanston, and Oak Park police departments and through contracts with private security firms. The Public Transportation Section of the Chicago Police Department also provides dedicated services to CTA customers at an estimated cost of $22.0 million, paid by the City of Chicago. Full-year security expenses funded by the CTA are estimated at $31.0 million for 2007, versus an amended 2007 budgeted level of $35.3 million. This lower spending level reflects the CTA's adoption of alternate security measures, including an increased number of CTA employees deployed to rail stations and the installation of additional surveillance cameras, to maintain a safer environment for customers. The CTA's Capital Investments also include security improvements, such as cameras and monitoring devices strategically deployed throughout the system. This amounts to a combined total security budget of over $53.0 million for the CTA system.

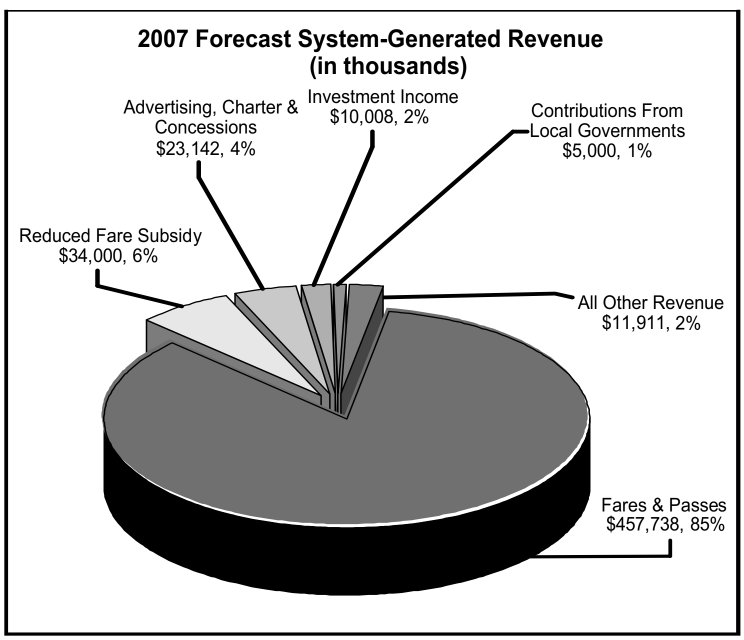
Other Services: Expenses related to other services include costs associated with new initiatives implemented in 2007. It also includes utilities, maintenance and repair, advertising, commissions, consulting, insurance, overhead allocated to capital work, and other general expenses. The year-end forecast equals $55.0 million, which is $0.2 million higher than the amended budget due to the new initiatives.

2. OPERATING REVENUES

System-Generated Revenues

System-generated revenues are projected at $541.8 million and are less than the amended budget by $14.8 million or 2.7 percent.

Fares and Passes: Revenues from fares and passes are forecast at $457.7 million, or $14.5 million (3.1 percent) less than the amended 2007 budget. This is primarily due to increased pass usage on the system. Pass users pay a lower rate per trip; therefore, increased pass use has a negative impact on fare-generated revenue.



2007 Operating Budget Summary

Reduced Fare Subsidy: The reduced fare subsidy is the State of Illinois' reimbursement for discounted fares provided to the elderly, people with disabilities and students and is distributed to the service boards based on their pro rata share of trips. Revenue from reduced fare reimbursement is projected at $34.0 million and is $2.0 million more than the amended budget, due to more reduced fare trips and the State of Illinois' advance of its 2008 fiscal year appropriation.

Advertising, Charter, and Concessions: 2007 revenues for this category are projected to be $23.1 million, which is $1.8 million lower than the amended 2007 budget.

Investment Income: Income from investment is estimated at $10.0 million, which is $2.1 million (17.4 percent) lower than the amended budget.

Statutory Required Contributions: These contributions, required by the RTA Act, total $5.0 million and are equal to the amended budget. The RTA Act requires the City of Chicago to contribute $3.0 million in cash and Cook County to contribute $2.0 million in cash towards CTA operations each year.

Other Revenues: Miscellaneous revenues are projected at $11.9 million, $1.6 million higher than the amended 2007 budget.

<u>Public Funding</u>

Public Funding Available through the RTA was $537.3 million. The original budget assumed new transit funding of $110.0 million. The budget was later amended at RTA's direction to exclude this funding. The amended budget also reflects the use of $56.9 million of capital funds.

Total Revenue (in thousands)		2007 Forecast
Fares and Passes	$	457,738
Reduced Fare Subsidy		34,000
Advertising, Charter and Concessions		23,142
Investment Income		10,008
Contributions From Local Governments		5,000
All Other Revenue		11,911
Total System Generated Revenue		**541,799**
Public Funding through RTA	$	470,349
Additional funding from RTA		10,004
Transfer from Capital		56,900
Total Public Funding		**537,253**
Total 2007 Revenue	$	1,079,052
Total 2007 Expenses	$	1,079,052
2007 Funding Gap	**$**	**0**

The CTA forecasts additional funding from the RTA, in the amount of $10.0 million, to make up the funding shortfall caused by of the delayed implementation of the service cuts and fare increases. The service cuts and fare increases were delayed seven weeks due to the state's advance of the 2008 appropriation of reduced fare reimbursements.

The advance shifted funds expected in the 2008 budget to the 2007 budget. Under current accounting practices, such cash advances cannot be treated as revenues and therefore do not enable the CTA to balance its 2007 budget without additional funding from the RTA.

Public funding available through the RTA is composed of sales tax and discretionary funding as well as preventive maintenance funding from the Federal Transit Administration.

Recovery Ratio: The recovery ratio, which measures the percentage of the operating expense that the CTA funds from internally generated revenues, is estimated to be 53.2 percent and exceeds the required system-recovery ratio of 52.0 percent. This is due to the higher proportion of system-generated revenues relative to operating expenses.

2007 Amended Operating Budget Schedule

(In Thousands)

	Amended Budget 2007	Forecast 2007	(Unfav)/Fav Variance	(Unfav)/Fav % Variance
Operating Expenses				
Labor	$ 805,095	$ 788,947	$ 16,148	2.0 %
Material	75,844	81,411	(5,567)	(7.3) %
Fuel	59,770	68,614	(8,844)	(14.8) %
Power	28,057	29,074	(1,017)	(3.6) %
Provision for Injuries and Damages	25,000	25,000	-	- %
Purchase of Security Services	35,334	31,000	4,334	12.3 %
Purchase of Paratransit	-	-	-	- %
Other Services	54,751	55,006	(255)	(0.5) %
Total Operating Expenses	**$ 1,083,851**	**$ 1,079,052**	**$ 4,799**	**0.4%** %
System Generated Revenue				
Fares and Passes	$ 472,191	$ 457,738	$ (14,453)	(3.1) %
Reduced Fare Subsidy	32,000	34,000	2,000	6.3 %
Advertising, Charter & Concessions	24,990	23,142	(1,848)	(7.4) %
Investment Income	12,120	10,008	(2,112)	(17.4) %
Statutory Required Contributions	5,000	5,000	-	- %
All Other Revenue	10,300	11,911	1,611	15.6 %
Total System Generated Revenue	**$ 556,601**	**$ 541,799**	**$ (14,802)**	**(2.7)** %
Public Funding Required for Operations	$ 527,250	$ 537,253	$ (10,003)	(1.9) %
Additional Funding through RTA	-	10,004	10,004	- %
IDOT Grant	-	-	-	- %
Capital - Preventive Maintenance	56,900	56,900	-	- %
Public Funding Available through RTA	470,349	470,349	-	- %
Total Funding	**$ 527,249**	**$ 537,253**	**$ 10,004**	**-** %
Recovery Ratio*	54.80%	53.17%	1.63%	3.0 %
Required Recovery Ratio	52.00%	52.00%	-	- %
Fund Balance	$ (1)	$ -	$ (1)	(100.0) %

*Recovery ratio is calculated by dividing System Generated Revenues over Operating Expense. The calculation includes in-kind revenues and expenses for security provided by the City of Chicago, excludes security expense and includes some grant revenues.

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President's 2008 Proposed Operating Budget Summary

A. INTRODUCTION

Since 2006, the RTA, the CTA, Metra and Pace have worked to craft a unified plan for regional mass transit funding in Northeastern Illinois. Despite bipartisan support for a long-term funding solution, at this writing, no additional funds have been provided to the region. As a result, the President's 2008 proposed budget reflects a $158.0 million funding shortfall. Without additional public funding, and in order to comply with the state's requirement to maintain a balanced budget, the CTA will be forced to reduce service, increase fares and significantly downsize its operations.

Bus Service	Current CTA Bus Service	November 4, 2007 Reductions	January 6, 2008 Reductions	Remaining CTA Bus Service
Peak Bus Requirement	1,850	314	421	1,115
% Reduction	-	(17%)	(27%)	(40%)
Total Routes	154	39	43	72
% Change from Current	-	(25%)	(37%)	(53%)
Total Revenue Hours	6,891,449	567,000	1,707,000	4,617,449
% Change from Current	-	(8%)	(27%)	(33%)

Public transit is important to individuals, businesses, and communities and serves as an economic engine of the region. Service cuts and fare increases have a severe impact on transit customers, employees and the regional economy. While recognizing the hardship that fare increases and service reductions will impose on its customers, the CTA has no choice but to implement them to achieve the state-required balanced budget.

In addition to severely impacting customers, cuts to mass transit funding also exacerbates traffic congestion. In fact, traffic congestion in the Chicago region is already among the worst in the nation. The 2007 Urban Mobility Report, issued by the Texas Transportation Institute, noted that Chicago-area commuters lost more than 203 million hours in traffic delays in 2005. Traffic delays will only increase as CTA's capacity decreases and former transit customers are forced to drive.

Chicago-area commuters spend a total of 203 million hours in traffic delays each year—this number will only increase as CTA's capacity decreases!

The President's 2008 proposed budget outlined in this document assumes no new public transit funding in 2008, resulting in a shortfall of $158.0 million. To address the shortfall, the 2008 proposed operating budget reflects the elimination of 43 bus routes. When added to the 39 bus routes planned for elimination in November 2007, a combined total of 82 bus routes will be eliminated. The 2008 proposed budget does not impact service on the rail system. Based on an in-depth analysis, it was determined that due to the heavy infrastructure investment already made in the rail system, and rail's greater capacity to transport customers with less overhead cost, cuts in rail service would not result in appreciable savings.

The service reductions included in the President's 2008 budget proposal would result in a 53 percent elimination of bus routes from current levels, which translates to 735 fewer buses required for service. These reductions in service would result in a recommendation to close three bus garages and the layoff of 1,631 transit operations employees. Taking into consideration the November 4th layoffs of 562 transit operations employees, a total of 2,193 positions are proposed to be eliminated — nearly one-third of all staff involved in the day-to-day operation and maintenance of the CTA's bus fleet. The 2008 proposed budget also includes the elimination of 168 administrative and support positions, in addition to the 75 positions already slated for elimination in 2007. Including the cuts proposed in the President's 2008 budget, administrative positions at the CTA have been reduced by 24.2 percent since 2003.

Position Eliminations by Year with Service Reductions					
Year	Administration and Support	Operations (Includes STO)	Total	Total CTA* Headcount	% Cut Over Total CTA
2007	75	562	637	10,907	6%
2008	168	1,631	1,799	8,631	22%

* Total Headcount is based on budgeted positions and full time equivalents and eliminations are based on employees.

The President's 2008 budget proposes increasing cash fares by an additional 10 percent over the November fare increase and would result in a cumulative increase of 38 percent for bus cash fares and 63 percent for rail transit card fares.

A comprehensive overview of fares and service changes proposed for implementation on both November 4, 2007 and January 6, 2008 is summarized in the Fares and Service section.

Given the realities of a significantly underfunded 2008 budget, the CTA will focus its efforts and limited resources on a "Back to Basics" strategy. This means that the CTA will target its spending on those efforts that provide a direct return for its customers. The core goal of all efforts will be to deliver safe, clean, on-time, courteous and efficient service. Overall, these basic investments will result in a safer, more efficient transit system as well as some noticeable service improvements to customers.

As a result of this focus, in late 2007 the CTA began an aggressive campaign to bring the rail track infrastructure to a state of good repair by reducing slow zones and upgrading signals on the rail system. The President's 2008 proposed budget also provides additional resources for track inspection and maintenance. A total of 53 new positions have been added in Power and Way Maintenance to enhance inspection and preventative maintenance on the rail system. This includes 42 new positions for track inspection, and a separation of the track inspection and maintenance functions to ensure better checks and balances. There are also an additional 11 new positions to repair and maintain signals along the right of way to allow service continuity on the north main line, particularly in the area where the Red and Brown Line share one track during on-going track and station reconstruction.

In addition, the CTA exercised its option to purchase an additional 400 40-foot buses from New Flyer that will be delivered throughout 2008, replacing buses that are 17 years old and have accumulated an average of 600,000 miles. The purchase of these new buses, along with the acceleration of the removal of older buses from service due to service reductions, significantly decreases the CTA's maintenance costs, and increases reliability for customers.

Finally, a slowing economy due to the housing market, unemployment, and oil prices that have reached historic highs, continues to create additional challenges for the CTA. While the Chicago metropolitan region added more than 38,000 new jobs over the year, unemployment in the City of Chicago increased from 5.2 percent to 6.3 percent between August 2006 and August 2007. Oil

President's 2008
Proposed Operating Budget Summary

price futures passed the $80.00 per barrel mark in September 2007. The cost of oil impacts the CTA and its customers in more than one way—while increased fuel prices negatively impact CTA's budget, these same increases also encourage mass transit as a more affordable alternative to individual automobiles.

B. RIDERSHIP

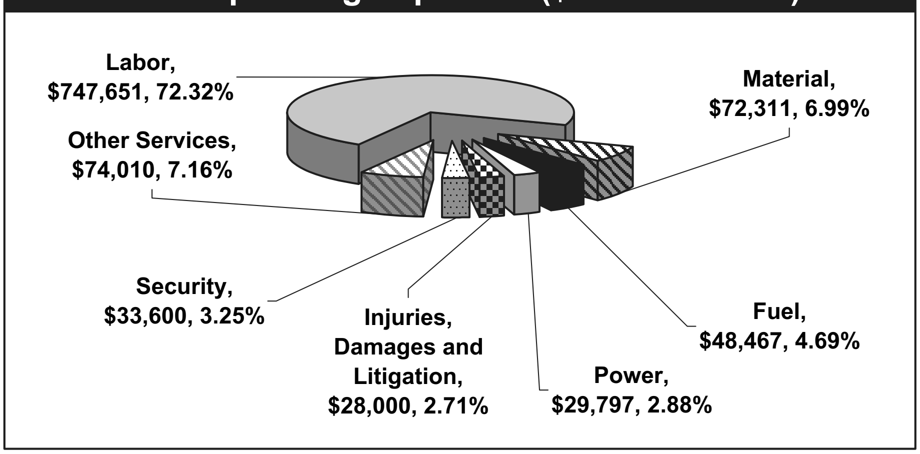
The CTA estimates that system ridership will fall to 457.8 million trips in 2008, a decrease of 35.9 million as compared to the 2007 forecast and 37.4 million trips less than the amended 2007 budget. The projected decrease in ridership is due to the service cuts planned in 2007 and 2008. 2008 bus ridership is projected at 261.8 million, a decrease of 42.3 million from the 2007 forecast. While bus ridership grew throughout the first nine months of 2007, this trend will reverse itself with implementation of the service cuts and fare increases due to a lack of state funding.

The CTA forecasts 2008 rail ridership at 196.0 million, which is 3.4 percent higher than the 2007 forecast. This increase is driven by customers transitioning to rail service as a result of the bus service cuts planned for November 4, 2007 and January 6, 2008.

C. 2008 BUDGET OVERVIEW

1. OPERATING EXPENSES

2008 Operating Expenses ($ in thousands)

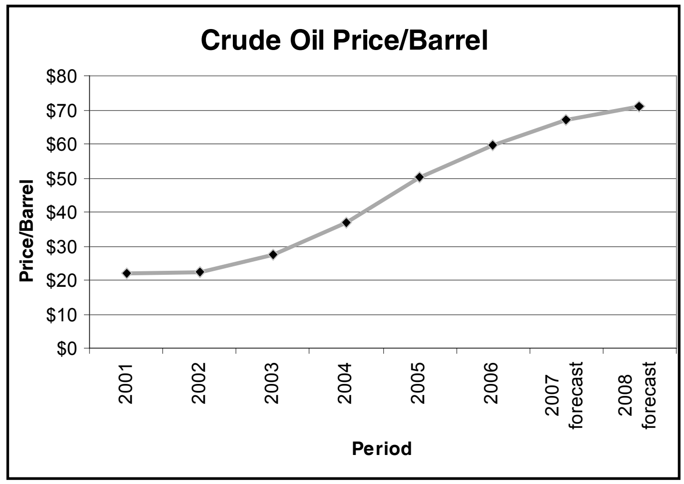


The President's 2008 proposed operating budget is $1.033 billion, which is $45.2 million (4.2 percent) less than the 2007 forecast and $50.0 million lower than 2007 amended budget. The proposed budget includes labor savings from a planned reduction in bus service and related bus service supervision, support and maintenance costs. These service level reductions would result in the recommendation to close three of CTA's eight bus garages as more than 700 buses will be removed from rush hour service, greatly reducing mobility in the region.

Labor Expenses: 2008 labor expenses are estimated at $747.7 million and constitute approximately 72.3 percent of the CTA's total operating budget. 2008 labor costs reflect reductions in administrative staffing along with a reduction in bus operations, maintenance, supervision and support staff. The overall headcount for the President's 2008 proposed budget is approximately 2,436 positions fewer than the 2007 amended budget.

Material Expenses: The President's 2008 proposal budgets material costs at $72.3 million, which is $9.1 million less than the 2007 forecast and $3.5 million less than the 2007 amended budget. Material costs for bus maintenance would decrease by approximately $10.0 million in 2008 because of the decline in the number of buses in service and the purchase of new buses which are still under warranty. Rail maintenance would increase as service levels are approximate to the 2007 service level and the aging rail fleet continues to require replacement of major components such as doors, brakes and wheels to maintain operations.

Fuel Expenses: The U.S. Energy Information Administration estimates that crude oil prices will average $71.00 a barrel in 2008, compared to $67.00 per barrel in 2007. With fuel price volatility expected to continue in 2008, the President's 2008 proposal has budgeted an average price per gallon of $2.60, based on an estimated annual consumption of 18.6 million gallons. The proposed fuel budget totals $48.5 million for 2008, $11.3 million (18.9 percent) less than the 2007 amended budget and $20.1 million less than 2007 forecast. Even with increasing fuel prices, the overall 2008 proposed fuel budget has decreased because of the elimination of bus service.



The 2008 proposal budgets the cost of electric power for revenue equipment at $29.8 million, which is 6.2 percent higher than the 2007 amended budget and 2.5 percent higher than the 2007 forecast. The 2008 electric power budget remains impacted by the rate increase that occurred in January 2007 because of the end of a decade-long rate freeze in Illinois.

Provision for Injuries and Damages: The 2008 proposed funding for injuries and damages is $28.0 million, reflecting an increase of $3.0 million from the 2007 amended budget and 2007 forecast.

Purchase of Security Services: The purchase of security services includes 24-hour patrol services provided by the Chicago, Evanston, and Oak Park Police departments and contracts with private firms for guard and canine security. The 2008 proposed cost of security services is estimated at $33.6 million, which is $2.6 million above the 2007 forecast. This increase is due to investments in new surveillance cameras and sensors for the rail system. In addition to the services contracted by the CTA, the City of Chicago provides $22.0 million in Chicago Police Department's Public Transportation Section services at no charge to the CTA.

Other Services: These expenses are proposed in the 2008 budget at $74.0 million, an increase of $19.3 million over the 2007 amended budget. This category includes, but is not limited to, utilities for CTA facilities, advertising and marketing expenses, equipment and software maintenance, accounting, engineering, legal and other consulting services, banking fees, and commissions for the sale of fare media. The budget also reflects new initiatives associated with bus and rail fleet cleanliness and facility improvements.

New contract costs for the proposed outsourcing of CTA's non-revenue fleet maintenance (vans, trucks, equipment) are also included in the Other Services category. The City of Chicago's

Department of Fleet Maintenance currently maintains all municipal vehicles, including the Chicago Police and Fire Departments. In addition, they provide services for the Chicago Park District. This proposed contract would provide more efficient vehicle repair for the CTA at locations throughout the City. Entering into this agreement with the City would allow the CTA to shift repair positions to focus on the bus fleet and reduce bus maintenance overtime.

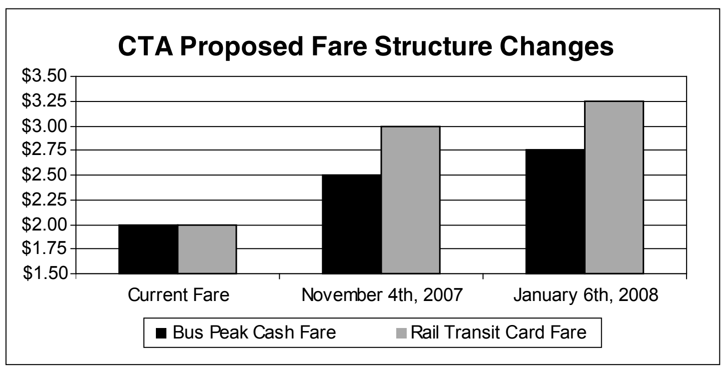
2. OPERATING REVENUES

The CTA has two main revenue categories: system-generated revenues and public funding.

System-Generated Revenues

System-generated revenues include fares and passes, reduced fare reimbursement, advertising, investment income, statutorily-required cash contributions, and other miscellaneous revenues. In 2008, system-generated revenue is projected at $562.0 million, representing a $5.4 million (1.0 percent) increase over the amended 2007 budget. The growth in system-generated revenue is due to the fare increase, increased advertising revenue and other new revenue initiatives.

Fares and Passes: Revenue from fares and passes is estimated at $470.4 million in 2008. This represents a growth of $12.6 million (2.8 percent) over the 2007 forecast but a decrease of $1.8 million from the 2007 amended budget. The growth in fare and pass revenues is tied to a higher average fare, which is forecast to increase from $ 0.93 per ride to $1.03 per ride due to fare increases implemented on November 4, 2007 and January 6, 2008.



Reduced Fare Subsidy: The CTA provides approximately 69.0 million reduced fare trips to qualified students, people with disabilities and elderly customers each year. The reduced fare reimbursement from the State of Illinois is budgeted at $32.3 million. This is based on an annual appropriation of $37.3 million to RTA that is allocated to the CTA, Metra and Pace based on their reduced fare ridership and lost revenue. This annual appropriation was reduced by 13.3 percent since 1990, when it was $43.0 million.

Advertising, Charter, and Concessions: Revenue in this category includes advertisements on buses, trains, and stations, as well as income from concessions. In 2008, revenues for this category are estimated at just under $27.4 million. This is up 9.6 percent from the 2007 amended budget due to a new contract for advertising on rail station escalators, increased revenues from vehicle and platform advertising and billboard sales.

Investment Income: Investment income is budgeted at $11.7 million in the proposed budget. This is $1.7 million more than the 2007 forecast but is below the 2007 amended budget by $0.4 million. The increase over forecast is due to higher projected cash balances. In September 2007, the Federal Reserve adjusted the Federal Funds Rate for the first time in over a year, decreasing it to 4.75 percent from 5.25 percent.

President's 2008 Proposed Operating Budget Summary

Statutory Required Contributions: Statutorily-required cash contributions are budgeted in the President's 2008 proposal at $5.0 million, unchanged from the 2007 budget. The RTA Act requires the City of Chicago to contribute $3.0 million in cash, and the County of Cook to contribute $2.0 million in cash each year toward CTA operations. These required cash contributions are in addition to other cash and in-kind contributions from the City of Chicago and the County of Cook. The Chicago Police Department -Mass Transportation Section provides more than $22.0 million of security services to CTA while Cook County provides $3.5 million in in-kind service through the Sheriff's Work Alternative Program (SWAP). Under the SWAP program, non-violent offenders in Cook County supplement existing CTA employees to clean bus turnarounds and garages.

All Other Revenue (in thousands)	2008
Rentals	$ 4,533
Student Permit Revenue	489
Parking Lot Revenue	2,048
Miscellaneous Revenues	1,351
Sale of Scrap Material	1,113
Grant Non-Capital Revenue	4,000
Other Revenue	1,710
Total All Other Revenue	**$ 15,244**

All Other Revenue: This category includes operating grants from the FTA, parking charges, rental revenue, third-party contractor reimbursements and filming fees. Other revenues are projected at $15.2 million in 2008, $4.9 million more than was budgeted in 2007 and $3.3 million more than the 2007 forecast.

Public Funding

Public funding available for CTA operations is determined by the funding mark issued by the RTA, which is based on the RTA's revenue projection for the year. All of the public funding for operations received by the CTA, Metra, and Pace is provided by the RTA and currently consists of two principal sources: the RTA Sales Tax and the Public Transportation Fund provided by the State of Illinois. The RTA Sales Tax is the primary source of CTA public funding. The CTA receives 100.0 percent of the RTA Sales Tax collected in the City of Chicago and 30.0 percent of the sales tax collected in suburban Cook County after the RTA retains its 15.0 percent share.

In 2008, public funding through the RTA and the State will total $471.8 million, an increase of only $1.5 million (0.3 percent) over the 2007 amended budget. If the RTA mark were adjusted for the CBO forecasted growth for CPI in 2008 (2.3 percent), public funding would have totaled $481.1 million, $9.3 million more than CTA expects to receive.

Total Revenue (in thousands)		2008 Budget
Fares and Passes	$	470,376
Reduced Fare Subsidy		32,271
Advertising, Charter and Concessions		27,381
Investment Income		11,736
Contributions From Local Governments		5,000
All Other Revenue		15,244
Total System Generated Revenue		**562,008**
Public Funding through RTA	$	471,828
Total Public Funding		**471,828**
Total 2008 Revenue	$	1,033,836
Total 2008 Expenses	$	1,033,836
2008 Funding Gap	**$**	**0**

President's 2008
Proposed Operating Budget Summary

The public funding needed to support operations at the 2007 levels prior to the November 4, 2007 cuts was $629.8 million, $158.0 million more than the current funding mark. As a result of this significant shortfall combined with the state requirement for a balanced budget, the President's budget proposal recommends a reduction in service and fare increase to address the deficit.

In 2007, CTA transferred capital funds to reduce the public funding gap, deferring bus and rail car overhauls in an effort to give the State Legislature more time to implement a permanent funding solution. In 2008, however, CTA will not be able to utilize capital funds to balance the operating budget since RTA's 2008 budget ordinance restricts usage of capital funds when the capital asset's condition will be adversely impacted. Therefore, an increase in the public subsidy, or more service reductions or fare increases, are the only substantive way to close the budget gap.

Recovery Ratio

As calculated by the RTA, the recovery ratio requires CTA's system-generated revenues to cover at least 52.0 percent of projected expenses for 2008. The proposed operating budget estimates the recovery ratio at 57.13 percent. This estimate takes into account allowable exclusions including Pension Obligation Bond (POB) debt service, passenger security, in-kind services provided by the Chicago Police Department and the same level of grant funded revenues included in the 2008 budget.

President's 2008
Proposed Operating Budget Schedule

(In Thousands)

	Actual 2006	Amended Budget 2007	Forecast 2007	Proposed Budget 2008
Operating Expenses				
Labor	$ 760,751	$ 805,095	$ 788,947	$ 747,651
Material	83,150	75,844	81,411	72,311
Fuel	57,470	59,770	68,614	48,467
Power	22,268	28,057	29,074	29,797
Provision for Injuries and Damages	45,266	25,000	25,000	28,000
Purchase of Security Services	30,831	35,334	31,000	33,600
Purchase of Paratransit	28,415	-	-	-
Other Services	48,288	54,751	55,006	74,010
Total Operating Expenses	**$ 1,076,439**	**$ 1,083,851**	**$ 1,079,052**	**$ 1,033,836**
System Generated Revenue				
Fares and Passes	$ 462,218	$ 472,191	$ 457,738	$ 470,376
Reduced Fare Subsidy	29,604	32,000	34,000	32,271
Advertising, Charter & Concessions	24,402	24,990	23,142	27,381
Investment Income	11,608	12,120	10,008	11,736
Statutory Required Contributions	5,000	5,000	5,000	5,000
All Other Revenue	19,575	10,300	11,911	15,244
Total System Generated Revenue	**$ 552,407**	**$ 556,601**	**$ 541,799**	**$ 562,008**
Public Funding Required for Operations	$ 524,032	$ 527,250	$ 537,253	$ 471,828
Additional Funding through RTA	-	-	10,004	-
IDOT Grant	27,126	-	-	-
Capital - Preventive Maintenance	41,166	56,900	56,900	-
Public Funding Available through RTA	455,764	470,349	470,349	471,828
Total Funding	**$ 524,056**	**$ 527,249**	**$ 537,253**	**$ 471,828**
Recovery Ratio*	54.51%	54.80%	53.17%	57.13%
Required Recovery Ratio	53.00%	52.00%	52.00%	52.00%
Fund Balance	$ 24	$ (1)	$ -	$ -

	Budgeted Positions 2006	Budgeted Positions 2007	Forecasted Positions 2007	Budgeted Positions 2008
TOTAL CTA WITHOUT STO	**5,281**	**5,302**	**5,072**	**4,495**
Bus STO Positions**	4,297	4,274	3,859	2,853
Rail STO Positions**	1,295	1,331	1,327	1,283
TOTAL CTA	**10,873**	**10,907**	**10,258**	**8,631**

Recovery ratio is calculated by dividing System Generated Revenues over Operating Expense. The calculation includes in-kind revenues and expenses for ecurity provided by the City of Chicago, excludes security expense and includes some grant revenues.

