2003 Annual Report

Central Loop
Redevelopment Project Area

Pursuant to 65 ILCS 5/11-74.4-5(d)

JUNE 30, 2004

ERNST & YOUNG

Ernst & Young LLP
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June 30, 2004

Ms. Denise Casalino
Commissioner
Department of Planning and Development
121 North LaSalle Street
Chicago, Illinois 60602

Dear Commissioner:

Enclosed is the annual report for the Central Loop Redevelopment Project Area, which we compiled at the direction of the Department of Planning and Development pursuant to Section 5(d) of the Illinois Tax Increment Allocation Redevelopment Act (65 ILCS 5/11-74.4-1 et seq.), as amended. The contents are based on information provided to us by Chicago Departments of Planning and Development, Finance, and Law. We have not audited, verified, or applied agreed upon accounting and testing procedures to the data contained in this report. Therefore, we express no opinion on its accuracy or completeness.

It has been a pleasure to work with representatives from the Department of Planning and Development and other City Departments.

Very truly yours,

Ernst + Young LLP

Ernst & Young LLP

Central Loop Redevelopment Project Area
2003 Annual Report

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ANNUAL REPORT – CENTRAL LOOP REDEVELOPMENT PROJECT AREA IN COMPLIANCE WITH SECTION (d) OF 65 ILCS 5/11-74.4-5.

City of Chicago
Richard M. Daley, Mayor

Department of Planning and Development

Denise M. Casalino, P.E.
Commissioner

City Hall, Room 1000
121 North LaSalle Street
Chicago, Illinois 60602
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June 30, 2004

The Honorable Daniel Hynes
Comptroller
State of Illinois
Office of the Comptroller
201 Capitol
Springfield, IL 62706

Dear Comptroller Hynes:

We have compiled the attached information for the Central Loop Redevelopment Project Area (Report) pursuant to 65 ILCS 5/11-74.4-5(d).

Sincerely,

Denise Casalino
Commissioner

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(1) DATE OF DESIGNATION OR TERMINATION - 65 ILCS 5/11-74.4-5(d)(1.5)

The Project Area was designated on June 20, 1984. The Project Area may be terminated no later than June 20, 2007.

Note: Incremental tax revenues levied in the 23rd tax year are collected in the 24th tax year. Although the Project Area will expire in Year 23 in accordance with 65 ILCS 5/11-74.4-3(n)(J)(3), the incremental taxes received in the 24th tax year will be deposited into the Special Tax Allocation Fund.

(2) AUDITED FINANCIALS - 65 ILCS 5/11-74.4-5(d)(2)

Please see attached.

Deloitte.

City of Chicago, Illinois
Central Loop Redevelopment Project

Financial Statements for the
Year Ended December 31, 2003
Required Supplementary Information and
Additional Information for the
Year Ended December 31, 2003 and
Independent Auditors' Report

CITY OF CHICAGO, ILLINOIS

CENTRAL LOOP REDEVELOPMENT PROJECT

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Deloitte

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INDEPENDENT AUDITORS' REPORT

To the Honorable Richard M. Daley, Mayor, and
Members of the City Council
City of Chicago, Illinois

We have audited the accompanying financial statements of the government-wide activities, governmental funds and agency fund of the City of Chicago, Illinois' ("City") Central Loop Redevelopment Project (the "Project") as of and for the year ended December 31, 2003, which collectively comprise the Project's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these combined financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the respective net assets or financial position of the government-wide activities and governmental funds and the agency fund of the Project as of December 31, 2003, and the respective changes in their financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 to 5 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the City's management. We have applied certain limited procedures that consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and we express no opinion or any other form of assurance on it.

Our audit was conducted for the purpose of forming an opinion on the Project's respective financial statements that collectively comprise the Project's basic financial statements. The additional information (page 16), which is also the responsibility of the City's management, is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is required by the Illinois Tax Increment Financing Act of 1997. Such additional information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, when considered in relation to the basic financial statements taken as a whole.

Deloitte & Touche LLP

June 15, 2004

CITY OF CHICAGO, ILLINOIS

CENTRAL LOOP REDEVELOPMENT PROJECT

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Central Loop Redevelopment Project (the "Project"), we offer the readers of the Project's financial statements this narrative overview and analysis of the Project's financial performance for the year ended December 31, 2003. Please read it in conjunction with the Project's financial statements and notes to the financial statements immediately following this section.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Project's basic financial statements. The Project's basic financial statements include four components: 1) government-wide financial statements, 2) governmental fund financial statements, 3) Statement of Fiduciary Net Assets and 4) notes to the financial statements. This report also contains additional information concerning the Project's expenditures as required by Illinois statutory code.

Basic Financial Statements include three kinds of financial statements that present different views of the Project—the Government-Wide Financial Statements, the Governmental Fund Financial Statements and the Fiduciary Statement of Net Assets. These financial statements also include the notes to the financial statements that explain information in the financial statements and provide more detail.

Government-Wide Financial Statements provide both long-term and short-term information about the Project's financial status and use accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the project's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities using the accrual basis of accounting. The two government-wide statements report the Project's net assets and how they have changed. Net assets—the difference between the Project's assets and liabilities—is one way to measure the Project's financial health, or position.

Governmental Fund Financial Statements provide more detailed information about the Project's significant funds—not the Project as a whole. Governmental funds focus on: 1) how cash and other financial assets can readily be converted to cash flows and 2) the year-end balances that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more financial resources that can be spent in the near future to finance the Project. Such statements are prepared on the modified accrual basis of accounting. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional reconciling information in a separate statement to explain the relationship (or differences) between the two.

Statement of Fiduciary Net Assets accounts for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The Project's fiduciary activity is presented in a separate Statement of Fiduciary Net Assets.

Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide financial statements, governmental fund financial statements and Statement of Fiduciary Net Assets. The notes to the financial statements follow the basic financial statements.

Additional Information presents a schedule of expenditures as required by Illinois statutory code. This additional information follows the notes to the financial statements.

Condensed Comparative Government-Wide Financial Statements

	Government-Wide Statements			
	2003	2002	Change	% Change
Total assets	$ 319,244,010	$ 193,118,986	$ 126,125,024	65 %
Liabilities:				
Liabilities due within one year	48,989,976	50,381,874	(1,391,898)	(3)%
Liabilities due after one year	324,807,609	219,760,956	105,046,653	48 %
Total liabilities	373,797,585	270,142,830	103,654,755	38 %
Net assets (deficit):				
Restricted for Debt Service	141,252,012	136,443,412	4,808,600	4 %
Net deficit	(195,805,587)	(213,467,256)	17,661,669	(8)%
Total net assets	$ (54,553,575)	$ (77,023,844)	$ 22,470,269	(29)%
Total revenues	$ 75,984,829	$ 62,210,595	$ 13,774,234	22 %
Total expenditures	53,514,560	77,717,411	(24,202,851)	(31)%
Excess (deficiency) of revenues over expenditures	22,470,269	(15,506,816)	37,977,085	(245)%
Operating transfers out		(9,593,000)	9,593,000	(100)%
Change in net assets	22,470,269	(25,099,816)	47,570,085	190 %
Beginning net deficit	(77,023,844)	(51,924,028)	(25,099,816)	48 %
Ending net deficit	$ (54,553,575)	$ (77,023,844)	$ 22,470,269	(29)%

Analysis of Overall Financial Position and Results of Operations

Total assets increased as a result of the 2003 Central Loop TIF General Obligation Bonds issued in September 2003. Net proceeds from the bond issue totaled $135.6 million. As a result of the bond issue cash and investments have increased by $120.6 million at the year-end. Cash with escrow agent has decreased by $7.1 million as a result of a decreased debt service requirement. Property tax receivable has increased by $11.8 million as a result of increased assessment of property in the TIF area. Liabilities have increased as a result of the 2003 bond issue noted above less principal payments of $42.5 million made in 2003. Vouchers payable increased by $6.3 million based on timing of redevelopment activities.

Revenue increased by $13.8 million based on increased assessed values and redevelopment activities within the TIF area. Expenditures decreased by $24.2 million based on the timing of redevelopment activities within the TIF area. Operating transfers decreased since all reimbursements to the City's general fund for start up costs were completed in the prior year.

Debt Administration

General Obligation and Tax Increment Allocation Bonds outstanding at December 31, 2003 amounted to $362.6 million. More detailed information about the Project's bonds payable is presented in Note 3 of the financial statements.

CITY OF CHICAGO, ILLINOIS

CENTRAL LOOP REDEVELOPMENT PROJECT

GOVERNMENT-WIDE STATEMENT OF NET ASSETS (DEFICIT) AND GOVERNMENTAL FUNDS COMBINED BALANCE SHEET DECEMBER 31, 2003

	Governmental Funds	Adjustments	Government-Wide Activities
ASSETS:			
Cash and cash equivalents (Note 2)	$ 99,061,823	$ -	$ 99,061,823
Investments (Note 2)	76,568,512		76,568,512
Cash and investments with escrow agent	73,942,547		73,942,547
Other assets		1,325,408	1,325,408
Property taxes receivable	68,000,000		68,000,000
Accrued interest receivable	345,720		345,720
TOTAL ASSETS	$ 317,918,602	$ 1,325,408	$ 319,244,010
LIABILITIES:			
Vouchers payable	$ 8,050,999	$ -	$ 8,050,999
Accrued interest	713,519		713,519
Due to other funds	2,000,458		2,000,458
Accrued liabilities	400,000		400,000
Deferred revenue	65,256,903	(65,256,903)	
Bonds payable (Note 3):			
Due within one year		37,825,000	37,825,000
Due after one year		324,807,609	324,807,609
Total liabilities	76,421,879	297,375,706	373,797,585
FUND BALANCE / NET ASSETS (DEFICIT)			
Fund balance:			
Reserved for encumbrances (Note 4)	7,538,704	(7,538,704)	
Reserved for debt service	75,995,109	(75,995,109)	
Designated for future redevelopment project costs	157,962,910	(157,962,910)	
Total fund balance	241,496,723	(241,496,723)	
TOTAL LIABILITIES AND FUND BALANCE	$ 317,918,602		
Net assets (deficit):			
Restricted for debt service		141,252,012	141,252,012
Net deficit		(195,805,587)	(195,805,587)
TOTAL NET ASSETS (DEFICIT)		$ (54,553,575)	$ (54,553,575)

See notes to financial statements.

CITY OF CHICAGO, ILLINOIS

CENTRAL LOOP REDEVELOPMENT PROJECT

RECONCILIATION OF THE GOVERNMENTAL FUNDS COMBINED BALANCE SHEET TO THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS (DEFICIT)
DECEMBER 31, 2003

Amounts reported for government-wide activities in the statement of net assets (deficit) are different because:	
Total fund balance for governmental funds	$ 241,496,723
Property tax revenue is recognized in the period for which levied rather than when "available." A Portion of the deferred property tax revenue is not available.	65,256,903
Debt issuance costs are deferred and recognized as other assets rather than expensed when incurred	1,325,408
Long-term liabilities applicable to the Project's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All long-term liabilities are reported in the statement of net assets.	
Long-term liabilities:	
Bonds payable	(347,973,170)
Accreted interest	(14,659,439)
Total long-term liabilities	(362,632,609)
Total net assets (deficit) for government-wide activities	$ (54,553,575)

See notes to financial statements.

CITY OF CHICAGO, ILLINOIS

CENTRAL LOOP REDEVELOPMENT PROJECT

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS, COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN NET ASSETS (DEFICIT) AND FUND BALANCE YEAR ENDED DECEMBER 31, 2003

	Governmental Funds	Adjustments	Statement of Activities
REVENUES:			
Property tax	$ 63,495,185	$ 9,824,141	$ 73,319,326
Investment income	1,319,482		1,319,482
Rental income	116,253		116,253
Miscellaneous income	1,229,768		1,229,768
Total revenues	66,160,688	9,824,141	75,984,829
EXPENDITURES:			
Capital projects	38,573,973	(1,325,408)	37,248,565
Debt service:			
Principal retirement	42,475,000	(42,475,000)	
Interest expense	10,395,898	5,870,097	16,265,995
Total expenditures	91,444,871	(37,930,311)	53,514,560
EXPENDITURES (OVER) UNDER REVENUES	(25,284,183)	47,754,452	22,470,269
OTHER FINANCING SOURCES (USES):			
Proceeds of debt (Note 3)	137,001,556	(137,001,556)	
REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	111,717,373	(111,717,373)	
CHANGE IN NET ASSETS (DEFICIT)		22,470,269	22,470,269
FUND BALANCE/NET ASSETS (DEFICIT):			
Beginning of year	129,779,350	(206,803,194)	(77,023,844)
End of year	$ 241,496,723	$ (296,050,298)	$ (54,553,575)

See notes to financial statements.

CITY OF CHICAGO, ILLINOIS

CENTRAL LOOP REDEVELOPMENT PROJECT

RECONCILIATION OF THE GOVERNMENTAL FUNDS COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN NET ASSETS (DEFICIT) AND FUND BALANCE TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES YEAR ENDED DECEMBER 31, 2003

The change in net assets (deficit) reported for government-wide activities in the statement of activities is different because:	
Net change in fund balances—total governmental funds	$ 111,717,373
Property tax revenue is recognized in the period for which levied rather than when "available." A portion of the deferred property tax revenue is not available.	9,824,141
Debt issuance costs are deferred over the life of the debt rather than when incurred	1,325,408
Repayment of bond principal is reported as an expenditure in governmental funds and, thus, has the effect of reducing fund balance because current financial resources have been used. For governmental activities, however, the principal payments reduce the liabilities in the statement of net assets (deficit) and do not result in an expense in the statement of activities.	42,475,000
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. This is the amount of bonds proceeds issued during the current year.	(137,001,556)
Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available.	
Accreted interest on Capital Appreciation Bonds	(5,870,097)
Change in net assets (deficit) of government-wide activities	$ 22,470,269

See notes to financial statements.

CITY OF CHICAGO, ILLINOIS

CENTRAL LOOP REDEVELOPMENT PROJECT

STATEMENT OF FIDUCIARY NET ASSETS
DECEMBER 31, 2003

	Agency Fund
ASSETS:	
Cash and cash equivalents (Note 2)	$3,477,069
Accrued interest receivable	1,475
Total assets	3,478,544
LIABILITIES:	
Accrued liabilities	3,478,544
Total liabilities	3,478,544
NET ASSETS	$ -

See notes to financial statements.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Reporting Entity:

The Central Loop Redevelopment Project (the "Project") was established as a Tax Increment Financing ("TIF") district by the City of Chicago, Illinois (the "City") in 1997. The Project is an extension of the North Loop Redevelopment Project established in 1984 and has been established to finance improvements, leverage private investment, and create and retain jobs within the TIF district.

(b) Measurement Focus, Basis of Accounting, and Financial Statements Presentation

The government-wide financial statements are reported using the *accrual basis of accounting.* Revenues are recorded when earned and expenses are recorded when a liability is incurred regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. The fiduciary funds are excluded from the government-wide financial statements.

The governmental fund financial statements are prepared on the *modified accrual basis of accounting* with only current assets and liabilities included on the balance sheet. Under *the modified accrual basis of accounting*, revenues are recorded when susceptible to accrual, i.e., both measurable and available to finance expenditures of the current period. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Property taxes are susceptible to accrual and recognized as a receivable in the year levied. Revenue recognition is deferred unless the taxes are received within 60 days subsequent to year-end. Expenditures are recorded when the liability is incurred. The Project is accounted for within the capital projects, debt service, special revenue and agency funds of the City.

- *Governmental Funds*—The Project is accounted for within the capital projects, debt service and special revenue fund types of the City. Capital projects funds account for financial resources to be used for the acquisition or construction of major capital facilities. Debt service funds account for the accumulation of resources for, and the payment of, debt and related costs. Special revenue funds account for the proceeds of specific revenue sources requiring separate accounting because of legal, grant or regulatory provisions or administrative action. These funds are presented herein on a combined basis.

- *Fiduciary (Agency) Fund*—An agency fund accounts for assets held by the Project in a trustee capacity for a developer deposit. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The City has elected not to follow subsequent private-sector guidance.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then unrestricted resources, as they are needed.

(c) *Management's Use of Estimates*—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from these estimates.

(d) *Assets, Liabilities and Net Assets:*

- Cash, cash equivalents and Investments:

  The bond proceeds and incremental taxes associated with the Project are deposited with the City Treasurer or a trust account. The Municipal Code of Chicago (the "Code") permits deposits only to City Council-approved depositories, which must be regularly organized state or national banks and federal and state savings and loan associations, located within the City, whose deposits are federally insured. The City uses separate escrow accounts in which certain tax revenues are deposited and held for payment of general obligation debt.

  Investments authorized by the Code include interest-bearing general obligations of the City, State of Illinois (State), and U.S. Government; U.S. treasury bills and other non-interest-bearing general obligations of the U.S. Government purchased in the open market below face value; domestic money market funds regulated and in good standing with the Securities and Exchange Commission; and tax anticipation warrants issued by the City. The City is prohibited by ordinance from investing in derivatives, as defined, without City Council approval.

  Investments, generally, may not have a maturity in excess of one year from the date of purchase. Certain other investment balances are held in accordance with the specific provisions of the applicable bond ordinance.

  Cash equivalents include certificates of deposit and other investments with maturities of three months or less when purchased.

- Capital Assets:

  The Government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) of the City include the capital assets and related depreciation, if any, of the Project in which ownership of the capital asset will remain with the City (i.e., infrastructure, or municipal building). All other construction will be expensed in both the government-wide financial statements and the governmental funds as neither the City nor Project will retain the right of ownership.

(e) Stewardship, Compliance, and Accountability:

- Illinois Tax Increment Redevelopment Allocation Act Compliance:

  The Project's expenditures include reimbursements for various eligible costs as described in subsection (q) of Section 11-74.4-3 of the Illinois Tax Increment Redevelopment Allocation Act and the Redevelopment Agreement relating specifically to the Project. Eligible costs include but are not limited to survey, property assembly, rehabilitation, public infrastructure, financing and relocation costs.

- Reimbursements:

  Reimbursements are made to the developer for project costs, as public improvements are completed and pass City inspection. The semi-annual principal and interest payments are made solely from incremental real property taxes, which are paid in the redevelopment district.

2. CASH, CASH EQUIVALENTS AND INVESTMENTS

Deposits—Certain deposits with the City Treasurer are commingled and invested by the Treasurer with deposits from other City funds; accordingly, it is not practical to disclose the related bank balance of such cash deposits for the Project. Of the City Treasurer's total bank balances at December 31, 2003, $182.7 million or 90.2 percent was either insured or collateralized with securities held by City agents in the City's name. The remaining balances were uninsured and uncollateralized.

Investments—Investments are categorized to give an indication of the level of credit risk. Category 1 includes investments that are insured or registered in the City's name or the securities were held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counter party's trust department or its agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the financial institution or counter party, or by its trust department or agent, but not in the City's name. Pooled funds include primarily money market accounts. The following table provides a summary for all Project funds at December 31, 2003:

Description	Risk Category	2003
U.S. Government obligations	1	$ 97,143,807
Noncategorized—pooled funds		136,554,039
Total		$233,697,846

The following reconciles the fair value of investments to the financial statements:

	2003
Investments	$ 76,568,512
Investments included in cash and investments with escrow agent	73,942,547
Investments included in cash and cash equivalents	83,186,787
Total	$233,697,846

3. BONDS PAYABLE

In September 2003, the City authorized and issued the City of Chicago General Obligation Bonds (Central Loop Redevelopment Project) Series 2003 ($137.0 million). The bonds were sold as capital appreciation bonds and have yields ranging from 2.3 percent to 4.07 percent and have maturity dates ranging from December 1, 2005 to December 1, 2008. Net proceeds ($135.6 million) will be used to finance certain Project costs. Available tax increment revenues, an ad valorem tax levy or any revenues of the City legally available for that purpose can be used to fund the debt service.

Tax Increment Allocation Bonds (Central Loop Redevelopment Project), Series 2000 A and Taxable Series 2000 B ($142.3 million) were sold in November 2000. The Series 2000 A ($79.9 million) were sold as capital appreciation bonds having yields of 5.03 percent and maturity dates ranging from December 1, 2005 to December 1, 2008. The Taxable Series 2000 B ($62.4 million) were sold as current interest bonds having interest rates ranging from 6.55 percent to 6.8 percent with maturity dates ranging from December 1, 2002 to December 1, 2005. Net proceeds of $139.4 million will be used to finance certain Project costs ($125.2 million) and fund the debt service reserve account ($14.2 million).

Subordinate Tax Increment Allocation Bonds (Central Loop Redevelopment Project), Series 2000 A ($98.9 million) were sold in November 2000. The bonds have interest rates ranging from 6.25 percent to 6.5 percent with maturity dates ranging from December 1, 2002 to December 1, 2008. Net proceeds of $95.9 million together with certain proceeds of $10.0 million released from the debt service reserve account in respect to the Tax Increment Allocation Bonds (Central Loop Redevelopment Project), Series 1997 A were used to advance refund all of the Tax Increment Allocation Bonds (Central Loop Redevelopment Project), Series 1997 A ($95.0 million); fund the debt service reserve requirement for the Subordinate Tax Increment Allocation Bonds (Central Loop Redevelopment Project), Series 2000 A ($9.9 million); and fund a portion of the Project costs ($1.0 million). The advance refunding increased total debt payments by $22.9 million and resulted in an economic loss of $9.2 million. The City advance refunded the Series 1997 A bonds in order to remove certain covenants and to issue new bonds to finance additional redevelopment project costs.

In November 1997, the City authorized and issued the City of Chicago Tax Increment Allocation Bonds (Central Loop Redevelopment Project) Series 1997 A ($96.0 million) and Taxable Series 1997 B ($91.0 million). The bonds have interest rates ranging from 4.5 percent to 6.375 percent and have maturity dates ranging from June 1, 1999 to June 1, 2007. Certain net proceeds ($166.6 million) are to be used to finance redevelopment of the TIF district. During 2000, $96.0 million was defeased with the issuance of the new bonds.

Long-term liability activity for the year ended December 31, 2003 was as follows:

	Bonds Payable	Capital Appreciation Bonds	Total Bonds
Beginning balance	$253,446,614	$ 8,789,342	$262,235,956
Additions	137,001,556	5,870,097	142,871,653
Reductions	(42,475,000)		(42,475,000)
Ending balance	$347,973,170	$14,659,439	$362,632,609
Amounts due within one year	$ 37,825,000		

The following summarizes debt service requirements as of December 31, 2003:

Year Ending December 31	Principal	Interest	Total
2004	$ 37,825,000	$ 8,562,225	$ 46,387,225
2005	58,226,452	9,867,213	68,093,665
2006	54,585,262	14,393,113	68,978,375
2007	56,714,785	16,460,965	73,175,750
2008	140,621,671	29,015,829	169,637,500
Total	$347,973,170	$78,299,345	$426,272,515

4. COMMITMENTS

The City has pledged certain amounts solely from available excess incremental taxes to provide financial assistance to a developer under the terms of a redevelopment agreement for the purpose of paying costs of certain eligible redevelopment project costs.

As of December 31, 2003, the Project has entered into contracts for services and construction projects for approximately $7.5 million.

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CITY OF CHICAGO, ILLINOIS

CENTRAL LOOP REDEVELOPMENT PROJECT

SCHEDULE OF EXPENDITURES BY STATUTORY CODE
YEAR ENDED DECEMBER 31, 2003

EXPENDITURES:	
Costs of studies, surveys, development of plans and specifications, implementation and administration of the redevelopment plan including but not limited to staff and professional service costs for architectural, engineering, legal and marketing	$ 1,549,063
Costs of property assembly, including but not limited to acquisition of land and other property, real or personal, or rights and interests therein, demolition of buildings, and the clearing and grading of land	433,934
Costs of rehabilitation, reconstruction or repair or remodeling of existing public or private buildings and fixtures	5,416,297
Costs of the construction of public works or improvements	29,226,327
Costs of job training and retraining projects	601,532
Costs of financing, including but not limited to all necessary and incidental expenses related to the issuance of obligations and which may include payment of interest on any obligations issued hereunder accruing during the estimated period of construction of any redevelopment project for which such obligations are issued and for not exceeding 36 months thereafter and including reasonable reserves related thereto	54,217,718
TOTAL EXPENDITURES	$91,444,871

(3) MAYOR'S CERTIFICATION - 65 ILCS 5/11-74.4-5(d)(3)

Please see attached.

STATE OF ILLINOIS)
)
COUNTY OF COOK)

CERTIFICATION

TO:

Daniel W. Hynes
Comptroller of the State of Illinois
James R. Thompson Center
100 West Randolph Street, Suite 15-500
Chicago, Illinois 60601
Attention: Carol Reckamp, Director of Local Government

Dolores Javier, Treasurer
City Colleges of Chicago
226 West Jackson Boulevard, Room 1125
Chicago, Illinois 60606

Tim Mitchell, General Superintendent & CEO
Chicago Park District
541 North Fairbanks Court, 7th Floor
Chicago, Illinois 60611

Gwendolyn Clemons, Director
Cook County Department of Planning & Development
69 West Washington Street, Room 2900
Chicago, Illinois 60602
Attn: Jackie Harder

Arne Duncan, Chief Executive Officer
Chicago Board of Education
125 South Clark Street, 5th Floor
Chicago, Illinois 60603
Attn: Linda Wrightsell

Dan Donovan, Comptroller
Forest Preserve District of Cook County
536 North Harlem Avenue
River Forest, Illinois 60305
Att: Kim Feeney

Jacqueline Torres, Director of Finance
Metropolitan Water Reclamation District of Greater Chicago
100 East Erie Street, Room 2429
Chicago, Illinois 60611
Attn: Joe Rose

Martin J. Koldyke, Chairman
Chicago School Finance Authority
135 South LaSalle Street, Suite 3800
Chicago, Illinois 60603

Wallace Young
South Cook County Mosquito Abatement District
155th & Dixie Highway
P.O. Box 1030
Harvey, Illinois 60426
Attn: Dr. Khian K. Liem

I, RICHARD M. DALEY, in connection with the annual report (the "Report") of information required by Section 11-74.4-5(d) of the Tax Increment Allocation Redevelopment Act, 65 ILCS5/11-74.4-1 et seq, (the "Act") with regard to the Central Loop Redevelopment Project Area (the "Redevelopment Project Area"), do hereby certify as follows:

1. I am the duly qualified and acting Mayor of the City of Chicago, Illinois (the "City") and, as such, I am the City's Chief Executive Officer. This Certification is being given by me in such capacity.

2. During the preceding fiscal year of the City, being January 1 through December 31, 2003, the City complied, in all material respects, with the requirements of the Act, as applicable from time to time, regarding the Redevelopment Project Area.

3. In giving this Certification, I have relied on the opinion of the Corporation Counsel of the City furnished in connection with the Report.

4. This Certification may be relied upon only by the addressees hereof.

IN WITNESS WHEREOF, I have hereunto affixed my official signature as of this 30th day of June, 2004.

Richard M Daley

Richard M. Daley, Mayor
City of Chicago, Illinois

(4) OPINION OF LEGAL COUNSEL - 65 ILCS 5/11-74.4-5(d)(4)

Please see attached.

City of Chicago
Richard M. Daley, Mayor

Department of Law

Mara S. Georges
Corporation Counsel

City Hall, Room 600
121 North LaSalle Street
Chicago, Illinois 60602
(312) 744-6900
(312) 744-8538 (FAX)
(312) 744-2963 (TTY)

http://www.ci.chi.il.us

June 30, 2004

Daniel W. Hynes
Comptroller of the State of Illinois
James R. Thompson Center
100 West Randolph Street, Suite 15-500
Chicago, Illinois 60601
Attention: Carol Reckamp, Director of Local Government

Dolores Javier, Treasurer
City Colleges of Chicago
226 West Jackson Boulevard, Room 1125
Chicago, Illinois 60606

Tim Mitchell, General Superintendent & CEO
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Wallace Young
South Cook County Mosquito Abatement District
155th & Dixie Highway
P.O. Box 1030
Harvey, Illinois 60426
Attn: Dr. Khian K. Liem

Re: Central Loop
Redevelopment Project Area (the "Redevelopment Project Area")

Dear Addressees:

I am Corporation Counsel of the City of Chicago, Illinois (the "City"). In such capacity, I am providing the opinion required by Section 11-74.4-5(d)(4) of the Tax Increment Allocation Redevelopment Act, 65 ILCS 5/11-74.4-1 et seq. (the "Act"), in connection with the submission of the report (the "Report") in accordance with, and containing the information required by, Section 11-74.4-5(d) of the Act for the Redevelopment Project Area.

NEIGHBORHOODS Alive!
BUILDING CHICAGO TOGETHER

Attorneys, past and present, in the Law Department of the City familiar with the requirements of the Act have had general involvement in the proceedings affecting the Redevelopment Project Area, including the preparation of ordinances adopted by the City Council of the City with respect to the following matters: approval of the redevelopment plan and project for the Redevelopment Project Area, designation of the Redevelopment Project Area as a redevelopment project area and adoption of tax increment allocation financing for the Redevelopment Project Area, all in accordance with the then applicable provisions of the Act. Various departments of the City, including, if applicable, the Law Department, Department of Planning and Development, Department of Housing, Department of Finance and Office of Budget and Management, have personnel responsible for and familiar with the activities in the Redevelopment Project Area affecting such Department(s) and with the requirements of the Act in connection therewith. Such personnel are encouraged to seek and obtain, and do seek and obtain, the legal guidance of the Law Department with respect to issues that may arise from time to time regarding the requirements of, and compliance with, the Act.

In my capacity as Corporation Counsel, I have relied on the general knowledge and actions of the appropriately designated and trained staff of the Law Department and other applicable City Departments involved with the activities affecting the Redevelopment Project Area. In addition, I have caused to be examined or reviewed by members of the Law Department of the City the certified audit report, to the extent required to be obtained by Section 11-74.4-5(d)(9) of the Act and submitted as part of the Report, which is required to review compliance with the Act in certain respects, to determine if such audit report contains information that might affect my opinion. I have also caused to be examined or reviewed such other documents and records as were deemed necessary to enable me to render this opinion. Nothing has come to my attention that would result in my need to qualify the opinion hereinafter expressed, subject to the limitations hereinafter set forth, unless and except to the extent set forth in an Exception Schedule attached hereto as Schedule 1.

Based on the foregoing, I am of the opinion that, in all material respects, the City is in compliance with the provisions and requirements of the Act in effect and then applicable at the time actions were taken from time to time with respect to the Redevelopment Project Area.

This opinion is given in an official capacity and not personally and no personal liability shall derive herefrom. Furthermore, the only opinion that is expressed is the opinion specifically set forth herein, and no opinion is implied or should be inferred as to any other matter. Further, this opinion may be relied upon only by the addressees hereof and the Mayor of the City in providing his required certification in connection with the Report, and not by any other party.

Very truly yours,

Mara S. Georges

Mara S. Georges
Corporation Counsel

SCHEDULE 1

(Exception Schedule)

(X) No Exceptions

( ) Note the following Exceptions:

(5) ANALYSIS OF SPECIAL TAX ALLOCATION FUND - 65 ILCS 5/11-74.4-5(d)(5)

COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2003

		2003
Revenues		
Property tax	$	63,495,185
Sales tax		-
Interest		1,319,482
Rental Income		116,253
Miscellaneous income		1,229,768
Total revenues		66,160,688
Expenditures		
Costs of studies, admin., and professional services. (q)(1)		1,549,063
Marketing costs. (q)(1.6)		-
Property assembly, demolition, site preparation and environmental site improvement costs. (q)(2)		433,934
Costs of rehabilitation, reconstruction, repair or remodeling and of existing buildings. (q)(3)		5,416,297
Costs of construction of public works and improvements. (q)(4)		29,226,327
Cost of job training and retraining. (q)(5)		601,532
Financing costs. (q)(6)		54,217,718
Approved capital costs of overlapping taxing districts. (q)(7)		-
Cost of reimbursing school district for their increase costs caused by TIF assisted housing projects (q)(7.5)		-
Relocation costs. (q)(8)		-
Payments in lieu of taxes. (q)(9)		-
Costs of job training, retraining advanced vocational or career education provided by other taxing bodies. (q)(10)		-
Costs of reimbursing private developers for interest expenses incurred on approved redevelopment projects. (q)(11)(A-E)		-
Costs of construction of new housing units for low income and very low income households. (q)(11)(F)		-
Cost of day care services and operational costs of day care centers. (q)(11.5)		-
Total expenditures		91,444,871
Expenditures over revenues		(25,284,183)
Other financing sources		
Proceeds of debt		137,001,556
Revenues and other financing sources over expenditures		111,717,373
Fund balance, beginning of year		129,779,350
Fund balance, end of year	$	241,496,723
Fund balance		
Reserved for debt service		75,995,109
Reserved for encumbrances		7,538,704
Designated for future redevelopment project costs	$	157,962,910
Total fund balance	$	241,496,723

(5) ANALYSIS OF SPECIAL TAX ALLOCATION FUND - 65 ILCS 5/11-74.4-5(d)(5) cont.

Below is listed all vendors, including other municipal funds, that were paid in excess of $5,000 during the current reporting year.

Name	Service	Amount
Administrative Costs[1]	Administration	$1,026,586
Skidmore Owings & Merrill LLP	Consultant	$68,135
Chicago Tourism Fund	Consultant	$30,000
Deloitte & Touche	Consultant	$14,950
William A. McCann & Associates	Consultant	$13,422
Baird Land Surveyors	Consultant	$8,093
HNTB Illinois, Inc.	Consultant	$9,004
Chicago Dept. of Transportation	Consultant	$19,373
Greater State Street Council	Consultant	$17,823
Arbitage Rebate Co.	Consultant	$5,400
U.S. Equities Realty LLC	Consultant	$147,820
Michigan-Wacker Associates	Development	$1,000,000
American Youth Hostels	Development	$400,000
One North Dearborn Trust	Development	$1,369,569
Internal Revenue Service	Financing	$82,053
Cole Taylor Bank	Financing	$52,787,445
Capital Assurance	Financing	$285,471
Mesirow Financial, Inc.	Financing	$822,009
The Knight Group	Financing	$50,000
Schiff, Hardin & White	Financing	$90,000
Burks, Burns & Pinelli	Financing	$36,000
Moody's Investor Service	Financing	$26,716
Standard & Poor's	Financing	$15,600
Bowne of Chicago	Financing	$17,024
Jobs for Youth/ Chicago	Job Training	$601,532
Neal, Murdock & Leroy LLC	Legal	$155,092
Burke Warren MacKay & Serritella	Legal	$25,230

Central Loop Redevelopment Project Area
2003 Annual Report

Below is listed all vendors, including other municipal funds, that were paid in excess of $5,000 during the current reporting year.

Name	Service	Amount
Public Building Commission	Public Improvement	$26,675,804
Chicago Department of Transportation	Public Improvement	$970,000
Chicago Park District	Public Improvement	$160,000
Ameritech	Public Improvement	$9,172
F.H. Paschen/ S.N. Nielson, Inc.	Public Improvement	$103,891
Pacific Construction Co.	Public Improvement	$57,770
McDonough Associates	Public Improvement	$72,989
Kenny Construction	Public Improvement	$60,870
Industrial Steel Construction, Inc.	Public Improvement	$1,105,763
East Lake Management Co.	R.E. Acquisition	$10,229
Cook County Collector	R.E. Acquisition	$423,705
SomerCor 504, Inc.	Rehabilitation	$482,625
Public Building Commission	Rehabilitation	$2,109,264
Miglin-Beitler Management	Rehabilitation	$54,839

[1] Costs relate directly to the salaries and fringe benefits of employees working solely on tax increment financing districts.

(6) DESCRIPTION OF PROPERTY - 65 ILCS 5/11-74.4-5(d)(6)

During 2003, the City did not purchase any property in the Project Area.

(7) STATEMENT OF ACTIVITIES - 65 ILCS 5/11-74.4-5(d)(7)

(A) Projects implemented in the preceding fiscal year.
(B) A description of the redevelopment activities undertaken.
(C) Agreements entered into by the City with regard to disposition or redevelopment of any property within the Project Area.
(D) Additional information on the use of all Funds received by the Project Area and steps taken by the City to achieve the objectives of the Redevelopment Plan.
(E) Information on contracts that the City's consultants have entered into with parties that have received, or are receiving, payments financed by tax increment revenues produced by the Project Area.
(F) Joint Review Board reports submitted to the City.
(G) Project-by-project review of public and private investment undertaken from 11/1/99 to 12/31/03, and of such investments expected to be undertaken in year 2004; also, a project-by-project ratio of private investment to public investment from 11/1/99 to 12/31/03, and an estimated ratio of such investments as of the completion of each project and as estimated to the completion of the redevelopment project.

SEE TABLES AND/OR DISCUSSIONS ON THE FOLLOWING PAGES.

(7)(A) - 65 ILCS 5/11-74.6-22(d)(7)(A)

Central Loop Improvement Fund (CLIF) Program

(7)(B) - 65 ILCS 5/11-74.6-22(d)(7)(B)

Redevelopment activities undertaken within this Project Area during the year 2003, if any, have been made pursuant to i) the Redevelopment Plan for the Project Area, and ii) any Redevelopment Agreements affecting the Project Area, and are set forth on Table 5 herein by TIF-eligible expenditure category.

(7)(C) - 65 ILCS 5/11-74.6-22(d)(7)(C)

TABLE 7 (C)
AGREEMENTS ENTERED INTO WITH REGARD TO THE DISPOSITION & REDEVELOPMENT OF PROPERTY WITHIN THE PROJECT AREA

PARTIES TO AGREEMENT WITH CITY	NATURE OF AGREEMENT	PROJECT DESCRIPTION	ADDRESS	JOBS CREATED/ RETAINED
Various	Central Loop Improvement Fund (CLIF) Program	Rehabilitation of properties in the Central Loop Redevelopment area owned by qualifying small businesses.	Various	N/A

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(7)(D) - 65 ILCS 5/11-74.4-5(d)(7)(D)

The Project Area has received $495,550,378 of property tax and sales tax (if applicable) increment since the creation of the Project Area. These amounts have been used to pay for project costs within the Project Area and for debt service (if applicable). The Project Area's fund balance as shown on Table 5 represents (on a modified accrual basis) financial resources (including increment) that have not been expended.

(7)(E) - 65 ILCS 5/11-74.4-5(d)(7)(E)
During 2003, no contracts were entered into by the City's tax increment advisors or consultants with entities or persons that have received, or are receiving, payments financed by tax increment revenues produced by the Project Area.

(7)(F) - 65 ILCS 5/11-74.4-5(d)(7)(F)

During 2003, no reports were submitted to the City by the Joint Review Board.

Central Loop Redevelopment Project Area
2003 Annual Report

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(7)(G) - 65 ILCS 5/11-74.4-5(d)(7)(G)

TABLE 7(G)
PROJECT BY PROJECT REVIEW OF PUBLIC AND PRIVATE INVESTMENT
AND RATIO OF PRIVATE TO PUBLIC INVESTMENT *

Projects Undertaken in This Redevelopment Project Area	Private Investment Undertaken		Public Investment Undertaken		Ratio Of Private/Public Investment	
	11/1/1999 to End of Reporting FY 2003	Amount Estimated to Complete the Project	11/1/1999 to End of Reporting FY 2003	Amount Estimated to Complete the Project	11/1/1999 to End of Reporting FY 2003	Ratio Estimated as of Project Completion
Project 1: Dearborn Center, L.L.C.	n/a	$327,200,000	$0	$10,000,000	n/a	33:1
Project 2: CLIF Program**	n/a	$3,000,000	$1,255,609	$1,500,000	n/a	2:1
Project 3: American Youth Hostels	n/a	$10,470,000	$2,599,219	$3,530,000	n/a	3:1
Project 4: Canal Street Hotel Partners LP	n/a	$19,325,000	$2,458,426	$2,500,000	n/a	8:1
Project 5: Goodman Theater	n/a	$40,783,000	$18,458,216	$18,800,000	n/a	2:1
Project 6: Palmet Venture, L.L.C.	n/a	$60,100,000	$16,394,147	$17,600,000	n/a	3:1
Project 7: Livent Realty (Chicago) Inc.	n/a	$15,000,000	$18,399,077	$17,000,000	n/a	1:1
Project 8: 201 North Wells Investors, L.L.C.; 201 Wells Investors, Inc.	n/a	$38,439,149	$7,000,000	$7,000,000	n/a	4:1
Project 9: 330 South Michigan	n/a	$21,308,030	$1,178,924	$2,030,000	n/a	10:1
Project 10: Chicago Oxford Associates LP	n/a	$25,800,000	$1,608,871	$1,700,000	n/a	15:1

TABLE 7(G) CONT.

Projects Undertaken in This Redevelopment Project Area	Private Investment Undertaken		Public Investment Undertaken		Ratio Of Private/Public Investment	
	11/1/1999 to End of Reporting FY 2003	Amount Estimated to Complete the Project	11/1/1999 to End of Reporting FY 2003	Amount Estimated to Complete the Project	11/1/1999 to End of Reporting FY 2003	Amount Estimated to Complete the Project
Project 11: Chicago Symphony Orchestra	n/a	$64,500,000	$2,500,000	$2,500,000	n/a	26:1
Project 12: EthnicGrocer.com, Inc.	n/a	$2,548,918	$0	$1,148,255	n/a	2:1
Project 13: Fisher Building	n/a	$27,280,973	$6,600,000	$6,600,000	n/a	4:1
Project 14: Mentor Building, LLC	n/a	$9,006,161	$2,500,000	$2,500,000	n/a	4:1
Project 15: Michigan Wacker Associates, L.L.C.	n/a	$9,200,000	$1,000,000	$1,500,000	n/a	6:1
Project 16: One North Dearborn LLC	n/a	$124,055,809	$11,810,402	$13,500,000	n/a	9:1
Project 17: One South State Street, L.L.C.	n/a	$63,415,586	$0	$5,500,000	n/a	12:1
Project 18: St. George Hotel, L.L.C.; HRH Development, L.L.C.	n/a	$76,200,000	$4,250,000	$5,000,000	n/a	15:1
Project 19: State Cite, LLC (Info Tech)	n/a	$28,521,000	$8,000,000	$8,000,000	n/a	3:1
Total:	n/a	$966,153,626	$106,012,591	$127,908,255	n/a	n/a

TABLE 7(G) CONT.

Projects Estimated To Be Undertaken During 2004	Private Investment Undertaken	Public Investment Undertaken	Ratio of Private/Public Investment
Project 1: Shubert Associates, LLC	$24,213,000	$5,750,000	4:1
Total:	$24,213,000	$5,750,000	4:1

* Each actual or estimated Public Investment reported here is, to the extent possible, comprised only of payments financed by tax increment revenues. In contrast, each actual or estimated Private Investment reported here is, to the extent possible, comprised of payments financed by revenues that are not tax increment revenues and, therefore, may include private equity, private lender financing, private grants, or other local, state or federal grants or loans.

Each amount reported here under Public Investment Undertaken, Amount Estimated to Complete the Project, is the maximum amount of payments financed by tax increment revenues that could be made pursuant to the corresponding Project's operating documents and may not necessarily reflect actual expenditures, if any, as reported in Sections 2 or 5 herein. The total public investment amount ultimately made under each Project will depend upon the future occurrence of various conditions set forth in the Project's operating documents.

Each amount reported here under Public Investment Undertaken, 11/1/1999 to End of Reporting FY, is cumulative from the date of execution of the corresponding Project to the end of the reporting year, and may include interest amounts paid to finance the Public Investment amount. Projects for which the last Public Investment made was prior to 11/1/1999 are not reported on this table.

** Depending on the particular goals of this type of program, the City may: i) make an advance disbursement of the entire public investment amount to the City's program administrator, ii) disburse the amounts through an escrow account, or iii) pay the funds out piecemeal to the program administrator as each ultimate grantee's rehabilitation work is approved under the program.

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(8) DOCUMENTS RELATING TO OBLIGATIONS ISSUED BY THE MUNICIPALITY - 65 ILCS 5/11-74.4-5(d)(8)(A)

This information is contained in the official statements, limited offering memoranda, promissory notes or debt service schedules of such obligations. See attached.

NEW ISSUE — BOOK ENTRY ONLY RATINGS: See "RATINGS" herein

Subject to compliance by the City with certain covenants, in the opinion of Co-Bond Counsel, under present law, interest on the Series 2003A Bonds is excludable from the gross income of their owners for federal income tax purposes and thus is exempt from present federal income taxes based on gross income. Interest on the Series 2003A Bonds is not an item of tax preference in computing the alternative minimum tax on individuals and corporations, but is taken into account in computing an adjustment used to determine the alternative minimum tax for certain corporations. Interest on the Series 2003B Bonds is not excludable from gross income for federal income tax purposes. Interest on the Series 2003 Bonds is not exempt from present Illinois income taxes. See "TAX EXEMPTION."

$137,001,556.30
CITY OF CHICAGO
General Obligation Bonds
(Central Loop Redevelopment Project), Series 2003
(Capital Appreciation Bonds)

$74,772,557.65 Series 2003A Bonds
$62,228,998.65 Series 2003B (Taxable) Bonds

Dated: Date of Delivery **Due: As shown in the inside front cover**

The General Obligation Bonds (Central Loop Redevelopment Project), Series 2003A (the "Series 2003A Bonds") and the General Obligation Bonds (Central Loop Redevelopment Project), Series 2003B (Taxable) (the "Series 2003B Bonds," and together with the Series 2003A Bonds, the "Series 2003 Bonds") will be issued in fully registered form pursuant to a Trust Indenture dated as of September 1, 2003 (the " Trust Indenture") from the City of Chicago (the "City") to Cole Taylor Bank, as trustee, as supplemented by a First Supplemental Indenture dated as of September 1, 2003 (the "First Supplemental Indenture," and together with the Trust Indenture, the "Indenture"). The Depository Trust Company, New York, New York ("DTC"), will act as the securities depository for the Series 2003 Bonds and its nominee will be the Owner of the Series 2003 Bonds. Individual purchases of the Series 2003 Bonds will be recorded on a book-entry only system operated by DTC. For further details on ownership, payments, notices and other matters under the book-entry only system, see "DESCRIPTION OF THE SERIES 2003 BONDS — Book-Entry System" herein.

The Series 2003 Bonds will be issued as Capital Appreciation Bonds as described below and herein. The Accreted Amount of each Series 2003 Bond is payable at maturity. The Series 2003 Bonds are not subject to redemption prior to maturity.

The Series 2003 Bonds are direct and general obligations of the City. The City has pledged its full faith and credit for the payment of Accreted Amounts on the Series 2003 Bonds. Payment of Accreted Amounts on the Series 2003 Bonds when due will be insured by a municipal bond insurance policy (the "Bond Insurance Policy") to be issued by XL Capital Assurance Inc. simultaneously with the delivery of the Series 2003 Bonds. See "BOND INSURANCE."

XL CAPITAL ASSURANCE

The Series 2003 Bonds are being issued for the purpose of (i) paying the cost of redevelopment projects within the City's Central Loop Redevelopment Project Area, (ii) paying certain redevelopment project costs that involve public property that is either contiguous to, or separated only by a right of way from, the Central Loop Redevelopment Project Area, (iii) paying for the Bond Insurance Policy pertaining to the Series 2003 Bonds, (iv) refunding certain outstanding developer notes issued by the City in connection with projects within the Central Loop Redevelopment Project Area, and (v) paying certain expenses incurred in connection with such refunding and the issuance of the Series 2003 Bonds.

Maturities, Amounts and Yields are set forth on the inside of this cover page.

The Series 2003 Bonds are offered for delivery when, as and if issued and subject to the approval of Schiff Hardin & Waite, Chicago, Illinois, and Burke Burns & Pinelli, Ltd., Chicago, Illinois, Co-Bond Counsel. Certain legal matters will be passed upon for the City by its Corporation Counsel, and for the Underwriters by their co-counsel, Vedder, Price, Kaufman & Kammholz, P.C., Chicago, Illinois, and Burris, Wright, Slaughter & Tom, LLC, Chicago, Illinois. It is expected that the Series 2003 Bonds will be delivered through the facilities of DTC on or about September 17, 2003.

Mesirow Financial, Inc.

Melvin Securities, L.L.C. **JPMorgan** **Podesta & Co.**

September 11, 2003

MATURITY SCHEDULE

$137,001,556.30
CITY OF CHICAGO
General Obligation Bonds
(Central Loop Redevelopment Project), Series 2003
(Capital Appreciation Bonds)

$74,772,557.65 Series 2003A Bonds

Maturity (December 1)	Original Principal Amount	Original Principal Amount Per $5,000 Accreted Amount at Maturity	Approximate Yield to Maturity	Compound Accreted Amount at Maturity
2008	$74,772,557.65	$4,231.85	3.230%	$88,345,000.00

$62,228,998.65 Series 2003B (Taxable) Bonds

Maturity (December 1)	Original Principal Amount	Original Principal Amount Per $5,000 Accreted Amount at Maturity	Approximate Yield to Maturity	Compound Accreted Amount at Maturity
2005	$13,320,848.10	$4,754.05	2.300%	$14,010,000.00
2006	18,815,832.00	4,540.50	3.030	20,720,000.00
2007	21,591,185.40	4,312.20	3.550	25,035,000.00
2008	8,501,133.15	4,053.95	4.070	10,485,000.00

(Price of all Series 2003 Bonds 100%)

CITY OF CHICAGO

MAYOR
Richard M. Daley

CITY TREASURER
Judith C. Rice

CITY CLERK
James J. Laski

CITY COUNCIL
COMMITTEE ON FINANCE
Edward M. Burke, Chairman

CITY COMPTROLLER
Tariq Malhance

DEPARTMENT OF PLANNING AND DEVELOPMENT
Alicia Mazur Berg, Commissioner

BUDGET DIRECTOR
William F. Abolt

CORPORATION COUNSEL
Mara S. Georges, Esq.

FINANCIAL ADVISOR
The Knight Group, Inc.

BOND COUNSEL
Schiff Hardin & Waite
Chicago, Illinois

Burke Burns & Pinelli, Ltd.
Chicago, Illinois

Certain information contained in, or incorporated by reference in, this Official Statement has been obtained by the City of Chicago (the "City") from XL Capital Assurance Inc. (the "Bond Insurer"), DTC and other sources that are deemed reliable. No representation or warranty is made, however, as to the accuracy or completeness of such information by the Underwriters or the City. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information. This Official Statement is being used in connection with the sale of securities as referred to herein and may not be used, in whole or in part, for any other purpose. The delivery of this Official Statement at any time does not imply that information herein is correct as of any time subsequent to its date.

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Any statements made in this Official Statement, including the Appendices, involving matters of opinion or estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of such estimates will be realized. This Official Statement contains certain forward-looking statements and information that are based on the City's beliefs as well as assumptions made by and information currently available to the City. Such statements are subject to certain risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated or expected.

These securities have not been recommended by any federal or state securities commission or regulatory authority. Furthermore, the foregoing authorities have not confirmed the accuracy or determined the adequacy of this document. Any representation to the contrary is a criminal offense.

IN CONNECTION WITH THE OFFERING OF THE SERIES 2003 BONDS THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICES OF THE SERIES 2003 BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE PRICES AND OTHER TERMS RESPECTING THE OFFERING AND SALE OF THE SERIES 2003 BONDS MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITERS AFTER THE SERIES 2003 BONDS ARE RELEASED FOR SALE, AND THE SERIES 2003 BONDS MAY BE OFFERED AND SOLD AT PRICES OTHER THAN THE INITIAL OFFERING PRICES, INCLUDING SALES TO DEALERS WHO MAY SELL THE SERIES 2003 BONDS INTO INVESTMENT ACCOUNTS.

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INTRODUCTION

This Official Statement, which includes the cover page, inside cover page and Appendices, sets forth information concerning the City of Chicago (the "City") and the City's $137,001,556.30 aggregate principal amount of General Obligation Bonds (Central Loop Redevelopment Project), Series 2003A (the "Series 2003A Bonds") and General Obligation Bonds (Central Loop Redevelopment Project), Series 2003B (Taxable) (the "Series 2003B Bonds," and together with the Series 2003A Bonds, the "Series 2003 Bonds"). The Series 2003 Bonds are being issued under and pursuant to Section 6(a) of Article VII of the Illinois Constitution of 1970, the Illinois Tax Increment Allocation Redevelopment Act (65 ILCS 5/11-74.4-1 *et seq.*) (the "Act"), an ordinance duly adopted by the City Council of the City (the "City Council") on July 9, 2003 (the "Ordinance"), and a Trust Indenture dated as of September 1, 2003 (the "Trust Indenture") from the City to Cole Taylor Bank, as trustee (the "Trustee"), as supplemented by the First Supplemental Indenture dated as of September 1, 2003 relating to the Series 2003 Bonds (the "First Supplemental Indenture"). The Trust Indenture, as supplemented by the First Supplemental Indenture, is hereinafter referred to as the "Indenture."

The Series 2003 Bonds are being issued for the purpose of (i) paying a portion of the Project Costs within the area of the City designated the Central Loop Redevelopment Project Area (the "Central Loop Redevelopment Project Area"), (ii) paying certain "redevelopment project costs" (as defined in the Act) that involve public property that is either contiguous to, or separated only by a right of way from, the Central Loop Redevelopment Project Area, (iii) paying for the bond insurance policy pertaining to the Series 2003 Bonds, (iv) refunding certain outstanding developer notes issued by the City in connection with projects within the Central Loop Redevelopment Project Area, and (v) paying certain expenses incurred in connection with such refunding and the issuance of the Series 2003 Bonds. The Central Loop Redevelopment Project Area is an 171 acre area bounded generally by Wacker Drive to the north, Michigan Avenue to the east, Congress Parkway to the south and Dearborn Street to the west (with the northwest portion extending beyond Dearborn Street to Franklin Street and the southwest portion extending to LaSalle Street).

The Series 2003 Bonds are direct and general obligations of the City and are payable, as to Accreted Amounts, from any moneys, revenues, receipts, income, assets or funds of the City legally available for such purpose. The City has pledged its full faith and credit to the payment of the Series 2003 Bonds.

In the Ordinance, the City has levied for each of the years 2004 to 2007 a direct annual tax upon all taxable property in the City (the "Ad Valorem Taxes") sufficient to provide funds to pay the Accreted Amounts on the Series 2003 Bonds when due. Under the Indenture, the City will transfer Third Lien Revenues (defined below) to the extent available to the Trustee to provide for the payment of Accreted Amounts on the Series 2003 Bonds. The Ad Valorem Taxes levied by the City in the Ordinance will be abated to the extent Third Lien Revenues are transferred to the Trustee for payment of the Accreted Amounts on the Series 2003 Bonds. "Third Lien Revenues" are Incremental Taxes from the Central Loop Redevelopment Project Area transferred from the General Account under the Senior Lien Indenture to the Third Lien Revenue Fund to provide for the Accreted Amounts on the Series 2003 Bonds. Incremental Taxes are used first to pay principal of, premium, if any, or interest on (i) the City's Tax Increment Allocation Bonds (Central Loop Redevelopment Project), Series 1997A and Taxable Series 1997B (the "Series 1997 Bonds"), (ii) the City's Tax Increment Allocation Bonds (Central Loop Redevelopment Project), Series 2000A and Taxable Series 2000B (the "Series 2000 Bonds" and together with the Series 1997 Bonds, the "Senior Lien Bonds"), and (iii) the City's Subordinate Tax Increment Allocation Bonds (Central Loop Redevelopment Project), Series 2000A (the "Subordinate Lien Bonds"). "Incremental Taxes" are the Ad Valorem Taxes arising from the tax levies upon taxable real property in the Central Loop Redevelopment Project Area by all taxing districts or municipal corporations having the power to tax real property in the Central Loop Redevelopment Project Area, which taxes are attributable to the increase in the then current equalized assessed valuation of each taxable lot, block, tract or parcel of real property in the Central Loop Redevelopment Project Area over and above the Certified Initial Equalized Assessed Value of each such piece of property, as determined by the Clerk of The County of Cook, Illinois.

See "SECURITY FOR THE SERIES 2003 BONDS — General Obligation of the City," "—Third Lien Revenues," and "—Third Lien Revenue Fund."

Limited information is provided in this Official Statement regarding Third Lien Revenues, Incremental Taxes, the Central Loop Redevelopment Project, the Central Loop Redevelopment Project Area, the Senior Lien Bonds or the Subordinate Lien Bonds. No consultant's report or financial analysis has been prepared or presented in this Official Statement on the amount of Third Lien Revenues that may be available to pay the Accreted Amounts on the Series 2003 Bonds. Prospective investors in the Series 2003 Bonds should base their investment decision solely on the ad valorem tax levy for the Series 2003 Bonds, the City's pledge of its full faith and credit and the other information included in this Official Statement. Neither the City nor the Underwriters makes any representation or warranty as to the amount of Third Lien Revenues that may be available to the City for payment of the Series 2003 Bonds.

The summaries of, and references to, all documents, agreements, ordinances, statutes, reports or other instruments referred to in this Official Statement do not purport to be comprehensive or definitive and are qualified in their entirety by reference to each such document, agreement, ordinance, statute, report or instrument.

THE CITY

The City was incorporated in 1837. The City is a municipal corporation and home rule unit of local government under the Illinois Constitution of 1970 and as such, "may exercise any power and perform any function pertaining to its government and affairs including, but not limited to, the power to regulate for the protection of the public health, safety, morals and welfare; to license; to tax; and to incur debt" except that it can "impose taxes upon or measured by incomes or earnings or upon occupation" only if authorized by statute.

The General Assembly of the State of Illinois (the "State") may, by a three-fifths vote of each house, limit the ability of a home rule municipality to levy taxes. The General Assembly may similarly limit the debt that the City may incur, except that the General Assembly does not have the power to limit the debt payable from property taxes to less than three percent of the assessed valuation of the taxable property in the City. To date, the General Assembly has not imposed limits on the City's ability to levy taxes under its home rule powers or to incur debt payable from real property taxes. See "SECURITY

FOR THE SERIES 2003 BONDS—Property Tax Limits—State of Illinois" and "APPENDIX A—REAL PROPERTY TAX SYSTEM AND LIMITS—Property Tax Limits—State of Illinois."

Corporate Fund

The Corporate Fund of the City is used to account for all financial resources of the City except those required to be accounted for in special revenue or enterprise funds.

2002 Corporate Fund Operations. On a budgetary basis, which reflects the use of a portion of appropriated surplus from prior years, revenues and other sources exceeded expenditures and other uses for 2002. Under generally accepted accounting principles, which do not recognize the use of appropriated surplus as a revenue or financing source, actual expenditures and other financing uses of $2,442.8 million exceeded revenues and other financing sources of $2,438.5 million by $4.3 million in 2002, due to a shortfall in revenues related to the slowdown in the national and regional economy. On December 31, 2002, the fund balance in the Corporate Fund was $137.5 million, including an unreserved fund balance of $13.0 million. For additional information, see "APPENDIX C—BASIC FINANCIAL STATEMENTS."

2003 Corporate Fund Budget. The City's 2003 Corporate Fund Budget is $2,549.8 million. This budget reflects an increase of $22.2 million or 0.9%, over the 2002 Corporate Fund Budget. The City's 2003 Corporate Fund Budget contains no additions or material changes to existing taxes and fees. The City's 2003 Corporate Fund Budget was approved by the City Council on December 4, 2002. An analysis of revenues and expenditures through the remainder of 2003 indicates that the Corporate Fund is projected to end the current fiscal year with an available unreserved fund balance of $16.9 million, which is a $3.9 million increase over 2002.

2004 Corporate Fund Budget. On July 31, 2003, the City announced a preliminary budget for fiscal year 2004 which shows a shortfall in the Corporate Fund of approximately $115.5 million. The City expects to pass a balanced 2004 Corporate Fund budget before December 31, 2003.

Collective Bargaining Agreements

Virtually all of the collective bargaining agreements between the City and its unions, with the exception of the Chicago Fire Fighters Union, Local No. 2 ("CFFU") (covering approximately 5,000 employees), expired June 30, 2003. Many of these agreements provide for wage increases which became effective on January 1, 2003. These increases are provided for in the 2003 Corporate Fund Budget. Negotiations for successor collective bargaining agreements have commenced, but it is not known at this time when those negotiations will result in ratified successor agreements, or what the terms of the successor agreements will be.

The City and the CFFU have reached an agreement on a successor to the 1995-1999 agreement. The agreement has been ratified by the CFFU membership and approved by the City Council. The CFFU agreement will cover the period July 1, 1999 through June 30, 2007 and provides for a 1% wage increase effective July 1, 2003, and a 2% wage increase effective January 1, 2004. The City and the CFFU are free to negotiate for other benefits and provisions for the time frame July 1, 2003 through June 30, 2007. It is not yet known when those negotiations will commence or what the terms will be.

City Investment Policies

The investment of City funds is governed by the Municipal Code of Chicago (the "Municipal Code"). In accordance with the requirements of the Public Funds Investment Act adopted by the State, the City Council has adopted a Statement of Investment Policy and Guidelines for the purpose of establishing written cash management and investment guidelines to be followed by the Office of the City Treasurer in the investment of City funds in accordance with the Municipal Code.