*STO Full Time Equivalents

Service & Fares

> ***Proposed 2008 service cuts along with those implemented in 2007 will reduce total bus routes by a combined 53 percent and increase off-peak cash fares by a combined 38 percent in order to meet CTA's statutory requirement for a balanced budget.***

Due to inadequate state funding and the statutory requirements for a balanced budget, on November 4, 2007, CTA will be forced to implement service cuts and fare increases to address the 2007 deficit. The CTA projects a budget deficit of $158 million in 2008 and in light of this funding shortfall, the service cuts and fare increases planned for 2007 will not be sufficient to balance the budget in 2008. As a result, the President's 2008 Budget recommends additional changes on January 6, 2008 to generate sufficient savings to close the $158 million deficit. These proposed service and fare changes are significant and will be painful to everyone in the region. The 2007 and 2008 proposed service cuts will reduce the total number of bus routes by 53 percent.

The President's 2008 Budget also recommends the continuation of a peak and off-peak fare structure for the rail system. The peak period would be defined as weekdays from 6:30AM to 9:30AM and from 4:00PM to 7:00PM. All other times are considered off-peak. Rail transit card fares in the peak period will increase 63 percent over current fares. Rail transit card fares in the off-peak period would increase by 38 percent. Bus cash fares will increase by 38 percent in the peak and off-peak periods.

Following is detail about the changes to be implemented in 2007 and 2008.

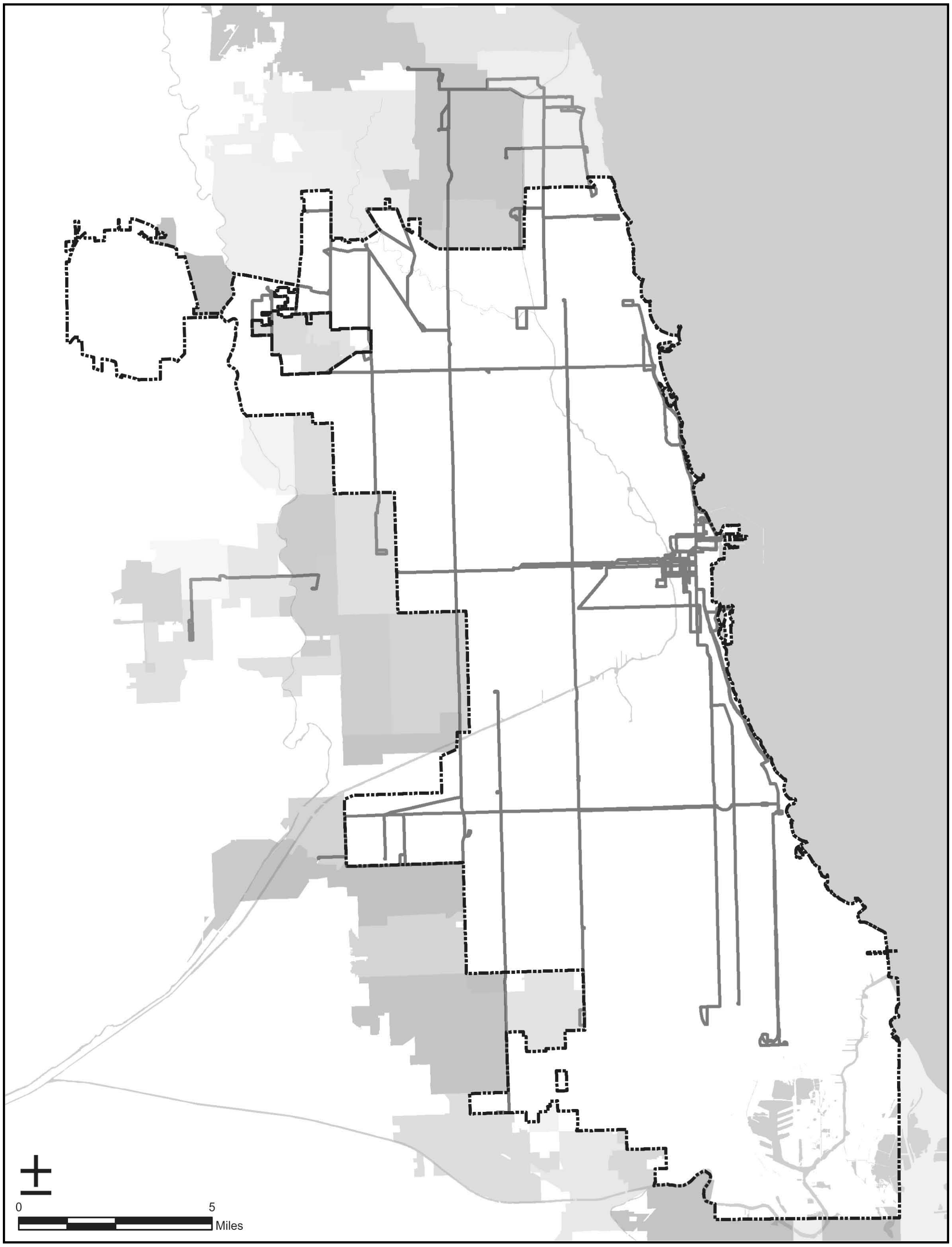
A. 2007 SERVICE REDUCTIONS

The 2007 service cuts were approved by the CTA Board on August 8, 2007 and are set to go into effect on November 4, 2007 to enable the CTA to meet the statutory requirement for a balanced budget. These cuts will eliminate 39 bus routes and remove 314 buses from CTA's current daily service. Eliminated bus routes are shown in Table 1 below. The only rail service impacted will be the Purple Line Express. The CTA will decide on a daily basis whether or not Purple Line rail service will operate express or make all stops between the Howard and Belmont stations. This decision will be based on whether Purple Line trains will be needed to provide additional capacity in order to offset crowding on Red and Brown Line trains.

As a result of these reduced service levels, the recommended budget proposes that 562 transit operations employees will be laid off. When added to the previous 75 administrative lay-offs already implemented, the total number of proposed 2007 lay-offs is 637.

Service & Fares

Map 1: November 4, 2007 Bus Route Eliminations



Service & Fares

Table 1: November 4, 2007 Route Eliminations

Route	Name	Route	Name
X3	KING DR EXPRESS	90N	NORTH HARLEM
X4	COTTAGE GROVE EXPRESS	93	CALIFORNIA/DODGE
17	WESTCHESTER	96	LUNT
19	UNITED CENTER EXPRESS	120	OGILVIE/WACKER EXPRESS
X20	WASHINGTON/MADISON EXPRESS	121	UNION/WACKER EXPRESS
X28	STONY ISLAND EXPRESS	122	ILLINOIS CTR/OGILVIE EXPRESS
X49	WESTERN EXPRESS	123	ILLINOIS CENTER/UNION EXPRESS
53AL	SOUTH PULASKI LIMITED	125	WATER TOWER EXPRESS
54A	NORTH CICERO/SKOKIE BLVD	127	MADISON/ROOSEVELT CIRCULATOR
X54	CICERO EXPRESS	129	WEST LOOP/SOUTH LOOP
55A	55TH/AUSTIN	130	GRANT PARK TREASURES
X55	GARFIELD EXPRESS	134	STOCKTON/LASALLE EXPRESS
55N	55TH/NARRAGANSETT	135	CLARENDON/LASALLE EXPRESS
56A	NORTH MILWAUKEE	143	STOCKTON/MICHIGAN EXPRESS
62H	ARCHER/HARLEM	144	MARINE/MICHIGAN EXPRESS
64	FOSTER/CANFIELD	157	STREETERVILLE
69	CUMBERLAND/EAST RIVER	165	WEST 65TH
X80	IRVING PARK EXPRESS	200	MAIN SHUTTLE
85A	NORTH CENTRAL	205	CHICAGO/GOLF
86	NARRAGANSETT/RIDGELAND		

Service & Fares

B. 2008 SERVICE REDUCTIONS

The President's 2008 Budget Recommendation proposes a second and significantly more painful series of service cuts, fare increases and layoffs. These steps are necessary because no additional state funds have been allocated to help the CTA meet the statutory requirement for a balanced budget. These changes are proposed to go into effect on January 6, 2008 and are in addition to the service cuts, fare increases and lay-offs scheduled to take place on November 4, 2007.

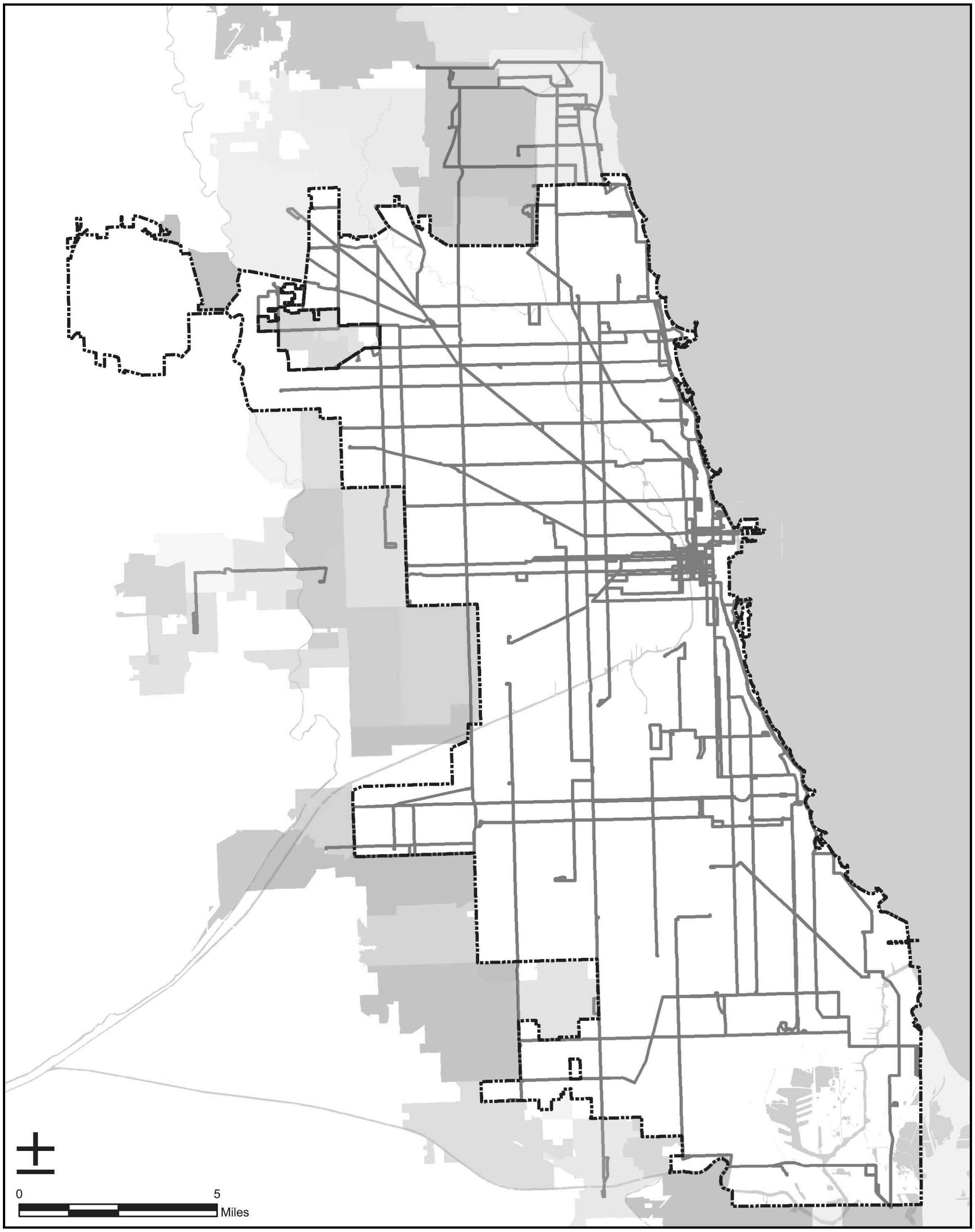
The proposed January 6, 2008 service cuts will eliminate 43 additional bus routes and remove another 421 buses from the current daily service. Eliminated bus routes are shown in Table 2 below. Combined with the November 4, 2007 reduction in routes, this translates to a 53 percent total reduction in bus routes across the region. These reductions in service will also result in the recommendation to close three bus garages and layoff 1,631 transit operations employees, as well as 168 administrative employees. This brings the total number of proposed 2008 lay-offs to 1,799 which are in addition to the 637 proposed lay-offs in 2007. The 2008 recommended budget does not propose any additional service cuts on the rail system.

Table 2: January 6, 2008 Route Eliminations

Route	Name	Route	Name
1	INDIANA/HYDE PARK	88	HIGGINS
2	HYDE PARK EXPRESS	91	AUSTIN
8A	SOUTH HALSTED	92	FOSTER
11	LINCOLN/SEDGWICK	94	SOUTH CALIFORNIA
14	JEFFERY EXPRESS	97	SKOKIE
26	SOUTH SHORE EXPRESS	100	JEFFERY MANOR EXPRESS
30	SOUTH CHICAGO	103	WEST 103RD
38	OGDEN/TAYLOR	106	EAST 103RD
43	43RD	108	HALSTED/95TH
44	WALLACE/RACINE	112	VINCENNES/111TH
49A	SOUTH WESTERN	124	NAVY PIER
50	DAMEN	126	JACKSON
56	MILWAUKEE	136	SHERIDAN/LASALLE EXPRESS
59	59TH/61ST	145	WILSON/MICHIGAN EXPRESS
63W	WEST 63RD	146	INNER DRIVE/MICHIGAN EXPRESS
65	GRAND	147	OUTER DRIVE EXPRESS
68	NORTHWEST HWY	148	CLARENDON/MICHIGAN EXPRESS
70	DIVISION	152	ADDISON
73	ARMITAGE	156	LASALLE
76	DIVERSEY	201	CENTRAL/RIDGE
78	MONTROSE	206	EVANSTON CIRCULATOR
81W	WEST LAWRENCE		

Service & Fares

Map 2: November 4, 2007 and January 6, 2008 Route Eliminations



Service & Fares

C. 2007 AND 2008 FARE INCREASES

Fares will increase 11 to 63 percent over the current fare structure depending on the type of fare media used.

Fare increases are slated for implementation on November 4, 2007 and are proposed to be increased again on January 6, 2008 to meet the CTA's statutory requirement for a balanced budget. The proposed increases range from 11 to 63 percent over the current fare structure depending on the type of fare media used. The November 4, 2007 implementation of a peak and off-peak fare structure is proposed to remain in effect for the January 6, 2008 fare increase. Fares are not proposed to be increased for students, seniors or individuals with disabilities who are reduced fare customers.

Fare increases scheduled to take place on November 4, 2007 and proposed for January 6, 2008 are outlined below.

CTA Regular Fare Types	Current Fare Structure (effective 1/1/2006)	Contingency Fare Structure (Nov 2007)	Proposed 2008 Budget Fare Structure (Jan 2008)
Regular Full Fare Cash [1]	$2.00 (bus); $2.00 (rail)	$2.50 (bus); $2.50 (rail)	$2.75 (bus); $2.75 (rail)
Regular Full Fare Transit Card (TC)	$1.75 (bus); $2.00 (rail)	$2.00 (bus); $2.50 (rail)	$2.25 (bus); $2.75 (rail)
Regular Full Fare Chicago Card (CC)	$1.75 (bus); $1.75 (rail)	$2.00 (bus); $2.00 (rail)	$2.25 (bus); $2.25(rail)
Peak Full Fare Cash [1] [2]	$2.00 (bus); $2.00 (rail)	$2.50 (bus); $3.00 (rail)	$2.75 (bus); $3.25 (rail)
Peak Full Fare Transit Card (TC)	$1.75 (bus); $2.00 (rail)	$2.00 (bus); $3.00 (rail)	$2.25 (bus); $3.25 (rail)
Peak Full Fare Chicago Card (CC)	$1.75 (bus); $1.75 (rail)	$2.00 (bus); $2.00 (rail)	$2.25 (bus); $2.50 (rail)
Regular/Peak TC or CC Transfer [3]	$0.25	$0.25	$0.25
Peak TC or CC Transfer	$0.25	$0.25	$0.25
Chicago Card Bonus [4]	10%	10%	10%
1-Day Pass	$5.00	$6.00	$7.00
2, 3, 5-Day Visitor Passes	$9, $12, $18	$10, $14, $21	$11, $15, $23
Full Fare 7-Day Pass	$20.00	$23.00	$25.00
Full Fare 30-Day Pass	$75.00	$84.00	$94.00

CTA Reduced Fare Types	Current Fare Structure (effective 1/1/2006)	Contingency Fare Structure (Nov 2007)	Proposed 2008 Budget Fare Structure (Jan 2008)
Regular Reduced Fare Cash	$1.00	$1.00	$1.00
Regular Reduced Fare TC	$0.85	$0.85	$0.85
Peak Reduced Fare Cash	$1.00	$1.00	$1.00
Peak Reduced Fare TC	$0.85	$0.85	$0.85
Reduced Fare TC/CC Transfer	$0.15	$0.15	$0.15
Peak Reduced TC or CC Transfer	$0.15	$0.15	$0.15
Reduced Fare 30-Day Pass	$35.00	$35.00	$35.00

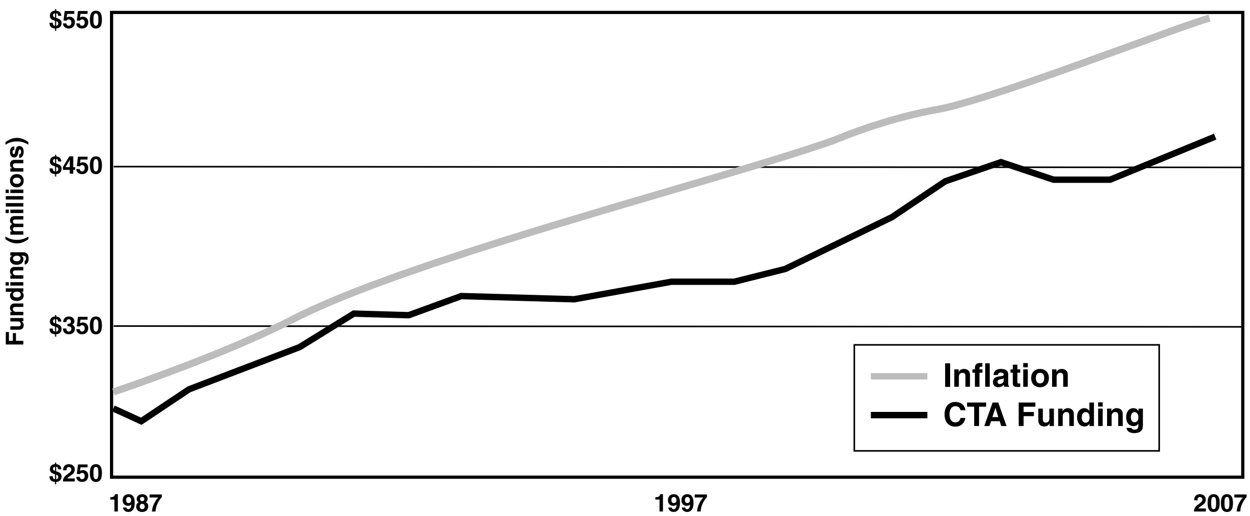
[1] Rail customers paying fares with cash must first add value to a Transit Card using vending machines located in each station.
[2] Peak periods are 6:30-9:30 AM and 4:00-7:00 PM weekdays.
[3] Transfers are not available to customers paying fares with cash.
[4] For every $20 purchase of pay-per-use fares, $22 of value is added to the card.

President's 2009-2010 Proposed Operating Financial Plan Summary

A. INTRODUCTION

Increased public funding is critical to the continued operation of the mass transit system in Northeastern Illinois. For the past several years, the CTA has faced funding shortfalls because of the region's structural funding deficit. Major cost drivers of the CTA's budget are the funds associated with operating the bus and rail system, and pension and healthcare obligations.

CTA's Public Funding has not kept pace with inflation.



The public funding mark provided to the CTA for 2009 is $474.5 million, $2.7 million (0.6 percent) more than the 2008 budget. This mark is well below the Congressional Budget Office's CPI forecast for inflation. Indeed, if funding had kept up with inflation since 1987, the CTA would have received 1.6 billion additional dollars. The CTA's proposed labor contracts provide for a 3.0 percent wage increase and healthcare costs are projected to increase by 12.0 percent over this period. With these projected cost increases, and funding level from the RTA, the CTA cannot balance its budget without making significant changes. In fact, every year that the State does not provide adequate funding, the CTA will be forced to make additional service cuts and fare increases.

The CTA's 2009-2010 Financial Plan makes two key assumptions. The first assumption is that the State of Illinois will not provide increased funding for the CTA, Metra and Pace or approve the labor contract reforms with the $1.4 billion Pension Obligation Bond (POB) that will stabilize pension and retiree healthcare for CTA's employees. The timing of this legislation is critical. Beginning in 2009, PA 94-0893 requires the CTA to begin funding its pension plan at a level sufficient to achieve a 90 percent funded ratio by the end of 2058. Without a POB, CTA's pension contribution would be approximately $100 million higher in 2009 and 2010 in order to meet this requirement.

The CTA and its unions are making strides toward preserving the solvency of the pension plan. In June 2007, the CTA reached a landmark arbitration decision with its 17 labor unions that increased employer contributions to the CTA pension plan from 6.0 percent of payroll to 12.0 percent of payroll, and increased employee contributions from 3.0 percent to 6.0 percent.

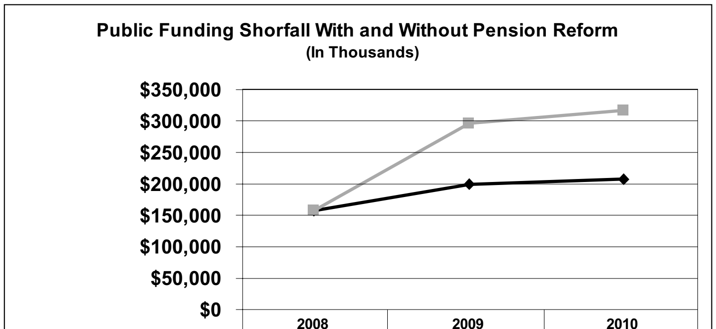
The arbitration decision, however, is contingent upon passage of state reform legislation. Without

President's 2009-2010 Proposed Operating Financial Plan

legislative action, the actuarial projections state that the pension plan assets will be depleted by 2013, and the retiree healthcare portion of the plan will be depleted by early 2009. As stated earlier, the financial plan does not assume legislative approval of the labor contract. The chart below shows the difference in the deficit with and without pension reform.

Without legislative approval of the labor contract and authorization of the POB, CTA's deficit will be approximately $100 million more each year.

Second, this plan assumes a stable economy with moderate inflation. In 2007, decreased consumer spending and a weakened housing market led to a slow down in the economy. Though conditions in the housing market are expected to improve in 2008, major concerns about increased foreclosures due to changes in the sub-prime market may adversely affect the regional economy in the plan years.



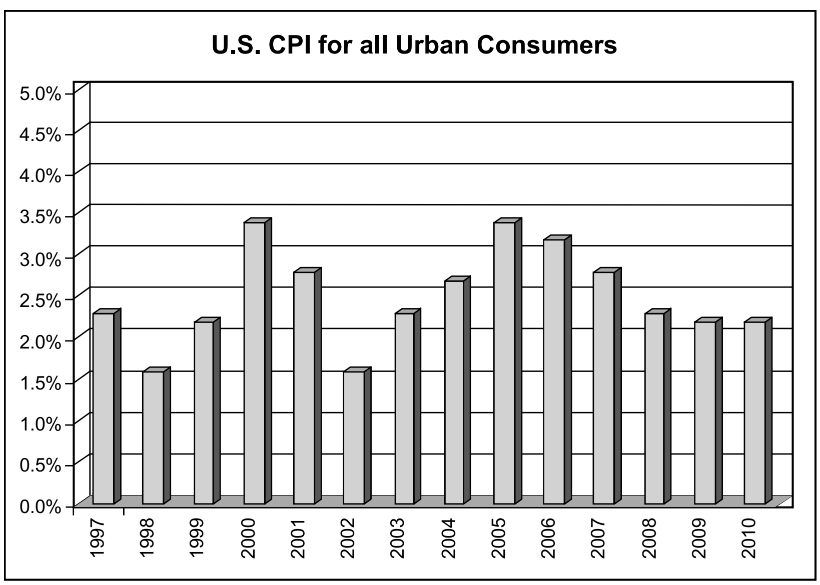
	2008	2009	2010
With Pension Reform	$158,000	$199,486	$207,514
Without Pension Reform	$158,000	$297,434	$316,672

Based on and without adjusting for the service and fare increase proposed for 2008, the gross deficits for 2009 and 2010 are projected at $297.4 million and $316.7 million, respectively.

B. OPERATING EXPENSES

The President's 2009 and 2010 proposed operating expenses are $992.7 million and $990.7 million, respectively. The lower operating expenses reflect implementation of additional service cuts in 2009 and 2010 to achieve a balanced budget.

Labor: Labor expenses, which account for approximately three-fourths of the CTA's total expenses, include the cost of wages, health care, pension, workers compensation and payroll taxes for Social Security (FICA). Labor expenses are projected to increase to $749.6 million in 2009, but decrease to $747.4 million in 2010. Labor cost are primarily impacted by the increased pension contributions offset by the service cuts.



While the CTA has lowered healthcare costs through joint purchasing alliances with other government agencies, healthcare costs have continued to increase. According to Mercer Health & Benefits, health insurance premiums are expected to increase by 6.7 percent in 2008. Kaiser Family Foundation research shows that since 2001, health insurance premiums have increased by 78.0 percent, far outpacing the 17.0 percent jump in inflation over the same time period. The plan assumes increased healthcare costs of approximately 12.0 percent and 8.0 percent, respectively.

Materials: The price of materials used to maintain CTA's bus and rail fleet, rail tracks, facilities, stations and fare revenue equipment have been increasing. The CTA continues to seek ways to contain materials costs through supply chain improvements. According to the World Bank, the price of copper, aluminum and other metals peaked in 2007 after years of sharp price increases. While material costs are expected to decline in 2009 and 2010 due to the reduction in the bus fleet, increased material usage for maintenance of the rail fleet is projected during that same period due to the aging fleet. The CTA projects materials expenses at $60.9 million in 2009 and $60.1 million in 2010.

Energy: The rising costs of energy directly affect the CTA's operating expenses. Between 2002 and 2008, the CTA's average fuel cost per gallon has more than doubled. Crude oil market prices are expected to continue to increase due to higher consumption and a moderate increase in supply.

For 2009 and 2010, the CTA has estimated the cost of fuel at $2.80 and $3.00 per gallon, respectively. The CTA estimates annual consumption at 11.4 million gallons in 2009 and 10.4 million gallons in 2010. In 2009, the fuel expense is projected at $31.8 million, a decrease of 34.3 percent from the 2008 proposed budget. In 2010, fuel costs are projected at $31.1 million, a decrease of 2.3 percent over the 2009 projection.

The recently deregulated electricity market in Illinois led to higher rates, which resulted in increased costs to the CTA. In 2009, CTA projects power costs to total $30.8 million, an increase of 3.5 percent from the President's proposed 2008 budget. In 2010, the CTA projects an additional increase of 3.4 percent, bringing power costs to $31.9 million.

Provision for Injuries and Damages: Funding for injuries and damages expenses in 2009 and 2010 are projected to mirror the proposed 2008 budget level of $28.0 million.

Purchase of Security Services: For the plan years, the CTA estimates security expenses will increase by 4.0 percent in both years, bringing the cost of security to $34.9 million in 2009 and $36.3 million in 2010.

Other Expenses: Other expenses include utilities, advertising, equipment and software maintenance, accounting, engineering, legal and other consulting services, banking fees and commissions. Other expenses are projected to decrease from the $74.0 million proposed in 2008 to $56.5 million in 2009 and $56.0 million in 2010. This decrease is because the President's proposed 2008 budget includes one-time expenditures to improve the appearance and cleanliness of vehicles and stations.

C. OPERATING REVENUE

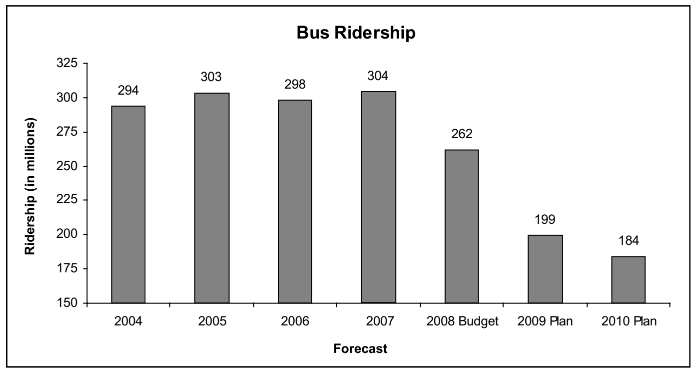
Operating revenues are comprised of system-generated revenues and public funding. Operating

President's 2009-2010 Proposed Operating Financial Plan Summary

revenues are estimated at $992.7 million in 2009 and $990.7 million in 2010. These revenues include fares and passes as well as internally generated revenues. Public funding through the RTA currently includes sales tax collections and a match from the state on sales tax collection. Without a structural change to the current CTA funding formula that leads to additional funding, the CTA will be required to raise fares and/or decrease service to balance its budget. These changes will seriously impact system-generated revenue through ridership losses.

System-Generated Revenues

System-generated revenue includes revenues from fares and passes, advertising, investment income, parking and rental properties. System-generated revenue is estimated at $518.2 million in 2009 and $512.3 million in 2010. The CTA continues to explore opportunities to increase system-generated revenue through new initiatives like the expansion of a program for parking under the elevated tracks.



Fares and Passes: Ridership is projected to decrease by approximately 12.8 percent in 2009 and 2.6 percent in 2010, contributing to decreased revenue from fares and passes of $422.6 million in 2009 and $414.0 million in 2010. The projected average fares are $1.06 in 2009 and 2010.

The RTA public funding marks for 2009 and 2010 increased by only 0.6 and 0.8 percent over the prior year.

Reduced Fare Subsidy: Reduced fare reimbursement from the state is projected to be flat at $32.3 million in 2009 and 2010. This amount is on par with the President's proposed 2008 budget.

Advertising, Charter and Concessions: These revenues are derived from advertisements placed on buses and trains, and in stations, as well as income from concessions and charters. Advertising revenue is projected at $29.4 million in 2009 and $31.0 million in 2010, up from $27.4 million in the President's 2008 proposed budget.

Investment Income: Investment income for 2009 and 2010 is expected to grow to $11.8 million and $12.1 million respectively, due to projected higher cash balances and investment rates.

Statutory Required Contributions: Revenues in this category are forecast at $5.0 million for both 2009 and 2010, on par with the 2008 budget. The RTA Act requires the City of Chicago to contribute $3.0 million annually and the County of Cook to contribute $2.0 million annually to CTA operations.

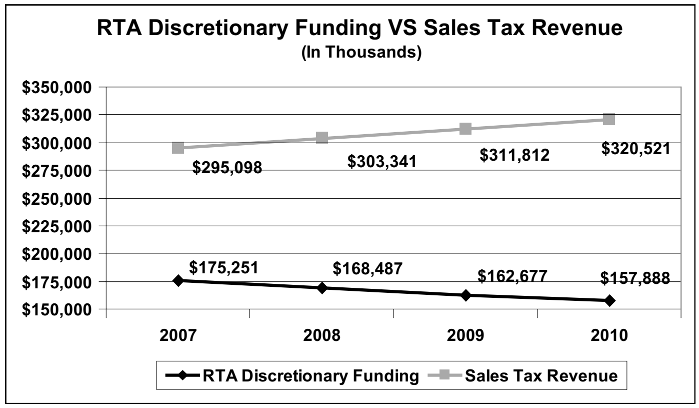
Other Revenues: Revenues in this category are projected at $17.1 million in 2009 and $18.0 million in 2010 and include parking fees, revenue from rental properties, third-party contractor reimbursements, fees from filming and other miscellaneous revenues.

President's 2009-2010 Proposed Operating Financial Plan Summary

Public Funding

Public funding through the RTA statutory formula is estimated at $474.5 million for 2009 and $478.4 million for 2010 -- $2.7 million (0.6 percent) and $3.9 million (0.8 percent) higher than the respective prior year.

As shown in the chart, CTA's discretionary funding continues to decline through 2010.



Recovery Ratio: The RTA Act requires the region to fund 50.0 percent of its expenses through revenues generated by the RTA and its three service boards. The RTA has set a required recovery ratio of 52.0 percent for the CTA. The RTA assigns each Service Board a recovery ratio when it issues the funding marks as required by the Act. The budgets submitted by each service board must be balanced and meet the required recovery ratio to obtain RTA approval. The recovery ratio measures the percentage of expenses that a service board must pay for using revenues it generates. System-generated revenues, operating expenses and certain statutory exclusions are used in the calculation. In addition to in-kind services, the RTA exempted all security expenses beginning in 2005 and starting in 2006 RTA included some grant-funded revenues in the recovery ratio calculation. The CTA's estimated recovery ratio in 2009 and 2010 are 55.14 percent and 54.72 percent, respectively, just over the requirement.

The CTA, Metra and Pace together have a higher system-generated recovery ratio than nearly every other major metropolitan region in the U.S., even accounting for differences in the methodology used to calculate the ratio. While other regions have strived to increase cost-efficiency, they have prioritized ridership growth and new revenues to support transit instead of a specific economic measure like the recovery ratio. As with transit funding generally, the region needs to evaluate the effect of the mandated recovery ratio on its ability to effectively use enhanced neighborhood public transit services to fight congestion, improve air quality and increase regional economic competitiveness.

Accounting Notes: The CTA's ongoing operations are accounted for on a proprietary fund basis. Operations are financed and operated similar to a private business, where the intent is that the costs of providing services to the public should be recovered through user charges. The full accrual method of accounting is used, recording revenues when earned and expenses when incurred.

President’s 2009-2010 Proposed Operating Financial Plan Summary

President's 2009-2010 Proposed Operating Financial Plan Schedule

(In Thousands)

		Actual 2006		Amended Budget 2007		Forecast 2007		Plan 2008		Plan 2009		Plan 2010
Operating Expenses												
Labor	$	760,751	$	805,095	$	788,947	$	747,651	$	749,619	$	747,367
Material		83,150		75,844		81,411		72,311		60,919		60,053
Fuel		57,470		59,770		68,614		48,467		31,847		31,101
Power		22,268		28,057		29,074		29,797		30,831		31,879
Provision for Injuries and Damages		45,266		25,000		25,000		28,000		28,000		28,000
Purchase of Security Services		30,831		35,334		31,000		33,600		34,944		36,342
Purchase of Paratransit		28,415		-		-		-		-		-
Other Services		48,288		54,751		55,006		74,010		56,537		56,000
Total Operating Expenses	$	**1,076,439**	$	**1,083,851**	$	**1,079,052**	$	**1,033,836**	$	**992,698**	$	**990,742**
System Generated Revenue												
Fares and Passes	$	462,218	$	472,191	$	457,738	$	470,376	$	422,627	$	414,041
Reduced Fare Subsidy		29,604		32,000		34,000		32,271		32,271		32,271
Advertising, Charter & Concessions		24,402		24,990		23,142		27,381		29,426		30,954
Investment Income		11,608		12,120		10,008		11,736		11,750		12,100
Statutory Required Contributions		5,000		5,000		5,000		5,000		5,000		5,000
All Other Revenue		19,575		10,300		11,911		15,244		17,135		17,967
Total System Generated Revenue	$	**552,407**	$	**556,601**	$	**541,799**	$	**562,008**	$	**518,209**	$	**512,333**
Public Funding Required for Operations	$	524,032	$	527,250	$	537,253	$	471,828	$	474,489	$	478,409
Additional Funding through RTA		-		-		10,004		-		-		-
IDOT Grant		27,126		-		-		-		-		-
Capital - Preventive Maintenance		41,166		56,900		56,900		-		-		-
Public Funding Available through RTA		455,764		470,349		470,349		471,828		474,489		478,409
Total Funding	$	**524,056**	$	**527,249**	$	**537,253**	$	**471,828**	$	**474,489**	$	**478,409**
Recovery Ratio*		54.51%		54.80%		53.17%		57.13%		55.14%		54.72%
Required Recovery Ratio		53.00%		52.00%		52.00%		52.00%		52.00%		52.00%
Fund Balance	$	24	$	(1)	$	-	$	-	$	-	$	-

*Recovery ratio is calculated by dividing System Generated Revenues over Operating Expense. The calculation includes in-kind revenues and expenses for security provided by the City of Chicago, excludes security expense and includes some grant revenues.

President's 2008-2012 Proposed Capital Improvement Program

Introduction

This proposed 2008-2012 Capital Improvement Program (CIP) identifies and targets available capital funds toward key capital renewal and improvement needs of the CTA's system. Substantial and consistent investment in capital infrastructure has a positive effect on the CTA's operating budget. Capital infrastructure in a State of Good Repair leads to reduced maintenance costs, greater operating efficiency and improved customer satisfaction.

The program is funded from three sources:

- ***Federal Transit Administration (FTA)***
- ***Regional Transportation Authority (RTA)***
- ***Capital Bonds (CTA)***

These sources provide funding to cover projects contained in the typical CTA five-year capital program. The *Illinois FIRST* program provided nearly $200 million per year in the past. Non federal funding over the next five years will be reduced dramatically, to about one tenth the level in the 2002-2006 program. Until a successor to this state funding is approved, the CTA's and other regional transit capital funding will be severely diminished. Without a successor to *Illinois FIRST*, the only non-federal capital funds will be RTA discretionary funds.

This proposed CIP totals $2.4 billion, with $2.2 billion in projects to remediate slow zones, renew the CTA assets, overhaul and replace the fleet, and bring the system to a state of good repair and $.2 billion programmed for vital system expansion, including completion of the Brown Line Capacity Expansion project. To alleviate an operating budget shortfall, the 2007 capital program diverted $56.9 million in preventive maintenance to operating, resulting in the deferral of critical capital projects. This amount is in addition to capital funds diverted in previous years. The 2008-2012 program does not propose to divert scarce capital funds to balance the operating budget since RTA's 2008 budget ordinance restricts usage of capital funds when the capital asset's condition will be adversely impacted. The transfer of capital funds to operating would cause additional critical projects necessary for continued progress to a State of Good Repair to be delayed or cancelled.

Diversion of Capital Funds to the Operating Budget
($ in millions)

2003 – $16.5
2004 – $18.0
2005 – $18.8
2006 – $41.2
2007 – $56.9
Total - $151.4

Funding identified in this CIP will only partially meet the CTA's needs to bring its system to a state of good repair. An estimated $6.3 billion remains unfunded during the five year period of this CIP. This has increased from $5.8 billion shown in the 2007-2011 program due to continued aging of the CTA assets and previous diversions of capital funding to balance the operating budget. As the State considers additional capital funding options for transit, the CTA has undertaken a thorough and systematic evaluation of the additional funding needed to reach a state of good repair. Vital projects affecting quality of service such as track and track bed renewal, replacement of subway lighting and ventilation systems, viaduct renewal, and station upgrades remain unfunded. As long as such projects remain unfunded, customers will experience slow zones and service delays as well as lower overall service quality. In addition, to meet the needs of future growth in the region, the CTA needs $4.2 billion for expansion projects such as Circle Line, Airport Express, the Ogden Transitway, and the Red, Orange, and Yellow Line extensions. It is critically important for the CTA to maintain its existing bus and rail system. It is also important to improve the connectivity and usefulness of the system by adding strategic connections and line extensions. As the bus and rail system operates more efficiently, the population of the entire Chicago region will benefit.

CTA State of Good Repair Standards

The CTA's goal is not merely to replace equipment and facilities in-kind, but to replace existing systems, where appropriate, with current, modern technology. The CTA has based its State of Good Repair estimates on the following industry replacement and rehabilitation standards:

- ***Rail lines should be free of slow zones, and should have reliable signal systems.***
- ***Buses should be rehabbed at six years and replaced at twelve years.***
- ***Railcars should be rehabbed at quarter- and mid-life intervals, and replaced at 25 years.***
- ***Rail stations should be comfortable and secure, and replaced or rehabbed at 40 years.***
- ***Service management systems should be modern and reliable.***
- ***Maintenance facilities should be replaced at 40 years (or 70 years if rehabbed).***

Until the CTA reaches a State of Good Repair, it will continue to face slow zones, periodic service interruptions, and increased operating and maintenance costs due to deferring capital projects.

Meeting and maintaining these standards improves the comfort and reliability of the services the CTA provides its customers, and reduces operating and maintenance costs for the CTA. Prudent investment strategies address both visible signs of system aging such as station roofs in disrepair, and less visible signs such as leaking tunnels and overburdened power and communication systems. The proposed CIP strives to maintain a balance between investing in upgrades to existing infrastructure and responding to service needs that are visible to our customers. Given the advanced age of many of the CTA assets and the limited resources available for capital needs, the proposed projects are crucial in the maintenance of current service and providing for needed strategic service expansion. However, given the current constraints on capital funding, it is harder to achieve this balance each year. As additional non-federal funding is made available in future years, achieving this goal will become possible.

Elimination of Slow Zones is a Top Priority

Blue Line Subway	***Completed***
Red Line Subway (Grand to Clark)	***January 2008***
Balance of Red Line Subway	***Fall 2008***
Blue Line (Addison to O'Hare)	***December 2008***

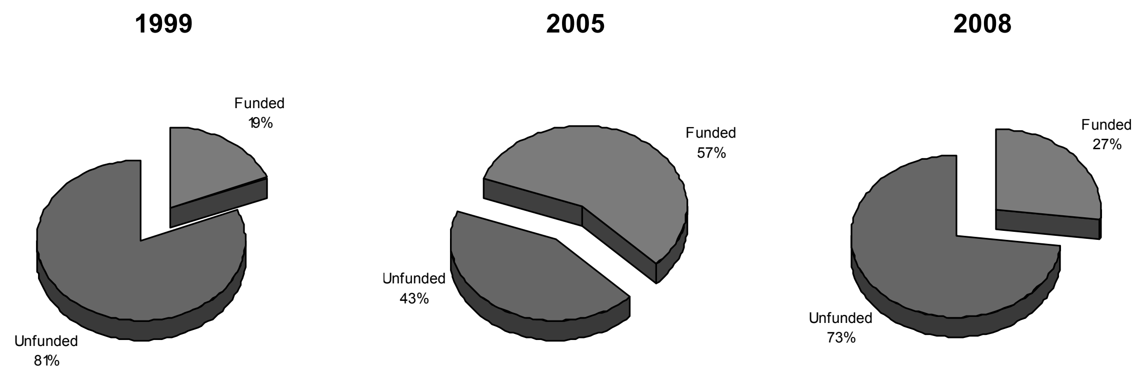
President's 2008-2012 Proposed Capital Improvement Program

Unfunded Capital Need

Last year, the CTA completed the first extensive examination of its capital infrastructure since 1998, including cost estimates, project schedules, and asset conditions. The result has been a thorough reevaluation of the level of infrastructure investment needed to allow the CTA to continue to provide safe and reliable service to help meet the region's growing transit needs.

Illinois FIRST took the CTA from funding only 19% of its capital need in 1999 to funding nearly 60% by 2004 which allowed the CTA to make significant progress in improving its capital infrastructure. With the expiration of *Illinois FIRST* in 2004, non-federal funds are no longer available to match federal programs, resulting in increased unfunded need. The CTA's FY 2005-09 capital budget noted $5.1 billion in total State of Good Repair need, with $2.9 billion funded and $2.2 billion unfunded. This 2008 – 2012 CIP projects $8.7 billion of total State of Good Repair need with $2.4 billion funded and $6.3 billion unfunded. Thus, the portion of the CTA's need which will be funded has dropped from 57% to 27%.

Funded vs. Unfunded



Each year that funds are not available for the CTA to fully address its capital needs, its asset base ages further, increasing the cost to bring it to a State of Good Repair. Each year, some asset classes which were previously in a State of Good Repair fall into further disrepair. In 1998, only 150 of the CTA's 1,190 rail cars were considered past their useful lives. By 2009, when the next cars will be delivered, 675 rail cars will have reached 25 years and should be replaced. Procurements funded in the FY 2008-2012 CIP will replace only 350 of those 675 cars.

The lack of a successor to *Illinois FIRST* has also resulted in state funding reductions for existing capital funding programs. Unlike the federal program, when a state transit program expires (as with *Illinois FIRST*), all transit funding is stopped. Without a continuous reliable source of state matching funds, the CTA's five-year capital funding has fallen.

A renewed state capital program is essential

The federal funds available under *SAFETEA-LU* will require approximately $309 million in non-federal matching funds to fully utilize the federal formula funds. Additional funds will also be required to match federal New Starts funds for new lines and extension of existing lines. With the expiration of *Illinois FIRST* in 2004, non-federal funds are no longer available to match these federal programs, except for the Brown Line Capacity Expansion Project, which is fully funded. In rating a New Start project, FTA considers the level of commitment of local funds prior to entering into a Full Funding Grant Agreement (FFGA). Without a reliable source of non federal capital funding, the CTA is not likely to receive a favorable rating, necessary for federal funding.

The loss of these non-federal funds has resulted in the delay of several critical infrastructure investments. Projects slowed or delayed include: track and tie replacement, bus midlife overhauls, bus replacements, railcar midlife overhauls, rail car replacement, signal upgrades, station renovation, and rehabilitation of elevators and escalators. In the past, non federal funds have provided the required non-federal match to access federal funds. This reduction has also seriously impacted the CTA's ability to reach a state of good repair on its capital infrastructure.

The federal transportation program is regularly re-authorized and even when an authorization expires, Congress continues to appropriate funds until a new program is created. Like the federal program, state road funds continue to be appropriated by the legislature. Unlike the federal program, when a state transit program expires (as with *Illinois FIRST*), all transit funding is stopped. This start and stop approach makes it much more difficult to plan and implement transit capital projects. Most transit projects are, by their nature, multi-year projects which require multi-year commitments of funds.

The Downward Spiral of Disinvestment

Thanks to *Illinois FIRST, TEA 21*, and *SAFETEA-LU*, CTA made progress in rebuilding its infrastructure and preventing further system deterioration. CTA must continue to maintain and upgrade its capital assets to preclude movement toward a state of disinvestment. Disinvestment is characterized by lagging capital investment resulting in system disintegration and trip delays which lead to deteriorating service quality. Consequently, customers leave the system and the financial base begins to erode. This spiral, once engaged, is difficult to reverse.

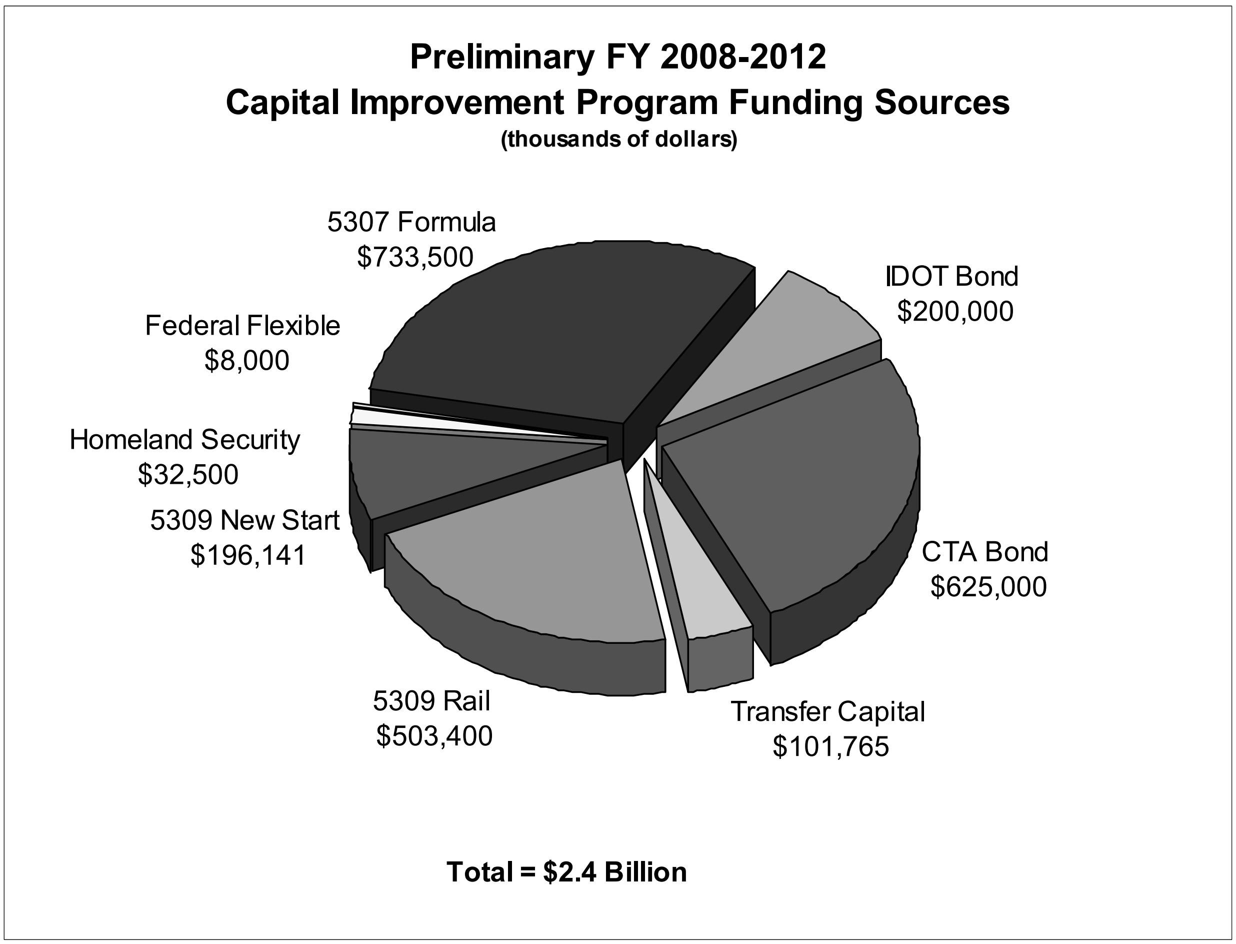
Operating Budget Impact of Capital Program Projects

Much of the CTA's investment in capital projects has a positive impact on the operating budget. However, CTA has been transferring funds from capital project use into the operating budget to meet operating revenue shortfalls. This practice, while providing for continued transit operations, has a negative impact on the long term ability to continue transit service. In 2007 the CTA transferred $16.7 million programmed for bus overhaul activities and $36.7 million programmed for Rail Car overhauls into the operating budget. The investment in vehicle overhaul programs provides a significant operating savings over time, ensuring continued service quality, on time performance, reliability, and customer comfort. Deferring these overhaul activities will mean that components are not replaced in a scheduled campaign, but through a series of failure based trips to the maintenance shop. The cost to the operating budget over time is expected to far exceed the value of the transfer. The result will be a balanced operating budget in the short term but a higher operating cost to maintain the same service level in the future. Not performing bus and rail car overhauls which were scheduled to be done with capital funding in FY 2007 will have a $.750 million negative operating budget impact in 2008 and a $42.2 million negative operating budget impact in 2009.

President's 2008-2012 Proposed Capital Improvement Program

Sources of Funds

The funding levels used in preparing the proposed 2008-2012 CIP reflect the capital resources available to the CTA from the Federal Transit Administration (FTA) and through the Regional Transportation Authority (RTA). These include $1.5 billion from federal sources, $102 million from the RTA, $200 million from a renewed state capital program, and $625 million from CTA Bonds. Approximately $.2 billion of federal funds are "New Start" funds, only a portion of which are guaranteed at this time. Total projected available funding is $2.4 billion. A summary of this funding is presented in the following figure. The federal funds reflect the passage of a successor to *SAFETEA-LU*, reauthorizing federal funding beyond 2009. The following table details the funding sources supporting this program.



President's 2008-2012 Proposed Capital Improvement Program

CHICAGO TRANSIT AUTHORITY
FY 2008- 2012 CIP FIVE YEAR PROGRAM MARKS
(thousands of dollars)

NEW FUNDS	2008	2009	2010	2011	2012	TOTAL
Sec.3 (5309) Fixed Guideway	$ 92,900	$ 97,000	$ 100,600	$ 104,500	$ 108,400	$ 503,400
Sec.3 (5309) New Start	$ 129,600	$ 66,541	$ -	$ -	$ -	$ 196,141
Federal Flexible	$ -	$ 2,000	$ 2,000	$ 2,000	$ 2,000	$ 8,000
Homeland Security (D of J)	$ 6,500	$ 6,500	$ 6,500	$ 6,500	$ 6,500	$ 32,500
Sec.9 (5307) Formula	$ 133,100	$ 141,800	$ 147,200	$ 152,800	$ 158,600	$ 733,500
Total Federal	**$ 362,100**	**$ 313,841**	**$ 256,300**	**$ 265,800**	**$ 275,500**	**$ 1,473,541**
CTA Bonds	$ 300,000	$ -	$ 150,000	$ 175,000	$ -	$ 625,000
IDOT Bonds	$ 40,000	$ 40,000	$ 40,000	$ 40,000	$ 40,000	$ 200,000
Transfer Capital	$ 20,353	$ 20,353	$ 20,353	$ 20,353	$ 20,353	$ 101,765
Total Local	**$ 360,353**	**$ 60,353**	**$ 210,353**	**$ 235,353**	**$ 60,353**	**$ 926,765**
Total Available Funds	**$ 722,453**	**$ 374,194**	**$ 466,653**	**$ 501,153**	**$ 335,853**	**$ 2,400,306**

Uses of Funds - CIP Goals and Objectives

With the RTA capital program marks as a foundation, the President has developed a proposed program of capital projects for the 2008–2012 Capital Improvement Program that commits the organization to the following goals and objectives:

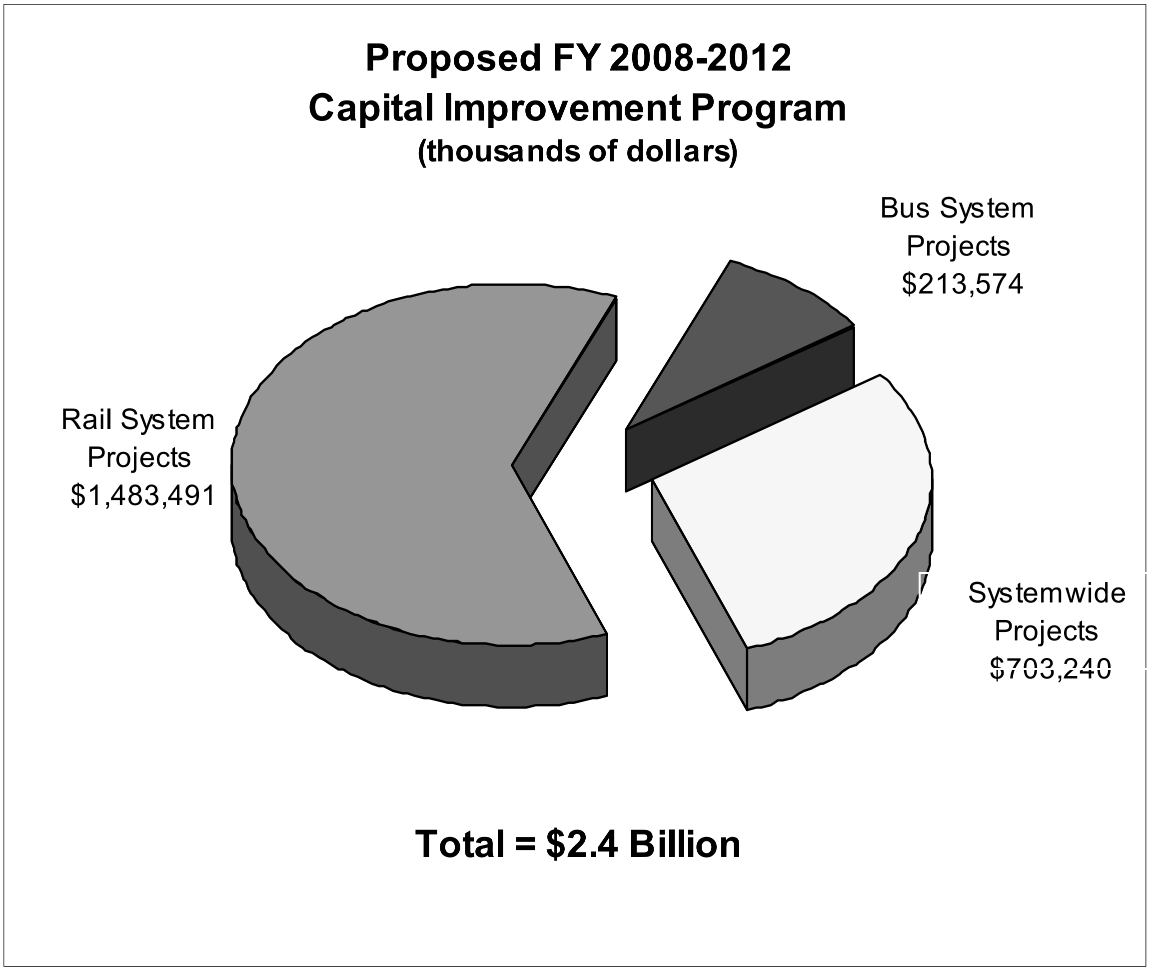
- ***Eliminate slow zones in subways and throughout the system***
- ***Fund periodic fleet overhaul programs and regular replacement of both bus and rail fleets***
- ***Upgrade rail stations for CTA customers***
- ***Invest in technology to improve operational and management efficiency***

As gas prices and congestion in the Chicago area reach historic levels, public transit becomes an even more attractive option to the traveling public. Without adequate capital investment the CTA system will not be able to effectively serve transit customers in the region. Investment in vital public infrastructure projects provides jobs, creates and supports economic growth, and helps ensure the future vitality of the region. Even for people who never use public transportation, relieving congestion is an important goal. As ridership continues to increase, capital infrastructure becomes increasingly important to providing high quality transit services. The 2008-2012 proposed CIP provides some of the funding necessary to address the CTA's customers' concerns over the next five years. The CTA will be able to meet the proposed CIP goals and objectives when additional non-federal funding is provided by the Illinois General Assembly.

President's 2008-2012 Proposed Capital Improvement Program

Uses of Funds – Program Summary

The following figure shows the proposed 2008-2012 Capital Improvement Program by general category of asset improved or replaced. The table on the following page lists each project in the proposed program. A detailed description of each project can be found following this narrative in the section headed *Detail Capital Improvement Program Project Descriptions.*



Sixteen projects comprise the CTA's proposed 2008-2012 capital program. Each project is evaluated in an annual review process based on the CTA's customers' needs. 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. Rail system projects receive a significantly larger proportion of the President's proposed capital program funding due to the need to maintain an exclusive right-of-way and the fact that the CTA buses operate on streets maintained by other units of government. The capital projects proposed for 2008-2012 and beyond are intended to address the CTA's most pressing needs for the bus and rail system, customer facilities and system-wide support network, as constrained by the level of projected funding.