Property Tax Appeal Board Decisions

Certain decisions by the Illinois Property Tax Appeal Board in 2000 and 2001 may, if upheld in a final judicial decision, result in reduced levels of assessed valuations for certain owners of real property within the City, and may result in corresponding property tax refunds that the City would be obligated to pay. At this time, the City cannot predict the amount of any such refunds. See "APPENDIX A—REAL PROPERTY TAX SYSTEM AND LIMITS—Real Property Assessment, Tax Levy and Collection Procedures—Assessment."

ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth the estimated sources and uses of Series 2003 Bond proceeds.

	Series 2003A Bonds	Series 2003B Bonds	Total
SOURCES OF FUNDS:			
Principal Amount of the Series 2003 Bonds	$74,772,557.65	$62,228,998.65	$137,001,556.30
Total Source of Funds	$74,772,557.65	$62,228,998.65	$137,001,556.30
USES OF FUNDS:			
Project Costs	$74,001,149.40		$74,001,149.40
Other Redevelopment Projects		$46,702,893.15	46,702,893.15
Refunding of Developer Notes		14,890,000.00	14,890,000.00
Costs of issuance (including bond insurance premium and Underwriters' discount)	771,408.25	636,105.50	1,407,513.75
Total Uses of Funds	$74,772,557.65	$62,228,998.65	$137,001,556.30

Proceeds of the Series 2003A Bonds and the Series 2003B Bonds will be deposited into separate, segregated accounts established by the City as provided in the First Supplemental Indenture and maintained in the Project Fund under or pursuant to the Indenture. Amounts on deposit in the respective project accounts will be applied to pay Project Costs and for the other uses shown above and described elsewhere in this Official Statement.

THE SERIES 2003 BONDS

General

The Series 2003 Bonds will be issued as fully registered Capital Appreciation Bonds in denominations of $5,000 of Accreted Amount at maturity or any integral multiple thereof. The Series 2003 Bonds will be initially dated the date of delivery and will mature on December 1 of the years and in the amounts shown on the inside cover page hereof. Interest on the Series 2003 Bonds will be accumulated and compounded from their date, at the approximate yields to maturity set forth on the inside cover page hereof, semi-annually on June 1 and December l, commencing December 1, 2003, until maturity. The Accreted Amount of each Series 2003 Bond, including such interest, will be payable only in lawful money of the United States of America ("United States") at maturity upon presentation of such Series 2003 Bond at the principal corporate trust office of the Trustee, or its successor in trust.

A table of Accreted Amounts, per each $5,000 of Accreted Amount at maturity, on each June 1 and December 1 is included as APPENDIX D. The Accreted Amount of each Series 2003 Bond on any date other than June 1 and December 1 will be determined conclusively by the Trustee by interpolating the Accreted Amount using the straight line method, by reference to the Accreted Amount on the June 1 and December 1 immediately prior to and immediately after such determination date, and the number of days (based on a 360-day year of twelve 30-day months) elapsed since the June 1 or December 1 immediately prior to such date.

The Trustee will serve as Bond Registrar and Paying Agent for the Series 2003 Bonds.

No Redemption Prior to Maturity

The Series 2003 Bonds are not subject to redemption prior to maturity.

Negotiability, Transfer, Exchange and Registry

The books for registration and transfer of the Series 2003 Bonds will be kept at the principal corporate trust office of the Registrar. See "THE SERIES 2003 BONDS—Book Entry System" for a discussion of registration and transfer of the beneficial ownership interests in Series 2003 Bonds while they are in the book entry system. The following provisions relate to the registration and transfer of Series 2003 Bonds when the Series 2003 Bonds are in certificated form.

The Series 2003 Bonds will be negotiable, subject to the following provisions for registration, exchange and transfer. The City shall maintain and keep, at the office of the Registrar, books for the registration and transfer of Series 2003 Bonds. The City has appointed the Trustee to serve as the Registrar pursuant to the Indenture. Upon presentation of any Series 2003 Bond for registration and transfer at the office of the Registrar, the City shall register or cause to be registered upon those books, and shall permit to be transferred on those books, any Series 2003 Bond entitled to registration or transfer.

Each Series 2003 Bond shall be transferable only by the Owner of the Series 2003 Bond in person or by such Owner's attorney duly authorized in writing, upon surrender of the Series 2003 Bond together with a written instrument of transfer satisfactory to the Registrar, duly executed by the Owner or such Owner's duly authorized attorney. Upon the surrender for transfer of any such Series 2003 Bond, the City shall execute and the Trustee shall authenticate and deliver a new Series 2003 Bond or Series 2003 Bonds registered as directed by the instrument of transfer, of the same Series, aggregate principal amount or Accreted Amount and maturity as the surrendered Series 2003 Bonds. The Series 2003 Bonds may, upon surrender at the office of the Registrar with a written instrument of transfer satisfactory to the Registrar, duly executed by the Owner or such Owner's duly authorized attorney, be exchanged for an equal aggregate principal amount or Accreted Amount of Series 2003 Bonds of the same Series, maturity and interest rate or approximate yield to maturity.

The City and each Fiduciary may deem and treat the person in whose name any Series 2003 Bond is registered upon the registration books of the City as the absolute owner of such Series 2003 Bond, whether such Series 2003 Bond be overdue or not, for the purpose of receiving payment of, or on account of, the principal or Accreted Amount of, redemption premium, if any, and interest on such Series 2003 Bond and for all other purposes, and all such payments so made to any such Owner or upon its order will be valid and effective to satisfy and discharge the liability upon such Series 2003 Bond to the extent of the sum or sums so paid, and neither the City nor any Fiduciary will be affected by any notice to the contrary.

For every transfer or exchange of Series 2003 Bonds, the City, the Trustee or any Registrar may make a charge sufficient to reimburse it for any tax, fee or other governmental charge required to be paid with respect to such transfer. The Registrar and the Trustee will not be required to make any registration, transfer or exchange of Series 2003 Bonds during the period between each Record Date and the next succeeding Interest Payment Date.

Book-entry System

The following information has been furnished by DTC for use in this Official Statement, and neither the City nor any Underwriter takes any responsibility for its accuracy or completeness.

DTC will act as securities depository for the Series 2003 Bonds. The Series 2003 Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee), or such other name as may be requested by an authorized representative of DTC. One fully registered Series 2003 Bond will be issued for each maturity of the Series 2003 Bonds in the aggregate principal amounts thereof set forth herein, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). DTC holds and provides asset servicing for over two million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, and banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission (the "Commission"). More information about DTC can be found at **www.dtcc.com**.

Purchases of Series 2003 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2003 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2003 Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2003 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series 2003 Bonds, except in the event that use of the book-entry system for the Series 2003 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2003 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co, or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2003 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2003 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2003 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Series 2003 Bonds, unless authorized by a Direct Participant in connection with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2003 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payment of the Accreted Amount on the Series 2003 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the City or the Bond Registrar, on the payment date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the City or the Bond Registrar, as applicable, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of the Accreted Amount to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City and the Bond Registrar; disbursement of such payments to Direct Participants shall be the responsibility of DTC; and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Series 2003 Bonds at any time by giving reasonable notice to the City and the Bond Registrar. Under such circumstances, if a successor securities depository is not obtained, certificates for the Series 2003 Bonds are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, certificates for the Series 2003 Bonds will be printed and delivered.

For every transfer and exchange of the Series 2003 Bonds, DTC, the Series 2003 Bond Registrar and the Participants may charge the Beneficial Owner a sum sufficient to cover any tax, fee or other charge that may be imposed in relation thereto.

NEITHER THE CITY NOR THE BOND REGISTRAR WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO ANY PARTICIPANTS, OR TO THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE SERIES 2003 BONDS, OR TO ANY BENEFICIAL OWNER IN RESPECT OF THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT IN RESPECT OF THE ACCRETED AMOUNT OF THE SERIES 2003 BONDS, OR ANY NOTICE WHICH IS PERMITTED

OR REQUIRED TO BE GIVEN WITH RESPECT TO THE SERIES 2003 BONDS, INCLUDING ANY NOTICE OF ACTION TAKEN BY DTC AS REGISTERED OWNER OF THE SERIES 2003 BONDS.

Series 2003 Bonds Not Presented for Payment

If any Series 2003 Bond is not presented for payment when the Accreted Amount thereof becomes due, and if moneys sufficient to pay such Series 2003 Bond are held by the Bond Registrar for the benefit of the registered owner of such Series 2003 Bond, the Bond Registrar will hold such moneys for the benefit of the registered owner of such Series 2003 Bond without liability to the registered owner for interest. The registered owner of such Series 2003 Bond thereafter will be restricted exclusively to such funds for satisfaction of any claims relating to such Series 2003 Bond.

Registered Owner Treated as Absolute Owner

The City and the Registrar may deem and treat a registered owner of a Series 2003 Bond as the absolute owner of such Series 2003 Bond for all purposes, and payment of the Accreted Amount of any Series 2003 Bond, as appropriate, shall be made only to the registered owner thereof or its legal representative. All such payments so made shall be valid and effective to satisfy and discharge the liability upon such Series 2003 Bond to the extent of the sum or sums so paid.

For additional information on the Series 2003 Bonds, see "APPENDIX E—Summary of the Trust Indenture."

SECURITY FOR THE SERIES 2003 BONDS

General Obligation of the City

The Series 2003 Bonds are direct and general obligations of the City and the Accreted Amount thereof is payable from any moneys, revenues, receipts, income, assets or funds of the City legally available for such purpose. The City has pledged its full faith and credit to the payment of the Series 2003 Bonds.

The City has levied for each of the years 2004 to 2007 a direct annual tax upon all taxable property in the City (the "Ad Valorem Taxes") sufficient to provide funds to pay Accreted Amounts on the Series 2003 Bonds when due. See "APPENDIX B—FINANCIAL AND OTHER CITY INFORMATION—Property Tax Supported Bonded Debt—Debt Service Schedule." In addition to the Series 2003 Bonds, the City has other direct and general obligations previously issued and outstanding under separate ordinances adopted by the City Council. See "APPENDIX B—FINANCIAL AND OTHER CITY INFORMATION—Property Tax Supported Bonded Debt—Computation of Direct and Overlapping Bonded Debt."

Under the Ordinance, the City is obligated to appropriate amounts sufficient to pay the Accreted Amount on the Series 2003 Bonds for the years such amounts are due, and the City covenants in the Ordinance to take timely action as required by law to carry out such obligation, but, if for any such year the City fails to do so, the Ordinance constitutes a continuing appropriation of such amounts without any further action by the City.

If the Ad Valorem Taxes to be applied to the payment of the Series 2003 Bonds are not available in time to make any payments of the Accreted Amount of the Series 2003 Bonds when due, then the fiscal officers of the City are directed in the Ordinance to make such payments from any other moneys, revenues, receipts, income, assets or funds of the City that are legally available for that purpose in advancement of the collection of such taxes.

Prior to the deadline for the timely annual abatement by the City of the Ad Valorem Taxes, the City will transfer amounts from the General Account established under the Senior Lien Indenture to the Third Lien Revenue Fund established under the Indenture no later than the later of (a) December 15 of each year and (b) 30 days following the receipt of the second installment of Incremental Taxes if not received by December 15 of a year, so as to provide sufficient funds to make the deposits into the Third Lien Program Expenses Account, the Third Lien Principal and Interest Account and the Third Lien Rebate Account specified below (see "SECURITY FOR THE SERIES 2003 BONDS—Third Lien Revenue Fund"); *provided*, that such transfers are expressly contingent on the availability in the General Account of moneys sufficient for the purpose and shall be made only to the extent that moneys are (i) available in the General Account after all required deposits have been made under the Senior Lien Indenture and all amounts required to be transferred to the Junior Lien Revenue Fund established in the Subordinate Lien Indenture or any other fund or account to pay any additional debt or obligations have been transferred, and (ii) in excess of amounts needed to fund legally binding commitments of the City as determined solely by the City for Project Costs existing at the time the Series 2003A Third Lien Bonds are issued. Upon (but in no event prior to) the transfer and deposit of such moneys, the City will direct the abatement of the Ad Valorem Taxes to the extent (but not in excess) of the amount so transferred and proper notification of such abatement will be filed with the County Clerks of Cook County, Illinois and DuPage County, Illinois, in a timely manner to effect such abatement. See "SECURITY FOR THE SERIES 2003 BONDS—Third Lien Revenues" and "—Third Lien Revenue Fund."

Notwithstanding the foregoing, the Ad Valorem Taxes levied for levy year 2007 may be abated by filing notification of such abatement even if the Third Lien Revenues on deposit in the Principal and Interest Account established under the Indenture at the time of the abatement are then not sufficient to pay all Accreted Amounts on the Series 2003 Bonds falling due during calendar year 2008 if (and only to the extent that) the designated City official files a certificate in the Office of the City Clerk demonstrating that the sum of (i) the amount then on deposit in the Principal and Interest Account established under the Indenture and (ii) the amount of Third Lien Revenues reasonably expected to be received during calendar year 2008, will be at least equal to the amount of the Ad Valorem Taxes levied for levy year 2007 that are to be so abated.

The City covenants in the First Supplemental Indenture that:

(i) it will take all actions, if any, which shall be necessary in order to further provide for the levy, extension, collection and application of the Ad Valorem Taxes, subject to its right to abate those taxes to the extent permitted by the Ordinance;

(ii) it will not take any action or fail to take any action which would in any way adversely affect the levy, extension, collection and application of the Ad Valorem Taxes, except to abate those taxes to the extent permitted by the Ordinance;

(iii) it will comply with all applicable present and future laws concerning the levy, extension and collection of the Ad Valorem Taxes in order to ensure, subject to the City's right to abate the Ad Valorem Taxes to the extent permitted by the Ordinance, that the Ad Valorem Taxes will be levied, extended and collected as provided in the Ordinance and deposited into the 2003 Ad Valorem Taxes Account, so that the City shall be able to pay the Accreted Amount on the Series 2003 Bonds when due to the extent that Third Lien Revenues are not available for that purpose;

(iv) it will pay and discharge, or cause to be paid and discharged, from the 2003 Ad Valorem Taxes Account any and all lawful claims which, if unpaid, might become a lien or charge upon the Ad Valorem Taxes, or any part of them, provided that the City is not required to make any such payment so long as the City in good faith contests the validity of said claims; and

(v) once issued, the Series 2003 Bonds will be, until paid or defeased, the general obligations of the City for the payment of which its full faith and credit are pledged.

Property Tax Limits

The City. In 1993, the City Council adopted an ordinance (the "City Tax Limitation Ordinance") limiting the City's aggregate property tax levy for any one year to an amount equal to the prior year's aggregate property tax levy (subject to certain adjustments) plus the lesser of five percent or the increase in the Consumer Price Index. The City Tax Limitation Ordinance also established a safe harbor amount for each year equal to a specified 1994 base amount increased annually by the lesser of five percent or the increase in the Consumer Price Index. See "APPENDIX A—REAL PROPERTY TAX SYSTEM AND LIMITS—Property Tax Limits—The City." In the Ordinance, the City has levied a direct annual tax upon all taxable property in the City in amounts that, together with other moneys of the City, will be sufficient to pay the Accreted Amounts on the Series 2003 Bonds. Pursuant to the Ordinance, the taxes levied to pay the Series 2003 Bonds are excluded from the City Tax Limitation Ordinance.

State of Illinois. The City continues to be excluded from property tax limits imposed by the State on non-home rule units of local government in Cook County and the five adjacent counties. The property tax limitations imposed by the State differ from those contained in the City Tax Limitation Ordinance. There can be no assurance that legislation applying such property tax limitations to the City will not be enacted by the Illinois General Assembly. For additional information, see "THE CITY" and "APPENDIX A—REAL PROPERTY TAX SYSTEM AND LIMITS—Property Tax Limits—State of Illinois."

Additional General Obligation Debt

The City may issue from time to time notes, bonds and commercial paper that are general obligations of the City and that are secured by the full faith and credit of the City, which may or may not be subject to the provisions of the City Tax Limitation Ordinance.

By the end of the third quarter of 2003, the City intends to issue its General Obligation Bonds, Series 2003 (the "Neighborhoods Alive 21 Program Bonds"), subject to market conditions, in the approximate principal amount of $100,000,000. The Neighborhoods Alive 21 Program Bonds are the fourth in a series of four planned issues in the approximate aggregate principal amount of $800,000,000 primarily to rebuild, upgrade and in some cases build new core municipal facilities such as police stations, fire stations, public libraries and senior citizen centers. The Neighborhoods Alive 21 Program Bonds and the security therefor will be described in an official statement of the City, copies of which will be available upon request from the City Comptroller's Office.

By the end of the 2003, the City anticipates issuing its General Obligation Bonds, Series 2003C (the "Series 2003C Bonds"), in the approximate aggregate principal amount of $185,000,000. The Series 2003C Bonds are expected to be issued to fund capital projects of the City. The Series 2003C Bonds and the security therefor will be described in an official statement of the City, copies of which will be available upon request from the City Comptroller's Office.

Third Lien Revenues

The Series 2003 Bonds, and any additional bonds issued pursuant to the Indenture on a parity basis with the Series 2003 Bonds (collectively, the "Bonds"), are secured by a pledge of Third Lien Revenues. "Third Lien Revenues" are amounts representing the amount of Incremental Taxes transferred to the Third Lien Revenue Fund under the Indenture from the General Account under the Senior Lien Indenture. Amounts on deposit in the General Account of the Senior Lien Indenture are pledged to pay principal and interest on the Senior Lien Bonds and Subordinate Lien Bonds and will be used for such purpose prior to any transfer of funds from the General Account to the Third Lien Revenue Fund or for payment of Accreted Amounts on the Series 2003 Bonds. See "SECURITY FOR THE SERIES 2003 BONDS—Third Lien Revenue Fund."

Third Lien Revenue Fund

The City has established a special fund of the City, to be held by the City subject to the provisions of the Indenture separate and apart from all other funds and accounts of the City, known as the Central Loop Redevelopment Project Area Third Lien Revenue Fund (the "Third Lien Revenue Fund").

The City will transfer from the General Account under the Senior Lien Indenture to the Third Lien Revenue Fund no later than the later of (a) December 15 of each year and (b) 30 days following the receipt of the second installment of Incremental Taxes if not received by December 15 of a year, so as to provide sufficient funds to make the deposits into the Third Lien Program Expenses Account, the Third Lien Principal and Interest Account, and the Third Lien Rebate Account specified below; provided, that such transfers are expressly contingent on the availability in the General Account of moneys sufficient for the purpose and will be made only to the extent that moneys are (i) available in the General Account after all required deposits have been made under the Senior Lien Indenture and all amounts required to be transferred to the Junior Lien Revenue Fund established in the Subordinate Lien Indenture or any other fund or account to pay any additional debt or obligations have been made, and (ii) in excess of amounts needed to fund certain legally binding commitments of the City as determined solely by the City for Project Costs existing at the time the Series 2003 Bonds are issued.

The Series 2003 Bonds are secured by a pledge of all Third Lien Revenues, including all of the moneys on deposit in the Third Lien Revenue Fund (except for the Third Lien Program Expenses Account and the Third Lien Rebate Account), and such pledge is irrevocable until the obligations of the City are discharged under the Indenture.

The moneys on deposit in the Third Lien Revenue Fund will be deposited to the separate accounts created within the Third Lien Revenue Fund in the following order of priority as described below:

> *Third Lien Program Expenses Account.* From Third Lien Revenues first received by the Trustee, the Trustee will deposit into the Third Lien Program Expenses Account an amount of Third Lien Revenues sufficient to pay Third Lien Program Expenses, if any, for the next succeeding calendar year. The City will provide to the Trustee information, calculations or estimates of Third Lien Program Expenses for the next succeeding calendar year, and the Trustee may reasonably rely upon such information, calculations or estimates of such Third Lien Program Expenses as necessary to determine the proper amount of such deposit into the Third Lien Program Expenses Account. A portion of the proceeds of the Bonds may also be deposited into the Third Lien Program Expenses Account and applied by Trustee to pay Costs of Issuance at the direction of the City. Amounts on deposit in the Third Lien Program Expenses Account are not pledged to payment of the Series 2003 Bonds.

Third Lien Principal and Interest Account. The Trustee will next make a transfer to the Third Lien Principal and Interest Account in an amount sufficient to pay the principal of and interest or Accreted Amounts on all Bonds coming due during the next succeeding calendar year, which amount will be set aside within the Third Lien Principal and Interest Account for such purpose. Except as provided below, such moneys will be used solely and only for the purpose of paying principal of and interest or Accreted Amounts on the Bonds as the same become due.

Third Lien Reserve and Redemption Account. The Trustee shall next transfer the balance of the Pledged Revenues into the Reserve and Redemption Account and shall credit any amounts so transferred, pro rata, among the separate Sub-Accounts of the Reserve and Redemption Account established for each Series of Bonds Outstanding until the aggregate amount in each Sub-Account equals the Debt Service Reserve Requirement for the related Series of Bonds. Thereafter no further transfers shall be made into such Sub-Accounts, except that when any money has been transferred from one of such Sub-Accounts to the Principal and Interest Account, transfers into such Sub-Account from Pledged Revenues shall be resumed and continued until that Sub-Account has been restored to an aggregate amount equal to the Debt Service Reserve Requirement for the related Series of Bonds. The Trustee shall value the investments in the Reserve and Redemption Account, on the basis of market price, on the 15th day preceding each June 1 and December 1.

There is no Debt Service Reserve Requirement for the Series 2003 Bonds.

Moneys on deposit in each Sub-Account of the Reserve and Redemption Account shall be transferred to the Principal and Interest Account as may be necessary from time to time to prevent or remedy a default in the payment of interest or premium, if any, on or principal of the applicable Series of Bonds. Amounts on deposit in each Sub-Account in excess of its Debt Service Reserve Requirement shall be transferred to the Principal and Interest Account and applied to the payment of principal of the applicable Series of Bonds.

Third Lien Rebate Account. The Trustee will next transfer the Third Lien Revenues into the Third Lien Rebate Account to the extent necessary to ensure that there are on deposit in the Third Lien Rebate Account sufficient moneys to make, at the required times, all rebate payments to the United States of America required to be made by Section 148 of the Code and Regulations. The City will provide to the Trustee information, calculations or estimates of amounts to be deposited in the Third Lien Rebate Account for the next succeeding calendar year. The Trustee may reasonably rely upon such information, calculations or estimates to determine the proper amount to be deposited into the Third Lien Rebate Account and will not be required to make transfers of the Third Lien Revenues into the Third Lien Rebate Account if it has not been provided with such information, calculations and estimates. The Trustee will make any necessary rebate payments to the United States of America that are required by the Code and Regulations from moneys on deposit in the Third Lien Rebate Account. Amounts on deposit in the Third Lien Rebate Account are not pledged to the payment of the Series 2003 Bonds.

On the day following the date on which the foregoing deposits have been made, the Trustee will transfer any balance remaining in the Third Lien Revenue Fund to the General Account of the Senior Lien Indenture.

2003 Ad Valorem Taxes Account. The City has established a separate, segregated account within the Third Lien Revenue Fund to be held by the City and known as the 2003 Ad Valorem Taxes Account. All Ad Valorem Taxes received by the City Treasurer will be deposited immediately upon receipt in the 2003 Ad Valorem Taxes Account. Amounts on deposit in the 2003 Ad Valorem Taxes Account will be applied only to pay when due Accreted Amounts on the

Series 2003 Bonds. The City Treasurer will transfer moneys from the 2003 Ad Valorem Taxes Account to the Trustee for deposit in the Third Lien Principal and Interest Account, to the extent of moneys on deposit therein, at times and in amounts necessary to pay the amounts described in the preceding sentence. If there are moneys to the credit of both the 2003 Ad Valorem Taxes Account and the Third Lien Principal and Interest Account on any due date of any Accreted Amount, moneys to the credit of the 2003 Ad Valorem Taxes Account will be used first to pay amounts due on such date on the Series 2003 Bonds and the 2003 Ad Valorem Taxes Account will be fully depleted before other moneys to the credit of the Third Lien Principal and Interest Account are used to pay such amounts due on the Series 2003 Bonds.

Bond Insurance Policy

Upon the issuance of the Series 2003 Bonds, XL Capital Assurance Inc. (the "Bond Insurer") will issue a financial guaranty insurance policy (the "Policy") that will guarantee the payment of scheduled Accreted Amounts of the Series 2003 Bonds. See "BOND INSURANCE" and "APPENDIX F—SPECIMEN BOND INSURANCE POLICY."

BOND INSURANCE

The following information has been supplied by the Bond Insurer for inclusion in this Official Statement. No representation is made by the City or the Underwriters as to the accuracy or completeness of the information.

The Bond Insurer accepts no responsibility for the accuracy or completeness of this Official Statement or any other information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the Bond Insurer and its affiliates set forth under this heading. In addition, the Bond Insurer makes no representation regarding the Series 2003 Bonds or the advisability of investing in the Series 2003 Bonds.

General

XL Capital Assurance Inc. (the "Bond Insurer" or "XLCA") is a monoline financial guaranty insurance company incorporated under the laws of the State of New York. The Bond Insurer is currently licensed to do insurance business in, and is subject to the insurance regulation and supervision by, the State of New York, forty-seven other states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands and Singapore. The Bond Insurer has license applications pending, or intends to file an application, in each of those states in which it is not currently licensed.

The Bond Insurer is an indirect wholly owned subsidiary of XL Capital Ltd, a Cayman Islands corporation ("XL Capital Ltd"). Through its subsidiaries, XL Capital Ltd is a leading provider of insurance and reinsurance coverages and financial products to industrial, commercial and professional service firms, insurance companies and other enterprises on a worldwide basis. The common stock of XL Capital Ltd is publicly traded in the United States and listed on the New York Stock Exchange (NYSE: XL). **XL Capital Ltd is not obligated to pay the debts of or claims against the Bond Insurer.**

The Bond Insurer was formerly known as The London Assurance of America Inc. ("London"), which was incorporated on July 25, 1991 under the laws of the State of New York. On February 22, 2001, XL Reinsurance America Inc. ("XL Re") acquired 100% of the stock of London. XL Re merged its former financial guaranty subsidiary, known as XL Capital Assurance Inc. (formed September 13, 1999) with and into London, with London as the surviving entity. London immediately changed its name to XL

Capital Assurance Inc. All previous business of London was 100% reinsured to Royal Indemnity Company, the previous owner at the time of acquisition.

Reinsurance

The Bond Insurer has entered into a facultative quota share reinsurance agreement with XL Financial Assurance Ltd ("XLFA"), an insurance company organized under the laws of Bermuda, and an affiliate of the Bond Insurer. Pursuant to this reinsurance agreement, the Bond Insurer expects to cede up to 90% of its business to XLFA. The Bond Insurer may also cede reinsurance to third parties on a transaction-specific basis, which cessions may be any or a combination of quota share, first loss or excess of loss. Such reinsurance is used by the Bond Insurer as a risk management device and to comply with statutory and rating agency requirements and does not alter or limit the Bond Insurer's obligations under any financial guaranty insurance policy. With respect to any transaction insured by XLCA, the percentage of risk ceded to XLFA may be less than 90% depending on certain factors including, without limitation, whether XLCA has obtained third party reinsurance covering the risk. As a result, there can be no assurance as to the percentage reinsured by XLFA of any given financial guaranty insurance policy issued by XLCA, including the Policy.

Based on the audited financials of XLFA, as of December 31, 2002, XLFA had total assets, liabilities, redeemable preferred shares and shareholders' equity of $611,791,000, $245,750,000, $39,000,000 and $327,041,000, respectively, determined in accordance with generally accepted accounting principles in the United States. XLFA's insurance financial strength is rated "Aaa" by Moody's and "AAA" by S&P and Fitch Inc. In addition, XLFA has obtained a financial enhancement rating of "AAA" from S&P.

The obligations of XLFA to the Bond Insurer under the reinsurance agreement described above are unconditionally guaranteed by XL Insurance (Bermuda) Ltd ("XLI"), a Bermuda company and one of the world's leading excess commercial insurers. XLI is a wholly owned indirect subsidiary of XL Capital Ltd. In addition to having an "A+" rating from A.M. Best, XLI's financial strength rating is "Aa2"by Moody's and "AA" by Standard & Poor's and Fitch. The ratings of XLFA and XLI are not recommendations to buy, sell or hold securities, including the Series 2003 Bonds and are subject to revision or withdrawal at any time by Moody's, Standard & Poor's or Fitch.

Notwithstanding the capital support provided to the Bond Insurer described in this section, the Owners of the Series 2003 Bonds will have direct recourse against the Bond Insurer only, and neither XLFA nor XLI will be directly liable to the Owners of the Series 2003 Bonds.

Financial Strength and Financial Enhancement Ratings of XLCA

The Bond Insurer's insurance financial strength is rated "Aaa" by Moody's and "AAA" by Standard & Poor's and Fitch, Inc. ("Fitch"). In addition, XLCA has obtained a financial enhancement rating of "AAA" from Standard & Poor's. These ratings reflect Moody's, Standard & Poor's and Fitch's current assessment of the Bond Insurer's creditworthiness and claims-paying ability as well as the reinsurance arrangement with XLFA described under "Reinsurance" above.

The above ratings are not recommendations to buy, sell or hold securities, including the Series 2003 Bonds and are subject to revision or withdrawal at any time by Moody's, Standard & Poor's or Fitch. Any downward revision or withdrawal of these ratings may have an adverse effect on the market price of the Series 2003 Bonds. The Bond Insurer does not guaranty the market price of the Series 2003 Bonds nor does it guaranty that the ratings on the Series 2003 Bonds will not be revised or withdrawn.

Capitalization of the Bond Insurer

Based on the audited statutory financial statements for XLCA as of December 31, 2001, XLCA had total admitted assets of $158,442,157, total liabilities of $48,899,461 and total capital and surplus of $109,542,696 determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities ("SAP"). Based on the audited statutory financial statements for XLCA as of December 31, 2002 filed with the State of New York Insurance Department, XLCA has total admitted assets of $180,993,189, total liabilities of $58,685,217 and total capital and surplus of $122,307,972 determined in accordance with SAP.

For further information concerning XLCA and XLFA, see the financial statements of XLCA and XLFA, and the notes thereto, incorporated by reference in this Official Statement. The financial statements of XLCA and XLFA are included as exhibits to the periodic reports filed with the Securities and Exchange Commission (the "Commission") by XL Capital Ltd and may be reviewed at the EDGAR website maintained by the Commission. All financial statements of XLCA and XLFA included in, or as exhibits to, documents filed by XL Capital Ltd pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 on or prior to the date of this Official Statement, or after the date of this Official Statement but prior to termination of the offering of the Series 2003 Bonds, shall be deemed incorporated by reference in this Official Statement. Except for the financial statements of XLCA and XLFA, no other information contained in XL Capital Ltd's reports filed with the Commission is incorporated by reference. Copies of the statutory quarterly and annual statements filed with the State of New York Insurance Department by XLCA are available upon request to the State of New York Insurance Department.

Regulation of the Bond Insurer

The Bond Insurer is regulated by the Superintendent of Insurance of the State of New York. In addition, the Bond Insurer is subject to regulation by the insurance laws and regulations of the other jurisdictions in which it is licensed. As a financial guaranty insurance company licensed in the State of New York, the Bond Insurer is subject to Article 69 of the New York Insurance Law, which, among other things, limits the business of each insurer to financial guaranty insurance and related lines, prescribes minimum standards of solvency, including minimum capital requirements, establishes contingency, loss and unearned premium reserve requirements, requires the maintenance of minimum surplus to policyholders and limits the aggregate amount of insurance which may be written and the maximum size of any single risk exposure which may be assumed. The Bond Insurer is also required to file detailed annual financial statements with the New York Insurance Department and similar supervisory agencies in each of the other jurisdictions in which it is licensed.

The extent of state insurance regulation and supervision varies by jurisdiction, but New York and most other jurisdictions have laws and regulations prescribing permitted investments and governing the payment of dividends, transactions with affiliates, mergers, consolidations, acquisitions or sales of assets and incurrence of liabilities for borrowings.

THE FINANCIAL GUARANTY INSURANCE POLICIES ISSUED BY THE BOND INSURER, INCLUDING THE POLICY, ARE NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

The principal executive offices of the Bond Insurer are located at 1221 Avenue of the Americas, New York, New York 10020 and its telephone number at this address is (212) 478-3400.

LITIGATION

There is no litigation pending in any court or, to the knowledge of the City, threatened, questioning the corporate existence of the City, or which would restrain or enjoin the issuance or delivery of the Series 2003 Bonds, or which concerns the proceedings of the City taken in connection with the Series 2003 Bonds or the City's pledge of its full faith, credit and resources to the payment of the Series 2003 Bonds.

The City is involved in various litigation matters relating principally to claims arising from contract, personal injury, property damage, property and other tax claims, police conduct and other matters. As part of the budgetary process, the City annually makes what it believes to be adequate provision for estimated amounts of probable loss with respect to potential claims, judgments and settlements.

PrimeCo. Litigation. Plaintiffs filed this action in the Circuit Court for declaratory, injunctive and other relief concerning the validity of a portion of the Illinois Telecommunications Municipal Infrastructure Maintenance Fee Act, 35 ILCS 635/1 et seq. (the "IMF Act"). Plaintiffs are providers of wireless telephone service who allege that the IMF Act violates the Uniformity Clause of Article IX, Section 2 of the 1970 Illinois Constitution, and includes provisions that are unconstitutionally vague. They also allege that the IMF Act only permits the City to recover its actual costs from the providers of telecommunications services. Because the City had previously passed an ordinance imposing a municipal infrastructure maintenance fee pursuant to the authority of the IMF Act, the City intervened in the litigation.

In January 2000, the Circuit Court granted plaintiffs' motion for summary judgment, issuing a written ruling declaring that the IMF Act violates the Uniformity Clause. In March 2001, the Illinois Supreme Court affirmed the Circuit Court's judgment that the IMF Act is invalid as to telecommunications retailers that do not own equipment in the public way (generally wireless service providers). The Illinois Supreme Court then remanded the case for further proceedings on the validity of the IMF Act as to telecommunications retailers that do own equipment in the public way (generally landline service providers). In addition, various customers of both wireless and landline services have been granted leave to intervene in the Circuit Court for the purpose of pursuing class action claims for refunds of infrastructure maintenance fee revenues. The City has settled some of the claims for refunds, but if the remaining claims for refunds are granted as to one or more classes of telecommunications customers, the refunds could be substantial. The City may also have available certain legislative solutions and/or alternative means of collecting the revenues at issue in this matter. The City is unable to predict the outcome of the proceedings on remand.

Property Tax Objections. 1989-1997. The City's property tax levies for 1989 through 1997 varied between approximately $600 and $650 million annually. Objections have been filed in the Circuit Court to the levies for the years 1989 through 1997, and the City is currently in the process of actively litigating the 1989 tax year objections. The objectors in the 1989 tax year litigation filed twenty-five separate objections to the levy, all but eight of which were dismissed or withdrawn before trial. Trial of the eight remaining objections took place in the Circuit Court between November 29 and December 22, 1999. The Circuit Court ruled in favor of the City on three of the objections and against the City on the remaining five. The City has filed an appeal for all of the rulings that are adverse to the City. On June 19, 2000, the Circuit Court entered a final judgment order based on its rulings, and stayed the judgment pending appeal. The objectors have filed an appeal from one of the rulings that was favorable to the City. On June 28, 2002, the Illinois Appellate Court issued an opinion reversing two of the rulings that were adverse to the City, affirming three of the rulings that were adverse to the City, and remanding the case for further proceedings on the ruling that was appealed by the objectors. Pursuant to the remand, the case is now before the Circuit Court for disposition of the objection that was remanded. The City is unable to predict the outcome of the proceedings on remand.

CITY FINANCIAL STATEMENTS

The basic financial statements of the City as of and for the year ended December 31, 2002 included in APPENDIX C to this Official Statement have been audited by Deloitte & Touche LLP, independent auditors, as stated in their report appearing in APPENDIX C.

RATINGS

The Series 2003 Bonds are rated "Aaa" by Moody's Investors Service, Inc., "AAA" by Standard & Poor's, a Division of The McGraw-Hill Companies and "AAA" by FitchRatings, in each case contingent on the issuance of the Bond Insurance Policy by the Bond Insurer. See "BOND INSURANCE." A rating reflects only the view of the rating agency giving such rating. An explanation of the significance of such rating may be obtained from such organization. There is no assurance that any rating will continue for any given period of time or that any rating will not be revised downward or withdrawn entirely if, in the judgment of the rating agency, circumstances so warrant. Any such downward revision or withdrawal of a rating may have an adverse effect on the price at which the Series 2003 Bonds may be resold.

UNDERWRITING

The Underwriters have agreed, subject to certain conditions, to purchase the Series 2003A Bonds at a price equal to $74,323,922.30 (which represents the aggregate original principal amount of the Series 2003A Bonds less an Underwriters' discount of $448,635.35) and the Series 2003B Bonds at a price equal to $61,855,624.66 (which represents the aggregate original principal amount of the Series 2003B Bonds less an Underwriters' discount of $373,373.99). The obligation of the Underwriters to accept delivery of the Series 2003 Bonds is subject to various conditions set forth in a Bond Purchase Agreement between the Underwriters and the City. The Underwriters are obligated to purchase all of the Series 2003 Bonds if any of the Series 2003 Bonds are purchased.

TAX EXEMPTION

In the opinions of Co-Bond Counsel, interest on the Series 2003A Bonds under present law is excludable from "gross income" for federal income tax purposes, and thus is exempt from federal income taxes based on gross income. This opinion is subject to compliance by the City with its covenants described below.

Interest on the Series 2003B Bonds is not excludable from gross income for federal income tax purposes.

Certain requirements must be met in order for the interest on the Series 2003A Bonds to be excludable from gross income for federal income tax purposes. These requirements relate to the use and investment of various proceeds and funds of the City in connection with the Series 2003A Bonds and the use of property financed by the Series 2003A Bonds. The City has covenanted to comply with all of these requirements. If the City were to fail to comply with these requirements, interest on the Series 2003A Bonds could become included in gross income for federal income tax purposes retroactively to the date the Series 2003A Bonds are issued. In such event, there is no requirement that payment of principal of or interest on the Series 2003A Bonds be accelerated or that any additional interest or penalties be paid to the Owners of the Bonds.

Co-Bond Counsel are also of the opinion that interest on the Series 2003A Bonds is not an item of tax preference in computing the alternative minimum tax for individuals or corporations. Interest on the Series 2003A Bonds is, however, included in the "adjusted current earnings" of certain corporations and this is taken into account in computing the alternative minimum tax for those corporations. Interest on the Series 2003A Bonds may also be taken into account in computing a corporation's "effectively connected earnings and profits" for purposes of the "branch profits tax" imposed on certain foreign corporations..

Ownership of the Series 2003A Bonds may result in other federal income tax consequences for certain taxpayers, including, without limitation, financial institutions, certain insurance companies, certain S corporations, individual recipients of Social Security or Railroad Retirement benefits, and taxpayers who may be deemed to have incurred (or continued) indebtedness to purchase or carry tax-exempt Series 2003A Bonds. Prospective purchasers of the Series 2003A Bonds should consult their tax advisors as to applicability of any of those collateral consequences.

Interest on the Series 2003 Bonds is not exempt from present Illinois income taxes. Ownership of the Series 2003 Bonds may result in other state and local tax consequences to certain taxpayers. Co-Bond Counsel will express no opinion with respect to any state and local tax consequences, other than as is expressed in the first sentence of this paragraph.

The purchaser of a Series 2003 Bond will be treated as having purchased the Series 2003 Bond with market discount subject to the market discount rules of the Internal Revenue Code of 1986, as amended (the "Code") (unless a statutory *de minimis* rule applies). Accrued market discount is treated as taxable ordinary income and is recognized when a Series 2003 Bond is disposed of (to the extent such accrued discount does not exceed gain realized) or, at the purchaser's election, as it accrues. The applicability of the market discount rules may adversely affect the liquidity or secondary market price of the Series 2003 Bonds. Purchasers should consult their own tax advisors regarding the potential implications of market discount with respect to the Series 2003 Bonds.

The opinions of Co-Bond Counsel and the descriptions of the tax law contained in this Official Statement are based on statutes, judicial decisions, regulations, rulings, and other official interpretations of law in existence on the date the Series 2003 Bonds are issued. There can be no assurance that such law or those interpretations will not be changed or that new provisions of law will not be enacted or new interpretations will not be promulgated at any time while the Series 2003 Bonds are Outstanding in a manner that would adversely affect the value or tax treatment of ownership of the Bonds.

In rendering their opinions on tax exemption, Co-Bond Counsel will receive and will rely upon certifications and representations of facts, estimates and expectations furnished by the City which Co-Bond Counsel will not verify independently.

APPROVAL OF LEGAL MATTERS

Legal matters with regard to the authorization, issuance and sale of the Series 2003 Bonds are subject to the approving opinion of Schiff Hardin & Waite, Chicago, Illinois, and Burke Burns & Pinelli, Ltd., Chicago, Illinois, Co-Bond Counsel, which opinion will be substantially in the form included as APPENDIX G.

Certain legal matters will be passed upon for the City by its Corporation Counsel, and for the Underwriters by their co-counsel, Vedder, Price, Kaufman & Kammholz, P.C., Chicago, Illinois, and Burris, Wright, Slaughter & Tom, LLC, Chicago, Illinois.

SECONDARY MARKET DISCLOSURE

The City will enter into a Continuing Disclosure Undertaking (the "Undertaking") for the benefit of the beneficial owners of the Series 2003 Bonds to send certain information annually and to provide notice of certain events to certain information repositories pursuant to the requirements of Section (b)(5) of Rule 15c2-12 (the "Rule") adopted by the Commission under the Exchange Act. The information to be provided on an annual basis, the events which will be noticed on an occurrence basis and a summary of other terms of the Undertaking, including termination, amendment and remedies, are set forth below.

A failure by the City to comply with the Undertaking will not constitute a default under the Series 2003 Bonds or the Indenture and beneficial owners of the Series 2003 Bonds are limited to the remedies described in the Undertaking. See "Consequences of Failure of the City to Provide Information" under this caption. A failure by the City to comply with the Undertaking must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Series 2003 Bonds in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the Series 2003 Bonds and their market price.

The following is a brief summary of certain provisions of the Undertaking of the City and does not purport to be complete. The statements made under this caption are subject to the detailed provisions of the Undertaking, a copy of which is available upon request from the City.

Annual Financial Information Disclosure

The City covenants that it will disseminate its Annual Financial Information and its Audited Financial Statements (as described below) to each Nationally Recognized Municipal Securities Information Repository (a "NRMSIR") then recognized by the Commission for purposes of the Rule and to any public or private repository designated by the State as the state depository (the "SID") and recognized as such by the Commission for purposes of the Rule. The City is required to deliver such information so that such entities receive the information by the dates specified in the Undertaking.

"Annual Financial Information" means information generally consistent with that contained under the caption "THE CITY—Corporate Fund" and in APPENDIX B hereto.

"Audited Financial Statements" means the basic financial statements of the City prepared in accordance with generally accepted accounting principles applicable to governmental units as in effect from time to time.

Annual Financial Information exclusive of Audited Financial Statements will be provided to each NRMSIR and to the SID, if any, not more than 210 days after the last day of the City's fiscal year, which currently is December 31. If Audited Financial Statements are not available when the Annual Financial Information is filed, unaudited financial statements will be included, and Audited Financial Statements will be filed when available.

Events Notification; Material Events Disclosure

The City covenants that it will disseminate to each NRMSIR or to the Municipal Securities Rulemaking Board (the "MSRB") and to the SID, if any, in a timely manner the disclosure of the occurrence of an Event (as described below) that is material, as materiality is interpreted under the Exchange Act. The "Events," certain of which may not be applicable to the Series 2003 Bonds, are:

1. principal and interest payment delinquencies;
2. non-payment related defaults;
3. unscheduled draws on debt service reserves reflecting financial difficulties;
4. unscheduled draws on credit enhancements reflecting financial difficulties;
5. substitution of credit or liquidity providers, or their failure to perform;
6. adverse tax opinions or events affecting the tax-exempt status of the security;
7. modifications to rights of security holders;
8. bond calls;
9. defeasances;
10. release, substitution or sale of property securing repayment of the securities; and
11. rating changes.

Consequences of Failure of the City to Provide Information

The City shall give notice in a timely manner to each NRMSIR or to the MSRB and to the SID, if any, of any failure to provide disclosure of Annual Financial Information and Audited Financial Statements when the same are due under the Undertaking.

The City is in compliance with undertakings previously entered into by it pursuant to the Rule. In the event of a failure of the City to comply with any provision of the Undertaking, the beneficial owner of any Series 2003 Bond may seek mandamus or specific performance by court order, to cause the City to comply with its obligations under the Undertaking. The Undertaking provides that any court action must be initiated in the Circuit Court. A default under the Undertaking shall not be deemed a default under the Series 2003 Bonds or the Ordinance, and the sole remedy under the Undertaking in the event of any failure of the City to comply with the Undertaking shall be an action to compel performance.

Amendment; Waiver

Notwithstanding any other provision of the Undertaking, the City may amend the Undertaking, and any provision of the Undertaking may be waived, if:

(a) (i) the amendment or waiver is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of the City or type of business conducted;

(ii) the Undertaking, as amended, or the provision, as waived, would have complied with the requirements of the Rule at the time of the primary offering, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(iii) the amendment or waiver does not materially impair the interests of the beneficial owners of the Series 2003 Bonds, as determined by a party unaffiliated with the City (such as the Bond Registrar or Co-Bond Counsel) at the time of the amendment or waiver; or

(b) the amendment or waiver is otherwise permitted by the Rule.

Termination of Undertaking

The Undertaking shall be terminated if the City shall no longer have any legal liability for any obligation on or relating to repayment of the Series 2003 Bonds under the Indenture. If this provision is applicable, the City shall give notice in a timely manner to each NRMSIR or to the MSRB and to the SID, if any.

Additional Information

Nothing in the Undertaking shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in the Undertaking or any other means of communication, or including any other information in any Annual Financial Information or Audited Financial Statements or notice of occurrence of a material Event, in addition to that which is required by the Undertaking. If the City chooses to include any information in any Annual Financial Information or Audited Financial Statements or notice of occurrence of a material Event in addition to that which is specifically required by the Undertaking, the City shall have no obligation under the Undertaking to update such information or include it in any future Annual Financial Information or Audited Financial Statements or notice of occurrence of an Event.

MISCELLANEOUS

The summaries or descriptions in this Official Statement of provisions of the Ordinance, the Indenture and the Undertaking and all references to other materials not purporting to be quoted in full, are qualified in their entirety by reference to the complete provisions of the documents and other materials summarized or described. Copies of these documents may be obtained from the office of the City Comptroller.

The Series 2003 Bonds are authorized and are being issued pursuant to the City Council's approval under the powers of the City as a home rule unit under Article VII of the Illinois Constitution of 1970 and under the Act. This Official Statement has been authorized by the City Council.

CITY OF CHICAGO

By: /s/ Tariq Malhance
City Comptroller

APPENDIX A

CITY OF CHICAGO
REAL PROPERTY TAX SYSTEM AND LIMITS

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REAL PROPERTY TAX SYSTEM AND LIMITS

Real Property Assessment, Tax Levy and Collection Procedures

General. Substantially all (approximately 99.98 percent) of the "Equalized Assessed Valuation" (described below) of taxable property in the City is located in Cook County (the "County"). The remainder is located in DuPage County. Accordingly, unless otherwise indicated, the information set forth under this caption and elsewhere in this Official Statement with respect to taxable property in the City does not reflect the portion situated in DuPage County.

Information under this caption describes the current procedures for real property assessment, tax levy and tax collection in the County. There can be no assurance that the procedures described under this caption will not be changed. The Illinois laws relating to real property taxation are contained in the Illinois Property Tax Code (the "Property Tax Code").

Assessment. The Cook County Assessor (the "Assessor") is responsible for the assessment of all taxable real property within the County, except for certain railroad property and pollution control equipment assessed directly by the State. One-third of the real property in the County is reassessed each year on a repeating triennial schedule established by the Assessor. The suburbs in the western and southern portions of the County were reassessed in 2002. The City is being reassessed in 2003. The suburbs in the northern and northwestern portions of the County will be reassessed in 2004.

Real property in the County is separated into various classifications for assessment purposes. After the Assessor establishes the fair cash value of a parcel of land, that value is multiplied by one of the classification percentages to arrive at the assessed valuation (the "Assessed Valuation") for the parcel. The current classification percentages range from 16 percent for certain residential, commercial and industrial properties to 36 percent and 38 percent, respectively, for other industrial and commercial property.

On April 18, 2000, the Cook County Board of Commissioners adopted an amendment to the County's Real Property Assessment Classification Ordinance (the "Classification Ordinance"), pursuant to which the Assessed Valuation of real property is established. Among other things, the amendment reduced certain property classification percentages and lengthened certain renewal periods of classifications.

The Assessor has established procedures enabling taxpayers to contest their tentative Assessed Valuations. Once the Assessor certifies final Assessed Valuations, a taxpayer can seek review of its assessment by the Cook County Board of Review (the "Board of Review"). The Board of Review has powers to review and adjust Assessed Valuations set by the Assessor. Owners of property are able to appeal decisions of the Board of Review to the Illinois Property Tax Appeal Board (the "PTAB"), a state-wide administrative body. The PTAB has the power to determine the Assessed Valuation of real property based on equity and the weight of the evidence. Based on the amount of the proposed change in assessed valuation, taxpayers may appeal decisions of the PTAB to either the Circuit Court of Cook County or the Illinois Appellate Court under the Illinois Administrative Review Law.

In March 2000 and August 2001, the PTAB rendered two series of decisions in which it granted reduced assessed valuations to the owners of certain real property in the County by employing lower levels of assessment. In its March 2000 decisions, the PTAB utilized the median levels of assessment derived from the Illinois Department of Revenue's sales-ratio studies (the "Sales-Ratio Studies") as the mechanism for determining correct assessment levels, instead of those set forth in the Classification Ordinance. Use of the Sales-Ratio Studies resulted in a lower assessment level than required by the Classification Ordinance. In its August 2001 decisions, after examining the Sales-Ratio Studies, the

PTAB held that the Assessor's assessment practices violated a provision of the State Constitution, which limits the level of assessment of the highest class of property, in a county that classifies property, to two and one-half times the level of assessment of the lowest class of property in that county. As a result, the PTAB established a maximum assessment level that is significantly below the assessment levels for commercial and industrial property currently set forth in the Classification Ordinance.

The Board of Review appealed the March 2000 and August 2001 decisions of the PTAB to the Illinois Appellate Court. On August 20, 2002, the Illinois Appellate Court issued an opinion affirming in part and reversing in part the March 2000 decision. The affected case was remanded for further proceedings, and the appellate court decision itself could be subject to further review.

If either of the PTAB decisions were affirmed in a final judicial decision, the lower levels of assessments could be applied to other property tax appeals then pending before either the PTAB or before a court, resulting in corresponding property tax refunds that the City would be obligated to pay. At present, however, the City is unable to predict the amount of any such refunds.

Despite any potential short-term impact on the City's general revenues, the City anticipates that the long-term impact of the PTAB decisions on the City will be negligible as none of these decisions questions the City's ability to levy or collect real property taxes or the amount of the City's real property tax levy.

As an alternative to seeking review of Assessed Valuations by the PTAB, taxpayers who have first exhausted their remedies before the Board of Review may file an objection in the Circuit Court of Cook County. In addition, in cases where the Assessor agrees that an assessment error has been made after tax bills have been issued, the Assessor can correct the Assessed Valuation, and thus reduce the amount of taxes due, by issuing a Certificate of Error.

Equalization. After the Assessed Valuation for each parcel of real estate in a county has been determined for a given year including any revisions made by the Board of Review, the Illinois Department of Revenue reviews the assessments and determines an equalization factor (the "Equalization Factor"), commonly called the "multiplier," for each county. The purpose of equalization is to bring the aggregate assessed value of all real property, except farmland and undeveloped coal, in each county to the statutory requirement of 33-1/3 percent of estimated fair cash value. Adjustments in Assessed Valuation made by the PTAB or the courts are not reflected in the Equalization Factor. The Assessed Valuation of each parcel of real estate in the County is multiplied by the County's Equalization Factor to determine the parcel's equalized assessed valuation (the "Equalized Assessed Valuation").

The Equalized Assessed Valuation for each parcel is the final property valuation used for determination of tax liability. The aggregate Equalized Assessed Valuation for all parcels in any taxing body's jurisdiction, after reduction for all applicable exemptions, plus the valuation of property assessed directly by the State, constitutes the total real estate tax base for the taxing body and is the figure used to calculate tax rates (the "Assessment Base"). The Equalization Factor for a given year is used in computing the taxes extended for collection in the following year. The Equalization Factors for the 10 tax levy years ended December 31, 2001 (the most recent years available) are listed in APPENDIX B in the table captioned "PROPERTY TAX INFORMATION."

In 1991, legislation was enacted by the State which provided that for 1992 and for subsequent years' tax levies, the Equalized Assessed Valuation used to determine any applicable tax limits is the one for the immediately preceding year and not the current year. This legislation impacts taxing districts with rate limits only and currently does not apply to the City. See "Property Tax Limits" below.

Exemptions. The annual homestead exemption provides for the reduction of the Equalized Assessed Valuation of certain property owned and used exclusively for residential purposes by the amount of any increase over the 1977 Equalized Assessed Valuation, up to a maximum reduction of $4,500. Additional exemptions exist for: (i) senior citizens, with the Assessor authorized to reduce the Equalized Assessed Valuation on a senior citizen's home by $2,500, and (ii) disabled veterans, with the Assessor authorized annually to exempt up to $58,000 of the Assessed Valuation of certain property owned and used exclusively by such veterans or their spouses for residential purposes. The homestead improvement exemption provides that an owner of a single family residence may exempt up to $45,000 of the increase in the fair cash value of a home due to certain home improvements to an existing structure for at least four years from the date the improvement is completed. For rehabilitation of certain historic property, the Equalized Assessed Valuation is limited for eight years to the value when the rehabilitation work began. The Senior Citizens Assessment Freeze Homestead Exemption freezes property tax assessments for homeowners who are 65 and older and have annual incomes of $40,000 or less and are either the owner of record or have a legal or equitable interest in the property. In addition, certain property is exempt from taxation on the basis of ownership and/or use.

Additionally, since 1996, counties have been authorized to create special property tax exemptions in long-established residential areas or in areas of deteriorated, vacant or abandoned homes and properties. Under such an exemption, long-time, residential owner-occupants in eligible areas would be entitled to a deferral or exemption from that portion of property taxes resulting from an increase in market value because of refurbishment or renovation of other residences or construction of new residences in the area. On June 5, 2001, the County enacted the Longtime Homeowner Exemption Ordinance, which provides property tax relief from dramatic rises in property taxes directly or indirectly attributable to gentrification in the form of an exemption. This is generally applicable to homeowners: (i) who have resided in their homes for 10 consecutive years (or five consecutive years for homeowners who have received assistance in the acquisition of the property as part of a government or nonprofit housing program), (ii) whose annual household income for the year of the homeowner's triennial assessment does not exceed 115% of the Chicago Primary Metropolitan Statistical Area median income as defined by the United States Department of Housing and Urban Development, (iii) whose property has increased in assessed value to a level exceeding 150% of the current average assessed value for properties in the assessment district where the property is located, and (iv) who, for any triennial assessment cycle, did not cause a substantial improvement which resulted in an increase in the property's fair cash value in excess of the $45,000 allowance set forth in the Illinois Property Tax Code.

Tax Levy. There are over 800 units of local government (the "Units") located in whole or in part in the County that have taxing power. The major Units having taxing power over property within the City are the City, the Chicago Park District, the Board of Education of the City of Chicago, the School Finance Authority, Community College District No. 508, the Metropolitan Water Reclamation District of Greater Chicago, the County and the Forest Preserve District of Cook County.

As part of the annual budgetary process of the Units, each year in which the determination is made to levy real estate taxes, proceedings are adopted by the governing body for each Unit. The tax levy proceedings impose the Units' respective real estate taxes in terms of a dollar amount. Each Unit certifies its real estate tax levy, as established by the proceedings, to the County Clerk's Office. The remaining administration and collection of the real estate taxes is statutorily assigned to the County Clerk and the County Treasurer, who is also the County Collector (the "County Collector").

After the Units file their annual tax levies, the County Clerk computes the annual tax rate for each Unit by dividing the levy of each Unit by the Assessment Base of the respective Unit. If any tax rate thus calculated or any component of such a tax rate (such as a levy for a particular fund) exceeds any applicable statutory rate limit, the County Clerk disregards the excessive rate and applies the maximum rate permitted by law.

The County Clerk then computes the total tax rate applicable to each parcel of real property by aggregating the tax rates of all the Units having jurisdiction over the particular parcel. The County Clerk enters in the books prepared for the County Collector (the "Warrant Books") the tax (determined by multiplying that total tax rate by the Equalized Assessed Valuation of that parcel), along with the tax rates, the Assessed Valuation and the Equalized Assessed Valuation. The Warrant Books are the County Collector's authority for the collection of taxes and are used by the County Collector as the basis for issuing tax bills to all property owners.

The Illinois Truth in Taxation Law (the "Truth in Taxation Law"), contained within the Property Tax Code, imposes procedural limitations on a Unit's real estate taxing powers and requires that notice in prescribed form must be published if the aggregate annual levy is estimated to exceed 105 percent of the levy of the preceding year, exclusive of levies for debt service, levies made for the purpose of paying amounts due under public building commission leases and election costs. A public hearing must also be held, which may not be in conjunction with the budget hearing of the Unit on the adoption of the annual levy. No amount in excess of 105 percent of the preceding year's levy may be used as the basis for issuing tax bills to property owners unless the levy is accompanied by certification of compliance with the foregoing procedures.

The "Cook County Truth in Taxation Law," which was in effect in Cook County until December 31, 2002, imposed procedural limitations on the taxing powers of a Unit located within the County and required that notice be published in prescribed form, of the Unit's annual levy, exclusive of levies for debt service, levies made for the purpose of paying amounts due under Public Building Commission Leases and election costs. A public hearing had to be held in December, which was not to coincide with the budget hearing of the Unit, on the intention to adopt an aggregate levy. The Cook County Truth in Taxation Law was repealed by its own terms as of January 1, 2003. No amount in excess of the preceding year's aggregate levy may be used as the basis for issuing tax bills to property owners unless the levy is accompanied by certification of compliance with the foregoing procedures of the Cook County Truth in Taxation Law. As of January 1, 2003, taxing districts in Cook County are subject to the Truth in Taxation notice and hearing requirements that apply to Illinois taxing districts generally.

Collection. Property taxes are collected by the County Collector, who remits to each Unit its share of the collections. Taxes levied in one year become payable during the following year in two installments, the first due on March 1 and the second on the later of August 1 or 30 days after the mailing of the tax bills. The first installment is an estimated bill equal to one-half of the prior year's tax bill. The second installment is for the balance of the current year's tax bill, and is based on the current levy, assessed value and Equalization Factor and applicable tax rates, and reflects any changes from the prior year in those factors. Taxes on railroad real property used for transportation purposes are payable in one lump sum on the same date as the second installment.

The following table sets forth the second installment penalty date during the last 10 years; the first installment penalty date has been March 1 for all years.

Tax Levy Year	Second Installment Penalty Date
2001	November 1, 2002
2000	November 1, 2001
1999	October 2, 2000
1998	November 1, 1999
1997	October 29, 1998
1996	September 19, 1997
1995	September 11, 1996
1994	November 3, 1995
1993	September 1, 1994
1992	September 1, 1993

The County may provide for tax bills to be payable in four installments instead of two. The County has not determined to require payment of tax bills in four installments. During the periods of peak collections, tax receipts are forwarded to each Unit weekly.

At the end of each collection year, the County Collector presents the Warrant Books to the Circuit Court and applies for a judgment for all unpaid taxes. The court order resulting from the application for judgment provides for an annual sale of all unpaid taxes shown on the year's Warrant Books (the "Annual Tax Sale"). The Annual Tax Sale is a public sale, at which time successful tax buyers pay the unpaid taxes plus penalties. Unpaid taxes accrue penalties at the rate of 1.5 percent per month from their due date until the date of sale. Taxpayers can redeem their property by paying the amount paid at the sale, plus a maximum of 18 percent for each six-month period after the sale. If no redemption is made within the applicable redemption period (ranging from six months to two and one-half years depending on the type and occupancy of the property) and the tax buyer files a petition in Circuit Court, notifying the necessary parties in accordance with applicable law, the tax buyer receives a deed to the property. In addition, there are miscellaneous statutory provisions for foreclosure of tax liens.

If there is no sale of the tax lien on a parcel of property at the Annual Tax Sale, the taxes are forfeited and eligible to be purchased at any time thereafter at an amount equal to all delinquent taxes and interest to the date of purchase. Redemption periods and procedures are the same as applicable to the Annual Tax Sale, except that a different penalty rate may apply depending on the length of the redemption period.

A scavenger sale (the "Scavenger Sale"), like the Annual Tax Sale, is a sale of unpaid taxes. The Scavenger Sale must be held, at a minimum, every two years on all property on which two or more years' taxes are delinquent. The sale price of the unpaid taxes is the amount bid at the Scavenger Sale, which may be less than the amount of the delinquent taxes. Redemption periods vary from six months to two and one-half years depending upon the type and occupancy of the property.

The annual appropriation ordinance of the City has a provision for an allowance for uncollectible taxes. The City reviews this provision annually to determine whether adjustments are appropriate. For tax year 2002, collectible in 2003, the allowance for uncollectible taxes is five percent of the gross tax levy. For financial reporting purposes, uncollected taxes are written off by the City after four years, but are fully reserved after one year.