President's 2008-2012 Proposed Capital Improvement Program

Proposed FY 2008-2012 Capital Program

in thousands

Proj #	Title	Funded	2008	2009-2012	5 Year Funding	Outyear	Project Total
Bus Projects							
	Rolling Stock						
021.803	Perform Bus Maintenance Activities	$ 5,088	$ 5,088	$ 20,353	$ 25,441	$ 25,441	$ 55,971
021.806	Perform Mid-Life Bus Overhaul	54,691	9,000	38,800	47,800	215,900	318,391
031.054	Replace Buses	307,151	105,311	35,022	140,333	434,947	882,431
	Sub-Total	**366,931**	**119,399**	**94,175**	**213,574**	**676,288**	**1,256,793**
Rail Projects							
	Acquisitions & Extensions						
194.007	Alternative Analyses/EIS & P.E. - Circle & ROY	15,133	89,600	36,867	126,467	-	141,600
194.115	Expand Capacity - Brown Line	448,372	40,000	41,539	81,539	-	529,910
	Sub-Total	**463,505**	**129,600**	**78,405**	**208,005**	**-**	**671,510**
	P/W Electric, Signal, Comm.						
121.500	Replace/Upgrade Power Distribution and Signals	237,833	68,633	19,603	88,236	42,241	368,311
	Sub-Total	**237,833**	**68,633**	**19,603**	**88,236**	**42,241**	**368,311**
	P/W Track & Structure						
171.133	Repair Track and Structure Defects	5,401	5,401	21,603	27,004	27,004	59,409
181.500	Infrastructure Safety & Renewal Program	66,811	208,213	261,472	469,685	49,224	585,720
	Sub-Total	**72,211**	**213,614**	**283,075**	**496,689**	**76,228**	**645,129**
	Rolling Stock						
022.903	Perform Rail Car Overhaul & Mid-Life Rehabilitation	98,433	9,325	113,539	122,864	797,590	1,018,886
022.906	Perform Rail Car Maintenance Activities	5,960	5,960	23,839	29,798	29,798	65,556
132.056	Purchase Rail Cars	110,291	18,387	519,511	537,898	-	648,189
	Sub-Total	**214,683**	**33,672**	**656,889**	**690,561**	**827,388**	**1,732,632**
Systemwide Projects							
	Miscellaneous						
141.273	Reconstruct Rail Stations - (Incl. Howard & Washington St. Station)	53,867	38,110	-	38,110	-	91,977
150.028	Implement Security &	68,334	26,050	37,663	63,713	-	132,048
308.002	Bond Repayment, Interest Cost, & Finance Cost	115,992	83,296	454,283	537,579	616,625	1,270,195
404.500	Federal Flexible Funded Projects (CMAQ & JARC)	-	-	8,000	8,000	-	8,000
	Sub-Total	**238,193**	**147,456**	**499,946**	**647,403**	**616,625**	**1,502,220**
	Support Facilities & Equip.						
073.500	Improve Facilities - Systemwide	59,574	10,078	45,759	55,838	490,447	605,859
	Sub-Total	**59,574**	**10,078**	**45,759**	**55,838**	**490,447**	**605,859**
	Capital Project Total		**$ 722,453**	**$ 1,677,853**	**$ 2,400,306**		

President's 2008-2012 Proposed Capital Improvement Program

The Rail System

The CTA's rail system consists of approximately 1,190 rail cars, traveling over 287.8 miles of track, making approximately 2,400 train trips on eight routes and 144 stations on a typical weekday. The rail system provides 530,000 rides each weekday; customers depend on the CTA's rail system to deliver them to their destinations quickly and safely. To meet customer expectations, the CTA must coordinate the efforts of thousands of employees working together to deliver on-time, clean, safe and friendly service.

Slow Zone Elimination

The CTA has committed to an aggressive slow zone rehabilitation schedule. As the rail structure ages and as ties, track, and fasteners deteriorate, the CTA imposes a slow zone to reduce operating speed over sections of the railroad. This is an interim measure which insures safety until the necessary repair work can be done. The lack of reliable capital funding has delayed needed construction activity and resulted in expansion of the self-imposed slow zones. Recently the CTA has directed efforts at the slow zones in the subways. The Blue Line subway slow zones between Grand and Clark were eliminated as of September 10, 2007 and slow zones in portions of the Red Line subway will be eliminated as of January of 2008. Work on the extensive slow zone on the O'Hare branch of the Blue line between Addison and O'Hare will be accomplished during 2008 with a target completion of December 2008.

While these are considerable achievements, the rest of the CTA's track and ties are continuing to age. The remaining ties in the subways are past their useful life and will need replacement soon. The result will be additional slow zones imposed as a safety measure. This will ensure that customers are conveyed safely, but at much slower speeds. A consistent and reliable source of capital funding is necessary to prevent this from happening.

The proposed CIP schedules $208.2 million in FY 2008 for fixing right-of-way, ties, track and structure to reduce slow zone imposition and maintain operating speed based on continuous assessment of vital assets, maintaining service standards. In

CTA's infrastructure continues to age – parts are more than 100 years old

<u>1892-1920</u>
Elevated rail system
Archer and 77th Street Garages,
South Shop and West Shops

<u>1940-1960</u>
State and Dearborn Subways,
Blue Line-Congress Branch,
North Park and Forest Glen Garages

<u>1969-1970</u>
Red Line-Dan Ryan Branch,
Blue Line-O'Hare Branch (to Jefferson Park)

<u>1983-1984</u>
Blue Line-O'Hare Branch (to O'Hare)

<u>1993</u>
Orange Line to Midway

addition to track and ties, the structural steel elements used to support the CTA's elevated track will be rehabilitated in locations throughout the system. An additional $261.5 million is budgeted during 2008-2012 to continue systematic rehabilitation of the CTA right-of-way. This is far short of the funding needed during this five year period.

Rehabilitation and Capacity Enhancement of Brown Line

The CTA's largest capital construction project yet, to expand capacity on the Brown (Ravenswood) Line, is programmed for $40 million in 2008 in addition to $448.5 million previously programmed. Over five years the proposed CIP allocates $81.5 million to the Brown Line project, with a total budget of $530 million. This project is extending station platforms at 18 stations to accommodate eight-car trains and will increase capacity by up to 33 percent. Sixteen stations will be reconstructed, of which 12 will have elevators installed to provide improved station accessibility for all customers. The four at-grade stations will be made accessible through the use of ramps. Signal, electrical and communications upgrades will also be performed.

Four stations (Kimball, Kedzie, Rockwell and Kedzie) have reopened after rehabilitation in 2006 and 2007. At Fullerton and Belmont stations, the most complex station rehabilitations on the Brown Line, northbound trains are operating on newly constructed rail bed and passengers board from new platforms even as structural work is proceeding to create new track and platforms for the southbound station areas.

Other Expansions

SAFETEA-LU authorized several system extensions and enhancements for the CTA. The federally required planning and alternatives analyses for these projects began in 2006. The alternatives analyses process will examine a range of potential alternatives, including, but not limited to rail extensions. At the conclusion of the Alternatives Analysis process, a "locally preferred alternative" will be selected. Federal approval is necessary before a project can advance to preliminary engineering and also before it can advance into final design and construction. FTA rates each project based on well-established criteria to assess its relative merits. The CTA projects compete with other projects across the country for scarce federal New Start funding. Federal funds for "New Starts" are appropriated separately from formula funds and are provided on a competitive basis. As noted earlier, without state matching funds, the CTA will not be able to access federal "New Starts" funds set aside specifically for these extension and expansion projects.

CTA New Starts Authorized in SAFETEA – LU

Circle Line/Ogden
Red Line Extension
Orange Line Extension
Yellow Line Extension

$89.6 million is proposed to be programmed in 2008 to complete Alternatives Analysis (AA) and Environmental Impact Statement (EIS) for Circle Line and the Red, Orange, and Yellow (ROY) line extensions. An additional $36.8 million is proposed to be programmed in 2009 to complete the preliminary engineering. This federal funding is not assured and will be dependant on discretionary allocations by Congress. A consistent, reliable source of local match funding will be necessary to continue with these projects. Amounts programmed for Circle Line and ROY in the 2008-2012 proposed CIP are project specific discretionary federal funding and are not available for other uses such as upgrade or repair of current CTA system assets.

Signal Systems and Traction Power

Train movement through the Loop is controlled by a pair of signal towers at the southeast corner (Tower 12) and at the northeast corner (Tower 18). The Loop signals upgrade project is proposed to be programmed to receive $13.7 million during 2008 to upgrade the train control and track interlocking on this busy part of the CTA rail system. Train control will also be enhanced on both the Lake Street and Wells Street bridges reducing unavoidable delays during seasonal bridge lifts and improving service and operational flexibility on the Green, Brown, Orange, Purple, and Pink Lines.

The Rail Car Overhaul program reduces operating costs and enhances reliability. Without quarter-life and midlife overhauls, rail vehicle maintenance costs would be three times current levels, averaged over the expected twenty-five year life of each car.

Continuation of signal upgrade and replacement for the Blue Line is also funded in the five-year CIP. This project, which began in 2006, will replace the entire signal system in the Dearborn Subway, on the Congress (Forest Park) Branch and on a portion of the O'Hare Branch. Funding of $74.5 million is included in the proposed CIP for Blue Line signals. These upgrades, which are now underway, will replace systems that are beyond their useful life, some of which were installed during the initial subway system construction during the 1950s. The CTA customers will benefit from smoother train operation, reduced travel times and greater reliability.

Rail Rolling Stock

The proposed five-year CIP allocates $537.8 million for the purchase of rail cars that will replace the aging 2200- and 2400-Series fleet and provide additional cars to meet service requirements for the Brown Line Capacity Expansion Project. The 2200-Series cars have been in service for more than 36 years and the 2400-Series have been in service for more than 28 years; both have already exceeded their expected service life. The average car in the CTA rail fleet is over 24 years of age in 2008 and approximately 30 percent of the fleet exceeds the 25-year FTA standard life of a rapid transit car.

CTA has 406 Railcars currently on order. These vehicles are scheduled for delivery in 2009 and 2010. They will replace 150 cars placed into service in 1969 and 200 cars placed into service in 1978. They represent the first new railcars for the CTA in over fifteen years.

The President's proposed 2008-2012 capital program sets aside $122.8 million in projected funding during the next five years for the systematic maintenance and upgrade of the CTA's rail fleet. Without an aggressive maintenance program, many more rail cars would fail in service causing inconvenience for customers and increasing operating costs. The rail overhaul program helps ensure that the CTA's rail fleet remains in a state of good repair to providing a better ride quality for customers.

The Bus System

CTA currently operates a fleet of approximately 2,175 buses, which make over 24,400 weekday trips on 154 routes, providing almost one million rides on a typical weekday. Each customer who boards a bus at one of 11,846 bus stops located throughout the CTA service area expects reliable service that is efficient, clean, safe, courteous, and on time. The backbone of the bus system is the bus fleet. The system's success depends on the CTA's ability to renew, maintain and operate its bus fleet. However, under the CTA's proposed 2008 operating budget the bus system will be significantly reduced. In spite of this, the CTA needs to replace its oldest buses which range in age from 12 to 17 years.

Bus Rolling Stock

Providing new buses reinforces the CTA's commitment to quality bus service. Through September 2007, CTA received 508 air-conditioned and fully accessible buses as part of total order of 1,050 New Flyer buses. The entire CTA bus fleet is ADA accessible and air-conditioned. Over the next five years, CTA plans to spend over $140.3 million on purchases of low-floor, fully accessible, air-conditioned buses. CTA has received 20 diesel/electric hybrid buses. Ten of the buses utilize a parallel system which allows both the diesel engine and the electric motor to power the bus, based on the optimum fuel economy and power consumption. The other ten buses are powered only by an electric motor. Among the benefits of hybrid buses are improved fuel mileage to help control operating costs and reduced emissions for cleaner air.

> ***Hybrid Buses***
>
> ***CTA has received and placed into service twenty diesel/electric hybrid buses. This will be the first side by side demonstration of two distinct hybrid technologies which will yield vital operating data for the US transit industry. Ten of the vehicles have a parallel hybrid propulsion system and ten have a series propulsion package.***

The bus vehicle overhaul program continues to improve service through regular replacement of major mechanical components subject to extensive wear. Under the bus vehicle overhaul program, CTA will invest $47.8 million over five years, aimed at reducing operating costs and improving service. Even with a reduced bus fleet these overhauls are necessary to maintain the fleet in a State of Good Repair. Unscheduled maintenance - required by the failure of a bus in service - disrupts operations, inconveniences customers and increases operating costs. Bus mid-life overhaul activities are programmed for $9.0 million in 2008 and $38.8 million during the period 2008-2011. With overhauls, the fleet will demonstrate increased reliability and fewer instances of expensive breakdown based repair.

To effectively manage service delivery and provide reliable information to customers, CTA must have vehicle location information available to operations personnel in real time. The Bus Tracker project has three immediate objectives: testing real-time data communications between buses, the Control Center and supervisor vehicles; evaluating centralized control functions; and integrating customer information applications.

Systemwide Improvements

System Security Enhancements

Security assessments have identified priority investments needed to harden the CTA system against terrorist threats. Projects including improved passenger public address systems, improved lighting, and security cameras, reflect a commitment to safety and security for customers and employees. Using funds provided by the Department of Homeland Security as well as other funds, the CTA has implemented a number of security projects. An ongoing fiber optic installation project is upgrading the communications backbone throughout the system. Stations are also being outfitted with cameras to provide a comprehensive view of the transit system to the CTA Control Center, and through redundant fiber optic links, to Chicago's 9-1-1 Center. The CTA's new rail cars will be equipped with enhanced security features, including digital video cameras and recorders. Train control systems, communications infrastructure and access control, funded in the five-year program, contribute to a safe environment for all. However, much remains unfunded and the CTA will continue to pursue additional funding to meet these critical needs.

The President's CIP proposes to spend $26 million for security and communications projects in 2008 and an additional $37.7 million in 2009-2012.

Facility Improvements

The President's CIP proposes to spend $48.1 million on facility improvements in 2008 including upgrades to rail stations and various support facilities throughout the system. A total of $93.9 million has been allocated in the five-year program to construct or improve CTA facilities.

The 2008–2012 proposed CIP includes funding for 19 neighborhood rail station rehabilitations. Eighteen stations are funded for reconstruction during the Brown Line capacity expansion project, located in neighborhoods from Albany Park to the Loop. Funding in the proposed 2008-2012 CIP will also complete the reconstruction of Howard station on the Red Line as a vital intermodal transfer point between buses and trains.

The CTA will make significant progress in increasing rail station accessibility during this proposed CIP. Currently, over 50 percent of the CTA rail stations are accessible (77 of 144). At the completion of the 2008-2012 CIP, 64 percent of stations will have ADA accessibility (92 of 144), providing additional travel options for the CTA customers.

President's 2008-2012 Proposed Capital Improvement Program

Looking Ahead

The CTA is committed to providing efficient, on-time, clean, safe and courteous service, but much remains to be done to bring the CTA's system to a state of good repair. The proposed 2008-2012 Capital Improvement Program projects $2.4 billion will be available over the next five years, but that will only be the first step. Completely rebuilding the CTA's system means addressing a considerable funding shortfall resulting in unfunded capital needs. The CTA unfunded need is estimated at $6.3 billion.

Strategic investment is needed in rail car replacement, traction power system modernization, right-of-way, viaduct renewal, escalators and elevators in rail stations, and upgrades of critical communications systems. Population growth continues to prime local economic growth, but brings traffic congestion, transportation gridlock and the need for transit service expansion. Potential future expansion projects such as Circle Line, Ogden Avenue and Orange, Red and Yellow Line extensions will be predicated on additional capital funding through federal and non-federal sources.

The CTA supports the RTA's vision to bridge the funding gap to bring its existing system and infrastructure to a State of Good Repair and to improve the efficiency of the system by adding critical connections and line extensions. 2008 represents the fifth year of federal funding under *SAFETEA-LU* and forms the basis for replacing the expired *Illinois FIRST* program. These capital funding programs have helped advance the CTA's efforts to rehabilitate rail lines, to renew the CTA's bus fleet, and to incorporate or expand vehicle overhaul programs. The expiration of *Illinois FIRST* has highlighted the need for additional non-federal matching funds to support the CTA capital program. These non-federal funds are a vital part of the funding needed to continue investment in the region's public transportation infrastructure.

CTA Bond Program

Authorized and Let
2004 $250 million
2005 $275 million

Authorized
2007 $125 million

Proposed
2008 $300 million
2010 $150 million
2011 $175 million

With every dollar of new capital funding obtained, with every capital dollar well spent, and with each project completed, the CTA comes closer to realizing its goal of providing high quality service for its customers. When one of the New Flyer buses stops to pick up customers, or a fully overhauled 2600-Series rail car pulls into a newly-rebuilt station, the CTA customers experience the results of a vital capital program, experiencing first hand the CTA's mission of providing quality, affordable transit services that link people, jobs and communities.

President’s 2008-2012 Proposed Capital Improvement Program

Detail Capital Improvement Project Descriptions

021.803 Perform Bus Maintenance Activities

Funding will provide labor and material to support the repair of buses. Maintenance costs will stabilize as more buses are cycled through the campaign based Overhaul Program.

The CTA has embarked on an aggressive Bus Maintenance Program to schedule replacement of parts nearing the end of their useful life before they fail. By investing in a program centered on the timely overhaul and replacement of buses the CTA will improve the comfort, quality and reliability of its service while reducing operating expenses. As more buses are cycled through the program, unscheduled maintenance on buses will be significantly reduced.

021.806 Perform Bus Mid-Life Overhaul

Funding will provide for the continuation of the Mid-Life Overhaul of the CTA buses. Buses placed into service in 1999-2004 will be overhauled and returned to a state of good repair.

The CTA has embarked on an aggressive Overhaul Program to schedule replacement of parts nearing the end of their useful life before they fail. Most of this effort will center on the Mid-Life Overhaul of buses in their fifth to seventh year. This program will have many benefits. By investing in an Overhaul Program centered on the timely overhaul and replacement of buses, The CTA will improve the comfort, quality, and reliability of its service while reducing operating expenses. As more buses are cycled through the Mid-Life Overhaul Program, unscheduled maintenance on buses will be significantly reduced.

022.903 Perform Rail Car Overhaul and Mid-Life Rehabilitation

Funding will provide for an ongoing overhaul program. Maintenance costs will stabilize as more rail cars are cycled through the preventive maintenance program. The 2600 Series cars are scheduled for a “C” quarter life overhaul and the 3200 Series cars are projected to receive a “D” or midlife overhaul. Funding is provided for completion of the life extending overhaul program for the 2200 and 2400 series cars so that the service life of these cars can be extended for a period of five to nine years.

The CTA has embarked on an aggressive Rail Overhaul Program to schedule replacement of parts nearing the end of their useful life before they fail. Examples of items to be replaced are control groups, air conditioning units, and truck assemblies including traction motors, brake calipers, and axle assemblies. This effort will center on "C" level overhaul at 6 and 18 years, and a mid-life ("D" level) overhaul at 12 to 13 years. By performing these scheduled maintenance activities and replacing rail cars at the appropriate time, generally at 25 years of age, the CTA will improve the comfort, quality, and service reliability of the rail cars while reducing operating maintenance costs. As more rail cars are cycled through the overhaul program, unscheduled maintenance will be significantly reduced.

President’s 2008-2012 Proposed Capital Improvement Program

As a result of a revised schedule for replacement of the 2200 Series rail cars, necessary overhaul work continues so that the service life of these cars can be extended for a period of five to nine years.

022.906 Perform Rail Car Maintenance Activities

Funding will provide for the ongoing repair of rail cars. Maintenance costs will stabilize as more rail cars are cycled through the preventive maintenance overhaul program.

The CTA has embarked on an aggressive rail preventative maintenance program to schedule replacement of parts nearing the end of their useful life before they fail. This effort will center on campaign based component replacement. By performing these maintenance activities and replacing rail cars at the appropriate time, generally at 25 years of age, the CTA will improve the comfort, quality and service reliability of the rail cars while reducing operating maintenance costs. As more rail cars are cycled through the overhaul program, unscheduled maintenance will be significantly reduced.

031.054 Replace Buses

Purchase and place into service fully accessible, air conditioned buses, including spare parts inventories.

Buses that have reached their industry standard retirement age of 12 years will be replaced. All of the new buses will be air conditioned and fully accessible.

073.500 Improve Facilities – Systemwide

Upgrade and improve facilities systemwide.

This program will fund the rehabilitation of the CTA facilities where building components have defects needing repair and requiring security enhancements. These facilities must be kept in a good state of repair in order to allow efficient performance of maintenance duties on the CTA rolling stock and right-of-way, and to serve the needs of the CTA's customers. This project also includes payments for the 567 W. Lake building, which replaced the Merchandise Mart as the Transit Authority's headquarters.

A significant number of rail stations and bus turnarounds have not been improved or enhanced in many years and are in need of upgrades that will improve appearance and give customers a greater sense of security and confidence in using the system. Many roofs are nearing or are at the end of their service life and require replacement in order to avoid safety hazards and to prevent damage to building interiors and roof structures.

Various escalators and elevators throughout the system are beyond their service life, and are in disrepair, requiring continual maintenance work. These escalators and elevators are in poor condition and need to be rehabilitated.

121.500 Replace/Upgrade Power Distribution and Signals

Replace and upgrade power distribution, substations and associated facilities. Replace and upgrade Loop signals and interlockings, various signal equipment systemwide and Blue Line signals including the Dearborn subway, the Congress branch, and a portion of the O'Hare branch.

Replacement and upgrading of the signal and power distribution system must be accomplished in order to provide continued safe operation. Replacing this power distribution system will decrease the possibility of power shutdowns and service disruptions, and will eliminate slow zones. Antiquated substations facilities are susceptible to failure that results in a disruption in service. This project will also replace Loop signals and interlockings system, and signal equipment systemwide. The block signal equipment system in the Dearborn subway and the Congress branch is over 40 years old, and parts of the O'Hare branch are beyond their expected service life and maintenance is limited because of lack of spare parts.

132.056 Purchase of Rail Cars

Replace the 2200 and 2400 series rapid transit cars and purchase cars to meet expanded service needs.

The replacement of the 2200 and 2400 Series rail cars is necessary due to the age and deteriorated condition of these cars. The 2200 Series rail cars have been in service for over 35 years, which is well beyond their 25-year design life, and the 2400 Series have been in service over 29 years. The deteriorated condition of these vehicles is evidenced in the form of increased service failures and longer repair times, which result in decreased availability for service. Replacement of these rail cars will provide the CTA with modern updated vehicles that will decrease maintenance and operating costs while enhancing customer comfort. The new cars will have sliding doors wide enough to accommodate wheelchairs. The number of cars to be purchased will be determined on the basis of bid prices for the rail car procurement and future schedule and maintenance requirements.

141.273 Reconstruct Rail Stations

The scope of this project is to reconstruct several rail stations. Howard Station on the Red Line is proposed for major reconstruction; in addition this project includes rehabilitation of the bus terminal and parking lot. Funding is provided to continue construction of Washington Street Station connecting the State Street subway and the Dearborn subway. Wilson Station is also funded for beginning of construction during the proposed five year CIP.

Howard and Wilson Stations were constructed in the late 1920's and have average weekday ridership entries of approximately 6,116 and 5,073 respectively. Due to the age, usage and structural condition of these stations, replacement or rehabilitation are required in order to maintain a safe and acceptable level of service. This project also includes funding for the reconstruction of two current subway stations at Washington Street and to support the multi-modal transportation station under construction at 108 North State Street. Upon completion, these stations will be fully ADA Compliant.

President's 2008-2012 Proposed Capital Improvement Program

150.028 Implement Security & Communication Projects

Purchase and install equipment and systems to harden security of transit assets and ensure safety of systems and customers. Implement security strategies to conduct targeted surveillance, control access and stop intrusion. Support enhanced command and control systems to facilitate incident response.

Security and safety are of paramount concern for the CTA. Professional security assessment of the CTA system identified priority investment in equipment and infrastructure to protect the public and the CTA employees as well as service continuity. Due to the sensitive nature of the effort, specific projects are not identified in this document.

171.133 Repair Track and Structure Defects

Correct deficiencies in the CTA's extensive track system and structures through systematic inspection and rehabilitation or replacement of substandard structural elements.

Defective track and structure must be repaired in order to maintain safe and reliable service. As elements are identified, requiring immediate repair or replacement, field forces are dispatched to the site to repair or replace the component to eliminate the need to impose slow zones.

181.500 Infrastructure Safety and Renewal Program

Systematically replace ties and fasteners on the Brown (Ravenswood) Line, Red (North Main) Line, and State Street Subway, which have deteriorated to a point where they can no longer provide adequate rail connection and gauge. Additionally, this project will upgrade track components from Addison to O'Hare on the Blue Line and will renew rail, track, structure and related elements at locations to be determined by inspection.

Some of the existing track components and ties, as well as many of the right-of-way elements are at least 30 years old and have exceeded their useful life and are in need of replacement. This program to replace these components will reduce the need to impose slow zones due to their deteriorating condition. When completed, train speed can be increased and reliability will be greatly improved. In addition, right-of-way improvements will provide greater access to maintenance personnel and as an emergency evacuation walkway for customers.

194.007 Circle Line, Red, Orange & Yellow (ROY)

Provide for the next New Start projects, expanding the existing CTA Rail System.

The CTA serves Chicago and 40 suburbs. As the nation's second largest transit operator, the CTA provides nearly 1.6 million rides on an average weekday and over 80 percent of all transit trips in the six-county region. The proposed CTA rail expansion/extensions for FY 2008-2012 will enable the organization to link and expand rail services around Chicago and the surrounding suburban communities. Expansions include extending the Red Line from 95th Street Station to 130th Street; extending the Orange Line from Midway Airport to Ford City Mall; and extending the Yellow Line from Skokie Station to Old Orchard Mall. Also proposed for New Start funding is the Chicago Transit Hub (Circle Line), which will link the CTA's rail lines to Metra Rail Lines.

The expansion will enhance services that will link people, communities and neighborhoods to job areas within the Northeastern Illinois region. The Ogden Avenue Transitway project will extend from central Chicago to North Riverside Park shopping center, with an emphasis on local access.

194.115 Expanded Capacity-Brown Line

Expand the customer capacity of the Brown (Ravenswood) Line from Kimball Terminal to Tower 18 in the Loop.

The elevated portion of the Ravenswood route was constructed between 1893 and 1910 from Belmont to Campbell, and extended at grade to its present terminal in the 1910's. It includes 19 stations, and serves approximately 66,000 customers each weekday. Ridership has increased 79% since 1983, and rush hour trains are crush-loaded. The line's market area continues to redevelop and potential customers are discouraged from using the Brown Line due to crowded conditions. All other CTA lines operate eight-car trains, but the Brown Line is limited to six-car trains due to station platform length. Lengthening all platforms to accommodate eight-car trains and selected track, signal and yard improvements will substantially increase capacity of the line. Station alterations will provide ADA accessibility.

308.002 Bond Repayment, Interest Costs & Finance Costs

Provide for debt service and the cost of issuance of bonds, notes and other indebtedness incurred by the CTA. This project is funded with federal formula funds and non-federal local match.

This element will provide for the interest costs associated with financing the Bond series issued in 2004 and 2006. Additional bonds have been authorized to be issued in subsequent years. These bonds are anticipated to support construction of Howard station, purchase of fareboxes, purchase of replacement rail cars, purchase of replacement buses, and various capital improvement projects. These transit projects will help the CTA continue to meet the dynamic needs of a growing and interdependent region.

404.999 Federal Flexible Funded Projects (CMAQ & JARC)

Provide for various demonstration projects and service improvements funded under federal competitive grant programs.

This program will allow for application for and receipt of non traditional federal funds under several federally funded programs. CMAQ projects contribute to regional air quality. JARC projects are intended to support job access or reverse commute initiatives. RTAP projects will help the region to encourage transit use. Planning funding assists the CTA in developing the regional transportation improvement plan and the state transportation plan as required under funding regulations.

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Appendices

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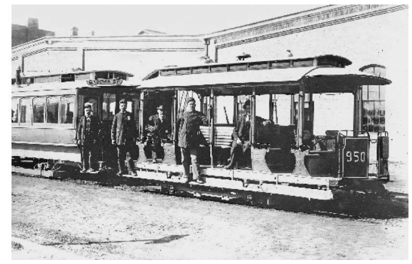
1 History of the Agency

1859

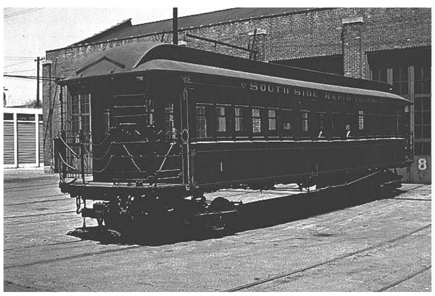
The beginning of public transit in Chicago; early service was horse-drawn.

1882

The Chicago City Railway obtained rights to operate San Francisco-style cable cars.



1892

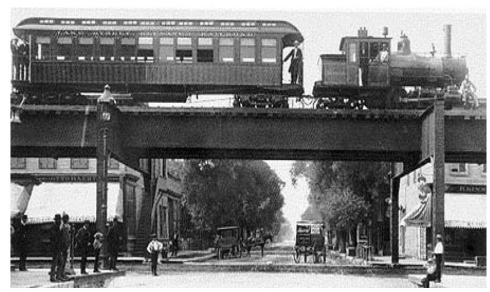


The Chicago and South Side Rapid Transit Company opened on June 6, bringing elevated train service to Chicago.

At the turn of the century, four separate transit railroads operated in Chicago. The first trains, powered by steam, were quickly converted to electricity.

1897

Elevated trains were built along available right-of-ways often above alleys and less heavily used streets.



The Loop 'L' opened connecting rapid transit lines serving the north, south and west sides of Chicago.

1911

The rapid transit companies formed a cost-saving trust.

1914

On February 1, five streetcar companies united under a single management: the Chicago Surface Lines. At its peak, the Chicago Surface Lines operated along 1,100 miles of tracks; it was the largest and most heavily used streetcar system in the world.

1917

Buses were first used in Chicago with the creation of the Chicago Motor Bus Company. Bus use was limited to Chicago's boulevards and parks.

1922

The Chicago Motor Coach Company succeeded the Chicago Motor Bus Company.

1 History of the Agency

1924

The rapid transit companies merged to create the Chicago Rapid Transit Company.

1943

To ease traffic congestion, the U.S. Department of Interior, the Public Works Administration, and the City of Chicago financed the State Street Subway.

1945

The Chicago Transit Authority, an independent government agency was formed when the Illinois General Assembly passed the Metropolitan Transit Authority Act. In the same year, the City of Chicago passed an ordinance granting CTA the exclusive right to own and operate a unified local transportation system. Voters passed the Act and Ordinance in a referendum on June 4.

1947

The CTA began operations when it issued $105 million in revenue bonds to purchase assets of the Chicago Surface Lines and the Chicago Rapid Transit Company.

1951

The Dearborn Street Subway opened 1952-53: Through additional bond issues, the Chicago Motor Coach Company and a portion of the Chicago Milwaukee St. Paul and Pacific Railroad right-of-way were added to the CTA.

1958

The Congress branch opened along the median of the newly expanded Congress expressway, and later extended east-west from Forest Park to the loop with connection to the northwest subway at the Dearborn station.

1964

The CTA partnered with federal planners to create the first “light rail” service, the Skokie Swift. The Skokie Swift operated on track lines purchased by the CTA from the Chicago Northern Shore & Milwaukee Railway. The Skokie Swift quickly became a popular rail shuttle and also served as a suburban inter-city bus hub.

1 History of the Agency

1974

By the early '70s the popularity of car travel and declining ridership levels threatened the fiscal stability of the three public transportation agencies. The Illinois General Assembly then created the Regional Transportation Authority (RTA) as a fiscal and policy oversight agency committed to providing an efficient and effective public transportation system. Today, the RTA continues to provide annual fiscal oversight to CTA, Metra and Pace.

1984

The CTA responded to changing demographics during the 1970s by expanding the northwest subway from Logan Square to Jefferson Park, and then along the Kennedy Expressway median to River (Mannheim) Road. Finally, the northwest transit extension was completed at O'Hare airport with a station within the airport terminal.

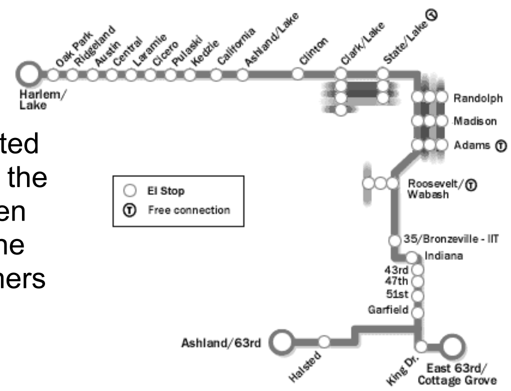
1993

The Dan Ryan branch, formerly linked to the Englewood and Jackson Park Lines was linked with the Howard Line. The Lake to Englewood-Jackson Park lines were moved from the Howard branch to the loop elevated connection. Also, elevated loop connections were made more convenient with the Merchandise Mart station.

The Midway "Orange" line was completed, linking the downtown elevated Loop to the Southwest side airport and providing improved transportation to the area.

1996

The CTA celebrated the re-opening of the rehabilitated Green Line, improving the service to customers on the West and South sides of Chicago.



2006

CTA introduced the Pink Line as part of a package of bus & rail service improvements for the West Side and Western suburbs. The Pink Line provides more frequent service and improved travel times between the 54th/Cermak station and the Loop.

CTA introduced new and improved bus service with 2 new local bus routes, 3 new express routes and 8 enhanced bus routes.

2 Transit Facts

Creation of CTA

- The CTA was created by state legislation and began operating on October 1, 1947, after acquiring the properties of the Chicago Rapid Transit Company and the Chicago Surface Lines. On October 1, 1952, the CTA became the sole operator of City of Chicago transit when it purchased the Chicago Motor Coach System.

CTA Governance

- The CTA's governing arm is the Chicago Transit Board, which consists of seven members. The Mayor of Chicago appoints four board members, subject to the approval by the City Council and the Governor. The Governor, subject to the approval of the State Senate and the Mayor of Chicago, appoints three board members.

- In 1974, the Regional Transportation Authority (RTA) was created by state legislation. The RTA serves as CTA's fiscal oversight agency.

Service Area & Population[1]

- 220 square miles of Chicago and 40 nearby suburbs
- The service area has 3.8 million people

Ridership[1]

- Over 493 million trips projected for 2007
- Approximately 1.6 million trips per weekday

Bus Service[1]

- 2,175 buses travel 154 routes
- Routes cover 2,529 miles, with approximately 11,846 bus stops

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Rail Service[1]

- 1,190 rail cars travel over 8 routes
- CTA Rail serves 242 miles of revenue track covering 144 stations and yard track

[1] Facts are based on service prior to implementation of any proposed service reduction.

3 Business Units & Goals

In May 2007, CTA implemented a performance management system to begin focusing on Bus Operations, Rail Operations, Maintenance and Construction. Instituting a Performance Management approach to the CTA's day-to-day operations is one of the ways the Authority is getting "Back to the Basics." Transit Operations (Bus and Rail), Maintenance (both Facilities and Power and Way), and Construction (with Engineering) are the areas that were chosen first because they are the business units that are most visible to the CTA's customers. The purpose of the program is to assess and improve performance in these four areas according to five goals:

Safe: Reduce the number of accidents and risky behavior that could result in accidents involving customers, employees and the general public.
On-Time: Reduce system delays and successfully manage intervals between vehilces. Complete construction and other projects in budgeted time periods.
Clean: Maintain a raised cleanliness standard for all vehicles, stations and work areas.
Courteous: Identify and improve all aspects of operations that affect customers.
Efficient: Use resources effectively to manage performance and drive results.

Each Business Unit affects the CTA's ability to meet performance goals. Transit Operations is on the front line, and employees interact with customers on a daily basis. The maintenance and development of the infrastructure that is critical to Transit Operations is tasked to Customer Facilities Maintenance, Power and Way Maintenance, Capital Construction and Engineering. Other units such as Planning, Training and Instruction, and Security and Safety, directly interact with Transit Operations on a daily basis and provide a high level of support. The remaining units within the CTA are all dedicated to supporting those front line operations, and include Purchasing and Warehousing, Finance/Capital Investment/Treasury, Technology Management, Communications/Marketing/Customer Service, and a number of other vital departments.

Transit Operations

Bus

- Provide over 1 million rides per weekday
- Over 4,600 bus operators, 2,196 buses, 154 routes covering approximately 214,300 miles every weekday
- 8 Bus Garages and 1 Heavy Maintenance shop
- In the fall of 2007 the average age of the fleet was 9.3 years old (prior to service cuts)

Rail

- Provide over 600,000 rides per weekday
- Over 1,300 rail operators, 1,190 rail cars, 8 routes covering approximately 225,400 miles every weekday
- 9 Rail Terminals and 1 Heavy maintenance shop
- In fall of 2007 the average age of the fleet was 24 years old

2008 Performance Goals

- Reduce number of accidents and risky behavior that results in accidents to customers, employees and the general public
- Reduce delays and manage intervals between vehicles
- Raise the cleanliness standard—and heighten accountability for maintaining the standard--for all bus and rail vehicles
- Identify and improve all aspects of operations that affect customers
- Ensure that bus and rail vehicle procurements are on time, on budget, and in conformance with the Authority's specifications and grantor agency regulations

3 Business Units & Goals

2008 Technology Improvements

- Implement BusTracker for interval management and real-time customer notification
- Implement DriveCam pilot at Chicago Garage for 24/7 monitoring of risky behavior and as the basis for enhanced training and coaching in accident prevention (Bus)
- Implement QuicTrak to improve interval management (Rail)
- Improve communications among employees to enable timely service restoration, incident response, and enhance efficiency
- Eliminate manual record-keeping and free-standing databases
- Combine and centralize data to the extent possible to allow for better analysis and improvement of all operational measures
- Utilization of latest technology to guarantee customer comfort and security

Power and Way Maintenance, Construction and Engineering

Maintenance

- Inspect and maintain 242 miles of revenue track every 7 days, 87.5 miles of elevated structure once every two years, and the of contact rail (3^{rd} rail) two times per year
- Inspect and maintain 813 signals, 1,064 rail track switches, 1,136 automatic block signals and 24,000 vital signal relays
- Responsible for all power substations, including maintaining all traction and contact rail power distribution including 600 miles of traction power cable

Construction

- Responsible for ensuring that major capital construction projects are on time, on budget, and in conformance with the Authority's Quality Manual, ISO 9001 standards and grantor agency regulations and requirements
- Responsible for overseeing and integrating the program management and construction management services in order to assist in the monitoring and controlling of the multiple Capital Construction projects
- Responsible for developing uniform procedures and processes that assist in the design, construction and administration of the Capital Program

Engineering

- Responsible for creation and maintenance of construction documents for CTA structure, track, traction power and signal projects
- Responsible for CTA utilities, including traction power, water, gas at CTA locations, and locating utilities for CTA contractors
- Reviewing and answering design Requests for Information from CTA contractors

2008 Performance Management Goals

- Reduce the rail slow zones
- Upgrade the signal system reliability
- Continue to support Construction and Power and Way Maintenance when necessary

2008 Infrastructure Improvements

- Upgrade Blue Line and Red Line track, ties, and 3^{rd} rail
- Blue Line and Loop signal replacement

3 Business Units & Goals

Facilities Maintenance, Construction and Engineering

Maintenance

- Processes approximately 45,500 work orders for the CTA's 533 owned and leased facilities covering approximately 5 million square feet
- Clean and maintain 144 rail stations, 9 terminals, 12 rail yards, all of the rail Right-of-Way and perform approximately 2,200 station power-washes
- Performed 4,619 vehicle tows in 2006 and facing a 30% increase in 2007

Construction

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Engineering

- Responsible for creation and maintenance of construction documents for CTA facilities
- Responsible for CTA utilities, and locating utilities for CTA contractors for CTA facilities
- Reviewing and answering design Requests for Information from CTA contractors

2008 Performance Management Goals

- Increase number of Preventative Maintenance work orders completed
- Continue to integrate Facility design with Green initiatives, station maintenance and cleanliness

2008 Improvements

- Create Graffiti and Stainless Steel Task Force
- Initiate XORA/GPS for Employee Accountability
- Outsource maintenance of Non-revenue fleet

Transit Operations Support

Security and Safety:

- Security Services investigates incidents, facility security, and performance control
- Ensure compliance with national and regional security requirements
- Works to prevent accidents with CTA employees and customers
- Investigate accidents and work to proactively prevent future incidents

Training and Instruction:

- Utilizes classroom, simulator and on-the-job training for new employees as well as refresher courses for current employees in operations, maintenance, and other areas
- Responsible for the training necessary to prepare union employees for promotional opportunities including Rail and Bus Supervisors and Managers, craft leaders or foremen and Control Center controllers. Responsible for all OSHA recommended safety training

Control Center

- Uses radios, GPS monitoring, track circuit occupancy information and real-time data streaming from cameras throughout the system to monitor all CTA vehicles 24 hours a day

- Works closely with the Chicago Police Department, Department of Homeland Security and other organizations on a regular basis to provide a secure environment for CTA customers and employees.

Planning

- Strategic Planning performs market research to determine the short and long term needs of the CTA
- Service Planning uses collected data to produce a comprehensive service network which is designed to meet the changing customer demand
- Schedules uses the information provided by the Strategic Planning and Service Planning groups, as well as the Bus and Rail Operations groups to fine tune and develop the schedules for every bus route and rail line on the system and create on an as needed basis special schedules for planned construction projects and major special events
- Facilities Development ensures that the infrastructure needed to fill the schedules is in place on the streets and at the rail stations and is responsible for coordinating the fare equipment in rail stations, the locations of bus turnarounds, shelter placement and bus route signage

Administration Operations Support

Purchasing & Warehouse

- Purchasing processes over 10,000 contracts annually to secure the best prices for products that the CTA uses on a regular basis
- Warehouse Operations is responsible for distributing parts and material to all CTA maintenance facilities and stock rooms throughout the service network

Finance/Capital Investment/Treasury:

- Finance manages all of CTA fiscal resources, departmental budgeting, and accounting transactions, financial reporting, and external audits
- Capital Investment identifies and targets funding for projects crucial to maintaining CTA infrastructure and evaluates and develops long-term funding plans focusing on initiatives to expand service, renew assets, replace fleet and bring the system to a state of good repair
- Treasury issues CTA Fare Media, collects fare box revenue and invests all cash receipts

Technology Management:

- Maintains Bus and Rail fare collection equipment throughout the CTA service area
- Maintains and upgrades all CTA technology infrastructure including computer hardware, application software and communications equipment

Communications, Marketing & Customer Service

- Communications and Marketing provides information to customers and the general public through maps, brochures, flyers, news releases, and a cable television show
- Manages and generates advertising revenue
- Customer Communications provides accurate, consistent and timely information to customers
- Customer Service responds to customer inquires via phone, email and letters and works with customers to resolve questions, problems and complaints

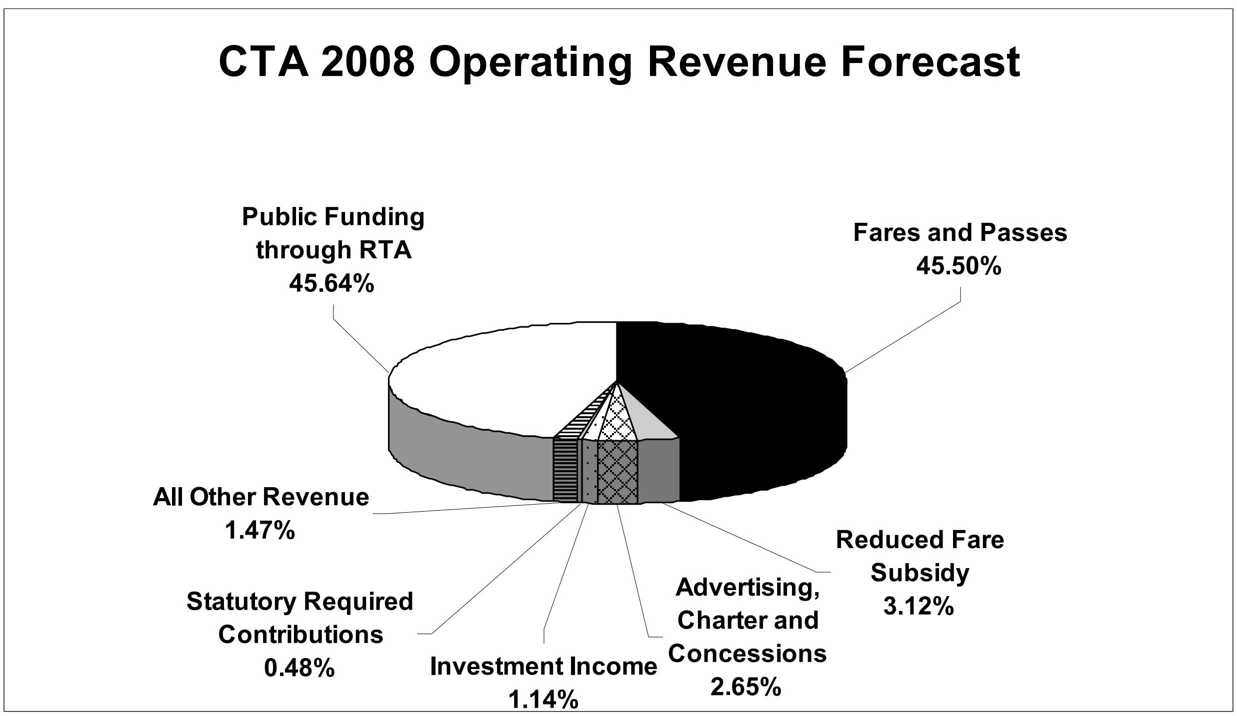
Other Vital Departments:

- Government and Community Relations, Employee Relations, Human Resources, General Counsel, Property Management, Inspector General

4 Operating Funding Summary

CTA's total estimated revenue for 2008 is $1.03 billion. There are two major categories of operating revenue for CTA: system-generated revenue through fares and other sources, and public funding through the Regional Transportation Authority (RTA). System-generated revenue is projected at $562 million for 2008 and public funding is projected at $471.8 million. The following table represents 2008 estimated revenue by source.

Total CTA Revenue- All Sources (in thousands)		2008
Fares and Passes	$	470,377
Reduced Fare Subsidy		32,271
Advertising, Charter and Concessions		27,381
Investment Income		11,736
Statutory Required Contributions		5,000
All Other Revenue		15,244
Public Funding through RTA		471,828
Total Revenue	**$**	**1,033,837**



The following is a description of sources of both system-generated revenues and public funding for CTA.

4 Operating Funding Summary

SYSTEM-GENERATED REVENUE

CTA's system-generated revenue is forecast at $562 million for 2008. CTA's system-generated revenue is based on sale of fares and passes, advertising, investment income, statutory required contribution from local governments by provision of the Regional Transportation Authority Act, and subsidies for reduced fare riders per 1989 legislation.

Fares and Passes

Revenue from fares and passes is forecast at $470.4 million in 2008 and is the largest portion of system-generated revenue. CTA's revenue from fare and passes includes cash fares, full fare and reduced fare farecards, and Chicago Card and Chicago Card Plus fares. In addition, CTA also sells 30-day full-fare and reduced fare passes, along with 1, 2, 3, 5 and 7-day passes. Additional pass revenue is from CTA's U-Pass for local university students, sale of visitor passes, and METRA link-up passenger revenue.

Reduced Fare Subsidy

This funding represents reimbursement of revenues lost by the service boards due to providing reduced fares to student, elderly and disabled riders, as mandated by State law. The funding is subject to the terms of the grant agreement, state statute (20 ILCS 2705) and annual state appropriation. Reimbursement amounts are allocated to the service boards based on reduced fare passenger trips taken during the grant year. Reduced fare subsidy is forecast at $32.3 million in 2008.

Advertising, Charter and Concessions

Vehicle and platform advertising is the primary source of this revenue and is forecast at $21.7 million for 2008 for advertisement on buses, rail cars, and rail stations. Revenue from Special Contract Guarantees includes agreements for additional transportation services, other than mainline routes, which include the University of Chicago, the Chicago Cubs and others.

Advertising, Charter and Concessions Revenue (in thousands)		2008
Vehicle & Platform Ads	$	21,692
Special Contract Guarantees		1,366
Concessions		1,830
Billboards		1,980
Pay Phones		106
Vending Machines		381
Charter Service		26
Total	$	**27,381**

Concession revenue is generated from 74 concessions within CTA's 144 rail stations. Concessions are forecast to generate $1.8 million in 2008.

Billboards on CTA property generate an additional $2.0 million, while pay phones and vending machines at CTA facilities generate nearly $ 0.5 million annually.

4 Operating Funding Summary

Investment Income

The CTA anticipates investment income at $11.7 million for 2008. This compares to investment income of $5.4 million in 2005 and $11.6 million in 2006. In September 2007, the Federal Funds Rate was lowered for the first time in four years.

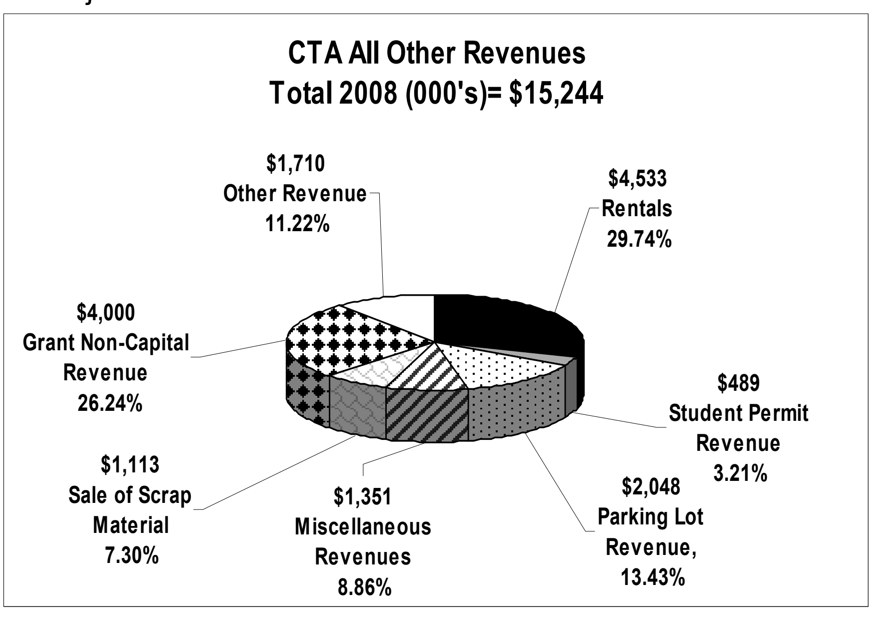
Statutory Required Contributions

The RTA Act requires the City of Chicago and Cook County to annually contribute $3.0 million and $2.0 million, respectively, towards CTA operations annually.

Statutory Required Contributions (in thousands)		2008
Contributions- City of Chicago	$	3,000
Contributions- Cook County		2,000
Total	$	**5,000**

All Other Revenue

Revenues in this category include operating grants from the Federal Transit Administration (FTA), parking fees, rental revenue, third-party contractor reimbursements and filming fees. CTA's rental revenue is generated from the leasing of CTA property, including 51 storefronts in and adjacent to CTA rail stations.



CTA's parking fee revenue is forecast at $2.1 million for 2008. This is more than double 2004 revenue of $949,000 due to the increase in parking fees in 2005 to $2.00 from $1.50 and $1.75, the addition of new Park and Ride lots off of the O'Hare Blue line at Harlem and Green Line at the Garfield station and expanded under the 'L parking agreements across the city. The CTA currently has 17 Park & Ride lots with a total of 5,725 parking spaces.

4 Operating Funding Summary

PUBLIC FUNDING

Most of CTA's public funding for operating and capital needs is funneled through the RTA. Under the Regional Transportation Authority Act, as amended in 1983, some of the funds are allocated to the Service Boards based on a formula included in the RTA Act. Other funds are allocated based on RTA's discretion. The sources and allocations are outlined below.

Sales Tax Revenue

RTA Sales Tax is the primary source of operating revenue for the RTA and three Service Boards. The tax is authorized by Illinois statute, imposed by the RTA in the six-county region of northeastern Illinois and collected by the state. The sales tax is the equivalent of 1 percent on sales in Cook County and 0.25 percent on sales in the collar counties of DuPage, Kane, Lake, McHenry and Will. The 1 percent sales tax in Cook County is comprised of 1 percent on food and drugs and 0.75 percent from all other sales, with the state then providing a "replacement" amount to the RTA equivalent to 0.25 percent of all other sales. The RTA retains 15 percent of the total sales tax and passes the remaining 85 percent to the Service Boards according to the following formula that is specified in the RTA Act.

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

The 2008 Sales Tax Budget for the Region is estimated to be $766.1 million and is distributed to the RTA and three Service Boards as follows:

($ in 000's)	**Chicago Sales Tax Revenue**	**Suburban Cook Sales Tax Revenue**	**Collar County Sales Tax Revenue**	**Total**
CTA	$200,243	$103,098	$0	$303,341
Metra	$0	$189,012	$75,085	$264,097
Pace	$0	$51,549	$32,179	$83,728
RTA	$35,337	$60,646	$18,929	$114,912
Total:	**$235,580**	**$404,304**	**$126,193**	**$766,077**

4 Operating Funding Summary

In addition, RTA will distribute at its discretion any funds remaining from the initial allocation of the 15 percent sales tax distribution that is in excess of RTA's funding needs.

Federal Assistance (Federal Transit Administration)

RTA is the region's recipient of federal assistance, which previously included both operating and capital funds. FTA eliminated operating assistance to CTA in 1998.

Public Transportation Funds

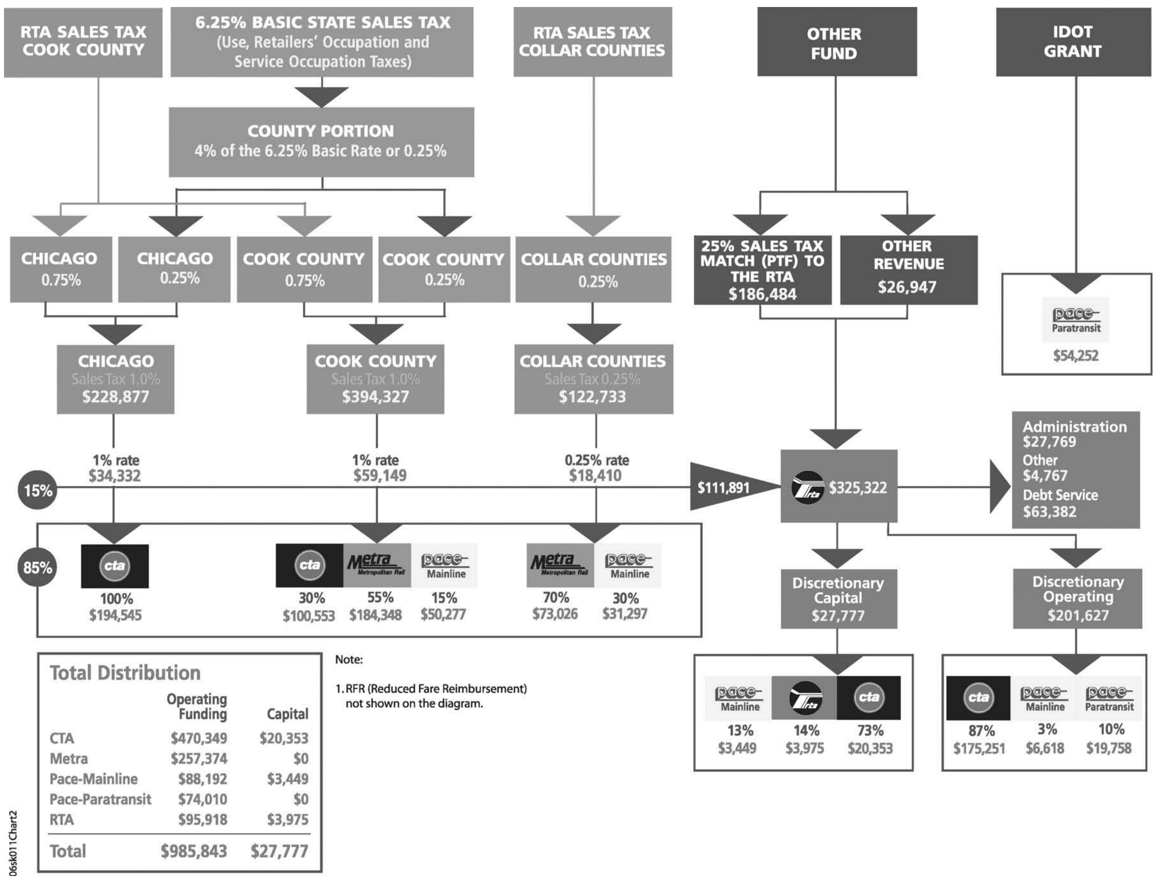
As authorized by the RTA Act, the Illinois State Treasurer transfers from the State General Revenue Fund an amount equal to 25 percent of RTA sales tax collections (or gasoline or parking taxes, if imposed by the RTA). The Treasurer transfers this amount to a special fund, called the "Public Transportation Fund" (PTF), and then remits it to the RTA on a monthly basis. Remittance requires an annual appropriation made by the State of Illinois. In addition, the RTA must certify to the Governor, State Comptroller and Mayor of the City of Chicago that the RTA has adopted a budget and financial plan in conformance with the requirements of the RTA Act. The RTA uses these funds at its discretion to fund the service board needs, RTA operations, debt service and capital investment. RTA's 2008 Budget includes $191.5 million in PTF funds.

State Assistance

The RTA Act provides supplemental State funding in the forms of additional state assistance and additional financial assistance (collectively, "State Assistance") to the RTA in connection with its issuance of Strategic Capital Improvement Program (SCIP) bonds. The funding equals debt service amounts paid to bondholders of the Strategic Capital Improvement Bonds issued by RTA, plus any debt service savings from the issuance of refunding or advanced refunding SCIP bonds, less the amount of interest earned by the RTA on the proceeds of SCIP bonds. The RTA Act limits the amount of State Assistance available to the RTA to the lessor of the debt service or $55.0 million. Remittance requires an annual appropriation made by the State of Illinois.

4 Operating Funding Summary

Operating Funding Allocation (Based on 2007 Budget, $ in 000's)



Total Distribution

	Operating Funding	Capital
CTA	$470,349	$20,353
Metra	$257,374	$0
Pace-Mainline	$88,192	$3,449
Pace-Paratransit	$74,010	$0
RTA	$95,918	$3,975
Total	$985,843	$27,777

Note: In 2008, CTA will not receive the IDOT grant.