Property Tax Limits

State of Illinois. The Property Tax Code limits (a) the amount of property taxes that can be extended for non-home rule units of local government located in the County and five adjacent counties and (b) the ability of those entities to issue general obligation bonds without voter approval (collectively, the "State Tax Cap"). Generally, the extension of property taxes for a unit of local government subject to the State Tax Cap may increase in any year by five percent or the percent increase in the Consumer Price Index for the preceding year, whichever is less, or the amount approved by referendum. The State Tax Cap does not apply to "limited bonds" payable from a unit's "debt service extension base" or to "double-barreled alternate bonds" issued pursuant to Section 15 of the Local Government Debt Reform Act.

As a home rule unit of government, the City is not subject to the State Tax Cap. Under the Illinois Constitution of 1970, the enactment of legislation applying the State Tax Cap to the City and other home rule municipalities would require a law approved by the vote of three-fifths of the members of each house of the Illinois General Assembly and the concurrence of the Governor of the State of Illinois. It is not possible to predict whether, or in what form, any property tax limitations applicable to the City would be enacted by the Illinois General Assembly. The adoption of any such limits on the extension of real property taxes by the Illinois General Assembly may, in future years, adversely affect the City's ability to levy property taxes to finance operations at current levels and the City's power to issue additional general obligation debt without the prior approval of voters.

State law imposes certain notice and public hearing requirements on non-home rule units of local government that propose to issue general obligation debt. These requirements do not apply to the City.

The City. In 1993, the City Council of the City adopted an ordinance (the "City Tax Limitation Ordinance") limiting, beginning in 1994, the City's aggregate property tax levy to an amount equal to the prior year's aggregate property tax levy (subject to certain adjustments) plus the lesser of (a) five percent or (b) the percentage increase in the annualized Consumer Price Index for all urban consumers for all items, as published by the United States Department of Labor, during the 12-month period most recently announced prior to the filing of the preliminary budget estimate report. The City Tax Limitation Ordinance also provides that such limitation shall not reduce that portion of each levy attributable to the greater of: (i)for any levy year, interest and principal on general obligation notes and Bonds of the City outstanding on January 1, 1994, to be paid from collections of the levy made for such levy year, or (ii)$395,255,686, the amount of the aggregate interest and principal payments on the City's general obligation Bonds and notes during the 12-month period ended January 1, 1994, subject to annual increase in the manner described above for the aggregate levy (the "Safe Harbor"). Additional safe harbors are provided for portions of any levy attributable to payments under installment contracts or public building commission leases or attributable to payments due as a result of the refunding of general obligation Bonds or notes or of such installment contracts or leases. Pursuant to the Ordinance, the taxes levied by the Ordinance to pay the Bonds are excluded from the limitations of the City Tax Limitation Ordinance. See "SECURITY FOR THE BONDS."

The tax limits set forth in the City Tax Limitation Ordinance may in future years adversely affect the City's ability to finance operations at current levels and limit the ability of the City to finance capital improvement projects through the issuance of property-tax-supported Bonds.

APPENDIX B

CITY OF CHICAGO

FINANCIAL AND OTHER CITY INFORMATION

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The following tables reflect information for Cook County, which represents approximately 99.98 percent of the equalized assessed value of taxable property in the City, unless otherwise indicated.

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Property Tax Information

The following tables present statistical data regarding the City's property tax base, tax rates, tax levies and tax collections.

Assessed, Equalized Assessed and Estimated Value of All Taxable Property 1992-2001
(Dollars in thousands)

Tax Levy Year	Assessed Values[1] Class 2[2]	Class 3[3]	Class 5[4]	Other[5]	Total	State Equalization Factor[6]	Total Equalized Assessed Value[7]	Total Estimated Fair Cash Value[8]	Total Equalized Assessed Value as a Percentage of Total Estimated Fair Cash Value
1992	$5,073,399	$1,896,807	$7,121,862	$355,820	$14,447,888	2.0897	$27,964,128	$ 94,361,550	29.64%
1993	5,095,776	1,878,201	7,135,798	250,349	14,360,124	2.1407	28,661,954	94,219,759	30.42
1994	5,701,638	2,016,367	7,357,679	244,451	15,320,135	2.1135	30,090,355	94,181,736	31.95
1995	5,769,559	1,979,007	7,374,840	241,356	15,364,762	2.1243	30,381,480	97,291,356	31.23
1996	5,843,068	1,930,178	7,338,644	255,507	15,367,397	2.1517	30,765,001	100,460,113	30.62
1997	6,554,716	2,077,043	7,809,485	357,517	16,798,761	2.1489	33,349,557	106,282,207	31.38
1998	6,646,198	2,047,577	7,848,335	267,007	16,809,117	2.1799	33,940,146	112,606,894	30.14
1999	6,777,400	2,021,411	7,910,838	282,255	16,991,904	2.2505	35,354,802	124,544,158	28.39
2000	8,758,682	1,966,921	8,807,444	342,943	19,875,990	2.2235	40,480,077	165,520,130	24.46
2001	8,973,796	1,923,256	8,757,366	354,036	20,008,454	2.3098	41,981,912	164,572,708	25.51

(1) Source: Cook County Assessor's Office.
(2) Residential, six units and under.
(3) Residential, seven units and over and mixed-use.
(4) Industrial/commercial.
(5) Vacant, not-for-profit and industrial/commercial incentive classes.
(6) Source: Illinois Department of Revenue.
(7) Source: Cook County Clerk's Office. Calculations are net of exemptions and exclude portions of the City in DuPage County. Calculations also include assessment of pollution control facilities.
(8) Source: The Civic Federation. Excludes railroad property.

Property Taxes for All City Funds, Collections and Estimated Allowance for Uncollectible Taxes 1993-2002

(Dollars in Thousands)

Tax Levy Year [1]	Total Tax Levy[2][3]	Total Tax Collections[5]	Percent of Total Tax Collections to Tax Levy	Estimated Allowance for Uncollectible Taxes	Net Outstanding Taxes Receivable
1993	655,851	$634,647	96.8%	$21,204	$0
1994	649,415	625,396	96.3	24,019	0
1995	647,559	626,300	96.7	21,259	0
1996	671,427	652,819	97.2	18,608	0
1997	675,198	661,020	97.9	14,178	0
1998	678,260	667,096	98.4	11,164	0
1999	657,731	649,354	98.7	8,377	0
2000	672,104	665,020	98.9	6,379	705
2001	687,381	687,023	99.9	358	0
2002	706,418[4]	311,866[5]	44.1	35,321	359,231

(1) Taxes for each year become due and payable in the following year. For example, taxes for the 2002 tax levy become due and payable in 2003.
(2) Does not include levy for Special Service Areas and net of collections for Tax Increment Financing districts.
(3) Source: Cook County Clerk's Office.
(4) Estimate; actual was not available from Cook County Clerk's Office at time of publication. Does not include the levy for the Schools Building and Improvement Fund which is accounted for in an agency fund.
(5) Reflects net tax collections through September 11, 2003.

Property Tax Rates by Fund Per $100 of Equalized Assessed Valuation
1992-2001

Tax Levy Year	Tax Extension (Dollars in thousands)	Bond, Note Redemption and Interest	Policemen's Annuity and Benefit	Municipal Employees' Annuity and Benefit	Firemen's Annuity and Benefit	Laborers' and Retirement Board Employees' Annuity and Benefit	Park Employees' Annuity and Benefit	Public Building Commission	Total
1992	$618,069	1.384950	.259478	.379205	.119688	.047556	—	.019123	2.210
1993	655,851	1.416413	.261334	.407918	.125680	.053557	—	.023098	2.288
1994	649,415	1.303353	.277520	.398995	.122721	.048778	—	.006633	2.158
1995	647,559	1.183527	.308988	.459701	.120289	.052995	—	.005500	2.131
1996	671,427	1.264882	.298663	.438745	.119982	.056000	—	.003728	2.182
1997	675,198	1.124570	.289836	.412152	.146797	.050645	—	—	2.024
1998	678,260	1.121948	.300551	.403014	.122435	.050052	—	—	1.998
1999	657,731	1.076812	.314836	.298024	.134637	.035691	—	—	1.860
2000	672,104	.980950	.301167	.260291	.117590	—	—	—	1.660
2001	687,381	.942710	.289912	.277774	.126603	—	—	—	1.637

Source: Cook County Clerk's Office.

Combined Property Tax Rates of the City and Other Major Governmental Units Per $100 of Equalized Assessed Valuation 1992-2001

Tax Levy Year	City	Chicago School Finance Authority	Board of Education	City Colleges of Chicago	Chicago Park District	Metropolitan Water Reclamation District	Forest Preserve District of Cook County	Cook County	Total
1992	2.210	.190	4.267	.390	.735	.470	.063	1.176	9.501
1993	2.288	.150	4.324	.381	.778	.471	.072	.971	9.435
1994	2.158	.265	4.167	.372	.741	.495	.073	.993	9.264
1995	2.131	.296	4.251	.376	.730	.495	.072	.994	9.345
1996	2.182	.291	4.327	.377	.721	.492	.074	.989	9.453
1997	2.024	.270	4.084	.356	.665	.451	.074	.919	8.843
1998	1.998	.268	4.172	.354	.653	.444	.072	.911	8.872
1999	1.860	.255	4.104	.347	.627	.419	.070	.854	8.536
2000	1.660	.223	3.714	.331	.572	.415	.069	.824	7.788
2001	1.637	.223	3.744	.307	.567	.401	.067	.746	7.692

Source: Cook County Clerk's Office.

CITY OF CHICAGO
Property Tax Supported Bonded Debt
Computation of Direct and Overlapping Bonded Debt
As of September 11, 2003
(Adjusted for the issuance of the Series 2003 Bonds)
(Dollars in thousands)

Direct Debt:	
General Obligation Bonds and Notes (1)	$5,048,180
The Series 2003 Bonds	137,002
General Obligation Tender Notes and Commercial Paper Notes	(422,585)
Net Direct Long-Term Debt	$4,762,597

Overlapping Debt:(2)	Net Direct Debt(3)	Percent Overlapping(4)	Debt Applicable
City Colleges of Chicago	$ 118,545	100.00%	$ 118,545
Board of Education	3,688,752(5)	100.00	3,688,752
Chicago School Finance Authority	391,410	100.00	391,410
Chicago Park District	1,040,465(5)	100.00	1,040,465
Metropolitan Water Reclamation District Of Greater Chicago	1,418,897	45.15	640,632
Cook County	2,613,960	44.19	1,155,109
Cook County Forest Preserve District	41,445	44.19	18,315
Total Overlapping Long-Term Debt			$ 7,053,228
Net Direct and Overlapping Long-Term Debt			$11,815,825

(1) General Obligation Tender and Equipment Notes and Commercial Paper Notes consist of:

(a) Tender Notes outstanding in the amounts shown below (dollars in thousands):

Amount	Series	Final Maturity
$131,590	2002	1/8/2004
135,445	2003	1/7/2005
$267,035		

(b) Equipment Notes outstanding in the amounts shown below (dollars in thousands):

Amount	Series	Final Maturity
$ 46,365	1996	1/1/2006
19,900	1997	1/1/2006
58,815	1998	1/1/2008
$125,080		

(c) Commercial Paper Notes outstanding in the amounts shown below (dollars in thousands):

Amount	Series
$155,550	2002B (Taxable)

(2) Includes debt secured by property taxes (including "alternate bonds" and "limited tax" bonds) and Public Building Commission bonds secured by long-term lease obligations.

(3) Source: Each of the respective taxing districts.

(4) Source: The Civic Federation.

(5) Includes $3,241,512,704 and $440,095,000 of general obligation bonds of the Board of Education and the Chicago Park District, respectively, issued as "alternate revenue" bonds secured by alternate revenue sources. An ad valorem property tax levy is filed in an amount sufficient to pay debt service on these alternate revenue bonds. When sufficient revenues have accumulated to pay annual debt service on the alternate revenue bonds, the property tax levy is abated. To date, alternate revenues have been available in amounts sufficient to pay principal and interest coming due on the alternate revenue bonds issued by the Board of Education and the Chicago Park District.

Selected Debt Statistics

Population (2000)	2,896,016[1]
Total Equalized Assessed Value (2001)	$ 41,981,912,323[2]
Total Estimated Fair Cash Value (2001)	$164,572,707,886[3]

	Amount	Per Capita	Percent of Total Estimated Fair Cash Value
Net Direct Long-Term Debt	$ 4,762,597,048	$1,644.53	2.89%
Total Net Direct and Overlapping Long-Term Debt	11,815,824,513	4,080.03	7.18

(1) Source: U.S. Census Bureau.

(2) Source: Cook County Clerk's Office. Total Equalized Assessed Value is net of exemptions. Includes assessment of pollution control facilities and excludes portions of the City in DuPage County.

(3) Source: The Civic Federation. Excludes railroad property.

CITY OF CHICAGO
Debt Service Schedule[1]
As of September 11, 2003
(Adjusted for the issuance of the Series 2003 Bonds)

	Series 2003 Bonds		General Obligation Bonds Outstanding[2]		General Obligation Notes Outstanding Debt Service[3][4]	
Year	**Principal**	**Interest**	**Principal**	**Interest**		**Total Debt Service**
2003			$ 75,020,000	$ 101,920,514	$325,244,812	$ 502,185,326
2004			60,100,333	212,198,020	47,610,090	319,908,443
2005	$ 13,320,848	$ 689,152	64,072,880	209,301,534	172,446,900	459,831,313
2006	18,815,832	1,904,168	86,584,806	207,405,055	14,211,000	328,920,861
2007	21,591,185	3,443,815	88,610,612	204,518,909	15,309,000	333,473,521
2008	83,273,691	15,556,309	127,001,391	199,979,215		425,810,606
2009			152,847,421	193,179,257		346,026,677
2010			159,546,189	184,917,075		344,463,263
2011			146,810,322	200,650,000		347,460,322
2012			145,583,245	197,158,505		342,741,750
2013			155,996,569	187,366,722		343,363,291
2014			157,687,425	181,173,306		338,860,730
2015			165,643,732	173,943,841		339,587,573
2016			168,573,551	166,775,235		335,348,786
2017			151,722,950	159,319,539		311,042,489
2018			144,138,698	152,706,406		296,845,104
2019			144,060,213	146,372,248		290,432,461
2020			146,731,712	140,193,287		286,924,999
2021			153,603,394	133,756,864		287,360,258
2022			153,154,731	130,289,767		283,444,498
2023			134,259,711	123,871,182		258,130,893
2024			131,246,168	118,135,051		249,381,219
2025			127,720,676	112,786,471		240,507,147
2026			129,084,756	107,585,807		236,670,563
2027			135,683,585	102,258,023		237,941,608
2028			109,132,164	96,553,826		205,685,990
2029			85,160,741	85,850,860		171,011,601
2030			94,722,120	76,363,250		171,085,371
2031			98,834,596	72,318,023		171,152,619
2032			103,233,762	67,966,999		171,200,761
2033			107,401,194	63,379,390		170,780,584
2034			97,077,377	58,481,798		155,559,175
2035			83,592,607	54,030,918		137,623,525
2036			87,386,559	50,289,416		137,675,975
2037			77,512,925	46,387,337		123,900,263
2038			81,366,380	42,527,658		123,894,038
2039			82,590,000	8,633,325		91,223,325
2040			61,180,000	4,351,000		65,531,000
2041			25,840,000	1,292,000		27,132,000
Total	$137,001,556	$ 21,593,444	$4,500,515,492	$4,776,187,634	$574,821,802	$10,010,119,928

(1) Principal and interest (including the amount of interest that has accreted on capital appreciation bonds) for each year includes amounts payable July 1 of that year and January 1 of the following year, except for principal and interest with respect to the Series 2003 Bonds, which are payable December 1 of that year.

(2) Does not reflect the expected issuance of the Bonds described under "SECURITY FOR THE BONDS – Additional General Obligation Debt."

(3) Interest rates on variable rate bonds and notes are assumed to be in the range of four to six percent.

(4) Includes outstanding Tender Notes, Equipment Notes and Commercial Paper Notes. See APPENDIX B " – Computation of Direct and Overlapping Bonded Debt – Note (1)."

City of Chicago
Property Tax Levies by Fund 1998-2002[1]
(Dollars in thousands)

	1998	1999	Change	2000	Change	2001	Change	2002	Change
Note Redemption and Interest[2]	$250,873	$242,196	(3.46)%	$231,010	(4.62)%	$192,878	(16.51)%	$171,123	(11.28)%
Bond Redemption and Interest.........	129,994	138,585	6.61	166,160	19.90	202,969	22.15	241,549	19.01
Policemen's Annuity and Benefit[3]	102,028	111,332	9.12	121,937	9.53	121,735	(0.17)	123,069	1.10
Municipal Employees' Annuity and Benefit[3]	136,811	105,387	(22.97)	105,387	—	116,638	10.68	117,803	1.00
Firemen's Annuity and Benefit[3].....	41,563	47,610	14.55	47,610	—	53,161	11.66	52,874	(0.54)
Laborers' and Retirement Board Employees' Annuity and Benefit[3]	16,991	12,621	(25.72)	—	(100.00)	—	—	—	—
Total...	$678,260	$657,731	(3.03)	$672,104	2.19	$687,381	2.27	$706,418	2.77

(1) See APPENDIX B – "Property Taxes For All City Funds, Collections And Estimated Allowance For Uncollectible Taxes 1993-2002."

(2) Includes Corporate, Chicago Public Library Maintenance and Operations, Chicago Public Library Building and Sites, and City Relief Funds.

(3) For information regarding the City's unfunded (assets in excess of) pension benefit obligations under its Pension Plans, see APPENDIX C — "BASIC FINANCIAL STATEMENTS— Note (10) Pension Plans."

Source: Cook County Clerk's Office.

CITY OF CHICAGO
Schedule of Revenues, Expenditures and Changes in Fund Balances
General Fund (Corporate) 1998-2002
(Dollars in thousands)

	1998(3)	1999(3)	2000(3)	2001(3)	2002(4)
Revenues:					
Utility Tax	$ 396,942	$ 420,604	$ 442,953	$ 459,857	$ 441,586
Sales Tax	369,510	381,670	408,948	402,567	397,135
State Income Tax	252,247	256,621	288,966	270,059	227,817
Other Taxes	459,979	472,479	504,592	505,799	520,812
Federal/State Grants	8,580	3,218	5,017	4,760	3,888
Other Revenues(1)	501,470	524,392	564,842	585,501	664,209
Total Revenues	1,988,728	2,058,984	2,215,318	2,228,543	2,255,447
Expenditures:					
Current:					
Public Safety	1,251,667	1,322,116	1,332,172	1,345,113	1,420,298
General Government	577,831	607,057	669,873	714,822	665,647
Other(2)	325,672	346,594	362,350	368,383	345,356
Debt Service	12,724	12,751	15,915	12,108	11,495
Total Expenditures	2,167,894	2,288,518	2,380,310	2,440,426	2,442,796
Revenues Under Expenditures	(179,166)	(229,534)	(164,992)	(211,883)	(187,349)
Other Financing Sources (Uses):					
Proceeds of Debt, Net of Original Discount	131,345	116,627	98,331	60,610	75,529
Operating Transfers In	53,000	52,600	56,750	133,922	107,547
Operating Transfers Out	(2,400)	(2,400)	(2,400)	(2,400)	—
Total Other Financing Sources (Uses)	181,945	166,827	152,681	192,132	183,076
Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	2,779	(62,707)	(12,311)	(19,751)	(4,273)
Fund Balance, Beginning of Year	236,947	239,435	179,184	166,397	146,449
Change in Inventory	(291)	2,456	(476)	1,070	(4,715)
Residual Equity Transfer In (Out)	—	—	—	(1,267)	—
Fund Balance, End of Year	$ 239,435	$ 179,184	$ 166,397	$ 146,449	$ 137,461

(1) Includes Internal Service, Licenses and Permits, Fines, Investment Income, Charges for Services and Miscellaneous Revenues.
(2) Includes Health, Streets and Sanitation, Transportation, Cultural and Recreational and Other Expenditures.
(3) Source: City of Chicago General Purpose Financial Statements for years ended December 31, 1998-2001.
(4) Source: City of Chicago Basic Financial Statements for the year ended December 31, 2002.

See APPENDIX C – "BASIC FINANCIAL STATEMENTS" and the notes thereto.

CITY OF CHICAGO
Schedule of Revenues, Expenditures and Changes in Fund Balances
Special Revenue Funds 1998-2002
(Dollars in thousands)

	1998(3)	1999(3)	2000(3)	2001(3)	2002(4)(5)
Revenues:					
Property Tax	$ 302,107	$ 281,503	$ 281,351	$ 263,135	$ 280,773
Utility Tax	27,727	25,004	24,756	29,106	31,916
Sales Tax	426	315	–	274	323
State Income Tax	47,841	46,810	47,045	44,522	45,718
Other Taxes	153,051	166,477	202,491	216,471	241,644
Federal/State Grants	599,853	629,617	733,038	910,084	1,084,697
Other Revenues(1)	79,590	106,536	118,708	129,654	113,898
Total Revenue	1,210,595	1,256,262	1,407,389	1,593,246	1,798,969
Expenditures:					
Current:					
Public Safety	31,525	40,099	53,090	80,987	44,672
General Government	510,421	565,216	581,495	590,484	733,481
Employee Pensions	347,826	329,034	328,353	339,379	328,518
Other(2)	406,803	415,995	484,749	656,273	752,360
Capital Projects	4,936	11,535	10,857	6,766	6,503
Debt Service	5,631	4,516	6,222	8,293	3,536
Total Expenditures	1,307,142	1,366,395	1,464,766	1,682,182	1,869,070
Revenues Under Expenditures	(96,547)	(110,133)	(57,377)	(88,936)	(70,101)
Other Financing Sources (Uses):					
Proceeds of Debt, Net of Original Discount	79,190	79,128	81,669	115,795	80,992
Operating Transfers In	17,016	25,807	39,446	42,246	24,599
Operating Transfers Out	(46,307)	(32,292)	(24,717)	(25,754)	(50,608)
Total Other Financing Sources (Uses)	49,899	72,643	96,398	132,287	54,983
Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(46,648)	(37,490)	39,021	43,351	(15,118)
Fund Balance, Beginning of Year	190,116	143,468	105,978	144,999	189,617
Residual Equity Transfer In (Out)	—	—	—	1,267	—
Fund Balance, End of Year	$ 143,468	$ 105,978	$ 144,999	$ 189,617	$ 174,499

(1) Includes Internal Service, Fines, Investment Income, Charges for Services and Miscellaneous Revenues.

(2) Includes Health, Streets and Sanitation, Transportation, Cultural and Recreational and Other Expenditures.

(3) Source: City of Chicago General Purpose Financial Statements for years ended December 31, 1998-2001.

(4) Beginning in year 2002, the City implemented Government Accounting Standards Board Statement No. 34 which resulted in significant changes in the content and structure of the City's financial statements compared to prior years. The information presented for year 2002 has been prepared to be consistent with the financial information reported for the years 1998–2001. The information presented for year 2002 is therefore not easily comparable to the information presented in the City's Basic Financial Statements for the year ended December 31, 2002 appearing as Appendix C hereto.

(5) The information for year 2002 was obtained by adding the line items under the column captioned "Federal, State and Local Grants" of the STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES–GOVERNMENTAL FUNDS, appearing as Exhibit 4 to the City's Basic Financial Statements for the year ended December 31, 2002, included as Appendix C hereto, to the line items under the column captioned "Total Special Revenue Funds" of the COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE–NONMAJOR GOVERNMENTAL FUNDS, appearing as Schedule B–2 to the City's Comprehensive Annual Financial Report for the year ended December 31, 2002, which Schedule B–2 is included as page B–13 hereto. The City's Comprehensive Annual Financial Report for the year ended December 31, 2002 is available upon request from the Office of the City Comptroller.

CITY OF CHICAGO
Schedule of Revenues, Expenditures and Changes in Fund Balances
Debt Service Funds 1998-2002
(Dollars in thousands)

	1998(2)	1999(2)	2000(2)	2001(2)	2002(3)(4)
Revenues:					
Property Tax	$375,319	$361,189	$ 382,656	$ 378,216	$ 382,146
Utility Tax	15,509	10,403	14,901	15,008	14,917
Sales Tax	14,120	26,857	27,372	27,796	22,033
Other Taxes	59,189	67,592	79,785	95,382	100,839
Other Revenues(1)	15,919	15,423	20,509	13,141	5,246
Total Revenues	480,056	481,464	525,223	529,543	525,181
Expenditures:					
Debt Service	448,993	469,371	485,286	521,347	521,819
Total Expenditures	448,993	469,371	485,286	521,347	521,819
Revenues Over (Under) Expenditures	31,063	12,093	39,937	8,196	3,362
Other Financing Sources (Uses):					
Proceeds of Debt, Net of Original Discount	341,696	371,946	317,943	154,647	154,988
Payment to Prior Series 2003 Bond Escrow Agent	(297,074)	(352,143)	(267,086)	(127,821)	(132,289)
Operating Transfers In	3,278	5,539	5,798	8,987	4,951
Operating Transfers Out	(25,891)	(33,160)	(49,244)	(42,826)	(27,993)
Total Other Financing Sources (Uses)	22,009	(7,818)	7,411	(7,013)	(343)
Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	53,072	4,275	47,348	1,183	3,019
Fund Balance, Beginning of Year	165,503	218,575	222,850	270,198	271,381
Fund Balance, End of Year	$218,575	$222,850	$270,198	$271,381	$274,400

(1) Includes Investment Income and Miscellaneous Revenues.
(2) Source: City of Chicago General Purpose Financial Statements for years ended December 31, 1998-2001.
(3) See foonote (4) on page B–10 hereof.
(4) The information for year 2002 was obtained by adding the line items under the column captioned "Bond, Note Redemption and Interest" of the STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES–GOVERNMENTAL FUNDS, appearing as Exhibit 4 to the City's Basic Financial Statements for the year ended December 31, 2002, included as Appendix C hereto, to the line items under the column captioned "Debt Service Fund Special Taxing Areas" of the COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE–NONMAJOR GOVERNMENTAL FUNDS, appearing as Schedule B–2 to the City's Comprehensive Annual Financial Report for the year ended December 31, 2002, which Schedule B–2 is included as page B–13 hereto. The City's Comprehensive Annual Financial Report for the year ended December 31, 2002 is available upon request from the Office of the City Comptroller.

CITY OF CHICAGO
Schedule of Revenues, Expenditures and Changes in Fund Balances
Capital Projects Funds 1998-2002
(Dollars in thousands)

	1998(2)	1999(2)	2000(2)	2001(2)	2002(3)(4)
Revenues:					
Other Revenues(1)	$ 68,351	$ 59,480	$ 84,796	$ 74,945	$ 64,353
Total Revenues	68,351	59,480	84,796	74,945	64,353
Expenditures:					
Capital Projects	430,649	565,600	664,210	520,405	751,853
Other	—	—	—	—	—
Total Expenditures	430,649	565,600	664,210	520,405	751,853
Revenues (Under) Expenditures	(362,298)	(506,120)	(579,414)	(445,460)	(687,500)
Other Financing Sources (Uses):					
Proceeds of Debt, Net of Original Discount	454,551	800,896	695,306	634,693	605,817
Operating Transfers In	3,455	4,427	6,622	28,191	1,785
Operating Transfers Out	(128)	(16,023)	(29,289)	(34,636)	(32,619)
Total Other Financing Sources (Uses)	457,878	789,300	672,639	628,248	574,983
Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	95,580	283,180	93,225	182,788	(112,517)
Fund balance, Beginning of Year	611,767	707,347	990,527	1,083,752	1,266,540
Residual Equity Transfer In	—	—	—	—	—
Fund Balance, End of Year	$707,347	$990,527	$1,083,752	$1,266,540	$1,154,023

(1) Includes Investment Income, Charges for Services and Miscellaneous Revenues.

(2) Source: City of Chicago General Purpose Financial Statements for years ended December 31, 1998-2001.

(3) See foonote (4) on page B–10 hereof.

(4) The information for year 2002 was obtained by adding the line items under the column captioned "Community Development and Improvement Projects" of the STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES–GOVERNMENTAL FUNDS, appearing as Exhibit 4 to the City's Basic Financial Statements for the year ended December 31, 2002, included as Appendix C hereto, to the line items under the column captioned "Total Capital Project Funds" of the COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE–NONMAJOR GOVERNMENTAL FUNDS, appearing as Schedule B–2 to the City's Comprehensive Annual Financial Report for the year ended December 31, 2002, which Schedule B–2 is included as page B–13 hereto. The City's Comprehensive Annual Financial Report for the year ended December 31, 2002 is available upon request from the Office of the City Comptroller.

CITY OF CHICAGO
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Nonmajor Governmental Funds
Year Ended December 31, 2002
(Dollars in thousands)

	Total Special Revenue Funds	Debt Service Fund Special Taxing Areas	Total Capital Project Funds	Total Nonmajor Governmental Funds (1)
REVENUES				
Property Tax	$280,773	$ —	$ —	$280,773
Utility Tax	31,916	—	—	31,916
Sales Tax	323	2,052	—	2,375
Transportation Tax	170,882	—	—	170,882
State Income Tax	45,718	—	—	45,718
Special Area Tax	59,339	86,026	—	145,365
Other Taxes	11,423	147	—	11,570
Federal/State Grants	—	—	—	—
Internal Service	34,962	—	—	34,962
Fines	15,522	—	—	15,522
Investment Income	6,177	2,027	4,616	12,820
Charges for Services	27,362	—	—	27,362
Miscellaneous	29,875	—	—	29,875
Total Revenues	714,272	90,252	4,616	809,140
EXPENDITURES				
Current:				
General Government	193,039	—	—	193,039
Health	27,905	—	—	27,905
Public Safety	2,214	—	—	2,214
Streets and Sanitation	104,091	—	—	104,091
Transportation	78,586	—	—	78,586
Cultural and Recreational	70,381	—	—	70,381
Employee Pensions	328,518	—	—	328,518
Other	350	—	—	350
Capital Projects	—	—	105,490	105,490
Debt Service:				
Principal Retirement	—	36,224	—	36,224
Interest and Other Fiscal Charges	3,536	28,342	—	31,878
Total Expenditures	808,620	64,566	105,490	978,676
Revenues Over (Under) Expenditures	(94,348)	25,686	(100,874)	(169,536)
OTHER FINANCING SOURCES (USES)				
Proceeds of Debt, Net of Original Discount	80,992	4,897	70,000	155,889
Payment to Refunded Bond Escrow Agent	—	(2,811)	—	(2,811)
Operating Transfers In	19,900	4,951	—	24,851
Operating Transfers Out	(26,361)	(17,493)	(9,191)	(53,045)
Total Other Financing Sources (Uses)	74,531	(10,456)	60,809	124,884
Net Change in Fund Balances	(19,817)	15,230	(40,065)	(44,652)
Fund Balance (Deficit) – Beginning of Year	170,726	134,804	112,146	417,676
Residual Equity Transfer In (Out)	—	—	—	—
Fund Balance (Deficit) End of Year	$150,909	$150,034	$ 72,081	$373,024

(1) The line items under "Total Nonmajor Governmental Funds" above are identical to the line items under the column captioned "Other Governmental Funds" appearing as Exhibit 4 to the City's Basic Financial Statements for the year ended December 31, 2002 included as Appendix C hereto.