5 Debt Administration

DEBT MANAGEMENT POLICY GUIDELINES

On October 14, 2004, the Chicago Transit Board approved an ordinance adopting Debt Management Policy Guidelines (the "Debt Policy"). The Debt Policy serves as a management tool to ensure that the CTA a) identifies transactions that utilize debt in the most efficient manner; and b) provides for full and timely repayment of all borrowings. Additionally, the Debt Policy outlines a means of a) achieving the lowest possible cost of capital within prudent risk parameters; and b) ensuring ongoing access to the capital markets. The Debt Policy applies to all short and long term bonds and notes, other long-term lease obligations, and interest rate exchanges. The Debt Policy does <u>not</u> cover commodity hedging, leveraged leases, long-term operating leases, short-term leases and bank obligation transactions. The general debt issuance guidelines outlined in the Debt Policy are summarized below.

Use of Debt

It is CTA's preference to use a pay-as-you-go funding mechanism for all capital projects. As such, CTA explores use of available cash to fund all or part of a particular capital improvement project and other long-term financial needs before proposing the use of debt. However, the CTA recognizes that the size, scope and timing of particular projects in its capital improvement plan, cash flow sufficiency and capital market opportunities may necessitate the use of debt. The Debt Policy allows for the issuance of either long-term or short-term debt. The financing purpose would determine the type of debt the CTA would use.

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

- **Long-Term Debt Obligations:** The Debt Policy prohibits the use of long-term debt to fund operations. However, long-term bonds are deemed appropriate to finance essential capital activities and certain management initiatives. The CTA may also use long-term lease obligations to finance or refinance capital equipment. Prior to entering into any lease financing, the Authority will evaluate 1) the useful life of assets financed, 2) terms and conditions of the lease and 3) budgetary, debt capacity and tax implications.

Credit Ratings

The Debt Policy recognizes the need for a credit rating strategy focused on achieving the best economic value for CTA. A major goal of CTA's debt program is to attain a proper balance between minimizing borrowing costs and maximizing financial flexibility. Currently, CTA's outstanding bond issues are assigned an A2 credit rating from Moody's Investor Services.

Debt Limitations

Attaining a proper balance between minimizing borrowing and maximizing financial flexibility is a key goal of the CTA debt program. The CTA is not subject to statutory debt limitations for capital investment. However, the Debt Policy does limit the aggregate amount of CTA's unhedged variable rate debt at a maximum of 20% of all outstanding long-term debt obligations.

5 Debt Administration

Other Provisions

CTA may secure credit enhancement in the form of municipal bond insurance or a letter / line of credit for all or a portion of each bond issue. The Debt Policy also allows the Authority to issue debt on a taxable or tax-exempt basis and to use interest rate exchange agreements when they will 1) reduce the expected interest rate costs, 2) hedge fluctuations in interest rates or 3) gain efficiency in structuring and restructuring debt.

CURRENT DEBT

Long-term debt includes capital lease obligations and bonds payable, as described below:

Lease/Leaseback Agreements

The CTA has entered into several economically defeased lease and leaseback agreements in fiscal years 1995 through 2003. These agreements were entered into with various third parties and pertain to certain assets of the CTA, including rail lines and equipment, rail cars, facilities, buses and qualified technology equipment. Under the lease/leaseback financings, the CTA entered into a long-term lease for applicable assets with trusts established by equity investors which trusts concurrently leased the respective assets back to CTA under sublease agreements. Each sublease contains a fixed date and a fixed price purchase option that allows the CTA, at its option, to purchase the assets back from the lessor. As of December 31, 2006, the total obligations due under the lease agreements which have been economically defeased were approximately $1.7 billion.

Other Capital Leases

On March 31, 2003, the Public Building Commission of Chicago (the “PBC”) issued $119,020,000 of Building Revenue Bonds, Series 2003 (Chicago Transit Authority) (the “PBC Bonds”). The PBC used the proceeds of these bonds, among other things, to acquire the site for and construct a 12-story office building, which the PBC leased to the CTA for a 20-year term to be used as its headquarters. Rent payments due to the PBC from the CTA under the lease are general obligations of the CTA payable from any lawfully available funds. Upon satisfaction of all of the obligations of the CTA under the lease and payment, or provision for payment, of the PBC Bonds in full, the PBC will transfer title of the leased premises to the CTA.

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. This refunding decreased debt service payments over the next 27 years by approximately $388,000, resulting in an economic gain of approximately $20,404,000.

The original lease that was executed in connection with the Series 2003 bonds was amended accordingly. CTA is obligated to pay to the Trustee on behalf of the PBC on or before February 15 of each year in which the headquarters lease is in effect, rent which equals the debt service on the PBC bonds due through and including September 1 of that calendar year. The source of funds for PBC lease payments is primarily FTA grant funds. The total rent due to PBC over the life of the amended lease is $167,049,254.

5 Debt Administration

SCHEDULE I: $91,340,000 Building Revenue Bonds (Public Building Commission on behalf of Chicago Transit Authority) Series 2006 Lease				
PAYMENT YEAR	PORTION OF LEASE PAYMENT ATTRIBUTABLE TO INTEREST	PORTION OF LEASE PAYMENT ATTRIBUTABLE TO PRINCIPAL	TOTAL LEASE PAYMENT	PBC DEBT OUTSTANDING (end of period)
2007	$ 3,794,098	$ 2,375,000	$ 6,169,098	$ 88,965,000
2008	$ 4,383,838	$ 1,790,000	$ 6,173,838	$ 87,175,000
2009	$ 4,310,438	$ 1,880,000	$ 6,190,438	$ 85,295,000
2010	$ 4,233,738	$ 1,955,000	$ 6,188,738	$ 83,340,000
2011	$ 4,153,938	$ 2,035,000	$ 6,188,938	$ 81,305,000
2012	$ 4,070,938	$ 2,115,000	$ 6,185,938	$ 79,190,000
2013	$ 3,984,538	$ 2,205,000	$ 6,189,538	$ 76,985,000
2014	$ 3,891,669	$ 2,295,000	$ 6,186,669	$ 74,690,000
2015	$ 3,782,775	$ 2,405,000	$ 6,187,775	$ 72,285,000
2016	$ 3,659,400	$ 2,530,000	$ 6,189,400	$ 69,755,000
2017	$ 3,529,650	$ 2,660,000	$ 6,189,650	$ 67,095,000
2018	$ 3,403,969	$ 2,785,000	$ 6,188,969	$ 64,310,000
2019	$ 3,271,913	$ 2,915,000	$ 6,186,913	$ 61,395,000
2020	$ 3,122,413	$ 3,065,000	$ 6,187,413	$ 58,330,000
2021	$ 2,965,163	$ 3,225,000	$ 6,190,163	$ 55,105,000
2022	$ 2,799,788	$ 3,390,000	$ 6,189,788	$ 51,715,000
2023	$ 2,621,456	$ 3,565,000	$ 6,186,456	$ 48,150,000
2024	$ 2,429,175	$ 3,760,000	$ 6,189,175	$ 44,390,000
2025	$ 2,226,525	$ 3,960,000	$ 6,186,525	$ 40,430,000
2026	$ 2,012,981	$ 4,175,000	$ 6,187,981	$ 36,255,000
2027	$ 1,787,888	$ 4,400,000	$ 6,187,888	$ 31,855,000
2028	$ 1,550,719	$ 4,635,000	$ 6,185,719	$ 27,220,000
2029	$ 1,300,688	$ 4,890,000	$ 6,190,688	$ 22,330,000
2030	$ 1,037,138	$ 5,150,000	$ 6,187,138	$ 17,180,000
2031	$ 759,413	$ 5,430,000	$ 6,189,413	$ 11,750,000
2032	$ 466,725	$ 5,720,000	$ 6,186,725	$ 6,030,000
2033	$ 158,288	$ 6,030,000	$ 6,188,288	$ -

Bonds Payable-Revenue Bonds

Capital Grant Receipts Revenue Bonds, Series 2004A and 2004B

On October 20, 2004, CTA issued Capital Grant Receipts Revenue Bonds, Series 2004A and 2004B, (Federal Transit Administration Section 5307 Formula Funds), (together referred to as the “2004 Bonds”). Par value of the 2004 Bonds was $250,000,000, with $150,000,000 in Series 2004A and $100,000,000 in Series 2004B. The 2004 Bonds are solely secured via Federal Transit Administration 5307 Urbanized Area Formula funds.

The proceeds of the 2004 Bonds will be used to pay for, or reimburse the CTA for prior expenditures relating to a portion of certain capital improvement projects identified by the CTA (the “2004 Projects”). These capital improvements must be approved by the CTA Board, the RTA and included in the CTA Capital Plan. The 2004 Projects include infrastructure improvements including facility rehabilitation, rail station reconstruction, replace/upgrade track, structure and signal systems, communication infrastructure improvement and replace bus and rail fleet. The 2004 Projects may be substituted from time to time, provided there are funds in the 2004 Project Account of the Construction fund.

The 2004 Bonds bear interest ranging from 3.60% to 5.25%. Interest payments for the 2004 Bonds are payable June 1 and December 1 of each year. Principal payments began June 1, 2006 (see Schedule II). Subject to market conditions, CTA may enter into one or more Qualified Swap Agreements. The 2004 Bonds are not eligible for early redemption, except under certain extraordinary circumstances. The source of grant receipts available to CTA to pay principal and interest on the 2004 Bonds is its annual share of Section 5307 Formula Funds; subject to a prior pledge applied to the funding requirements of the Douglas Branch Bonds through 2006. As of October 1, 2007, $213,885,000 of the 2004 Bonds were outstanding.

Schedule II: $250,200,000 Capital Grant Receipts Revenue Bonds
(Federal Transit Administration 5307 Formula Funds)
Series 2004A and Series 2004B Total Debt Service 2007-2016

PAYMENT YEAR	INTEREST PAYMENT	PRINCIPAL PAYMENT	TOTAL DEBT SERVICE	DEBT OUTSTANDING (end of period)
2007	$ 11,461,900	$ 18,410,000	$ 29,871,900	$ 213,885,000
2008	$ 10,542,825	$ 19,335,000	$ 29,877,825	$ 194,550,000
2009	$ 9,562,569	$ 20,250,000	$ 29,812,569	$ 174,300,000
2010	$ 8,492,781	$ 21,295,000	$ 29,787,781	$ 153,005,000
2011	$ 7,367,856	$ 22,390,000	$ 29,757,856	$ 130,615,000
2012	$ 6,173,231	$ 23,545,000	$ 29,718,231	$ 107,070,000
2013	$ 4,904,700	$ 24,780,000	$ 29,684,700	$ 82,290,000
2014	$ 3,602,494	$ 26,085,000	$ 29,687,494	$ 56,205,000
2015	$ 2,231,906	$ 27,385,000	$ 29,616,906	$ 28,820,000
2016	$ 756,525	$ 28,820,000	$ 29,576,525	$ -

Capital Grant Receipts Revenue Bonds, Series 2006

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

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

5 Debt Administration

Schedule III: $275,000,000 Capital Grant Receipts Revenue Bonds (Federal Transit Administration Section 5307 Formula Funds) Series 2006A Total Debt Service 2007-2021				
PAYMENT YEAR	INTEREST PAYMENT	PRINCIPAL PAYMENT	TOTAL DEBT SERVICE	DEBT OUTSTANDING (end of period)
2007	$ 7,199,305	$ -	$ 7,199,305	$ 275,000,000
2008	$ 13,223,213	$ 8,140,000	$ 21,363,213	$ 266,860,000
2009	$ 12,897,613	$ 8,465,000	$ 21,362,613	$ 258,395,000
2010	$ 12,559,013	$ 8,800,000	$ 21,359,013	$ 249,595,000
2011	$ 12,207,013	$ 9,155,000	$ 21,362,013	$ 240,440,000
2012	$ 11,840,813	$ 9,520,000	$ 21,360,813	$ 230,920,000
2013	$ 11,460,013	$ 9,900,000	$ 21,360,013	$ 221,020,000
2014	$ 10,965,013	$ 10,395,000	$ 21,360,013	$ 210,625,000
2015	$ 10,445,263	$ 10,915,000	$ 21,360,263	$ 199,710,000
2016	$ 9,899,513	$ 11,465,000	$ 21,364,513	$ 188,245,000
2017	$ 9,412,250	$ 34,070,000	$ 43,482,250	$ 154,175,000
2018	$ 7,708,750	$ 35,770,000	$ 43,478,750	$ 118,405,000
2019	$ 5,920,250	$ 37,560,000	$ 43,480,250	$ 80,845,000
2020	$ 4,042,250	$ 39,435,000	$ 43,477,250	$ 41,410,000
2021	$ 2,070,500	$ 41,410,000	$ 43,480,500	$ -

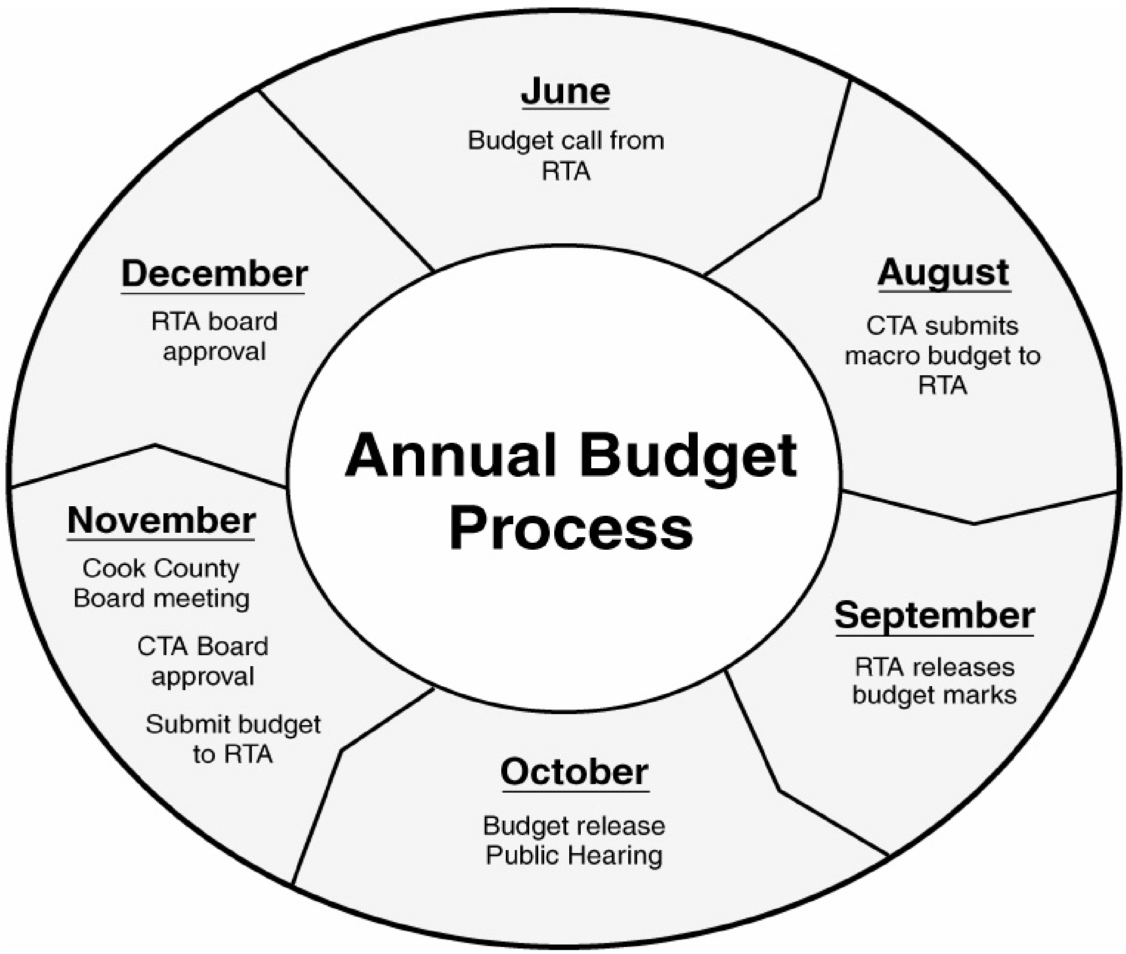
A summary of combined CTA lease and debt service obligations follows in Schedule IV.

Schedule IV: CTA TOTAL ANNUAL LEASE / DEBT SCHEDULE 2007-2033				
PAYMENT YEAR	2006 PBC LEASE	2004 BONDS	2006 BONDS	TOTAL ANNUAL DEBT SERVICE
2007	$ 6,169,098	$ 29,871,900	$ 7,199,000	**$ 43,239,998**
2008	$ 6,173,838	$ 29,877,825	$ 21,363,000	**$ 57,414,663**
2009	$ 6,190,438	$ 29,812,569	$ 21,363,000	**$ 57,366,006**
2010	$ 6,188,738	$ 29,787,781	$ 21,359,000	**$ 57,335,519**
2011	$ 6,188,938	$ 29,757,856	$ 21,362,000	**$ 57,308,794**
2012	$ 6,185,938	$ 29,718,231	$ 21,361,000	**$ 57,265,169**
2013	$ 6,189,538	$ 29,684,700	$ 21,360,000	**$ 57,234,238**
2014	$ 6,186,669	$ 29,687,494	$ 21,360,000	**$ 57,234,163**
2015	$ 6,187,775	$ 29,616,906	$ 21,360,000	**$ 57,164,681**
2016	$ 6,189,400	$ 29,576,525	$ 21,365,000	**$ 57,130,925**
2017	$ 6,189,650		$ 43,482,000	**$ 49,671,650**
2018	$ 6,188,969		$ 43,479,000	**$ 49,667,969**
2019	$ 6,186,913		$ 43,480,000	**$ 49,666,913**
2020	$ 6,187,413		$ 43,477,000	**$ 49,664,413**
2021	$ 6,190,163		$ 43,481,000	**$ 49,671,163**
2022	$ 6,189,788			**$ 6,189,788**
2023	$ 6,186,456			**$ 6,186,456**
2024	$ 6,189,175			**$ 6,189,175**
2025	$ 6,186,525			**$ 6,186,525**
2026	$ 6,187,981			**$ 6,187,981**
2027	$ 6,187,888			**$ 6,187,888**
2028	$ 6,185,719			**$ 6,185,719**
2029	$ 6,190,688			**$ 6,190,688**
2030	$ 6,187,138			**$ 6,187,138**
2031	$ 6,189,413			**$ 6,189,413**
2032	$ 6,186,725			**$ 6,186,725**
2033	$ 6,188,288			**$ 6,188,288**

6 Annual Budget Process

The Budget & Financial Plan Process

The RTA Act requires the RTA Board to adopt a consolidated annual budget and two-year financial plan. The budgetary process contains three phases: budget development, budget adoption, and budget execution and administration.



Budget Development

June 15

Budget development begins each year in the middle of June with the Budget Call from the RTA. The Budget Call outlines the required budget information for the RTA, and provides economic assumptions for the region.

The RTA's sales tax forecast is based on the most recent sales tax revenue estimate provided by the State Bureau of the Budget (BOB). The BOB is required to submit to the Regional Transportation Authority by July 1 of each year an estimate of Sales Tax Revenues to be received by the CTA for the next fiscal year. The RTA uses this estimate and the sales tax growth rates to prepare the annual budget funding Marks and to estimate sales tax for the two years of the financial plan.

Budget Adoption

August 15	By the middle of August, CTA is required to submit a macro-level budget and a two-year financial plan to the RTA.
September 13	The RTA Board is required by the RTA Act to set operating funding Marks for the three Service Boards by September 15. The Marks include estimates of available operating 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 revenue) for the budget. Upon issuance of the budget Marks, CTA revises its expenses and revenues to conform to the Marks.
October 9	Budget released to the public. The statute requires documents be available for public inspection 21 days prior to the public hearing.
October 30	Public Hearing is held to receive comments from the public.
November 6	CTA presents the budget to the Cook County Board after the Public Hearing but prior to the CTA adoption of the budget as required by the RTA Act.
November 7	The CTA Board incorporates any changes and adopts the budget and two-year financial plan.
November 15	The RTA Act requires CTA by November 15 to submit to RTA its detailed budget and financial plan that conforms to the Budget Marks set by the RTA on September 13.
December 14	The RTA Board adopts the proposed budget and plan upon the approval of nine of the RTA's thirteen directors.

RTA Statutory Requirements for Budget Approval

The RTA Board adopts the proposed budget and plan upon the approval of nine of the RTA's thirteen directors. If the budget meets the RTA's six criteria identified in the RTA Act outlined below, then the RTA is required to adopt the budget by December 31. If the RTA Board does not approve the budget, the RTA Board cannot release any funds for the periods covered by the budget and financial plan except the proceeds of sales taxes due by the statutory formula to the CTA until the budget conforms to the criteria specified in the act.

The six criteria for budget and plan approval per RTA Act are:

1. **Balanced Budget**: The budget and plan show a balance between (A) anticipated

revenues from all sources including operating subsidies and (B) the costs of providing the services specified and of funding any operating deficits or encumbrances incurred in prior periods, including provision for payment when due of principal and interest of outstanding indebtedness.

2. **Cash Flow:** The budget and plan show cash balances including the proceeds of any anticipated cash flow borrowing sufficient to pay with reasonable promptness all costs and expenses incurred.
3. **Recovery Ratio**: The budget and plan provide for a level of fares or charges and operating or administrative costs for the public transportation provided by or subject to the system generated revenue recovery ratio.
4. **Assumptions**: The budget and plan are based upon and employ assumptions and projections which are reasonable and prudent.
5. **Financial Practices**: The budget and plan have been prepared in accordance with sound financial practices as determined by the RTA board.
6. **Other Requirements**: The budget and plan meet such other financial, budgetary, or fiscal requirements that the RTA board may by rule or regulation establish.

Budget Execution & Administration

After the proposed budget and financial plan are adopted, the budget execution and administration phase begins. Detailed budgets of revenues and expenses calendarized for the 12 months of the budget year are forwarded to the RTA. CTA's actual monthly financial performance is measured against the monthly budget and reported to the RTA Board.

Amendment Process

As CTA monitors actual performance, changes may be required to the budget. The RTA might revise its sales tax forecast, which could result in less public funding for the CTA. This in turn would require reduced spending to meet the revised funding Mark and Recovery Ratio.

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

7 Accounting System & Financial Controls

ORGANIZATION OVERVIEW

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 provides for the funding of public transportation in the six-county region of Northeastern Illinois. The Act established a regional oversight board (Regional Transportation Authority (RTA)) and designated three service boards (Chicago Transit Authority, 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 their operating costs, excluding depreciation and certain other items, from system-generated sources.

Financial Reporting Entity

In conformance with Governmental Accounting Standards Board standards, the CTA includes in its financial statements all funds over which the Chicago Transit Board exercises oversight responsibility. Oversight responsibility is defined to include the following considerations: selection of governing authority, designation of management, ability to significantly influence operations, accountability for fiscal matters, the scope of an organization’s public service and/or special financing relationships.

Based on the above criteria, the fund established for the employees’ pension plan has been determined not to be part of the reporting entity. The fund is a legal entity separate and distinct from the CTA. The fund is administered by its own oversight committee, of which the CTA appoints half the members, and over which the CTA has no direct authority. Accordingly, the accounts of the fund are not included in CTA’s financial statements.

Based upon the criteria set forth by Governmental Accounting Standards Board (GASB), 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 comprised of 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 proforma statements with the RTA as statutorily required.

BUDGET AND BUDGETARY BASIS OF ACCOUNTING

The CTA is required under Section 4.01 of the Regional Transportation Authority Act to submit for approval an annual budget to the RTA by November 15 prior to the commencement of each fiscal year. The budget is prepared on a basis consistent with generally accepted accounting principles, except for the exclusion of certain income and expenses. For 2006 and 2005, 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 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, in the approved annual budget. Provisions in excess of the approved annual budget that are unfunded are excluded from the recovery ratio calculation.

The RTA funds the budgets of the service boards rather than the actual operating expenses in excess of system-generated revenue. Favorable variances from budget remain as operating assistance to the CTA.

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 and 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.

FINANCIAL REPORTING

Overview

The CTA's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). GASB is the accepted standard-setting body for establishing governmental accounting and reporting principles. The CTA applies Financial Accounting Standards Board pronouncements (FASBs) and Accounting Principles Board opinions (APBs) issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails, and all of the GASB pronouncements issued subsequently.

7 Accounting System & Financial Controls

Basis of Presentation

The basic financial statements provide information about the CTA's business-type and fiduciary (Open Supplemental Retirement Plan) activities. Separate financial statements for each category are presented.

The financial statements for the CTA's business-type activities are used to account for the operations of the CTA and are accounted for on a proprietary (enterprise) fund basis. This basis is used when operations are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs of providing services to the general public on a continuing basis be financed or recovered primarily through user charges, and the periodic determination of revenues earned, costs incurred, and change in net assets is appropriate.

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

Fiscal year

The operating cycle of the CTA is based on the calendar year. Prior to 1995, the CTA operated on a 52-week fiscal year composed of four quarters of "four week, four week, and five week" periods. Periodically, a 53-week fiscal year was required to keep the fiscal year aligned with the calendar.

INTERNAL CONTROLS

Overview

CTA management is responsible for establishing and maintaining an internal control system designed to ensure that the assets of the CTA are protected from loss, theft or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control system is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of internal control should not exceed the benefits likely to be derived; and that the evaluation of cost and benefits requires estimates and judgments by management.

All internal control evaluations occur within the above framework. The CTA's internal accounting controls are reasonable under the existing budgetary constraints and adequately safeguard assets and provide reasonable assurance of proper recording of all financial transactions.

7 Accounting System & Financial Controls

Single Audit

As a recipient of federal, state and RTA financial assistance, the CTA is responsible for ensuring that an adequate internal control system is in place to ensure compliance with applicable laws and regulations related to those programs. This internal control system is subject to periodic evaluation by management and the internal audit staff of the CTA, as well as external auditors.

As a part of the CTA's single audit, tests are made to determine the adequacy of the internal control system, including that portion related to federal financial assistance programs, as well as to determine that the CTA has complied with applicable laws and regulations. The results of the CTA's single audit for the fiscal year ended December 31, 2006, reported no instances of material weaknesses in the internal control system or violations of applicable laws and regulations.

Budgeting Controls

In addition, the CTA maintains budgetary controls to ensure compliance with legal provisions embodied in the annual budget appropriated by the Chicago Transit Board and approved by the Regional Transportation Authority. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established for total operating expenses. The CTA also maintains a position control system, which requires that every job, which is not part of scheduled transit operations, be budgeted on an annual basis.

8 Financial Policy

FINANCIAL PLANNING POLICIES

Financial planning policies incorporate both short and long-term strategies focused on the principles of a balanced budget. These policies ensure proper resource allocation and the continued financial viability of the organization. These policies are reviewed on an annual basis as part of the budget process to ensure continued relevance to the organization's short and long-term goals and objectives. The policies support:

A Balanced Budget

The budget reflects the short term goals of the agency. Following development, adoption and implementation of the annual budget, the CTA continually monitors actual monthly financial performance against the budget. Each month CTA performs a detailed line-by-line analysis of revenues and expenses to determine operating variances. This includes reviewing position headcount, analyzing material and other expenses, examining revenue scenarios for potential shortfalls, applying seasonality spread in relation to business activities, and conducting continuous audits to ensure a balanced budget. Where potential year-end variances to budget are projected, CTA uses various strategies to manage the variance in order to ensure a balanced budget. A monthly financial performance report is produced and reported to the CTA and RTA boards for their review.

The RTA statute requires CTA to have a balanced budget each year. As such, CTA takes care in the development of its budget to ensure that assumptions and estimates used to develop the budget are reasonable. CTA analyzes data from recent years and develops forecasts that are built on actual expense trends. CTA also researches market trends and consultants' studies that could impact fuel and healthcare expenses. All expenses match available revenues at the time of the budget, including system-generated revenue, public funding, and other revenue.

Long-Range Planning

The CTA also develops a longer range plan for the period beyond the current budget and two-year financial plan. This 10-year plan assesses the implications of current and proposed budget and policy priorities and financial assumptions. Additionally, external economic studies, demographics and traffic patterns are used to estimate the future transit needs of the Chicago metropolitan area, as well as to establish the future system requirements of the CTA. Current infrastructure needs, as well as system growth needs, are developed, prioritized and incorporated in the long-term plan.

Each year, CTA conducts internal and external audits to test the adequacy of the CTA's internal control system. Where weaknesses are identified, CTA takes immediate action to correct such weaknesses to ensure a sound internal control system.

Capital Investment Planning

CTA continuously maintains an inventory and assessment of the condition of all major capital assets. A detailed 5-year capital program prioritizes the short term capital needs in order to bring the system to a state of good repair and maximize customer benefits in the regional transit system. A 20-year capital program condition and assessment report provides a broader list of CTA's capital investment needs.

REVENUE POLICIES

A clear understanding of CTA revenue sources is essential to maintaining a balanced budget and providing quality service to customers. CTA has policies in place designed to address:

Revenue Diversification

CTA's revenue diversification policy allows the agency to manage potential fluctuations in individual revenue streams. CTA encourages its organizational units to submit additional revenue ideas for consideration. The CTA has embarked upon numerous alternative revenue enhancements, such as vending machines and ATMs on the system, wireless communications in the subway tunnels, and parking under the elevated right-of-way. Additionally, creative financing transactions have produced millions of dollars over the past few years for the CTA. The CTA continues to find ways to enhance system advertising, charter, and concession revenues, as well as revenue from investments.

Use of One-Time Revenues

Extraordinary revenues from the sale of surplus assets provide one-time benefits to the CTA. These additional revenues are used to fund expense items that are non-recurring.