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APPENDIX C

CITY OF CHICAGO

Basic Financial Statements

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Deloitte
& Touche

City of Chicago

Basic Financial Statements
for the Year Ended December 31, 2002

Richard M. Daley, Mayor
Tariq G. Malhance, City Comptroller

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CITY OF CHICAGO, ILLINOIS
YEAR ENDED DECEMBER 31, 2002
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Deloitte & Touche

INDEPENDENT AUDITORS' REPORT

To the Honorable Richard M. Daley, Mayor,
and Members of the City Council
City of Chicago, Illinois

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Chicago, Illinois (the "City"), as of and for the year ended December 31, 2002, which collectively comprise the City's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the City's Pension Plans (the "Plans") which, in aggregate, represent substantially all the assets and revenues of the fiduciary funds, included in the aggregate remaining fund information. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Plans, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the respective financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective net assets or financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Chicago, Illinois, as of December 31, 2002, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1, beginning in fiscal year 2002, the City implemented Government Accounting Standards Board Statements No. 34, 37 and No. 38. Beginning balances of the 2002 basic financial statements have been restated for the provisions of these standards.

The Management's Discussion and Analysis on pages 5 to 14 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the City's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion or any other form of assurance on it.

Deloitte & Touche LLP

June 20, 2003

Management's Discussion and Analysis

As management of the City of Chicago, Illinois (City) we offer readers of the City's Basic Financial Statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2002. We encourage the readers to consider the information presented here in conjunction with information that we have furnished in the basic financial statements and notes to the basic financial statements, contained within this report.

As the City has implemented new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. In future years, comparisons will be more meaningful and will further explain the City's financial position and results of operations.

Fiscal 2002 Financial Highlights

- Assets of the City, in the government-wide financial statements, exceeded its liabilities at the close of the most recent fiscal year by $4,026.5 million (*net assets*). Of this amount, $851.3 is an unrestricted deficit, while $3,163.4 million is invested in capital assets, net of related debt and $1,714.4 million is restricted for specific purposes.
- Revenues and Other Financing Sources, in the fund financial statements, available for general governmental operations during 2002 were $5,700.1 million, an increase of $94.8 million (1.7 percent) from 2001.
- The General Fund, also in the fund financial statements, ended 2002 with a total Fund Balance of $137.5 million. Total Fund Balance decreased from 2001 primarily because Expenditures and Other Financing Uses exceeded Revenues and Other Financing Sources by $4.3 million. Fund Balance at December 31, 2002 of $101.6 million was reserved for commitments related to certain labor agreements and other commitments. Unreserved Fund Balance was $13.0 million at December 31, 2002, compared to a balance of $33.2 million at the end of 2001.
- The City's general obligation bonds and notes outstanding increased by $576.0 million during the current fiscal year. The key factor in this increase was the issuance of additional general obligation bonds to further the City's capital plan.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements, which include the following components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. These components are described below:

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, using accounting methods similar to those used by private-sector companies. The statements provide both short-term and long-term information about the City's financial position, which assists in assessing the City's economic condition at the end of the fiscal year. These financial statements are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. This basically means such statements follow methods that are similar to those used by most businesses. They take into account all revenues and expenses connected with the fiscal year even if cash involved has not been received or paid. The government-wide financial statements include two statements:

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating, respectively. To assess the overall health of the City you need to consider additional nonfinancial factors such as changes in the City's property tax base and the condition of the City's roads.

The *statement of activities* presents information showing how the government's net assets changed during each fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of the related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods (for example, uncollected taxes, and earned, but unused vacation leave). This statement also presents a comparison between direct expenses and program revenues for each function of the City.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, employee pensions, streets and sanitation, transportation, health, and cultural and recreation. The business-type activities of the City include water, sewer, tollway and airport services.

The government-wide financial statements present information about the City as a primary government, which includes the Chicago Public Library and the City related funds of the Public Building Commission.

The government-wide financial statements can be found immediately following this management's discussion and analysis.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of a fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate the comparison between *governmental funds and governmental activities*.

The City maintains 18 individual governmental funds. Information for the four funds that qualify as major is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances. The four major governmental funds are as follows: the General Fund, the Federal, State & Local Grants Fund, the Bond, Note Redemption & Interest Fund, and the Community Development & Improvement Projects Fund. Data from the other governmental funds are combined into a single, aggregated presentation.

The City adopts an annual appropriated budget for its general and certain special revenue funds on a non-GAAP budgetary basis. A budgetary comparison statement has been provided for the general fund, the only major fund with an appropriated budget, to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found immediately following the government-wide statements.

Proprietary funds. These funds are used to show activities that operate more like those of commercial enterprises. Because these funds charge user fees for services provided to outside customers including local governments, they are known as enterprise funds. Proprietary funds, like government-wide statements, use the accrual basis of accounting and provide both long- and short-term financial information. There is no reconciliation needed between the government-wide financial statements for business-type activities and the proprietary fund financial statements. The City uses five enterprise funds to account for its water, sewer, tollway and two airports operations.

Proprietary funds provide the same type of information as the government-wide financial statements, but provide more detail. The proprietary fund financial statements provide separate information for the Water Fund, Sewer Fund, Chicago Skyway Fund, Chicago-O'Hare International Airport Fund and the Midway Airport Fund. With exception of the Chicago Skyway Fund all the proprietary funds are considered to be major funds of the City.

The basic proprietary fund financial statements can be found immediately following the governmental fund financial statements.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the primary government. The City is the trustee, or fiduciary, for its employees' pension plans. It is also responsible for other assets that, because of a trust arrangement can be used only for the trust beneficiaries. The City also uses fiduciary funds to account for transactions for assets held by the City as agent for various entities. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. All of the City's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found immediately following the proprietary fund financial statements.

Notes to the basic financial statements. The notes provide additional information that is essential to a full understanding of data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found immediately following the fiduciary fund financial statements.

Financial Analysis of the City as a Whole

Net assets. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by $4,026.5 million at December 31, 2002.

By far the largest portion of the City's net assets, $3,163.4 million reflects its investment in capital assets (land, buildings, roads, bridges, etc.), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Chicago, Illinois
Summary Statement of Net Assets
(In millions of dollars)

	Governmental Activities	Business-type Activities	Total
Current and other assets	$ 4,058.0	$ 3,045.5	$ 7,103.5
Capital assets	5,831.2	6,501.1	12,332.3
Total assets	9,889.2	9,546.6	19,435.8
Long-term liabilities outstanding	7,345.2	6,562.4	13,907.6
Other liabilities	955.0	546.7	1,501.7
Total Liabilities	8,300.2	7,109.1	15,409.3
Net assets:			
Invested in capital assets, net of related debt	1,418.7	1,744.7	3,163.4
Restricted	997.7	716.7	1,714.4
Unrestricted	(827.4)	(23.9)	(851.3)
Total net assets	$ 1,589.0	$ 2,437.5	$ 4,026.5

An additional portion of the City's net assets ($1,714.4 million) represent resources that are subject to external restrictions on how they may be used.

Governmental-type Activities. Net assets of the City's governmental activities decreased $214.7 million (11.9 percent) to $1,589.0 million. However, a significant portion of those net assets are either restricted as to the purpose they can be used for or they are invested in capital assets (buildings, roads, bridges, etc.). Consequently, unrestricted net assets showed a $827.4 million deficit at the end of this year. This deficit does not mean that the City does not have the resources available to pay its bills next year. Rather, it is the result of having long-term commitments that are greater than currently available resources. Specifically, the City did not include in past annual budgets the full amounts needed to finance future liabilities arising from property and casualty claims ($439.0 million), and Policemen's and Firemen's net pension obligation ($1,220.2 million). The City will include these amounts in future years' budgets as they come due.

In addition, two particular features of the City's recent financial activity adversely affected the deficit in unrestricted governmental net assets:

- During the past two years tax revenues and State grants fell short of expectations.
- The City used accumulated cash balances to avoid tax increases.

Although total net assets of business-types activities were $2,437.5 million, these resources cannot be used to make up for the net asset deficit in governmental activities. The City generally can only use these net assets to finance the continuing operations of the water, sewer, tollway and airports operations.

Business-type Activities. Operating revenues of the City's business-type activities increased by $2.0 million in 2002 due primarily to increases in rental income of the Enterprise Funds. All Enterprise Funds met debt service coverage ratios set forth in the applicable bond indentures.

- The Water fund revenues for 2002 increased by 2.6 percent from 2001 due to an increase in water rates. Operating expenses in 2002 decreased by 0.7 percent primarily due to the conversion of a pumping station from gas to electric resulting in a decrease in gas consumption, a decrease in the cost of natural gas, and a decrease in associated cost of water quality treatment. The general fund reimbursement increase of 8.4 percent relates to additional fire and police costs.
- The Sewer Fund revenues decreased 1.9 percent during fiscal year 2002, as the result of the 2002 rate increases offset by greater decreases in revenue from 1) increases in the number of exempt accounts, 2) decreases in penalties and 3) a decrease in pumpage. Repairs, general fund reimbursements, maintenance and engineering expenses for 2002 approximated 2001 amounts. Increases in salaries, wages and benefits were offset by decreases in overtime. The decrease in administrative and general expenses is primarily due to a decrease of $1 million in accounts receivable uncollectible expenses in 2002. Depreciation and amortization increased primarily due to an increase in capital assets.
- Midway Airport operating revenues for 2002 increased by $12.4 million compared to prior year operating revenues. This increase is principally due to increased terminal use charges and concession revenues. Operating expenses before depreciation and amortization increased by $9.8 million primarily due to maintenance costs for certain portions of the new and old terminal and additional security, insurance and snow removal costs. During 2002, Midway Airport sold $22 million of revenue bonds.
- O'Hare Airport's operating revenues for 2002 decreased by $14.7 million (3.2 percent) compared to prior year operating revenues. Operating expenses before depreciation and amortization had no significant changes compared to 2001. This is consistent with management's objective to hold operating expenses consistent with the prior year.
- The Skyway's operating revenues in 2002 decreased by 1.8 percent compared to 2001 which was primarily due to decreased commercial usage of the Skyway. Total operating expenses increased in 2002 due to costs relating to: 1) a cash management review, 2) increase in fleet maintenance costs, 3) an increase in insurance costs, and 4) depreciation and amortization as a result of capital activities. Total net deficit of $50.7 million increased $10.7 million as a result of operating transfers of $23.0 million to the City offset by current year income of $10.7 million and capital grants of $1.6 million.

Financial Analysis of the City's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At December 31, 2002, the City's governmental funds reported combined ending fund balances of $1,740.4 million, a decrease of $133.6 million in comparison with the prior year. Over half of this total amount ($1,162.0 million) constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed 1) to liquidate contracts and purchase orders of the prior period ($233.1 million), 2) to pay debt service ($274.4 million) and 3) for a variety of other restricted purposes ($70.8 million).

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the general fund was $13.0 million with a total fund balance of $137.5 million. As a measure of the general fund's liquidity, it may be helpful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 0.5 percent of total general fund expenditures, while total fund balance represents 5.6 percent of that same amount.

The fund balance of the City's general fund decreased by $9.0 million during the current fiscal year. Key factors in this decline are as follows:

- A portion of Fund Balance at December 31, 2002 was reserved for potential commitments to settle certain labor agreements.
- Expenditures and Other Financing Uses exceeded Revenues and Other Financing Sources by $4.3 million.

The Debt Service Fund has a total fund balance of $274.4 million, all of which is reserved, for the payment of debt service. The net increase in fund balance during the current year in the Debt Service Fund was $3.0 million.

Proprietary funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Water, Sewer, Tollway, O'Hare International Airport, and Midway Airport at the end of the year amounted to a deficit of $23.9 million. The total decrease in unrestricted net assets related to the $1,744.7 million of net assets invested in capital assets, net of related debt and $716.7 million primarily due to restricted assets for debt service and construction and rehabilitation. Other factors concerning the finances of these five funds have already been addressed in the discussion of the City's business-type activities.

Changes in fund balance. The City's governmental fund revenues (excluding other financing sources) increased by 4.9 percent to $4,644.0 million. Virtually half of the City's revenue comes from taxes. Total taxes decreased by less than 0.01 percent. Total taxes includes an increase in property taxes of $21.5 million (3.4 percent) relating to the City's Neighborhoods Alive 21 Program and timing of collections. Transaction taxes increased by $15.6 million (7.2 percent) due to increases in the value of real property transactions. Special area taxes increased $17.3 million (13.5 percent) based on an increase in the number of taxing areas and an increase in the equalized assessed valuation of those areas. State income taxes decreased $41.1 million (13.1 percent) and sales taxes decreased $11.1 million (2.6 percent) due to unfavorable economic conditions.

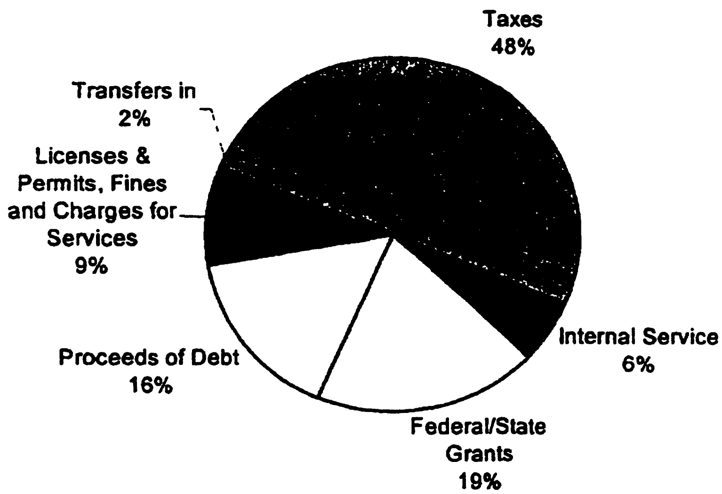
Investment income decreased $43.9 million (45.6 percent) primarily due to the lower interest rate yields and reduced operating cash. Net operating transfers decreased by $80.0 million (74.3 percent) due to a decrease in transfers in over transfers out. Proceeds of debt decreased $48.4 million (5.0 percent) due to a decrease in tax increment allocation bonds issued during 2002. Federal/State grants vary from year to year depending primarily on the level of spending for programs, construction and other projects.

Expenditures for general government operations in 2002 were $5,585.5 million. This reflects an increase of $421.2 million (8.2 percent) over 2001. Current expenditures, which comprised 73.6 percent of total expenditures, increased by $194.9 million (4.8 percent). Public safety (police and fire protection) was the largest component of current expenditures, accounting for 25.1 percent of total expenditures. Public safety expenditures increased $38.9 million (2.7 percent) over 2001 because of an increase in related personnel costs. Capital projects expenditures increased $231.2 million (43.9 percent) as a result of the City's Capital Improvement Program. Transportation expenditures increased $66.6 million (16.6 percent), due to the completion of grant funded transportation-related projects such as Wacker Drive.

City of Chicago, Illinois
Combined Revenues, Expenditures and Changes in Fund Balances
Years Ended December 31,
(in millions of dollars)

	Governmental Funds 2002	Governmental Funds 2001	Total Percentage Change 2001-2002
Revenues:			
Property tax	$ 662.9	$ 641.4	3.4%
Utility tax	488.4	504.0	-3.1%
Sales tax	419.5	430.6	-2.6%
Transportation tax	322.8	309.5	4.3%
State income tax	273.5	314.6	-13.1%
Transaction tax	232.2	216.6	7.2%
Special area tax	145.4	128.1	13.5%
Other taxes	163.0	163.5	-0.3%
Federal/State grants	1,088.6	914.8	19.0%
Internal service	339.8	307.6	10.5%
Licenses and permits	83.1	82.0	1.3%
Fines	181.7	150.5	20.7%
Investment income	52.4	96.3	-45.6%
Charges for services	116.6	104.0	12.1%
Other	74.1	62.8	18.0%
Total revenues	4,644.0	4,426.3	4.9%
Expenses:			
General government	1,399.1	1,305.3	7.2%
Public safety	1,465.0	1,426.1	2.7%
Employee pensions	328.5	339.2	-3.2%
Streets and sanitation	357.9	359.4	-0.4%
Transportation	467.9	401.3	16.6%
Health	178.0	163.4	8.9%
Cultural and recreational	83.5	88.7	-5.9%
Other	10.4	11.9	-12.6%
Capital projects	758.4	527.2	43.9%
Debt service:			
Principal retirement	285.7	293.0	-2.5%
Interest and other fiscal charges	251.2	248.8	1.0%
Total expenditures	5,585.6	5,164.3	8.2%
Expenditures over revenues	941.6	738.0	27.6%
Other financing sources (uses):			
Proceeds of debt, net of original discount	917.3	965.7	-5.0%
Payment to refunded bond escrow agent	(132.3)	(127.8)	3.5%
Operating transfers in	138.9	213.3	-34.9%
Operating transfers out	(111.2)	(105.6)	5.3%
Total other financing sources (uses)	812.7	945.6	-14.1%
Revenues and other financing sources over (under) expenditures and other financing uses	(128.9)	207.6	-162.1%
Fund balance, beginning of year	1,874.0	1,665.3	12.5%
Change in inventory	(4.7)	1.1	-527.3%
Fund balance, end of year	$ 1,740.4	$ 1,874.0	-7.1%

REVENUES AND OTHER FINANCING SOURCES 2002



The table above represents the breakout of the revenues and other financing sources of governmental funds.

- The cost of all governmental activities, including other financing uses, was $5,829.0 million.
- The amount that taxpayers paid for these activities through City taxes was only $2,707.7 million.
  - Some of the cost was paid by those who directly benefited from the programs ($721.2 million), or
  - By other governments and organizations that subsidized certain programs with grants and contributions ($1,088.6 million).
- The City paid for the "public benefit" portion with $2,707.7 million in taxes, and with other revenues such as state aid, interest and miscellaneous income.

General Fund Budgetary Highlights

The City's 2002 General Fund Budget is $2,527.6 million. This budget reflects an increase of $4.7 million over the amended 2001 Budget. The City's 2002 General Fund Budget contains no additions or material changes to existing taxes and fees. Due to continuing recessionary conditions and legislative actions taken by the Illinois General Assembly revenues were expected to be millions less than the 2002 budgeted revenues. In response to these shortfalls and to ensure a balanced 2002 General Fund Budget, the City extended a civilian hiring freeze, enacted certain reductions in non-personnel and personnel expenditures, and utilized certain available balances generated from previous year's General Fund revenue or financing sources.

As a result of economic conditions and legislative actions, 2002 General Fund revenues, including use of budgeted prior year's surplus, are $61.6 million less than 2002 budgeted revenues.

There were no differences between the original budget and the final amended budget.

Additional information on the City's budget can be found in note one under Stewardship, Compliance and Accountability within this report.

Capital Asset and Debt Administration

Capital assets. The City's capital assets for its governmental and business-type activities as of December 31, 2002 amounts to $12,332.3 million (net of accumulated depreciation). These capital assets include land, buildings and system improvements, machinery and equipment, roads, highways and bridges, and property, plant and equipment.

Major capital asset events during the current fiscal year included the following:

- Construction continued on the Millennium Park, while the parking garage was opened for use.
- Wacker Drive project was completed in December 2002.
- South Lake Shore Drive mainline reconstruction project is in process.
- Chicago Center for Green Technology, a new City facility on the west side, is a national model of energy efficiency and environmentally-friendly "green" design.
- The 20th District Police Station on North Lincoln Avenue.
- Air & Sea Rescue Facility along Lake Michigan on the south side.
- The Water Fund completed projects totaling $100.3 million. The major completed projects were the Roseland pumping station and grid main installations.
- The Sewer Fund replaced over ten miles of sewer lines to adhere to their five-year capital improvement plan.
- Midway Airport expended $164.3 million on capital activities. This included land acquisitions and construction projects, for the new terminal concourse, roadway and tenant improvements. The major completed projects included the federal inspection station (FIS) and fuel storage facilities.
- O'Hare expended $229.4 million on capital activities. This included land acquisition, terminal improvements, security enhancements, roadway/taxiway, parking and roadway rehabilitation and airfield drainage improvements. Major completed projects included concourse improvements, parking lot expansion, security system enhancements and airfield drainage improvements.
- The Skyway expended $60.5 million for construction projects, principally the 75th to 79th Street viaduct rehabilitation project, and the 100th Street, Commercial Avenue, and Calumet River bridge floor beam strengthening projects. Major completed projects were the Calumet River bridge painting project, 100th Street truss and superstructure project and the median removal from the center bridge.

Information on the City's capital assets can be found in Note six of this report.

Debt. At the end of the current fiscal year the City had $4,681.7 million in general obligation bonds and notes outstanding. Other outstanding long-term debt is as follows: $69.6 million in Motor Fuel Tax Revenue Bonds; $521.5 million in Tax Increment Financing Bonds; $15.2 million in Installment Purchase Agreements; $390.3 million of Sales Tax Revenue Bonds; $235.7 million in General Obligation Certificates and Other Obligations; and $6,706.4 million in Enterprise Fund Bonds and long-term obligations.

During 2002, the City issued the following:

General Obligation Bonds:

- General Obligation Bonds, Project and Refunding Series 2002A ($169.8 million)
- General Obligation Variable Rate Demand Bonds Series 2002B ($185.4 million)
- General Obligation Bonds (Neighborhoods Alive 21 Program) Series 2002A ($51.5 million)
- General Obligation Variable Rate Demand Bonds (Neighborhoods Alive 21 Program) Series 2002B ($206.7 million)

Sales Tax Revenue Bonds:

- Sales Tax Revenue Refunding Bonds, Variable Rate Series 2002 ($116.6 million)

Tax Increment Allocation Bonds and Notes:

- Various Tax Increment Allocation Notes, Taxable Series 2002, totaling ($7.8 million)
- Tax Increment Allocation Bonds (Chatham Ridge Redevelopment Project) Series 2002 ($17.9 million)

Enterprise Fund Revenue Bonds:

- Chicago Midway Airport Second Lien Revenue Bonds, Taxable Series 2002A ($22.0 million)
- Chicago-O'Hare International Airport General Airport Third Lien Revenue Refunding Bonds, Series 2002A ($490.5 million).

At December 31, 2002 the City had credit ratings with each of the three major rating agencies as follows:

Rating Agency	Moody's	Standard & Poors	Fitch
General Obligation:			
City	A1	A+	AA-
Revenue Bonds:			
O'Hare Airport:			
First Lien	A1	A+	AA-
Second Lien	A1	A	AA-
Third Lien	A2	A-	A
First Lien PFC	A1	A+	A
Second Lien PFC	A2	A	A
Midway Airport:			
First Lien	A2	A	A+
Second Lien	A3	A-	A+
Water:			
First Lien	Aa3	AA-	AA+
Second Lien	Aa3	A+	A+
Skyway	n/a	n/a	A-

Information on the City's long-term debt can be found in Note nine of this report.

Economic Factors and Next Year's Budgets and Rates

The unfavorable national economy, which resulted in corporate downsizing as well as new construction in the central business district, caused the downtown office vacancy rate to increase to 12.8 percent from 10.8 percent. Despite the rise in the office space vacancy rate, commercial real estate developers continued to view the City as an attractive place to build. The number of commercial permits issued for 2002 increased by 9 percent with 6,350 permits issued. However, estimated cost of construction of $830.0 million decreased compared to prior years.

Residential real estate growth remained strong in 2002. The median single-family home price rose to $170,000, a 6.3 percent increase from 2001 levels. Including condominiums and lofts, the median sales price was $240,000, an increase of 6.0 percent. Chicago's broad variety of housing styles and price ranges combined with low interest rates helped create great opportunities for homebuyers. The number of permits issued for residential new construction increased by 21.0 percent to 1,562 permits with an estimated cost of $1.1 billion. A key indicator of the City's strength in the residential real estate market was demonstrated by the fact that home ownership grew at a faster rate in the City than in the suburban areas.

Chicago remains a center of tourism and conventions with hotel occupancy maintaining a rate of 66.3 percent in 2002, almost unchanged from 66.2 percent in 2001. Hotel projects completed in 2002 included the Comfort Inn and Suites Downtown with 130 rooms and the Sofitel Chicago Water Tower with 415 rooms. Despite decreases in travel due to national and international events, Chicago has a full calendar of conventions for fiscal 2003.

The median household income in the City increased significantly to $46,433 in 2002. While the City unemployment rate rose to 8.3 percent from 6.9 percent in 2001, the inflation rate remained under 3 percent.
The City's 2003 Corporate Fund Budget, adopted by the City Council on December 4, 2002, is approximately $2,549.8 million. This budget reflects an increase of $22.2 million, or 0.9 percent, over the 2002 Corporate Fund Budget. The City's 2003 Corporate Fund Budget contains no additions or changes in existing taxes and fees.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Chicago Comptroller's Office.

Exhibit 1
CITY OF CHICAGO, ILLINOIS
STATEMENT OF NET ASSETS

Decemb r 31, 2002
(Amounts are in Thousands of Dollars)

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and Cash Equivalents	$ 838,303	$ 152,297	$ 990,600
Investments	833,533	3,199	836,732
Cash and Investments with Escrow Agent	297,811	-	297,811
Receivables (Net of Allowances):			
Property Tax	839,098	-	839,098
Accounts	508,843	127,683	636,526
Internal Balances	32,140	(32,140)	-
Inventories	22,827	17,997	40,824
Restricted Assets:			
Cash and Cash Equivalents	-	1,167,655	1,167,655
Investments	-	1,251,723	1,251,723
Other Assets	685,480	357,099	1,042,579
Capital Assets:			
Land, Improvements, Art, and Construction in Progress	1,384,977	1,053,574	2,438,551
Other Capital Assets, Net of Depreciation	4,446,226	5,447,524	9,893,750
Total Capital Assets	5,831,203	6,501,098	12,332,301
Total Assets	$ 9,889,238	$ 9,546,611	$ 19,435,849
LIABILITIES			
Voucher Warrants Payable	$ 417,186	$ 251,280	$ 668,466
Short-term debt	13,312	-	13,312
Accrued Interest	79,072	145,497	224,569
Accrued and Other Liabilities	241,726	111,733	353,459
Deferred Revenue	203,739	38,233	241,972
Long-term Liabilities:			
Due Within One Year	280,225	73,675	353,900
Due In More Than One Year	7,064,982	6,488,699	13,553,681
Total Liabilities	8,300,242	7,109,117	15,409,359
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	1,418,685	1,744,719	3,163,404
Restricted for:			
Capital Projects	32,543	208,253	240,796
Debt Service	802,126	28,569	830,695
Federal, State & Local Grants	23,590	-	23,590
Other Purposes	139,428	479,882	619,310
Unrestricted (Deficit)	(827,376)	(23,929)	(851,305)
Total Net Assets	$ 1,588,996	$ 2,437,494	$ 4,026,490

See notes to basic financial statements.

Exhibit 2
CITY OF CHICAGO, ILLINOIS
STATEMENT OF ACTIVITIES
Year Ended December 31, 2002
(Amounts are in Thousands of Dollars)

Functions/Programs	Expenses	Licenses, Permits, Fines and Charges for Services
Primary Government		
Governmental Activities:		
General Government	$ 1,587,322	$ 337,809
Public Safety	1,623,340	91,392
Employee Pensions	328,518	-
Streets and Sanitation	318,982	26,937
Transportation	240,572	14,216
Health	178,741	3,135
Cultural and Recreational	102,516	18,977
Other	10,332	-
Interest on Long-term Debt	280,347	-
Total Governmental Activities	4,670,670	492,466
Business-type Activities:		
Water	305,246	315,458
Sewer	146,286	141,330
Midway Airport	117,117	89,858
Chicago O'Hare International Airport	611,484	451,046
Chicago Skyway	34,790	43,232
Total Business-type Activities	1,214,923	1,040,924
Total Primary Government	$ 5,885,593	$ 1,533,390

See notes to basic financial statements.

	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
			Primary Government		
	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
	$ 529,840	$ 6,503	$ (713,170)	$ -	$ (713,170)
	42,458	-	(1,489,490)	-	(1,489,490)
	-	-	(328,518)	-	(328,518)
	-	-	(292,045)	-	(292,045)
	-	345,686	119,330	-	119,330
	109,637	-	(65,969)	-	(65,969)
	13,128	-	(70,411)	-	(70,411)
	15,843	-	5,511	-	5,511
	-	-	(280,347)	-	(280,347)
	710,906	352,189	(3,115,109)	-	(3,115,109)
	-	-	-	10,212	10,212
	-	488	-	(4,468)	(4,468)
	-	38,522	-	11,263	11,263
	-	154,286	-	(6,152)	(6,152)
	-	1,626	-	10,068	10,068
	-	194,922	-	20,923	20,923
	$ 710,906	$ 547,111	$ (3,115,109)	$ 20,923	$ (3,094,186)
General Revenues					
Taxes:					
Property Tax			692,867	-	692,867
Utility Tax			488,419	-	488,419
Sales Tax			190,462	-	190,462
Transportation Tax			322,811	-	322,811
Transaction Tax			232,168	-	232,168
Special Area Tax			150,077	-	150,077
Other Taxes			162,951	-	162,951
Grants and Contributions not Restricted to Specific Programs			506,452	-	506,452
Unrestricted Investment Earnings			52,377	42,094	94,471
Miscellaneous			74,187	6,132	80,319
Transfers			27,662	(27,662)	-
Total General Revenues and Transfers			2,900,433	20,564	2,920,997
Change in Net Assets			(214,676)	41,487	(173,189)
Net Assets-Beginning			1,803,672	2,396,007	4,199,679
Net Assets-Ending			$ 1,588,996	$ 2,437,494	$ 4,026,490

Exhibit 3
CITY OF CHICAGO, ILLINOIS
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2002
(Amounts are in Thousands of Dollars)

	General	Federal, State and Local Grants
ASSETS		
Cash and Cash Equivalents	$ 16,094	$ 56,044
Investments	10,647	14,090
Cash and Investments with Escrow Agent	-	667
Receivables (Net of Allowances):		
Property Tax	-	-
Accounts	129,230	29,466
Due from Other Funds	581,673	162,223
Due from Other Governments	150,534	140,811
Inventories	22,827	-
Other Assets	-	47,770
Total Assets	$ 911,005	$ 451,071
LIABILITIES AND FUND BALANCE		
Liabilities		
Voucher Warrants Payable	$ 99,491	$ 151,298
Bonds, Notes and Other Obligations Payable-Current	12,565	-
Accrued Interest	-	-
Due to Other Funds	598,087	85,670
Accrued and Other Liabilities	46,532	2,054
Claims Payable	13,655	-
Deferred Revenue	3,214	188,459
Total Liabilities	773,544	427,481
Fund Balance		
Reserved for Encumbrances	101,620	-
Reserved for Resale Property	-	47,770
Reserved for Inventory	22,827	-
Reserved for Debt Service	-	-
Unreserved, Undesignated	13,014	(24,180)
Total Fund Balance	137,461	23,590
Total Liabilities and Fund Balance	$ 911,005	$ 451,071

See notes to basic financial statements.