EXPENDITURE POLICIES

Prudent expenditure planning, monitoring and accountability are key elements of fiscal stability. As such, the CTA maintains policies with respect to:

Debt Capacity, Issuance and Management

These policies serve as a management tool to ensure CTA a) may utilize leverage as part of its overall funding strategy to speed up investment in the system, b) utilizes debt in the most efficient and effective manner to fund operating and capital improvement programs, and c) makes full and timely repayment of all borrowings. Additionally, the policy provides broad guidelines to ensure that the agency 1) achieves the lowest possible cost of capital within prudent risk parameters, 2) secures ongoing access to the capital markets and 3) authorizes the appropriate amount, type and structure of debt for various financing situations.

Reserve Accounts

To protect against temporary revenue shortfalls or unpredicted one-time expenditures, the RTA maintains a fund balance to provide funding to the service boards. These reserve amounts can be used for potentially large one-time expenditures.

8 Financial Policy

Expenditure Accountability

Every month, CTA compares its operating and capital performance to budget. Any deviations from budget are reviewed and corrective measures are implemented by appropriate organizational units. Each unit is responsible for maintaining budget compliance. Actual capital expenditures to budget are also reviewed monthly and adjustments to capital projects spending are made accordingly.

9 Economic Indicators

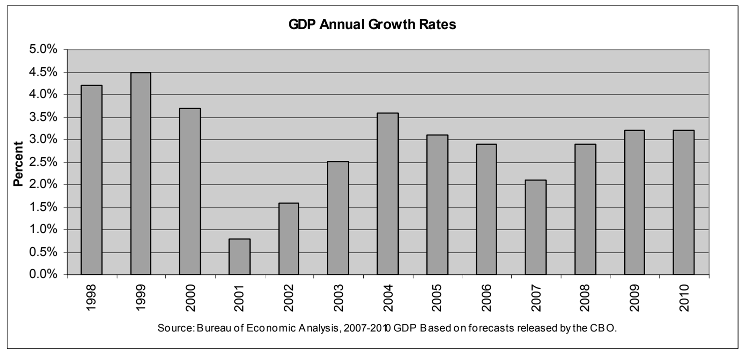
Overall

The Congressional Budget Office (CBO) forecasts a stable economy in the upcoming year. However, there are concerns about elevated fuel costs and the slumping housing market leading to slow growth in the economy. In 2007, a decrease in consumer spending coupled with a weakened housing market led to a slow down in economic conditions. Though conditions in the housing market are expected to improve in 2008, there are still concerns regarding the longer-term effects of the recent credit crunch.

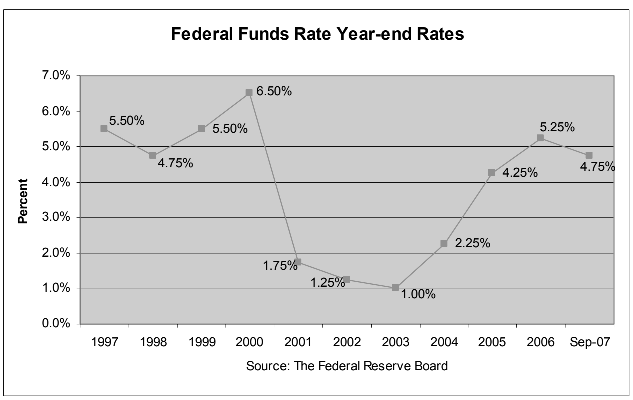
Gross Domestic Product (GDP)

According to the CBO, real GDP grew at an estimated rate of 3.3 percent in 2006.

GDP growth rates are forecast to slow to 2.1 percent in 2007 but increase in 2008 to 2.9 percent.



Federal Funds Rate

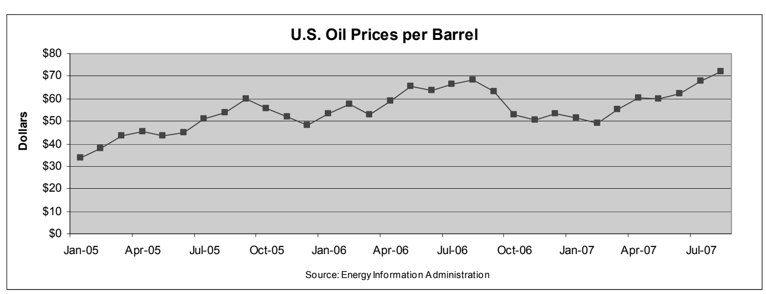


The Federal Funds Rate is the interest rate at which banks lend balances at the Federal Reserve to other banks overnight and is set by the Federal Open Market Committee. The committee's long term goals are price stability and sustainable economic growth in the economy.

In September 2007, the Federal Funds Rate was lowered for the first time in four years. After holding steady at 5.25 percent since June 2006, the Fed reduced the rate to 4.75 percent. The reduction was designed to boost economic growth by lowering the cost of borrowing for consumers and businesses. Before June 2006, the rate increased steadily in quarter percentage increments from 1.0 percent in June 2003.

U.S. Oil Prices per Barrel

Crude oil prices reached a record high in September 2007 as oil futures traded briefly at over $80 per barrel. Crude oil prices are projected to average $71 per barrel in 2008 due to increased consumption growth and moderate growth in supply.

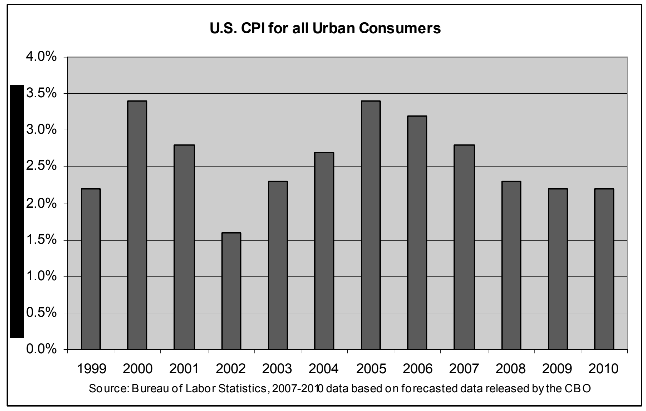


Consumer Price Index (CPI)

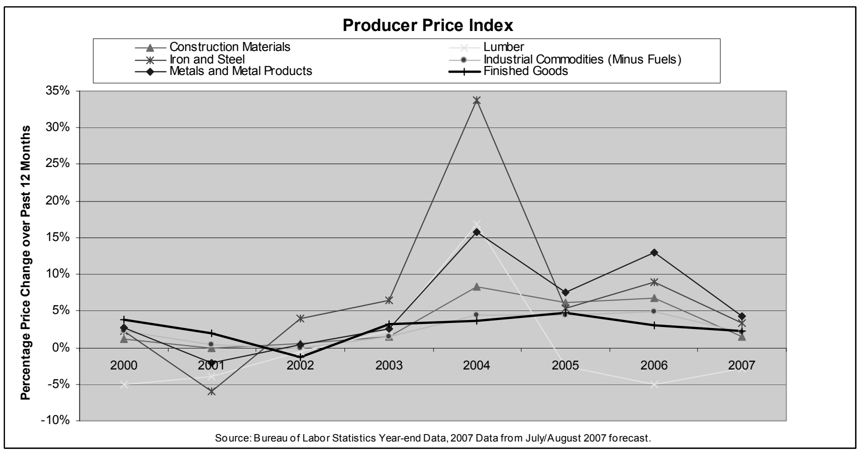
9 Economic Indicators

CPI measures the level of prices of consumable goods and services bought by households. A change in CPI is a measure of inflation and describes changes in the cost of living. In 2006, the CPI was estimated at 3.2 percent.

According to the CBO, prices are expected to increase at a slower rate in the next few years. The 2007 forecasted CPI is 2.8 percent and the CPI for 2008 is projected at 2.3 percent.



Producer Price Index (PPI)

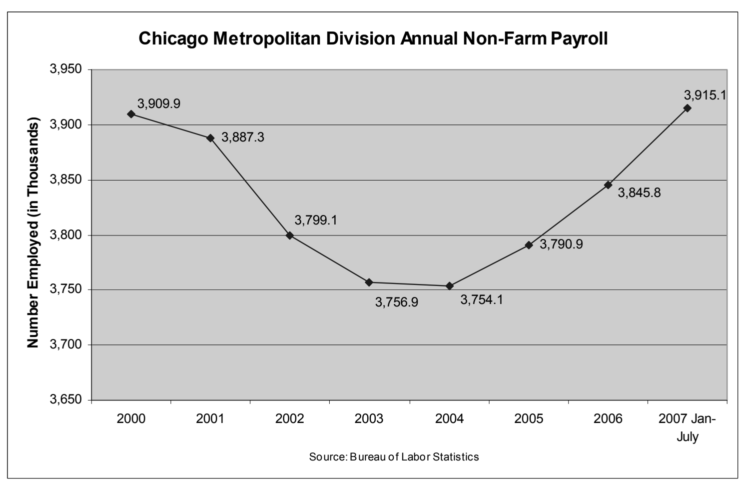


PPI measures the average change over time in the prices received by domestic producers of goods and services. It is also used to measure real growth in output.

The PPI for finished goods fell 1.4 percent in August 2007, following a 0.6 percent increase in July 2007 and a 0.2 percent decrease in June 2007.

Non-Farm Payroll

Non-farm employment grew by 1.1 percent between July 2006 and July 2007 in the eight-county Chicago area. The professional and business services sectors added the most jobs, followed closely by the education and health services sectors. While five of the region's industry sectors added at least 2,900 new jobs over the past year, the manufacturing sector reported declines of 4,000 or more jobs.

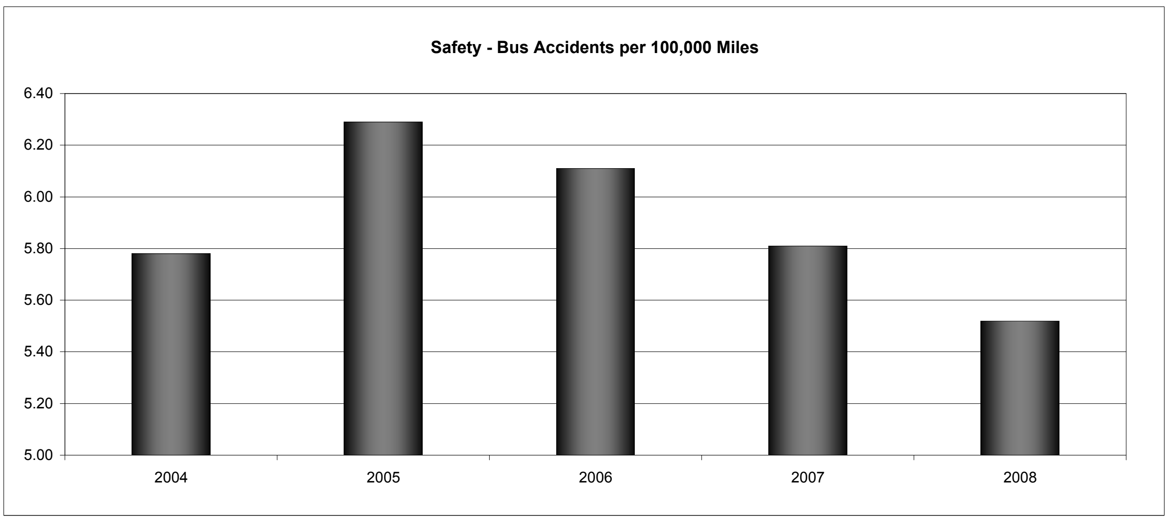


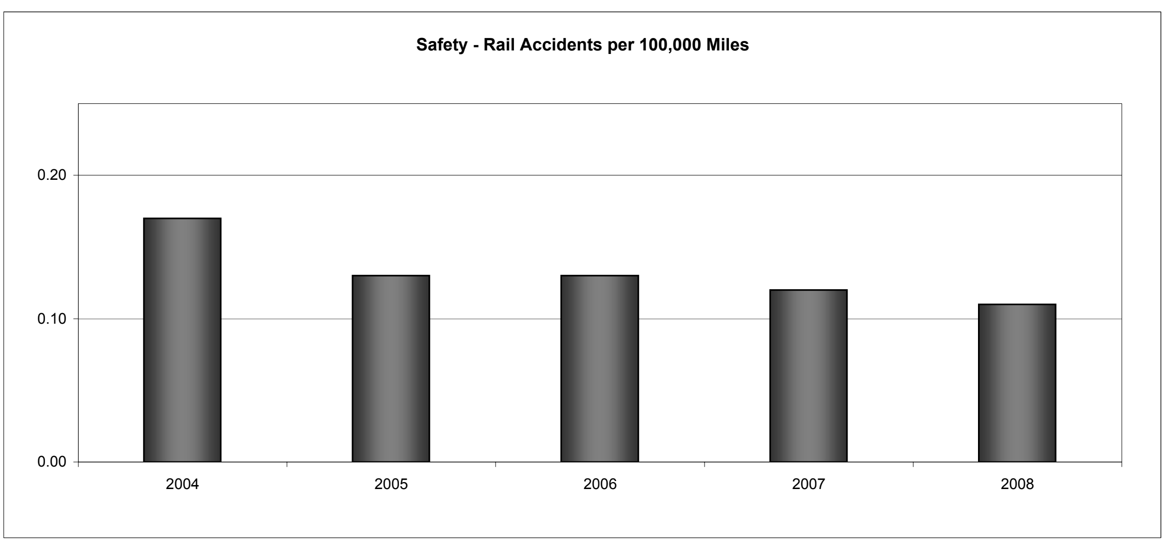
According to the CBO, the national unemployment rate is expected to increase to 4.7 percent in 2008 from 4.5 percent in 2007. Despite a net increase in the number of jobs in the eight-county metropolitan area, the unemployment rate increased in the City of Chicago from 5.6 percent to 6.5 percent between July 2006 and July 2007.

10 Operating Statistics - System

CHARACTERISTICS	2004 Actual*	2005 Actual*	2006 Actual	2007 Forecast**	2008 Budget
Ridership					
Avg. Daily Weekday	1,425,790	1,481,695	1,596,351	1,588,097	1,485,878
Avg. Daily Saturday	869,631	899,161	966,316	955,530	932,628
Avg. Daily Sunday	582,201	621,450	662,402	671,146	659,113
System Wide Ridership	474,951,456	492,404,000	494,803,000	493,638,785	454,802,352
Expense					
Top Operator Rate	$23.70	$24.47	$25.33	$26.09	$26.87
Capital Expenditures	$457,699,068	$402,951,311	$640,447,427	$662,110,642	$689,373,000
Revenue					
Average Fare per Trip (NTD)	$0.85	$0.85	$0.93	$0.93	$1.03
Public Funding per Trip (NTD)	$0.93	$1.01	$1.06	$1.07	$1.04
Safety (Reported & Blind)					
Bus Accidents per 100,000 Miles	5.78	6.29	6.11	5.81	5.52
Rail Accidents per 100,000 Miles	0.17	0.13	0.13	0.12	0.11

* 2004-2005 Statistics for Avg. Daily Ridership do not include rail-to-rail transfers.
** 2007 Avg. Daily Ridership is based on July 2007 YTD actual

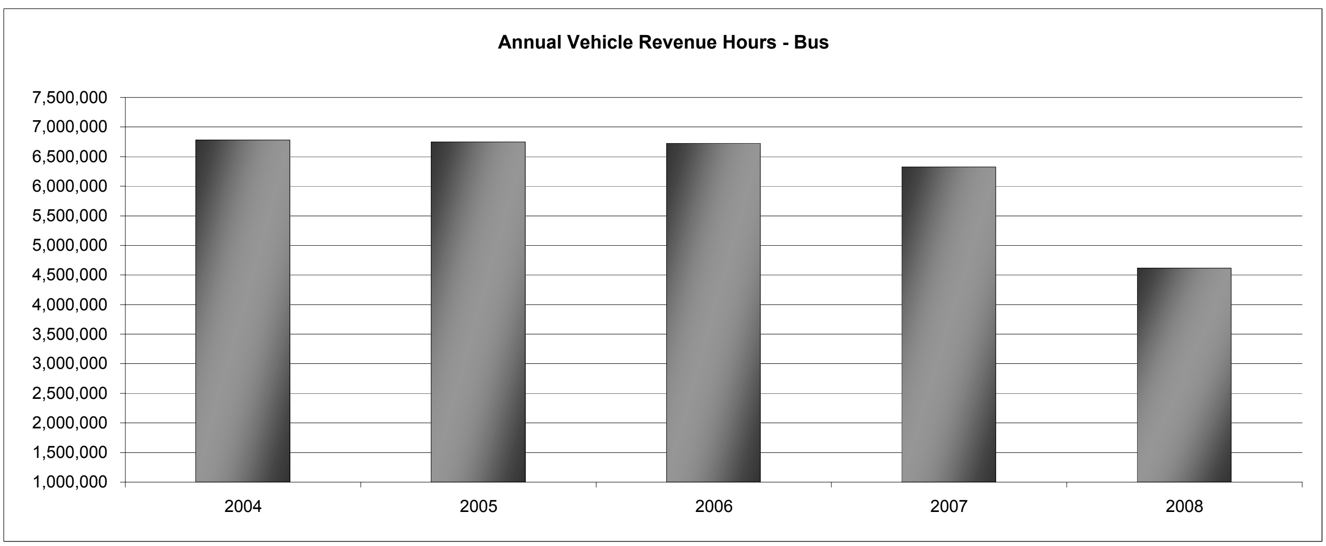




11 Operating Statistics - Bus

CHARACTERISTICS	2004 Actual	2005 Actual	2006 Actual	2007 Forecast*	2008 Budget*
Expenses					
Scheduled Transportation Expense	$ 271,533,889	$ 267,131,081	$ 294,371,797	$ 338,203,463	$ 318,148,398
Garage Maintenance Expense	$ 86,637,790	$ 83,458,941	$ 149,523,221	$ 115,727,379	$ 62,338,869
Support Expense	$ 22,309,490	$ 20,784,554	$ 21,859,622	$ 21,247,294	$ 5,348,485
Heavy Maintenance Expense	$ 34,245,369	$ 30,886,169	$ 34,746,708	$ 33,459,521	$ 30,144,140
Fuel Expense	$ 30,093,000	$ 45,788,000	$ 57,470,000	$ 68,614,000	$ 48,467,000
Other Expenses	$ 18,992,225	$ 16,232,068	$ 16,746,103	$ 17,660,100	$ 14,898,643
Total Operating Expense - Bus	$ 463,811,763	$ 464,280,813	$ 574,717,451	$ 594,911,757	$ 479,345,535
Miles					
Annual Vehicle Revenue Miles	69,334,000	68,346,000	70,337,000	71,847,733	50,697,628
Trips					
Annual Unlinked Trips (NTD)	294,030,775	303,244,000	298,433,228	304,092,085	261,779,352
Vehicles					
Annual Vehicle Revenue Hours (NTD)	6,782,813	6,748,105	6,723,365	6,324,449	4,617,449
Vehicles Operated in Max. Service	1,735	1,704	1,797	1,536	1,115
Vehicles Owned by CTA (at Fall Fleet Assignment)	2,017	2,033	2,089	1,797	1,304
Average Age of Vehicles	8.9	9.4	9.4	6.6	3.7

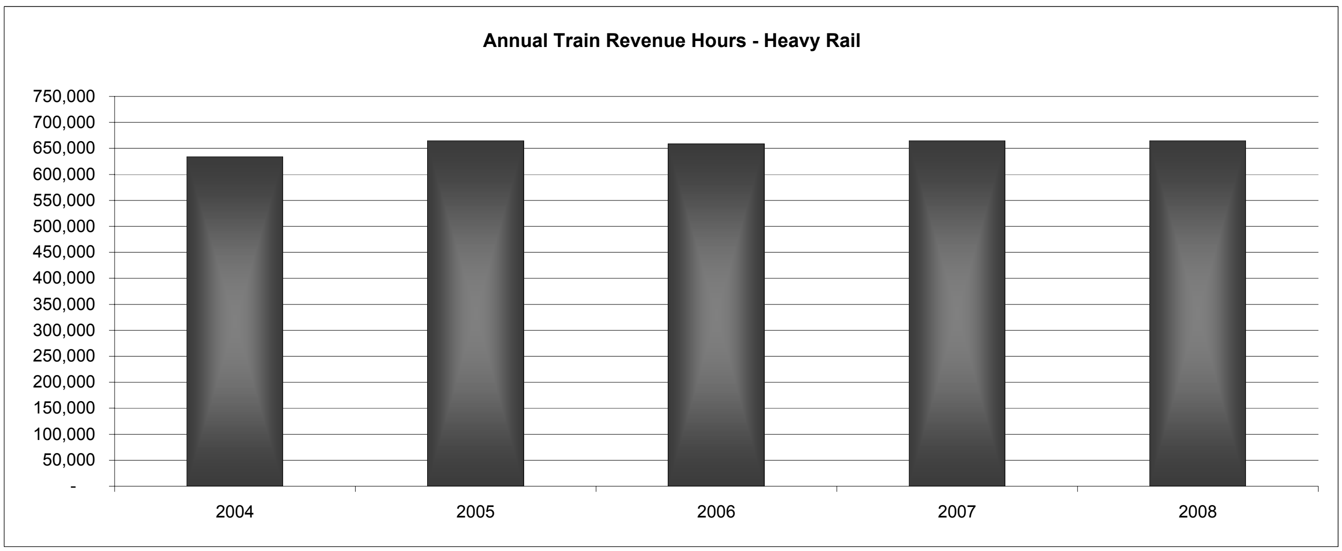
* Assumes no new funding.



12 Operating Statistics - Heavy Rail

CHARACTERISTICS	2004 Actual	2005 Actual	2006 Actual	2007 Forecast*	2008 Budget*
Expenses					
Scheduled Transportation Expense	$ 76,698,270	$ 83,501,031	$ 90,069,541	$ 90,760,742	$ 93,756,792
Terminal Maintenance Expense	$ 31,292,618	$ 33,100,142	$ 42,951,459	$ 45,044,641	$ 48,166,856
Support Expense	$ 23,558,206	$ 25,140,426	$ 25,939,038	$ 25,395,660	$ 31,124,012
Heavy Maintenance Expense	$ 6,393,109	$ 8,100,342	$ 7,943,783	$ 8,762,506	$ 9,537,227
Rail Car Appearance Expense	$ 10,009,807	$ 10,099,645	$ 11,146,775	$ 11,565,363	$ 14,945,083
Other Expenses	$ 3,820,149	$ 3,813,647	$ 2,941,536	$ 3,090,003	$ 3,492,520
Total Operating Expense - Rail	$ 151,772,159	$ 163,755,233	$ 180,992,131	$ 184,618,915	$ 201,022,489
Power Expense	$ 21,640,000	$ 22,909,000	$ 22,268,274	$ 29,074,000	$ 29,797,000
Miles					
Annual Rail Car Revenue Miles	66,806,000	67,800,000	68,311,000	66,971,599	65,282,540
Trips					
Annual Unlinked Trips (NTD)	178,716,456	186,759,000	195,169,000	189,546,700	196,007,510
Vehicles					
Annual Train Revenue Hours (NTD)	634,134	665,240	659,088	665,068	665,068
Vehicles Operated in Max. Service	978	984	1,002	1,008	1,008
Vehicles Owned by CTA (at Fall Fleet Assignment)	1,190	1,190	1,190	1,190	1,190
Average Age of Vehicles	21.0	22.0	23.0	24.0	25.0

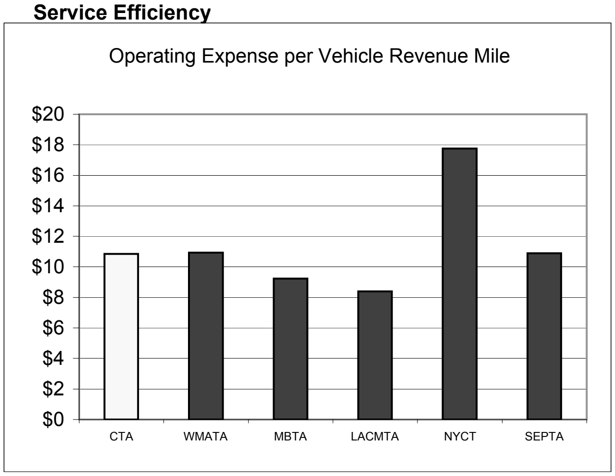
* Assumes no new funding.

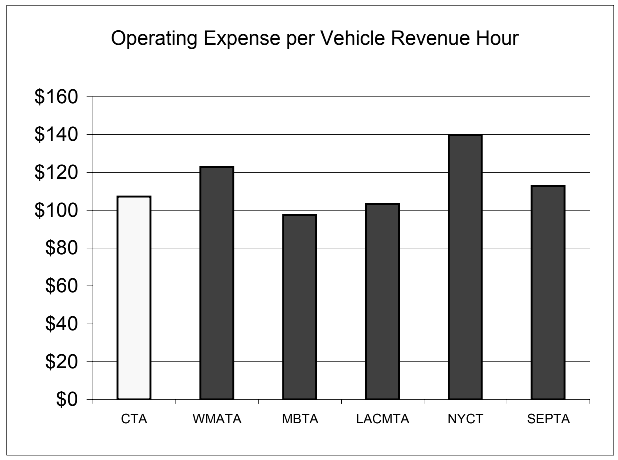


13 Comparative Performance Analysis - Bus

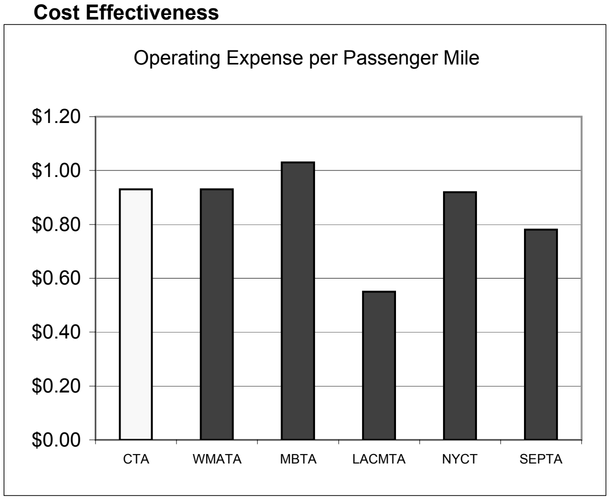
PERFORMANCE MEASURES		Comparison Group				
Service Efficiency	**CTA**	WMATA	MBTA	LACMTA	NYCT	SEPTA
Operating Exp./Vehicle Rev. Mile	$10.84	$10.93	$9.24	$8.40	$17.76	$10.89
Operating Exp./Vehicle Rev. Hour	$107.30	$122.77	$97.65	$103.29	$139.72	$112.86
Maint. Employees/Million Vehicle Rev. Mile	15.09	20.05	18.58	16.08	40.94	20.76
Cost Effectiveness						
Operating Exp./Passenger Mile	$0.93	$0.93	$1.03	$0.55	$0.92	$0.78
Operating Exp./Unlinked Trip	$2.39	$2.74	$2.01	$2.05	$1.89	$2.30
Administrative Exp./Vehicle Rev. Hour	$10.77	$17.72	$10.84	$19.27	$15.09	$18.64
Service Effectiveness						
Unlinked Trips/Vehicle Rev. Mile	4.54	3.99	4.60	4.10	9.40	4.73
Unlinked Trips/Vehicle Rev. Hour	44.94	44.81	48.58	50.42	74.00	49.07

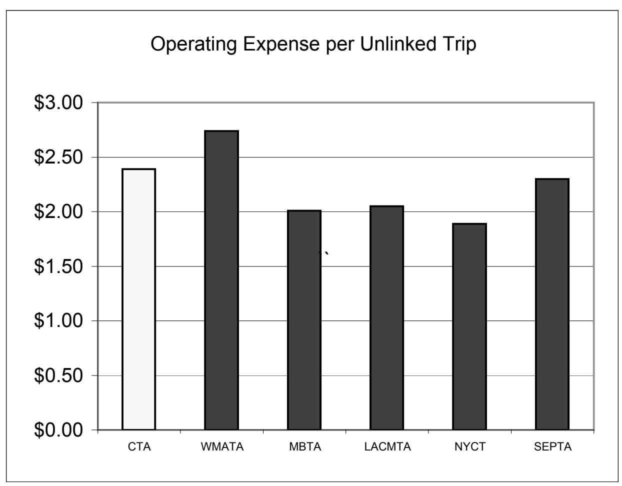
Service Efficiency





Cost Effectiveness



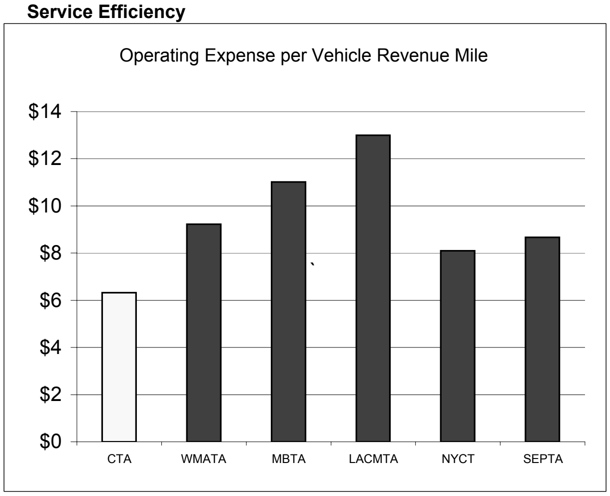


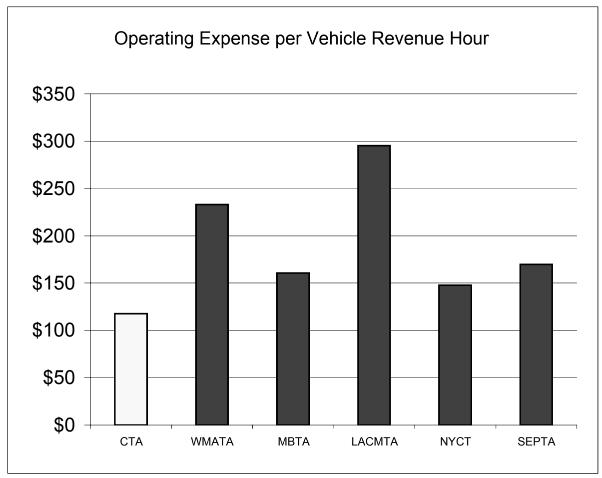
Data obtained from 2005 "Transit Profiles - The Thirty Largest Agencies" published by the National Transit Database Program.