Bond, Note Redemption and Interest	Community Development and Improvement Projects	Other Govenmental Funds	Total Governmental Funds
$ 54,784	$ 449,149	$ 262,232	$ 838,303
2,246	730,070	76,480	833,533
159,556	-	137,588	297,811
393,567	-	445,531	839,098
1,701	5,058	3,097	168,552
9,961	31,594	93,234	878,685
688	-	48,258	340,291
-	-	-	22,827
-	203	-	47,973
$ 622,503	$ 1,216,074	$ 1,066,420	$ 4,267,073
$ -	$ 73,810	$ 61,664	$ 386,263
65,192	-	1,885	79,642
72,823	-	5,811	78,634
-	60,034	172,928	916,719
-	125	25,829	74,540
-	-	-	13,655
360,122	163	425,279	977,237
498,137	134,132	693,396	2,526,690
-	97,491	34,038	233,149
-	203	-	47,973
-	-	-	22,827
124,366	-	150,034	274,400
-	984,248	188,952	1,162,034
124,366	1,081,942	373,024	1,740,383
$ 622,503	$ 1,216,074	$ 1,066,420	$ 4,267,073

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	5,831,203
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.	1,372,221
Certain liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds	(7,354,811)
Net assets of governmental activities	$ 1,588,996

Exhibit 4
CITY OF CHICAGO, ILLINOIS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended Decemb r 31, 2002
(Amounts are in Thousands of Dollars)

	General	Federal, State and Local Grants
Revenues:		
Property Tax	$ –	$ –
Utility Tax	441,586	–
Sales Tax	397,135	–
Transportation Tax	137,263	–
State Income Tax	227,817	–
Transaction Tax	232,168	–
Special Area Tax	–	–
Other Taxes	151,381	–
Federal/State Grants	3,888	1,084,697
Internal Service	304,799	–
Licenses and Permits	83,148	–
Fines	166,189	–
Investment Income	4,919	–
Charges for Services	89,219	–
Miscellaneous	15,935	–
Total Revenues	2,255,447	1,084,697
Expenditures:		
Current:		
General Government	665,647	540,442
Health	44,198	105,890
Public Safety	1,420,298	42,458
Streets and Sanitation	253,833	–
Transportation	43,630	345,686
Cultural and Recreational	–	13,128
Employee Pensions	–	–
Other	3,695	6,343
Capital Outlay	–	6,503
Debt Service:		
Principal Retirement	4,372	–
Interest and Other Fiscal Charges	7,123	–
Total Expenditures	2,442,796	1,060,450
Revenues Over (Under) Expenditures	(187,349)	24,247

Continued on following pages.

Bond, Note Redemption and Interest	Community Development and Improvement Projects	Other Governmental Funds	Total Governmental Funds
$ 382,146	$ –	$ 280,773	$ 662,919
14,917	–	31,916	488,419
19,981	–	2,375	419,491
14,666	–	170,882	322,811
–	–	45,718	273,535
–	–	–	232,168
–	–	145,365	145,365
–	–	11,570	162,951
–	–	–	1,088,585
–	–	34,962	339,761
–	–	–	83,148
–	–	15,522	181,711
3,219	31,419	12,820	52,377
–	–	27,362	116,581
–	28,318	29,875	74,128
434,929	59,737	809,140	4,643,950
–	–	193,039	1,399,128
–	–	27,905	177,993
–	–	2,214	1,464,970
–	–	104,091	357,924
–	–	78,586	467,902
–	–	70,381	83,509
–	–	328,518	328,518
–	–	350	10,388
–	646,363	105,490	758,356
245,092	–	36,224	285,688
212,161	–	31,878	251,162
457,253	646,363	978,676	5,585,538
(22,324)	(586,626)	(169,536)	(941,588)

CITY OF CHICAGO, ILLINOIS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended December 31, 2002
(Amounts are in Thousands of Dollars)

	General	Federal, State and Local Grants
Other Financing Sources (Uses):		
Proceeds of Debt, Net of Original Discount	$ 75,529	$ –
Payment to Refunded Bond Escrow Agent	–	–
Operating Transfers In	107,547	4,699
Operating Transfers Out	–	(24,247)
Total Other Financing Sources (Uses)	183,076	(19,548)
Net change in fund balances	(4,273)	4,699
Fund Balance, Beginning of Year	146,449	18,891
Change in Inventory	(4,715)	–
Fund Balance, End of Year	$ 137,461	$ 23,590

See notes to basic financial statements.

Bond, Note Redemption and Interest	Community Development and Improvement Projects	Other Governmental Funds	Total Governmental Funds
$ 150,091	$ 535,817	$ 155,889	$ 917,326
(129,478)	–	(2,811)	(132,289)
–	1,785	24,851	138,882
(10,500)	(23,428)	(53,045)	(111,220)
10,113	514,174	124,884	812,699
(12,211)	(72,452)	(44,652)	(128,889)
136,577	1,154,394	417,676	1,873,987
–	–	–	(4,715)
$ 124,366	$ 1,081,942	$ 373,024	$ 1,740,383

Exhibit 5
CITY OF CHICAGO, ILLINOIS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended December 31, 2002
(Amounts are in Thousands of Dollars)

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds	$	(128,889)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		336,703
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		34,660
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. This is the amount by which proceeds exceeded repayments		(520,676)
Certain expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		63,526
Change in the net assets of governmental activities	$	(214,676)

See notes to basic financial statements.

Exhibit 6
CITY OF CHICAGO, ILLINOIS
STATEMENT OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
GENERAL FUND (BUDGETARY BASIS)
Year Ended December 31, 2002
(Amounts are in Thousands of Dollars)

	Original and Final Budget	Actual Amounts	Variance Positive (Negative)
Revenues:			
Utility Tax	$ 486,850	$ 441,586	$ (45,264)
Sales Tax	183,400	168,106	(15,294)
Transportation Tax	146,614	137,263	(9,351)
Transaction Tax	202,700	232,168	29,468
Recreation Tax	92,500	83,665	(8,835)
Business Tax	63,600	65,215	1,615
State Income Tax	278,900	227,817	(51,083)
State Sales Tax	246,200	229,029	(17,171)
State Auto Rental and Hotel Tax	3,100	2,501	(599)
Federal/State Grants	5,017	3,888	(1,129)
Internal Service	291,613	304,799	13,186
Licenses and Permits	73,669	83,148	9,479
Fines	146,900	166,189	19,289
Investment Income	12,500	4,919	(7,581)
Charges for Services	70,804	65,502	(5,302)
Municipal Utilities	20,316	22,733	2,417
Leases, Rentals and Sales	35,417	7,296	(28,121)
Miscellaneous	5,506	9,623	4,117
Proceeds of Debt, Net of Original Discount	50,600	75,529	24,929
Budgeted Prior Years' Surplus and Reappropriations	32,936	27,529	(5,407)
Operating Transfers In/Other	78,500	107,547	29,047
Total Revenues	2,527,642	2,466,052	(61,590)
Expenditures:			
Current:			
General Government	684,790	664,357	20,433
Health	50,960	44,092	6,868
Public Safety	1,475,148	1,448,372	26,776
Streets and Sanitation	259,353	254,547	4,806
Transportation	44,729	43,188	1,541
Debt Service:			
Principal Retirement	4,372	4,372	-
Interest and Other Fiscal Charges	8,290	7,123	1,167
Total Expenditures	2,527,642	2,466,051	61,591
Revenues Over Expenditures	$ -	$ 1	$ 1

See notes to basic financial statements.

Exhibit 7
CITY OF CHICAGO, ILLINOIS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
December 31, 2002
(Amounts are in Thousands of Dollars)

	Business Type Activities - Enterprise Funds					
	Major Funds				Other Fund	
	Water	Sewer	Midway Airport	Chicago-O'Hare International Airport	Chicago Skyway	Total
ASSETS						
CURRENT ASSETS:						
Cash and Cash Equivalents	$ 18,837	$ 10,138	$ 30,172	$ 82,268	$ 10,882	$ 152,297
Investments	1,913	758	353	–	175	3,199
Accounts Receivable (Net of Allowance for Estimated Uncollectibles)	56,495	21,260	7,978	37,375	380	123,488
Due from Other Funds	40,827	31,149	89	–	447	72,512
Due from Other Governments	–	–	–	4,195	–	4,195
Inventories	15,650	2,347	–	–	–	17,997
Total Current Assets	133,722	65,652	38,592	123,838	11,884	373,688
RESTRICTED ASSETS:						
Cash and Cash Equivalents	130,106	67,352	340,679	516,888	112,630	1,167,655
Investments	245,515	91,996	262,514	533,389	118,309	1,251,723
Total Restricted Assets	375,621	159,348	603,193	1,050,277	230,939	2,419,378
OTHER ASSETS	11,720	8,565	49,919	273,575	13,320	357,099
PROPERTY, PLANT AND EQUIPMENT:						
Land	5,083	560	96,662	102,251	12,609	217,165
Structures, Equipment and Improvements	1,967,729	1,163,227	531,632	3,808,937	182,946	7,654,471
Accumulated Depreciation	(506,482)	(233,027)	(80,001)	(1,285,294)	(102,143)	(2,206,947)
Construction Work In Progress	99,137	1,905	357,698	308,303	69,366	836,409
Total Property, Plant and Equipment	1,565,467	932,665	905,991	2,934,197	162,778	6,501,098
Total Assets	$ 2,086,530	$ 1,166,230	$ 1,597,695	$ 4,381,887	$ 418,921	$ 9,651,263

See notes to basic financial statements.

	Business Type Activities - Enterprise Funds					
	Major Funds				Other Fund	
	Water	Sewer	Midway Airport	Chicago-O'Hare International Airport	Chicago Skyway	Total
LIABILITIES						
CURRENT LIABILITIES:						
Voucher Warrants Payable	$ 19,057	$ 13,675	$ 12,266	$ 41,299	$ 1,036	$ 87,333
Due to Other Funds	64,340	18,460	10,568	25,391	11,087	129,846
Accrued and Other Liabilities	54,538	17,197	–	10,319	634	82,688
Deferred Revenue	9.617	6,502	7,435	14,679	–	38,233
Total Current Liabilities	147,552	55,834	30,269	91,688	12,757	338,100
Current Liabilities Payable From Restricted Assets	42,877	31,288	103,657	175,731	33,417	386,970
NONCURRENT LIABILITIES:						
Revenue Bonds Payable	998,950	645,731	1,121,869	3,284,670	423,498	6,474,718
Long-term Purchase Obligations	13,981	–	–	–	–	13,981
Total Noncurrent Liabilities	1,012,931	645,731	1,121,869	3,284,670	423,498	6,488,699
Total Liabilities	1,203,360	732,853	1,255,795	3,552,089	469,672	7,213,769
NET ASSETS:						
Invested in Capital Assets, Net of Related Debt	773,850	401,542	85,987	422,075	61,265	1,744,719
Restricted Net Assets:						
Debt Service	–	–	5,410	23,159	–	28,569
Capital Projects	60,341	8,032	76,230	42,070	21,580	208,253
Passenger Facility Charges	–	–	63,542	125,282	–	188,824
Contractual Use Agreement	–	–	61,384	90,316	–	151,700
Other	–	–	40,285	98,937	136	139,358
Unrestricted Net Assets	48,979	23,803	9,062	27,959	(133,732)	(23,929)
Total Net Assets	$ 883,170	$ 433,377	$ 341,900	$ 829,798	$ (50,751)	$ 2,437,494

See notes to basic financial statements.

Exhibit 8
CITY OF CHICAGO, ILLINOIS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
Year Ended December 31, 2002
(Amounts are in Thousands of Dollars)

	Business-type Activities - Enterprise Funds					
	Major Funds				Other Fund	
	Water	Sewer	Midway Airport	Chicago-O'Hare International Airport	Chicago Skyway	Total
Operating Revenues:						
Charges for Services	$ 306,748	$ 139,793	$ 40,006	$ 269,811	$ 43,187	$ 799,545
Rent	–	–	49,852	181,235	–	231,087
Other	8,710	1,537	–	–	45	10,292
Total Operating Revenues	315,458	141,330	89,858	451,046	43,232	1,040,924
Operating Expenses:						
Personal Services	115,193	6,069	34,036	148,831	4,523	308,652
Contractual Services	47,318	6,464	9,536	33,494	1,677	98,489
Repairs and Maintenance	4,195	61,576	24,562	66,310	2,043	158,686
Commodities and Materials	12,946	–	–	–	437	13,383
Depreciation and Amortization	28,494	16,656	17,388	124,568	6,156	193,262
General Fund Reimbursements	45,031	26,299	–	–	1,348	72,678
Other	13,817	–	9,421	76,736	22	99,996
Total Operating Expenses	266,994	117,064	94,943	449,939	16,206	945,146
Operating Income (Loss)	48,464	24,266	(5,085)	1,107	27,026	95,778
Nonoperating Revenues (Expenses):						
Investment Income	964	354	6,569	31,984	2,223	42,094
Interest Expense	(38,252)	(29,222)	(22,174)	(161,545)	(18,584)	(269,777)
Passenger Facility Charges	–	–	21,367	121,269	–	142,636
Other	5,771	(417)	778	–	–	6,132
Total Nonoperating Revenues (Expenses)	(31,517)	(29,285)	6,540	(8,292)	(16,361)	(78,915)
Operating Transfers Out	–	–	–	(4,698)	(22,964)	(27,662)
Capital Grants	–	488	17,155	33,017	1,626	52,286
Net Income (Loss)	16,947	(4,531)	18,610	21,134	(10,673)	41,487
Net Assets (Deficit) - Beginning of Year	866,223	437,908	323,290	808,664	(40,078)	2,396,007
Net Assets (Deficit) - End of Year	$ 883,170	$ 433,377	$ 341,900	$ 829,798	$ (50,751)	$ 2,437,494

See notes to basic financial statements.

Exhibit 9
CITY OF CHICAGO, ILLINOIS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended Decemb r 31, 2002
(Amounts are in Thousands of Dollars)

	Business-type Activities - Enterprise Funds					
	Major Funds				Other Fund	
	Water	Sewer	Midway Airport	Chicago-O'Hare International Airport	Chicago Skyway	Total
Cash Flows from Operating Activities:						
Received from Customers	$ 314,530	$ 141,241	$ 84,132	$ 475,452	$ 43,246	$ 1,058,601
Payments to Vendors	(59,803)	(28,427)	(42,309)	(161,178)	(4,946)	(296,663)
Payments to Employees	(115,193)	(48,196)	(27,678)	(136,581)	(4,026)	(331,674)
Transactions with Other City Funds	(94,151)	(15,720)	(3,922)	(25,851)	(408)	(140,052)
Cash Flows from Operating Activities	45,383	48,898	10,223	151,842	33,866	290,212
Cash Flows from Capital and Related Financing Activities:						
Proceeds from Issuance of Bonds	–	–	22,000	633,037	–	655,037
Acquisition and Construction of Capital Assets	(141,957)	(53,225)	(142,096)	(244,199)	(43,429)	(624,906)
Grant Receipts	–	488	24,316	28,822	1,935	55,561
Bond Issuance Costs	–	38	(435)	(9,455)	–	(9,852)
Payment to Refund Bonds	–	–	–	(542,237)	–	(542,237)
Principal Paid on Bonds	(24,658)	(10,750)	(5,455)	(46,790)	–	(87,653)
Interest Paid	(45,790)	(29,026)	(51,035)	(167,874)	(23,351)	(317,076)
Passenger Facility Charges	–	–	21,703	124,804	–	146,507
Noise Mitigation Program	–	–	(8,740)	(29,935)	–	(38,675)
Intergovernmental Loan	–	–	–	–	(14,664)	(14,664)
Cash Flows from Capital and Related Financing Activities	(212,405)	(92,475)	(139,742)	(253,827)	(79,509)	(777,958)
Cash Flows from Investing Activities:						
Sale (Purchases) of Investments, Net	72,524	52,810	75,462	127,457	70,589	398,842
Proceeds from Sale of Property	–	–	–	–	–	–
Investment Interest	13,800	3,487	15,451	49,653	11,611	94,002
Cash Flows from Investing Activities	86,324	56,297	90,913	177,110	82,200	492,844
Net Increase (Decrease) in Cash and Cash Equivalents	(80,698)	12,720	(38,606)	75,125	36,557	5,098
Cash and Cash Equivalents, Beginning of Year	229,641	64,770	409,457	524,031	86,955	1,314,854
Cash and Cash Equivalents, End of Year	$ 148,943	$ 77,490	$ 370,851	$ 599,156	$ 123,512	$ 1,319,952

See notes to basic financial statements.

Exhibit 9 - Concluded
CITY OF CHICAGO, ILLINOIS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended December 31, 2002
(Amounts are in Thousands of Dollars)

	Business-type Activities - Enterprise Funds					
	Major Funds				Other Fund	
	Water	Sewer	Midway Airport	Chicago-O'Hare International Airport	Chicago Skyway	Total
Reconciliation of Operating Income to Cash Flows from Operating Activities:						
Operating Income (Loss)	$ 48,464	$ 24,266	$ (5,085)	$ 1,107	$ 27,026	$ 95,778
Adjustments to Reconcile:						
Depreciation and Amortization .. .	28,494	16,656	17,388	124,568	6,156	193,262
Provision for Uncollectible Accounts	3,000	-	201	(1,703)	21	1,519
Change in Assets and Liabilities:						
(Increase) Decrease in Receivables	(944)	3	(2,073)	671	(7)	(2,350)
(Increase) Decrease in Due From Other Funds	(15,103)	6,360	622	-	553	(7,568)
Increase (Decrease) in Voucher Warrants Payable and Due to Other Funds	(22,668)	863	3,878	7,381	755	(9,791)
Increase (Decrease) in Deferred Revenue and Other Liabilities ...	3,265	774	(4,708)	19,818	-	19,149
(Increase) Decrease in Inventories and Other Assets ...	875	(24)	-	-	(638)	213
Cash Flows from Operating Activities	$ 45,383	$ 48,898	$ 10,223	$ 151,842	$ 33,866	$ 290,212
Supplemental Disclosure of Noncash Items:						
Capital asset additions in 2002 included in accounts payable and accrued and other liabilities	$ 15,628	$ 14,285	$ 45,027	$ 36,247	$ 22,612	$ 133,799

See notes to basic financial statements.

Exhibit 10
CITY OF CHICAGO, ILLINOIS
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
D cemb r 31, 2002
(Amounts are in Thousands of Dollars)

	Pension Trust	Agency	Total
ASSETS			
Cash and Cash Equivalents	$ 347,733	$ 46,586	$ 394,319
Investments	10,386,553	23,677	10,410,230
Cash and Investments with			
Escrow Agent	–	19,388	19,388
Property Tax	–	13,400	13,400
Accounts Receivable			
(Net of Allowances)	407,030	9,115	416,145
Due from Other Funds	37,032	657,041	694,073
Invested Securities			
Lending Collateral	1,026,018	–	1,026,018
Total Assets	$ 12,204,366	$ 769,207	$ 12,973,573
LIABILITIES			
Voucher Warrants Payable.	$ 530,210	$ 169	$ 530,379
Due to Other Funds	–	598,705	598,705
Accrued and Other Liabilities	–	170,333	170,333
Securities Lending			
Collateral	1,026,018	–	1,026,018
Total Liabilities	1,556,228	769,207	2,325,435
NET ASSETS			
Reserved for Employee			
Benefit Plans	10,648,138	–	10,648,138
Total Net Assets	$ 10,648,138	$ –	$ 10,648,138

See notes to basic financial statements.

Exhibit 11
CITY OF CHICAGO, ILLINOIS
STATEMENT OF PLAN NET ASSETS
PENSION TRUST FUNDS
Year Ended D cember 31, 2002
(Amounts ar In Thousands of Dollars)

	Pension Trust Funds				
	Municipal Employees'	Laborers'	Policemen's	Firemen's	Total
ASSETS					
Cash and Cash Equivalents	$ 5,536	$ 209,087	$ 76,803	$ 56,307	$ 347,733
Receivables					
Employer and Other	186,863	1,221	135,420	59,095	382,599
Interest and Dividends	14,723	4,475	2,841	2,392	24,431
Total Receivables	201,586	5,696	138,261	61,487	407,030
Due from Other Funds	14,410	1,412	15,460	5,750	37,032
Investments, at Fair Value					
Bonds and U.S. Government Obligations	1,905,915	613,378	158,798	169,056	2,847,147
Stocks	2,756,565	627,307	1,765,464	571,359	5,720,695
Mortgages and Real Estate	186,190	41,484	196	2,494	230,364
Other	417,100	24,576	1,097,288	49,383	1,588,347
Total Investments	5,265,770	1,306,745	3,021,746	792,292	10,386,553
Invested Securities Lending Collateral	543,442	200,001	147,818	134,757	1,026,018
Total Assets	6,030,744	1,722,941	3,400,088	1,050,593	12,204,366
LIABILITIES					
Voucher Warrants Payable	359,092	134,851	28,233	8,034	530,210
Due to Other Funds	–	–	–	–	–
Securities Lending Collateral	543,442	200,001	147,818	134,757	1,026,018
Total Liabilities	902,534	334,852	176,051	142,791	1,556,228
Net Assets Held in Trust for Pension Benefits	$ 5,128,210	$ 1,388,089	$ 3,224,037	$ 907,802	$ 10,648,138

See notes to basic financial statements.

Exhibit 12
CITY OF CHICAGO, ILLINOIS
STATEMENT OF CHANGES IN PLAN NET ASSETS
PENSION TRUST FUNDS
Year Ended December 31, 2002
(Amounts are in Thousands of Dollars)

	Pension Trust Funds				
	Municipal Employees'	Laborers'	Policemen's	Firemen's	Total
Additions					
Contributions					
Employees	$ 128,395	$ 20,189	$ 79,238	$ 27,622	$ 255,444
City	130,966	83	141,989	59,453	332,491
Total Contributions	259,361	20,272	221,227	87,075	587,935
Investment Income					
Net Depreciation					
in Fair Value of Investments	(647,140)	(157,316)	(433,034)	(165,909)	(1,403,399)
Interest, Dividends and Other	123,389	42,865	104,811	26,578	297,643
Investment Expense	(15,779)	(5,582)	(8,261)	(4,480)	(34,102)
Net Investment Income	(539,530)	(120,033)	(336,484)	(143,811)	(1,139,858)
Securities Lending					
Transactions					
Securities Lending Income	10,290	3,836	3,137	2,485	19,748
Securities Lending Expense	(8,822)	(3,250)	(2,589)	(2,137)	(16,798)
Net Securities Lending					
Transactions	1,468	586	548	348	2,950
Total Additions	(278,701)	(99,175)	(114,709)	(56,388)	(548,973)
Deductions					
Benefits and Refunds of					
Deductions	409,298	81,629	355,653	138,791	985,371
Administrative and General	4,556	1,814	2,545	1,959	10,874
Total Deductions	413,854	83,443	358,198	140,750	996,245
Net Decrease in Net Assets	692,555	182,618	472,907	197,138	1,545,218
Net Assets Held in Trust for					
Pension Benefits:					
Beginning of Year	5,820,765	1,570,707	3,696,944	1,104,940	12,193,356
End of Year	$ 5,128,210	$ 1,388,089	$ 3,224,037	$ 907,802	$ 10,648,138

See notes to basic financial statements.

(1) Summary of Significant Accounting Policies

The City of Chicago (City), incorporated in 1837, is a "home rule" unit under State of Illinois (State) law. The City has a mayor-council form of government. The Mayor is the Chief Executive Officer of the City and is elected by general election. The City Council is the legislative body and consists of 50 members, each representing one of the City's 50 wards. The members of the City Council are elected through popular vote by ward for four-year terms.

The accompanying financial statements of the City have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). In June 1999, the GASB unanimously approved Statement No. 34 (as amended by Statement No. 37), *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* and at a later date, Statement No. 38 *Certain Financial Statement Disclosures*. In fiscal year 2002, the City adopted these three new statements. Significant changes in the Statements include the following:

- For the first time the financial statements include:

  -- A Management Discussion and Analysis (MD&A) section providing an analysis of the City's overall financial position and results of operations.

  -- Government-wide Financial statements prepared using full accrual accounting for all the City's activities, including infrastructure (roads, bridges, etc.).

  -- A change in the fund financial statements to focus on the *major* funds.

These and other changes are reflected in the accompanying financial statements (including the notes to the basic financial statements).

(a) **Reporting Entity** for the City includes the Chicago Public Library and the City-related funds of the Public Building Commission. The financial statements for the City have been prepared in accordance with generally accepted accounting principles (GAAP), applicable to governmental units, as required by the Municipal Code of Chicago (Code).

The City's financial statements blend the following legally separate component units because they are fiscally dependent on the City and perform services primarily for City employees:

The Municipal Employees' Annuity and Benefit Fund of Chicago is governed by a five-member board: three members are elected by plan participants and two are members ex-officio.

The Laborers' and Retirement Board Employees' Annuity and Benefit Fund of Chicago is governed by an eight-member board: two members are elected by plan participants, two are members ex-officio and two members are appointed by the City Personnel Department, one member is elected by retired plan participants and one member is elected by the local labor union.

The Policemen's Annuity and Benefit Fund of Chicago is governed by an eight-member board: four members are elected by plan participants and four are appointed by the Mayor.

The Firemen's Annuity and Benefit Fund of Chicago is governed by an eight-member board: four members are elected by plan participants and four are members ex-officio.

Financial statements for each of the pension plans may be obtained by the respective fund's office.

Related Organizations - City officials are responsible for appointing a voting majority of the members of the boards of other organizations, but the City's accountability for these organizations does not extend beyond making appointments and no fiscal dependency exists between the City and these organizations. The Chicago Park District, Chicago Public Schools, Community College District No. 508, Chicago Housing Authority and the Chicago Transit Authority are deemed to be related organizations.

(b) **Government-wide and fund financial statements** - The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on user fees and charges for services.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identified with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate fund financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

(c) **Measurement focus, basis of accounting, and financial statement presentation** - The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectable within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 90 days of the end of the current fiscal period with the exception of property tax revenue, which is deferred unless taxes are received within 60 days subsequent to year-end. Licenses and permits, charges for services and miscellaneous revenues are not considered to be susceptible to accrual and are recorded as revenues when received in cash. All other revenue items are considered to be measurable and available only when cash is received by the City. Expenditures generally are recorded when a liability is incurred, as under accrual accounting, except for interest and principal on long-term debt, the long-term portion of compensated absences, claims and judgments and pension obligations.

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

Federal, State and Local Grants Fund accounts for the expenditures for programs which include: general government, health, public safety, transportation, aviation, cultural and recreational and capital outlays. The majority of revenues are provided by several agencies of the Federal government, departments of the Illinois state government and City resources.

Bond, Note Redemption and Interest Fund accounts for the expenditures for principal and interest as provided by property tax, utility tax, sales tax, transportation tax and investment income.

Community Development and Improvement Projects Funds account for proceeds of debt used to acquire property and finance construction and supporting services for various redevelopment projects.

The City reports the following major proprietary funds as business-type activities:

Water Fund accounts for the operations of the Chicago Water System (System). The System purifies and provides Lake Michigan water for the City and 121 suburbs. The Water Fund operates two water treatment facilities consisting of 12 pumping stations and a combined pumping capacity of 3,661 million gallons per day.

Sewer Fund accounts for the operations of the Wastewater Transmission (Sewer) System. The Sewer system transports wastewater to the Metropolitan Water Reclamation District of Greater Chicago for processing and disposal. This service is provided for the residents and businesses of the City and certain suburban customers.

Chicago - O'Hare International Airport Fund records operations of Chicago-O'Hare International Airport, the primary commercial airport for the City. The airlines servicing the airport operate out of four terminal buildings. Three domestic terminal buildings, having a total of 155 gates, serve domestic flights and certain international departures. The International Terminal, having a total of 21 gates and five remote aircraft parking positions, serves the remaining international departures and all international arrivals requiring customs clearance.

Midway Airport Fund records operations of Midway Airport that provides regional travelers with access to airlines that generally specialize in low-cost, point-to-point, origin and destination passenger service. Construction has been completed on the first several stages increasing the concourse size from 268,000 square feet and 30 jet aircraft parking positions to 914,000 square feet with 41 aircraft gates and two commuter aircraft parking areas.

Additionally, the City reports the following fiduciary fund types:

Pension Trust Funds reports expenditures for employee pensions as provided by employee and employer contributions and investment earnings.

Agency Funds account for transactions for assets held by the City as agent for various entities.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Exceptions to this general rule are payment-in-lieu of taxes and other charges between the City's water, sewer, airports and skyway funds. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include: 1) charges to customers or applicants for goods and services, or privileges provided, or fines, 2) operating grants and contributions and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Certain indirect costs have been included as part of the program expenses reported for the various functional activities.

In the fund financial statements, proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water, sewer and skyway funds are charges to customers for sales and services. The airport funds principal operating revenues are derived from landing fees and terminal use charges as well as rents and concessions. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

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

(d) Assets, liabilities, and net assets or equity

(1) **Cash, Cash Equivalents and Investments** generally are held with the City Treasurer as required by the Code. Interest earned on pooled investments is allocated to participating funds based upon their average combined cash and investment balances. Due to contractual agreements or legal restrictions, the cash and investments of certain funds are segregated and earn and receive interest directly. The City uses separate escrow accounts in which certain tax revenues are deposited and held for payment of debt.

The Code permits deposits only to City Council-approved depositories, which must be regularly organized state or national banks and federal and state savings and loan associations, located within the City, whose deposits are federally insured.

Investments authorized by the Code include interest-bearing general obligations of the City, State and U.S. Government; U.S. treasury bills and other non-interest-bearing general obligations of the U.S. Government purchased in the open market below face value; domestic money market funds regulated and in good standing with the Securities and Exchange Commission and tax anticipation warrants issued by the City. The City is prohibited by ordinance from investing in derivatives, as defined, without City Council approval. The City's four retirement plans are established by State law and administered by independent pension boards. Each independent pension board has authority to invest the assets of its respective plan subject to State law.