14 Comparative Performance Analysis - Rail

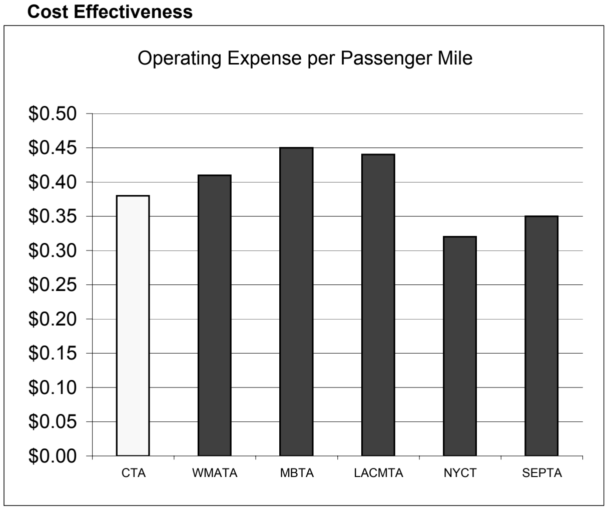
PERFORMANCE MEASURES	CTA	Comparison Group WMATA	MBTA	LACMTA	NYCT	SEPTA
Service Efficiency						
Operating Exp./Vehicle Rev. Mile	$6.32	$9.22	$11.01	$13.00	$8.10	$8.67
Operating Exp./Vehicle Rev. Hour	$117.77	$232.83	$160.54	$295.20	$147.82	$169.74
Maint. Employees/Million Vehicle Rev. Mile	8.95	16.09	14.94	20.93	15.37	16.99
Cost Effectiveness						
Operating Exp./Passenger Mile	$0.38	$0.41	$0.45	$0.44	$0.32	$0.35
Operating Exp./Unlinked Trip	$2.33	$2.21	$1.61	$2.11	$1.51	$1.58
Administrative Exp./Vehicle Rev. Hour	$17.19	$46.35	$18.71	$54.36	$16.97	$20.23
Service Effectiveness						
Unlinked Trips/Vehicle Rev. Mile	2.71	4.17	6.82	6.17	5.37	5.50
Unlinked Trips/Vehicle Rev. Hour	50.51	105.44	99.52	140.20	98.13	107.63

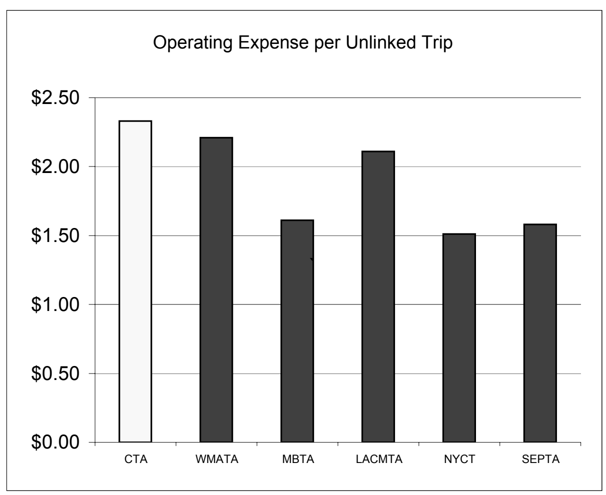
Service Efficiency





Cost Effectiveness

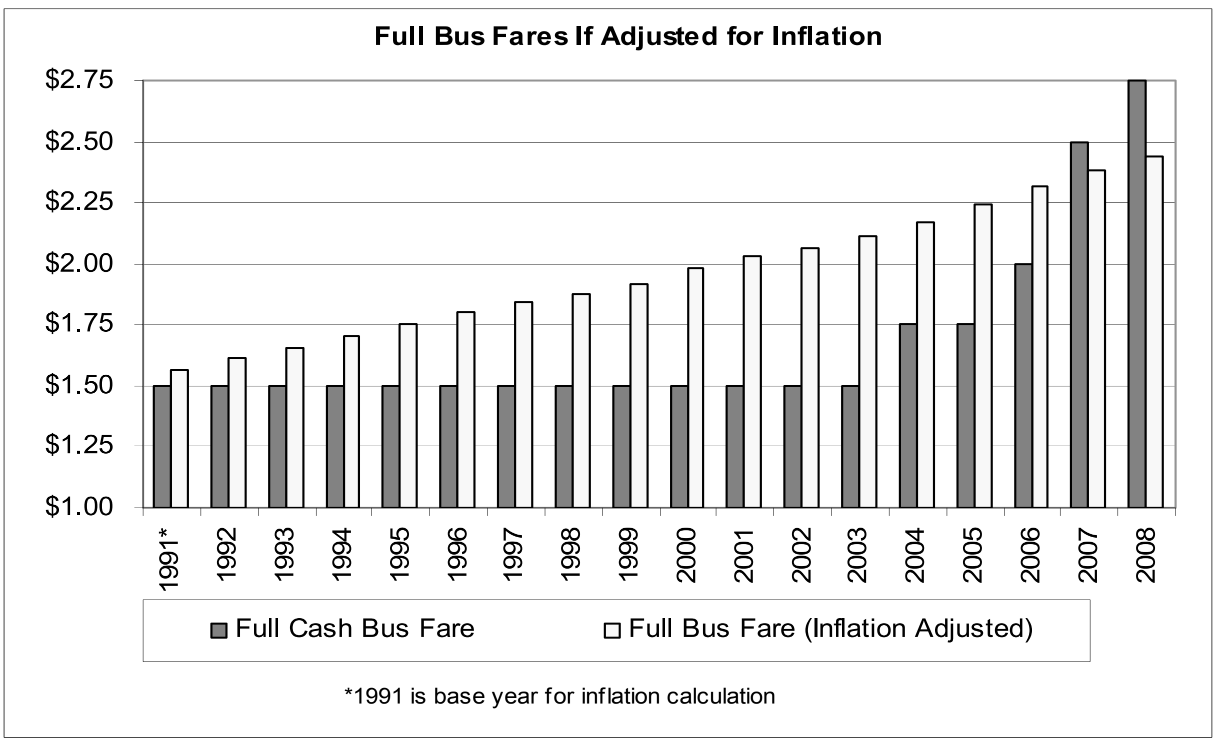




Data obtained from 2005 "Transit Profiles - The Thirty Largest Agencies" published by the National Transit Database Program.

15 CTA Fare Structure

CTA Fare Types	Current Fare Structure (effective 1/1/2006)	Contingency Fare Structure (Nov 2007)	Contingency Fare Structure (Jan 2008)
Regular Full Fare Cash[1]	$2.00 (bus); $2.00 (rail)	$2.50 (bus); $2.50 (rail)	$2.75 (bus); $2.75 (rail)
Regular Full Fare Transit Card (TC)	$1.75 (bus); $2.00 (rail)	$2.00 (bus); $2.50 (rail)	$2.25 (bus); $2.75 (rail)
Regular Full Fare Chicago Card (CC)	$1.75 (bus); $1.75 (rail)	$2.00 (bus); $2.00 (rail)	$2.25 (bus); $2.25(rail)
Peak Full Fare Cash[1, 2]	Same as regular	$2.50 (bus); $3.00 (rail)	$2.75 (bus); $3.25 (rail)
Peak Full Fare Transit Card (TC)	Same as regular	$2.00 (bus); $3.00 (rail)	$2.25 (bus); $3.25 (rail)
Peak Full Fare Chicago Card (CC)	Same as regular	$2.00 (bus); $2.00 (rail)	$2.25 (bus); $2.50 (rail)
Regular TC or CC Transfer[3]	$0.25	$0.25	$0.25
Peak TC or CC Transfer	$0.25	$0.25	$0.25
Chicago Card Bonus[4]	10%	10%	10%
1-Day Pass	$5.00	$6.00	$7.00
2, 3, 5-Day Visitor Passes	$9, $12, $18	$10, $14, $21	$11, $15, $23
Full Fare 7-Day Pass	$20.00	$23.00	$25.00
Full Fare 30-Day Pass	$75.00	$84.00	$94.00
Regular Reduced Fare Cash	$1.00	$1.00	$1.00
Regular Reduced Fare TC	$0.85	$0.85	$0.85
Peak Reduced Fare Cash	Same as regular	Same as regular	Same as regular
Peak Reduced Fare TC	Same as regular	Same as regular	Same as regular
Reduced Fare TC/CC Transfer	$0.15	$0.15	$0.15
Peak Reduced TC or CC Transfer	$0.15	$0.15	$0.15
Reduced Fare 30-Day Pass	$35.00	$35.00	$35.00



[1] Rail customers paying fares with cash must first add value to a Transit Card using vending machines located in each station.
[2] Peak periods are 6:30-9:30 AM and 4:00-7:00 PM weekdays.
[3] A transfer allows two additional rides within two hours of issuance and are not available to customers paying fares with cash.
[4] For every $20 purchase of pay-per-use fares, $22 of value is added to the card.

16 Comparative Fare Structure

Fare Structures of CTA Peer Transit Agencies as of September 1, 2007

CITY (SYSTEM)	Full Cash Bus Fare	Express Bus Fare	Full Cash Rail Fare	Reduced Fare (Senior/Disabled)
CHICAGO (CTA)	**$2.00**	**-**	**$2.00**	**$0.85**
NEW YORK CITY (NYCT)	$2.00	$5.00	$2.00	$1.00
PHILADELPHIA (SEPTA)	$2.00	-	$2.00[1]	$0.00-$2.00[2]
ATLANTA (MARTA)	$1.75	-	$1.75	$0.85
WASHINGTON D.C. (WMATA)	$1.25	$3.00	$1.35-$3.90[3]	$0.60 Bus; Half-price Rail
LOS ANGELES (LACMTA)	$1.25	$1.85-$2.45[4]	$1.25	$0.55
BOSTON (MBTA)	$1.50	$3.50-$5.00	$2.00[5]	$0.40 (Bus) $0.60 (Rail)

(1) SEPTA: Subway Fare is $2.00; Regional Rail Fares range from $3.50-$9.00 with peak/off-peak rates.
(2) SEPTA: Seniors ride free at all times. Disabled fares vary depending on mode and hours traveled. Full-fare during peak hours, discount for off-peak hours.
(3) WMATA: Subway fares are zone-based and range from $1.35-$3.90.
(4) LACMTA: Freeway Express routes.
(5) MBTA: $2.00 cash subway fare; Commuter Rail Fares are zone-based and range from $1.70-$7.75.

CTA Historical Fare Structure[1]	Full Cash Bus Fare	Full Cash Rail Fare	Transfer Charge[2]	Reduced Fare
2001	$1.50	$1.50	$0.30	$0.75
2002	$1.50	$1.50	$0.30	$0.75
2003	$1.50	$1.50	$0.30	$0.75
2004	$1.75	$1.75	$0.25	$0.85
2005	$1.75	$1.75	$0.25	$0.85
2006	$2.00	$2.00	$0.25	$0.85
2007	$2.00	$2.00	$0.25	$0.85
2008[3]	$2.75	$3.25	$0.25	$0.85

(1) As of January 1 of the year listed, except for 2008. 2008 Fares reflect fare increases set to begin on January 6, 2008.
(2) Since January 1, 2006, transfers are available only to customers using Chicago Card and Transit Cards.
(3) Peak period full fares.

17 Acronyms

AC	Alternating Current
ADA	Americans with Disabilities Act
AFC	Automated Fare Collection
APB	Accounting Principles Board
APC	Automatic Passenger Counter
AVAS	Automated Voice Annunciation System
BLS	Bureau of Labor Statistics
BOB	State Bureau of the Budget
CATS	Chicago Area Transportation Study
CBO	Congressional Budget Office
CDOT	Chicago Department of Transportation
CIP	Capital Improvement Program
CPD	Chicago Police Department
CPI	Consumer Price Index
CTA	Chicago Transit Authority
DBE	Disadvantaged Business Enterprise
DC	Direct Current
EIA	Energy Information Administration
ePMO	Enterprise Program Management Office
ERISA	Employee Retirement Income Security Act
ERP	Enterprise Resource Planning
FAA	Federal Aviation Administration
FASB	Financial Accounting Standards Board
FFGA	Full Funding Grant Agreement
FOMC	Federal Reserve Board Open Market Committee
FTA	Federal Transit Administration
FY	Fiscal Year
GAAP	General Accepted Accounting Principles
GASB	Governmental Accounting Standards Board
GDP	Gross Domestic Product
IDOT	Illinois Department of Transportation
MMIS	Maintenance Management Information System
NABI	North American Bus Industries
NTD	National Transit Database
OPEC	Organization of Petroleum Exporting Countries
PBC	Public Building Commission of Chicago
PPA/AV	Platform Public Address/Audio Visual
POB	Pension Obligation Bond
PPI	Producer Price Index
RTA	Regional Transportation Authority
SAFETEA-LU	Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users
SCADA	Supervisory Control And Data Acquisition
SCIP	Strategic Capital Improvement Program
SGR	State of Good Repair
SPTO	Scheduled Part-Time Operator

17 Acronyms

STO	Scheduled Transit Operations
TEA-21	Transportation Equity Act - 21st Century
TCVM	Transit Card Vending Machines
TTI	Texas Transportation Institute

18 Glossary

Accessible	As defined by FTA, a site, building, facility, or portion thereof that complies with defined standards and that can be approached, entered, and used by persons with disabilities.
Accrual Basis	A method of accounting in which revenues are reported in the fiscal period it is earned, regardless of when it is received, and expenses are deducted in the fiscal period they are incurred, whether they are paid or not.
ADA	The Americans with Disabilities Act of 1990. This federal act requires many changes to ensure that people with disabilities have access to jobs, public accommodations, telecommunications, and public services, including public transit. Examples of these changes includes mandating that all new buses and rail lines be wheel chair accessible, and that alternative transportation be provided to customers unable to access the transit system.
AFC	Automated fare collection system.
Accounting Principles Board (APB)	The APB established opinions and statements which were instrumental in improving the theory and practice of significant areas of accounting.
Articulated Bus	A high capacity passenger bus that flexes in the middle.
Bond	An interest-bearing promise to pay a specified sum of money on a specified date.
Capital Budget	A formal plan of action for a specified time period for purchases of fixed assets using capital grants.
Capital Expense	Expenditures that acquire, improve, or extend the useful life of any item with an expected life of three or more years and a value of more than $5,000, e.g. rolling stock, track and structure, support facilities and equipment, and stations and passenger equipment. It can also include the costs associated with the long-term maintenance of these assets such as bus overhaul programs, rail overhaul programs, and preventative maintenance. Also referred to as a capital improvement.
Capital Grant	Funds received from grantor funding agencies used to finance construction, renovation, and major repairs or the purchase of machinery, equipment, buildings or land.
Chicago Card	A stored-value farecard that has an imbedded microchip that can be read to register fares by the fare equipment when touched to the touchpad on the front of rail station turnstiles and bus fareboxes on all CTA routes and Pace buses. Value is added with cash at CTA vending machines or off-site Touch-n-Go devices.

18 Glossary

Chicago Card Plus	A farecard with its balance maintained in an online account rather than stored on the card itself. Value is added with credit cards or through electronic transit benefit deductions only. The card also features online reloading — customer accounts automatically reload each time their account value falls below the pre-selected reload amounts.
Collar Counties	The five counties that surround Cook County as identified in the RTA Act. Collar counties include Will, Kane, DuPage, Lake, and McHenry.
Congestion Pricing	A method of pricing that varies during the time of travel. During peak travel times, customers are charged a higher fare than during off-peak travel times.
Corridor	A defined study area considered for significant transportation projects such as highway improvements, bus transitways, rail lines, or bikeways (e.g. Dan Ryan corridor, Western Avenue corridor).
Consumer Price Index (CPI)	A statistical description of price levels provided by the U.S. Department of Labor. The index is used as a measure of the increase in the cost of living (i.e. economic inflation).
Deferred Operating Assistance	Operating funds remaining from a prior year as a result of a budget surplus that can be used to cover shortfalls or capital expenditures in future years. Spending is allowed only after RTA budgetary approval.
Depreciation	An accounting term that recognizes the loss in value of a tangible fixed asset over time attributable to deterioration, obsolescence, and impending retirement. Applies particularly to physical assets like vehicles, equipment and structures.
Discretionary Funds	Funds that the RTA allocates, at its discretion, to the Service Boards. These funds include Public Transportation Funds and a portion of the 15 percent of the RTA Sales Tax.
DriveCam Technology	A driver risk management system that is designed to monitor, evaluate, and identify driving behavior of CTA bus operators as a means to prevent accidents, increase safety, and reduce the cost of repairs and accident claims.
ERISA	The Employee Retirement Income Security Act of 1974. ERISA is a federal law that sets minimum standards for most voluntarily established pension and health plans in private industry to provide protection for individuals in these plans.
Fare	The amount charged to passengers for bus and rail services.
Farebox	Equipment used for the collection of bus fares.

18 Glossary

Farecard	Electronic fare media used for payment of fares.
Federal Funds Rate	The Federal Funds Rate is the interest rate at which banks lend balances at the Federal Reserve to other banks overnight. The rate is set by the Federal Open Market Committee (FOMC). The FOMC's long term goals are price stability and sustainable economic growth in the economy.
FICA	Federal Insurance Contributions Act. Social Security payroll taxes are collected under authority of FICA.
Financial Accounting Standards Board (FASB)	The FASB establishes and improves standards of financial accounting and reporting for the guidance and education of the public, including issuers, auditors, and users of financial information.
Financial Plan	In addition to an annual budget, the Regional Transportation Authority Act, amended in 1983, requires that all transit agencies prepare a financial plan encompassing the two years subsequent to the budget year. This provides a three-year projection of expenses, revenues, and public funding requirements.
Fiscal Year	A fiscal year is a 12-month period used for calculating annual financial reports in organizations. CTA's fiscal year is synonymous with the calendar year and begins on January 1 and ends on December 31.
Fixed-Route Service	Buses that operate according to fixed schedules and routes (in contrast to demand-response service).
Federal Transit Administration (FTA)	The Federal Transit Administration is the federal agency which provides financial and planning assistance to help plan, build, and operate rail, bus and paratransit systems through grant programs.
Full Funding Grant Agreement (FFGA)	Grant agreements authorized under federal transit law that establish the terms and conditions for federal financial participation in a New Starts project. The FFGA defines the project; sets the maximum amount of Federal new starts funding for a project; covers the period of time for completion of the project; and facilitates efficient management of the project in accordance with applicable federal statutes, regulations, and policy.
Fund Balance	The excess of funding over deficit for a given period of time. Refers to the unreserved/undesignated funds. Annual budget surpluses (or deficits) generally add to (or subtract) from the fund balance.

18 Glossary

Funding (Budget) Marks	The Regional Transportation Authority Act, as amended in 1983, calls for RTA to advise each of its Service Boards by September 15th of the public funding to be available for the following year, as well as the required recovery ratio.
Generally Accepted Accounting Principles (GAAP)	GAAP is the standard framework of guidelines for financial accounting, mainly used in the U.S.A.. It includes the standards, conventions, and rules accountants follow in recording and summarizing transactions, and in the preparation of financial statements.
Governmental Accounting Standards Board (GASB)	The Governmental Accounting Standards Board establishes and improves standards of state and local governmental accounting and financial reporting.
Gross Domestic Product (GDP)	Gross Domestic Product. A measure of economic activity, it is the amount of goods and services produced in the United States in a year. It is calculated by adding together the market values of all of the final goods and services produced in a year and reported by the Bureau of Economic Analysis.
Headway	The time span between service vehicles (bus or rail) on specified routes. Also called service frequency.
Heavy Rail	An electric railway with the capacity for a heavy volume of traffic. Heavy rail is characterized by high-speed passenger rail cars and trains operating on fixed rails in separate rights-of-way from which all other vehicular and foot traffic is excluded.
Illinois FIRST	Illinois Fund for Infrastructure, Roads, Schools and Transit. Illinois FIRST is a five-year public works improvement program that allocated capital funds between FY 2000 through FY 2004.
Infrastructure	Capital assets that make up CTA's transportation system, including maintenance facilities, rail track, signals, stations, elevated structures, and power substations.
In-Kind Services	Refers to services provided at no cost to the CTA. For example, the City of Chicago provides dedicated security forces to the CTA at no cost to the CTA.
Intermodal	Transportation by more than one mode (bus, train, etc.) during a single journey.
Labor Base	Labor expense for time actually worked. It excludes holidays, sick time, and vacation time.

18 Glossary

Labor Load	The cost of fringe benefits. The burden includes group health insurance, paid time off, FICA, workers compensation, and retirement obligations.
Metra	The Commuter Rail Division of the RTA responsible for the day-to-day operation of the region's long-distance commuter rail transit service (with the exception of those services provided by the CTA). Metra was created in 1983 by an amendment to the RTA Act.
Moving Beyond Congestion (MBC)	A joint project launched in 2006 by the Regional Transit Authority, CTA, Metra and Pace to address the operating and capital funding challenges for the region, ensure financial viability and accountability and to meet the region's growing and changing transportation needs.
National Transit Database (NTD)	The Federal Transit Administration's (FTA's) primary national database for statistics on the transit industry.
New Starts	The Federal Transit Administration's (FTA) discretionary program that is the federal government's primary financial resource for supporting locally-planned, implemented, and operated transit "guideway" capital investments.
Non-Operating Funds	Expenses funded with capital grants.
Non-Revenue Vehicle	Vehicles that do not carry fare-paying passengers used to support transit operations.
Off Peak Periods	Non rush-hour time periods.
OPEC	The Organization of Petroleum Exporting Countries coordinates the petroleum policies of its members. OPEC member nations supply approximately 40 percent of the world's crude oil and 16 percent of its natural gas.
Operating Budget	Annual revenues and expenses forecast to maintain operations.
Operating Expenses	Costs associated with the day-to-day operation of the delivery of service for a transit agency. Examples of operating expenses include labor, material, fuel, power, security, and professional services.
Operating Revenues	Revenues generated from user fees or other activities directly related to operations such as advertising, concessions, parking, and investment income, etc.
Owl Service	Service that is provided continuously between midnight and 5 a.m. Owl Service is provided only on routes that run 24-hour service.

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Pace	The Suburban Bus Division of the RTA responsible for all non-rail suburban public transit service and all paratransit service. Pace was created in 1983 by an amendment to the RTA Act.
Paratransit Service	Demand-response service utilizing wheelchair-accessible vans and small buses to provide pre-arranged trips to and from specific locations within the service area to certified participants in the program. Paratransit includes demand-response transportation services, subscription bus services and shared-ride taxis.
Passenger Miles	The cumulative sum of the distances traveled by passengers.
Peak Periods	Rush-hour time periods, typically defined as 6:30 a.m. through 9:30 a.m. and 4:00 p.m. through 7:00 p.m., Monday through Friday.
Pension Obligation Bonds	A fixed interest financial asset issued by governments, companies, banks, public utilities and other large entities as a means of borrowing money to refinance an unfunded pension liability.
Performance Management	Performance management is the process of assessing and acting upon progress toward achieving predetermined measures and metrics. All personnel are held accountable to these measures and metrics. CTA implemented a performance management program in May 2007.
Platform Time	The period of time in which a transit vehicle is in operation. Platform time contains time that buses are in revenue service and time required to support revenue service, for example time from a garage to the beginning of a route.
Positive Budget Variance	Calculated as the difference between a service board's budgeted and actual deficit, a positive budget variance results when the actual deficit is less than the budgeted deficit. Since the RTA funds the budgeted deficit, a positive budget variance represents available funds for the service boards.
Producer Price Index (PPI)	A family of indexes from the Bureau of Labor Statistics (BLS) that measures the average changes over time in the prices received by domestic producers of goods and services.
Public Funding	Funding received from the RTA or other government agencies.
Public Transportation Funds (PTF)	Funds transferred from the State of Illinois General Fund into the Public Transportation Fund in an amount equal to 25 percent of RTA Sales Tax collected. All funds deposited are allocated to RTA to be used at its discretion for the benefit of the Service Boards.
Purchase of Paratransit Service	The amount of money paid to contractors who provide transportation to certified participants in the ADA paratransit service program.

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QuicTrack	A system that allows monitoring and identification of rail cars via a graphical map of the CTA track system. The run number, current schedule, and headway are displayed on the map.
Recovery Ratio	The ratio is calculated as system- generated revenues as allowed by the RTA Act. This ratio is calculated for each of the Service Boards and for the RTA region as a whole. The RTA Act mandates that the RTA region must attain an annual recovery ratio of at least 50 percent.
Reduced Fares	Discounted fare for children age 7 – 11, grade school and high school students (with CTA ID), seniors 65 and older (with RTA ID), and riders with disabilities (with RTA ID) except paratransit riders.
Reduced Fare Reimbursement	Reimbursements from the State of Illinois are made to the Service Boards for the difference between standard fares and the reduced fares charged to students, the elderly and the disabled.
Revenue Bond	A certificate of debt issued by an organization in order to raise revenue. It guarantees payment of the original investment plus interest by a specified date. Debt service payment is secured by a specific revenue source.
Revenue Equipment	Includes vehicles that carry fare-paying passengers, and equipment used for the collection of fares.
Ride	A trip taken by passengers on the bus or rail system.
Ridership (Unlinked Passenger Trips)	Each passenger counted each time that person boards a vehicle.
Rolling Stock	Public transportation vehicles, including rail cars and buses.
Regional Transit Authority (RTA)	The Regional Transit Authority is the financial oversight and regional planning body for the three public transit operators in northeastern Illinois: the Chicago Transit Authority (CTA), Metra commuter rail and Pace suburban bus.
Run	Rail or bus operator's assigned period(s) of work on a given day.
SAFETEA-LU	Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU). Federal transit and highway bill signed into act on August 10, 2005 authorizing $286.4 billion nationwide through 2009, including $52.6 billion for transit.

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Senate Bill (SB) 572	Illinois Senate Bill that provides a stable funding source for the future needs of the transit agencies of Northeastern Illinois. The bill includes a sales tax increase of 0.25 percent sales tax in the six-county Chicagoland. The CTA would receive 48 percent of this new sales tax revenue. The bill also includes a 1 percent increase in the real estate transfer tax for the City of Chicago; 30 percent of these funds will be directed to the CTA. The state would also provide a 25 percent match on new revenues by the year 2010.
Senate Bill (SB) 1977	Illinois Senate Bill that stipulates that CTA must make annual contributions to the CTA Pension Fund to achieve a 90 percent funded ratio by the end of 2058 beginning January 1, 2009.
Service Board	CTA, Metra commuter rail, and Pace suburban bus system, as referred to by the Regional Transportation Authority Act
Slow Zone	Sections of track where trains must reduce speed in order to safely operate rail service.
Special Service	A transportation service, as defined by the FTA, specifically designed to serve the needs of persons who, by reason of disability, are unable to use mass transit systems designated for the use of the general public.
Part-time operators (PTO)	Part-time operators are part-time STO personnel restricted to a maximum of 30 hours of work per week. They receive a lower pay rate than full-time operators.
Scheduled Transit Operations (STO)	The scheduled transit operations classification includes bus operators, motormen, conductors, and customer assistants.
System Generated Revenue	Revenue generated internally by CTA. Includes fare revenue, advertising, investment income, income from local governments by provision of the Regional Transportation Authority Act, and subsidies for reduced fare riders per 1989 legislation.
TEA–21	Federal transportation package which reauthorized the Federal Transit Program for the eight years from 1998 to 2005. Grants can pay up to 80 percent of a capital project, with the remaining 20 percent funded from local sources.
Top Operator Rate	The top hourly rate paid to CTA bus and rail operators, based on employee seniority within the job, as specified by the union contract.
Transit Benefit Program	Employer-administered program which allows employees to pay for transit fare media using pre-tax income.

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Trip	A one-way bus trip or a one-way train trip from origin to destination terminal.
Unlinked Passenger Trip	A single boarding of a transit vehicle. A single journey by one passenger, consisting of one or more unlinked trips is considered a linked trip.
Vehicle Revenue Hours	The hours that vehicles travel while in revenue service. Vehicle revenue hours include recovery time but exclude travel to and from storage facilities.
Vehicle Revenue Miles	Miles that vehicles travel while in revenue service. Vehicle revenue miles exclude travel to and from storage facilities.
Warranty and Credits	Reimbursement for repairs covered by manufacturers' warranty agreements.

Distinguished Budget Presentation Award

2007 marked the 16th consecutive year that CTA has received the distinguished budget award from the Government Finance Officers Association (GFOA) for excellence in budget presentation. To receive this award, the budget document must meet program criteria as a policy document, as an operations guide, as a financial plan, and as a communications device. We believe the 2008 budget document continues to satisfy the award criteria and are again submitting it to GFOA for 2008.

GOVERNMENT FINANCE OFFICERS ASSOCIATION

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