The City values its investments at fair value or amortized cost. U.S. Government securities purchased at a price other than par with a maturity of less than one year are reported at amortized cost.

Repurchase agreements can be purchased only from banks and certain other institutions authorized to do business in the State. The City Treasurer requires that securities pledged to secure these agreements have a market value equal to the cost of the repurchase agreements plus accrued interest.

Investments generally may not have a maturity in excess of one year from the date of purchase. Certain other investments are held in accordance with the specific provisions of applicable bond ordinances.

Cash equivalents include certificates of deposit and other investments with maturities of three months or less when purchased.

Deficit cash balances result in interfund borrowings from the aggregate of funds other than escrowed funds. Interest income and expense are generally not recognized on these interfund borrowings.

State statutes and the City's Pension Plans policies permit lending Pension Plan securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. Securities lent at year-end for cash collateral are presented as not categorized in the schedule of custodial credit risk; securities lent for securities collateral are classified according to the category for the collateral.

(2) **Receivables and Payables** activity between funds are representative of services rendered outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e, the current portion of interfund loans) or "advances to / from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to / from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown net of an allowance for uncollectibles. The allowance is based on historical trends. The estimated value of services provided but unbilled at year-end has been included in receivables.

(3) **Inventory** includes government-wide inventories which are stated at cost determined principally, using the average cost method. For proprietary funds, the costs of inventories are recorded as expenditures when used (consumption method). Governmental fund inventories are accounted for using the purchases method and are offset by a reservation of fund balance to indicate that they do not represent expendable available financial resources.

(4) **Assets Held for Resale** include land and buildings of $47.8 million, recorded at lower of cost or market in the Special Revenue Funds. These assets are purchased through the use of federal grants and City resources and are intended to be resold.

(5) **Restricted Assets** include certain proceeds of the City's enterprise fund revenue bonds, as well as certain resources set aside for their repayment. These assets are classified as restricted in the basic financial statements because they are maintained in separate bank accounts and their use is limited by applicable bond covenants.

The Water and Sewer funds maintain Rate Stabilization Accounts where any net revenues remaining after providing sufficient funds for all required deposits in the bond accounts may be transferred upon the direction of the City to be used for any lawful purpose of the specific fund.

The O'Hare International and Midway funds maintain Passenger Facility Charge accounts as restricted as they are subject to Federal Aviation Administration regulation and approval, to finance specific eligible capital accounts.

(6) **Capital Assets** which include property, plant, equipment and infrastructure assets (e.g. roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets, or a network of assets with an initial cost of more than $5,000 (not rounded) and an estimated useful life in excess of two years Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalization value of the assets constructed. The total interest expense incurred by the City during the current fiscal year was $520.9 million. Of this amount, $82.0 million was included as part of the capital assets under construction projects in proprietary funds.

Property, plant and equipment of the City is depreciated using the straight-line method over the following estimated useful lives:

Utility plant	25 - 100 years
Utility structures and improvements	50 - 100 years
Buildings and improvements	5 - 40 years
Airport runways, aprons, tunnels, taxiways and paved roads	5 - 40 years
Bridge infrastructure	10 - 50 years
Lighting infrastructure	25 years
Street infrastructure	10 - 25 years
Transit infrastructure	10 - 40 years
Equipment (vehicle, office and computer)	4 - 33 years

The City has a collection of art work and historical treasures presented for public exhibition and education that is being preserved for future generations. The proceeds from sales of any pieces of the collection are used to purchase other acquisitions. A portion of this collection is not capitalized or depreciated as part of capital assets.

(7) **Employee Benefits** are granted for vacation and sick leave, worker's compensation and health care. Unused vacation leave is accrued and may be carried over for one year. Sick leave is accumulated at the rate of one day for each month worked, up to a maximum of 200 days. Severance of employment terminates all rights to receive compensation for any unused sick leave. Sick leave pay is not accrued. Employee benefit claims outstanding, including claims incurred but not reported, are estimated and recorded in the government-wide, proprietary and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Employees are eligible to defer a portion of their salaries until future years under the City's deferred compensation plan created in accordance with Internal Revenue Code Section 457. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. The Plan is administered by third-party administrators who maintain the investment portfolio. The plan's assets have been placed in trust accounts with the plan administrators for the exclusive benefit of participants and their beneficiaries and are not considered assets of the City.

The City is subject to the State of Illinois Unemployment Compensation Act and has elected the reimbursing employer option for providing unemployment insurance benefits for eligible former employees. Under this option, the City reimburses the State for claims paid by the State. Expenditures for workers' compensation are recorded when paid.

(8) **Judgments and claims** are included in the government-wide financial statements and proprietary fund types in the fund financial statements. Uninsured claim expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. In the fund financial statements, expenditures for judgments and claims are recorded on the basis of settlements reached or judgments entered within the current fiscal year. Amounts related to deferred compensatory time and reserves for questioned costs are treated the same way.

(9) **Long-term obligations** are included in the government-wide financial statements and proprietary fund types in the fund financial statements. Long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the related debt, except in the case of refunding debt transactions where the amortization period is over the term of the refunding or refunded debt, whichever is shorter.

The City enters into interest rate swap agreements to modify interest rates on outstanding debt. Other than the net interest expenditures resulting from these arrangements, no amounts are recorded in the financial statements.

In the fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received and discounts given on debt issuances are reported with debt proceeds as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

(10) **Fund equity** in the Government-wide statements, equity is classified as net assets and displayed in three components:

(a) - Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or any other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

(b) - Restricted net assets - Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or (2) law through constitutional provisions or enabling legislation.

(c) - Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

(2) Stewardship, Compliance and Accountability

(a) **Annual Appropriation Budgets** are established for the General and certain Special Revenue Funds which are non-major, on a non-GAAP, budgetary basis:

(1) Prior to November 15, the Mayor submits to the City Council a proposed budget of expenditures and the means of financing them for the next year.

(2) The budget document is available for public inspection for at least ten days prior to passage of the annual appropriation ordinance by the City Council, which is also required to hold at least one public hearing.

(3) Prior to January 1, the budget is legally enacted through passage of the appropriation ordinance.

(4) Subsequent to the enactment of the appropriation ordinance, the City Council has the authority to make necessary adjustments to the budget which result in a change in total or individual appropriations. The legal level of budgetary control is designated in the budget by object grouped by purpose except for the Motor Fuel Tax Fund which is subsequently re-appropriated by project. A separate Motor Fuel Tax Fund Report demonstrates compliance with annual and project-length budgets required by the State. The separately issued Supplement to the Comprehensive Annual Financial Report provides budgetary information for all other budgeted funds. Copies of this report are available upon request.

(5) All annual appropriations unused and unencumbered lapse at year-end. Encumbered appropriations are carried forward to the following year. Project-length financial plans are adopted for Capital Projects Funds. Appropriations for Debt Service Funds are established by bond ordinance.

(b) **Reconciliation of GAAP Basis to Budgetary Basis**

The City's budgetary basis of accounting used for budget vs. actual reporting differs from GAAP. For budgetary purposes, encumbrances are recorded as expenditures but are reflected as reservations of fund balances for GAAP purposes. For budgetary purposes, proceeds of long-term debt and operating transfers are classified as revenues. For budgetary purposes prior years' resources used to cover current year budgetary expenditures are recorded as revenues. For GAAP purposes, proceeds of long-term debt and operating transfers are treated as other financing sources. Provision for doubtful account expenditures are not budgeted. A reconciliation of the different basis of revenue and expenditure recognition for the year ended December 31, is as follows (dollars in thousands):

		General Fund
Revenues, GAAP Basis	$	2,255,447
Add:		
Operating Transfers In		107,547
Proceeds of Debt, Net		75,529
Prior Years' Surplus Utilized		27,529
Revenues, Budgetary Basis	$	2,466,052
Expenditures, GAAP Basis	$	2,442,796
Add:		
Encumbered in 2002		42,814
Deduct:		
Payments on Prior Years' Encumbrances		(15,864)
Provision for Doubtful Accounts		(3,695)
Expenditures, Budgetary Basis	$	2,466,051

(c) **Individual Funds over Budget** include the Vehicle Tax Fund ($2.4 million), Motor Fuel Tax Fund ($3.0 million), Pension Fund ($1.6 million) and Health and Welfare Fund ($1.1 million).

(d) **Individual Fund Deficits** include the Motor Fuel Tax and Project, the Vehicle Tax Fund and Special Events, Tourism and Festivals Fund, Special Revenue Funds and the Chicago Skyway Fund, an Enterprise Fund, have fund deficits of $5.4 million, $4.9 million, $7.1 million and $50.6 million, respectively, which management anticipates will be funded through operations.

(3) **Restricted and Unrestricted Cash, Cash Equivalents and Investments**

(a) **Cash and Certificates of Deposit** with the City's various depositories were $207.0 million at December 31, 2002, and the related bank balance was $176.0 million. Of the bank balance, $176.0 million, or 100.0 percent, was either insured or collateralized with securities held by City agents in the City's name.

(b) **Investments** are categorized indicating the level of credit risk. Category 1 includes investments that are insured or registered in the City's name or securities that are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or its agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the financial institution or counterparty, or by its trust department or agent, but not in the City's name. Pooled funds include primarily money market mutual fund accounts. The following table provides a summary for all funds at December 31, 2002 (dollars in millions):

	Category			Fair
	1	2	3	Value
City Funds				
U.S. Government Obligations	$ 2,739.9	$ 87.4	$ -	$ 2,827.3
Commercial Paper	18.5	0.5	-	19.0
Total	$ 2,758.4	$ 87.9	$ -	2,846.3
Investments Not Categorized:				
Mutual and Pooled Funds				1,590.3
Total City Funds				$ 4,436.6
Pension Trust Funds				
Bonds	$ 2,329.6	$ -	$ -	$ 2,329.6
Stocks	3,807.0	-	-	3,807.0
Commercial Paper	12.8	-	-	12.8
Total	$ 6,149.4	$ -	$ -	6,149.4
Investments Not Categorized:				
Pooled Funds				2,930.2
Real Estate				227.9
Investments Held by Master Custodian under Securities Loans				1,014.0
Securities Received from Securities Landing				1,026.0
Venture Capital				198.1
Short-term				205.3
Total Pension Trust Funds				$ 11,750.9

The following schedule summarizes cash and investments reported in the basic financial statements (dollars in millions):

Per Note 3:		
Cash and Certificates of Deposit	$	207.0
Investments - City		4,436.6
Investments - Pension Funds		11,750.9
	$	16,394.5
Per Financial Statements:		
Cash and Cash Equivalents	$	1,384.9
Investments		11,247.0
Cash and Investments with Escrow Agent		317.2
Restricted Assets - Cash and Cash Equivalents		1,167.7
Restricted Assets - Investments		1,251.7
Invested Securities Lending Collateral		1,026.0
	$	16,394.5

(4) Property Tax

The City's property tax becomes a lien on real property on January 1 of the year it is levied. The Cook County Assessor (Assessor) is responsible for the assessment of all taxable real property within Cook County (County), except for certain railroad property assessed directly by the State. The County Board has established a triennial cycle of reassessment in which one-third of the County will be reassessed each year on a repeating schedule established by the Assessor.

Property in the County is separated into nine classifications for assessment purposes. After the Assessor establishes the fair market value of a parcel of land, that value is multiplied by one of the classification percentages to arrive at the assessed valuation (Assessed Valuation) for that parcel. These percentages range from 16.0 percent for certain residential, commercial and industrial properties to 38.0 percent for other commercial and industrial property.

The Illinois Department of Revenue has the statutory responsibility of ensuring uniformity of real property assessments throughout the State. Each year, the Department of Revenue furnishes the county clerks with an adjustment factor to equalize the level of assessment among counties. This factor (Equalization Factor) is then applied to the Assessed Valuation to compute the valuation of property to which a tax rate will be applied (Equalized Assessed Valuation). The County Clerk adds the Equalized Assessed Valuation of all real property in the County to the valuation of property assessed directly by the State (to which the Equalization Factor is not applied) to arrive at the base amount (Assessment Base) used in calculating the annual tax rates.

The County Clerk computes the annual tax rate by dividing the levy by the Assessment Base and then computes the rate for each parcel of real property by aggregating the tax rates of all governmental units having jurisdiction over that particular parcel. The County Treasurer then issues the tax bills. Property taxes are deposited with the County Treasurer, who remits to the City its respective share of the collections. Taxes levied in one year become due and payable in two installments during the following year on March 1 and August 1 or 30 days from mailing of tax bills if later than July 1. The first installment is estimated and is one-half of the prior year's tax bill. The second installment is based on the current levy, assessment and equalization and also reflects any changes from the prior year.

The City Council has adopted an ordinance beginning in 1994, limiting the City's aggregate property tax levy to an amount equal to the prior year's aggregate property tax levy plus the lesser of (a) five percent or (b) the percentage increase in the annualized Consumer Price Index, all as defined in the ordinance. The ordinance provides a safe harbor for that portion of any property tax debt service levy equal to the aggregate interest and principal payments on the City's general obligation bonds and notes during the 12-month period ended January 1, 1994, subject to annual increase in the manner described above for the aggregate levy, all as provided by the ordinance. Increases in the debt service portion of each levy may, however, reduce amounts available within such levy to finance operations.

(5) Interfund Balances and Transfers

(a) The following balances at December 31, 2002, represent due from/to balances among all funds (dollars in thousands):

Fund Type/Fund	Due From	Due To
Governmental activities:		
General	$ 581,673	$ 598,087
Federal, State and Local Grants	162,223	85,670
Bond, Note Redemption and Interest	9,961	–
Community Development and Improvement Projects	31,594	60,034
Nonmajor governmental fund	93,234	172,928
Total Governmental	878,685	916,719
Business-type activities:		
Water	40,827	64,340
Sewer	31,149	18,460
Chicago Midway Airport	89	10,568
Chicago-O'Hare International Airport	–	25,391
Other Business-type	447	11,087
Total Business-type	72,512	129,846
Fiduciary activities:		
Pension Trust	37,032	–
Agency	657,041	598,705
Total Fiduciary	694,073	598,705
Total	$ 1,645,270	$ 1,645,270

The balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system and (3) payments between funds are made.

(b) The following balances at December 31, 2002, represent interfund transfers among all funds (dollars in thousands):

Fund Type/Fund	Transfer In	Transfer Out
Governmental activities:		
General	$ 107,547	$ –
Federal, State and Local Grants	4,699	24,247
Bond, Note Redemption and Interest	–	10,500
Community Development and Improvement Projects	1,785	23,428
Nonmajor governmental fund	24,851	53,045
Total Governmental	138,882	111,220
Business-type activities:		
Water	–	–
Sewer	–	–
Chicago Midway Airport	–	–
Chicago-O'Hare International Airport	–	4,698
Other Business-type	–	22,964
Total Business-type	–	27,662
Total	$ 138,882	$ 138,882

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and to move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due.

(6) Capital Assets

(a) **Capital Assets** activity for the year ended December 31, 2002 was as follows (dollars in thousands):

	Balance January 1, 2002	Additions	Disposals and Transfers	Balance December 31, 2002
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 1,166,906	$ 28,624	$ –	$ 1,195,530
Works of art and historical collections	7,640	739	–	8,379
Construction in Progress	268,047	492,590	(579,569)	181,068
Total capital assets, not being depreciated	1,442,593	521,953	(579,569)	1,384,977
Capital assets, being depreciated:				
Buildings and Other Improvements	1,123,304	70,029	–	1,193,333
Machinery and Equipment	671,056	73,942	(8,804)	736,194
Infrastructure	4,075,703	555,621	–	4,631,324
Total capital assets, being depreciated	5,870,063	699,592	(8,804)	6,560,851
Less accumulated depreciation for:				
Buildings and Other Improvements	290,070	30,985	–	321,055
Machinery and Equipment	359,076	74,449	(8,290)	425,235
Infrastructure	1,199,993	168,342	–	1,368,335
Total accumulated depreciation	1,849,139	273,776	(8,290)	2,114,625
Total capital assets, being depreciated, net	4,020,924	425,816	(514)	4,496,226
Total governmental activities	$ 5,463,517	$ 947,769	$ (580,083)	$ 5,831,203
Business-type activities:				
Capital assets, not being depreciated:				
Land	$ 183,309	$ 33,856	$ –	$ 217,165
Construction in Progress	676,267	462,316	(302,175)	836,408
Total capital assets, not being depreciated	859,576	496,172	(302,175)	1,053,573
Capital assets, being depreciated:				
Buildings and Other Improvements	6,862,174	348,683	41,002	7,251,859
Machinery and Equipment	329,371	26,990	46,251	402,612
Total capital assets, being depreciated	7,191,545	375,673	87,253	7,654,471
Less accumulated depreciation for:				
Buildings and Other Improvements	1,868,364	146,533	(884)	2,014,013
Machinery and Equipment	168,246	25,083	(396)	192,933
Total accumulated depreciation	2,036,610	171,616	(1,280)	2,206,946
Total capital assets, being depreciated, net	5,154,935	204,057	88,533	5,447,525
Total business-type activities	$ 6,014,511	$ 700,229	$ (213,642)	$ 6,501,098
Capital Assets at December 31, 2002	$ 11,478,028	$ 1,647,998	$ (793,725)	$ 12,332,301

(b) **Depreciation expense** was charged to functions / programs of the City as follows (dollars in thousands):

Governmental activities:		
General government	$	53,441
Public safety		22,598
Streets and sanitation		10,011
Transportation		167,435
Health		1,147
Cultural and recreational		19,144
Total depreciation expense - governmental activities	$	273,776
Business-type activities:		
Water	$	26,454
Sewer		16,257
Chicago-O'Hare International Airport		108,604
Midway Airport		14,849
Chicago Skyway		5,452
Total depreciation expense - business-type activities	$	171,616

(7) Lease Receivables

Most of the O'Hare land, buildings and terminal space is leased under operating lease agreements to airlines and other tenants. The following is a schedule of the minimum future rental income on noncancellable operating leases as of December 31, 2002 (dollars in thousands):

2003	$	53,910
2004		53,031
2005		52,531
2006		38,840
2007		33,811
2008 - 2012		122,990
2013 - 2017		91,298
2018 - 2022		51,515
Total Minimum Future Rental Income	$	497,926

Contingent rentals that may be received under certain leases based on the tenants' revenues or fuel flow are not included in minimum future rental income. Rental income for O'Hare, consisting of all rental and concession revenues except ramp rentals and automobile parking, amounted to $244.6 million, including contingent rentals of $43.3 million.

Most of the Midway land and terminal space is leased under operating lease agreements to airlines and other tenants. The following is a schedule of the minimum future rental income on noncancellable operating leases as of December 31, 2002 (dollars in thousands):

2003	$	17,433
2004		17,433
2005		16,711
2006		16,389
2007		16,056
2008 - 2012		78,347
Total Minimum Future Rental Income	$	162,369

Contingent rentals that may be received under certain leases based on tenants' revenues are not included in minimum future rental income. Rental income for Midway, consisting of all rental and concession revenues except ramp rentals and automobile parking, amounted to $43.5 million, including contingent rentals of $21.5 million.

(8) Short-term Debt

Commercial Paper Notes

City of Chicago Commercial Paper Notes 2002 Program, Series A (Tax-Exempt) and Series B (Taxable) ($200.0 million maximum aggregate authorized) were $37.6 million outstanding at December 31, 2002 having interest rates ranging from 1.45 percent to 1.75 percent with maturity dates ranging from January 15, 2003 to February 13, 2003. Note proceeds can be used for approved capital projects or cash flow needs of the City. The unconditional, irrevocable letter of credit securing the Commercial Paper Notes 2002 Program totals $218.0 million and expires in May 2007. The letter of credit was issued by a third party financial institution that is expected to be financially capable of honoring its agreements. The payment of principal and interest on the notes and reimbursement for draws on the letter of credit is based on a continuing appropriation from legally available funds of the City, however, that in no event shall the City be obligated to levy any special ad valorem or other tax in addition to other City taxes to pay such principal and interest. The City repaid the remaining balance of $12.6 million of Series A Notes in January 2003 and therefore those notes are recorded as a current liability in the financial statements. The Series B Notes ($25.0 million outstanding) are recorded in long-term debt as the City has the ability and intent to redeem the notes in later years.

Matured bonds represent principal due on coupon bonds in which the coupons have not been presented for payment.

	Balance January 1, 2002	Issued/ Draws	Redeemed/ Repayments	Balance December 31, 2002
Short-term Debt:				
Commercial Paper Notes 2002, Series A	$ –	$ 25,300	$ 12,735	$ 12,565
Matured Bonds	747	–	–	747
Total	$ 747	$ 25,300	$ 12,735	$ 13,312

(9) Long-term Obligations

(a) Long-term Debt activity for the year ended December 31, 2002 was as follows (dollars in thousands):

	Balance January 1, 2002	Additions	Reductions	Balance December 31, 2002	Amounts Due within One Year
Governmental activities:					
Bonds, notes and certificates payable:					
General obligation debt	$ 4,105,736	$ 769,915	$ 193,944	$ 4,681,707	$ 59,225
Installment purchase agreement	16,400	–	1,200	15,200	1,300
Tax increment	532,811	25,735	37,014	521,532	51,785
Revenue	449,520	116,595	106,225	459,890	5,670
	5,104,467	912,245	338,383	5,678,329	117,980
Less unamortized debt refunding transactions	–	14,830	255	14,575	–
Add unamortized premium	–	5,082	136	4,946	–
Add accretion of capital appreciation bonds	51,237	23,412	–	74,649	
Less converted portion of conversion bonds	64,115	–	6,783	57,332	–
Total bonds, notes and certificates payable	5,091,589	925,909	331,481	5,686,017	117,980
Other liabilities:					
Pension obligations	1,164,680	55,517	–	1,220,197	–
Claims and judgments	508,390	107,318	176,715	438,993	162,245
Total other liabilities	1,673,070	162,835	176,715	1,659,190	162,245
Total governmental activities	$ 6,764,659	$ 1,088,744	$ 508,196	$ 7,345,207	$ 280,225
Business-type activities:					
Revenue bonds and notes payable:					
Water	$ 1,024,653	$ –	$ 15,619	$ 1,009,034	$ 19,228
Sewer	694,423	–	10,750	683,673	14,285
Chicago-O'Hare International Airport	3,367,205	490,515	433,130	3,424,590	33,675
Midway Airport	1,134,640	22,000	5,455	1,151,185	5,750
Chicago Skyway	437,910	–	–	437,910	–
	6,658,831	512,515	464,954	6,706,392	72,938
Less unamortized debt refunding transactions	122,735	12,604	8,484	126,855	–
Less unamortized discount	68,707	11,376	13,390	66,693	–
Add long-term purchase obligations	27,705	8,467	623	35,549	737
Add accretion of capital appreciation bonds	23,020	–	9,039	13,981	–
Total business-type activities	$ 6,518,114	$ 497,002	$ 452,742	$ 6,562,374	$ 73,675
Long-term Obligations at December 31, 2002	$ 13,282,773	$ 1,585,746	$ 960,938	$ 13,907,581	$ 353,900

(b) Issuance of New Debt

General Obligation Notes

The General Obligation Tender Notes, Series 2002 ($131.6 million) were sold in January 2002 at an initial short-term intermediate rate of 1.75 percent through December 4, 2002. The notes mature no later than January 8, 2004. The Series 2002 notes were issued to meet cash flow requirements of the City's General, Library and City Relief Funds; the notes are payable from tax collections in the following year or from any other resources legally available to the City. Principal payments for the notes do not require the current appropriation and expenditure of Governmental Fund financial resources.

At the discretion of the City, the notes may bear interest at a weekly, short-term intermediate or fixed rate. Interest on notes in the short-term intermediate mode is payable on the first business day immediately following the short-term intermediate rate period. Interest on the notes in the weekly mode is payable on the first business day of each month. Interest on notes in the fixed mode is payable on each January 31 and July 31.

The City has appointed a remarketing agent for the notes in the weekly and short-term intermediate modes. The remarketing agent will use its best efforts to resell the notes at favorable rates following either an optional or mandatory tender. In the event the remarketing agent is unable to resell the notes, the City has obtained an unconditional, irrevocable letter of credit which may be drawn upon for the purchase of the notes until the remarketing agent is able to resell the Series 2002 notes.

The letter of credit securing the Series 2002 notes totals $133.7 million and terminates on the earliest of January 6, 2004 or upon redemption of the notes. Advances under the letter of credit (none at December 31, 2002) are due on the earliest of January 6, 2005 or one year after the redemption of the notes. Advances bear interest until the Termination date at the greater of the prime rate or the sum of the federal funds rate plus one-half percent per annum (Base Rate). Thereafter until due and payable, advances bear interest at the Base Rate plus two percent. Upon the occurrence of an event of default, the interest rate per annum shall equal the Base Rate plus three percent and interest shall be payable upon demand. The letter of credit was issued by a third-party financial institution that is expected to be financially capable of honoring its agreements.

General Obligation Bonds

General Obligation Bonds, Project and Refunding Series 2002A ($169.8 million) were sold at a premium in June 2002. The bonds have interest rates ranging from 4.0 percent to 5.625 percent and maturity dates from January 1, 2003 to January 1, 2042. General Obligation Variable Rate Demand Bonds Series 2002B ($185.4 million) were sold in June 2002 at an initial rate of 1.45 percent and maturity dates ranging from January 1, 2019 to January 1, 2037. Net proceeds of the Series 2002 Bonds will be used to finance infrastructure improvements; transportation improvements; grants to assist not-for-profit organizations or educational or cultural institutions; or to assist other municipal corporations or units of local government or school districts; acquisition of personal property; acquisition, demolition, remediation or improvement of real property for industrial, commercial or residential purposes or to enhance public safety and welfare; constructing, equipping, altering and repairing various municipal facilities including fire stations, libraries and senior and health centers; enhancing economic development within the City by making direct grants to and providing security for the obligations of not-for-profit or for-profit organizations doing business or seeking to do business with the City; the funding of litigation judgments or settlement agreements involving the City; and providing for facilities, services and equipment to protect and enhance public safety ($326.1 million); to advance refund certain maturities of the Refunding Series 1991 ($10.1 million); and to fund capitalized interest ($16.0 million). The City utilized $160.0 million for a settlement related to public safety contract labor costs. The advance refunding of the Refunding Series 1991 bonds decreased the City's total debt service payments by $.4 million and resulted in an economic gain (difference between the present values of the debt service on the old and new debt) of $.3 million.

At the discretion of the City, the Series 2002B bonds may bear interest at a daily, weekly, flexible, adjustable long or fixed rate. Interest on bonds in the daily or weekly mode is payable on the first business day of each month. Interest in the flexible mode is payable on each rate change date. Interest in the adjustable long or fixed mode is payable on January 1 and July 1.

The City has appointed a remarketing agent for the Series 2002B bonds in other than the fixed rate mode. The remarketing agent will use its best efforts to resell the bonds at favorable rates following either an optional or mandatory tender. In the event the remarketing agent is unable to resell the bonds, the City has obtained a reimbursement and standby bond purchase agreement which may be drawn upon for the purchase of the bonds until the remarketing agent is able to resell the Series 2002B bonds.

The reimbursement and standby bond purchase agreement securing the Series 2002B bonds totals $187.1 million and terminates on June 10, 2005. Bonds purchased by the provider shall bear interest from the purchase date through the 30th day at the greater of the Overnight Effective Federal Funds Rate plus 1.0 percent or the prime rate (Base Rate). Thereafter to and including the 90th day, interest on the bonds will be the Base Rate plus .5 percent. Thereafter and until due, interest on the bonds will be the Base Rate plus 1.0 percent. Upon the occurrence of an event of default, the interest rate shall equal the Base Rate plus 2.0 percent. The maximum rate of interest cannot exceed 20.0 percent. The reimbursement and standby bond purchase agreement was issued by a third-party financial institution that is expected to be financially capable of honoring its agreements.

General Obligation Bonds (Neighborhoods Alive 21 Program) Series 2002A ($51.5 million) were sold at a premium in October 2002. The bonds have interest rates ranging from 4.0 percent to 5.25 percent and maturity dates from January 1, 2004 to January 1, 2014. General Obligation Variable Rate Demand Bonds (Neighborhoods Alive 21 Program) Series 2002B ($206.7 million) were sold in October 2002 at an initial weekly rate of 1.55 percent and maturity dates ranging from January 1, 2015 to January 1, 2037. Net proceeds of $260.5 million will be used to finance certain public infrastructure and facility improvements for the City, capital equipment purchases, the acquisition and improvement of certain real property, and grants to not-for-profit organizations ($253.0 million) and capitalized interest ($7.5 million).

At the discretion of the City, the Series 2002B bonds may bear interest at a daily, weekly, flexible, adjustable long or fixed rate. Interest in the daily or weekly mode is payable on the first business day of each month. Interest in the flexible mode is payable on each rate change date. Interest in the adjustable long or fixed mode is payable on January 1 and July 1.

The City has appointed a remarketing agent for the Series 2002B bonds in other than the fixed rate mode. The remarketing agent will use its best efforts to resell the bonds at favorable rates following either an optional or mandatory tender. In the event the remarketing agent is unable to resell the bonds, the City has obtained a standby bond purchase agreement which may be drawn upon for the purchase of the bonds until the remarketing agent is able to resell the Series 2002B bonds.

The standby bond purchase agreement securing the Series 2002B bonds totals $209.0 million and terminates on October 3, 2007. Bonds purchased by the provider shall bear interest from the purchase date through the 90th day at the greater of the Overnight Effective Federal Funds Rate plus .5 percent or the prime rate (Base Rate). Thereafter to and including the 180th day, interest on the bonds will be the Base Rate plus 1.0 percent. Thereafter and until due, interest on the bonds will be the Base Rate plus 1.5 percent. Upon the occurrence of an event of default, the interest rate shall equal the Base Rate plus 2.5 percent. The maximum rate of interest cannot exceed 18.0 percent. The standby bond purchase agreement was issued by a third-party financial institution that is expected to be financially capable of honoring its agreements.

In October 2002, in connection with the issuance of General Obligation Variable Rate Demand Bonds (Neighborhoods Alive 21 Program) Series 2002B, the City entered into two interest rate swap agreements to obtain a fixed interest rate of 3.575 percent. The swap was approved by the City Council and is effective through January 1, 2037 with a total notional amount equal to the principal outstanding on the bonds.

In May 2002, in connection with the issuance of the Lakefront Millennium Project Parking Facilities Bonds (Limited Tax) Series 1998, the City entered into an interest rate swap agreement to obtain a variable rate of interest equal to the BMA Municipal Swap Index not to exceed 15 percent per annum. The swap was approved by the City Council and is effective through January 1, 2028 with a notional amount equal to the principal outstanding on the bonds.

Sales Tax Revenue Bonds

Sales Tax Revenue Refunding Bonds, Variable Rate Series 2002 ($116.6 million) were sold in June 2002. The bonds were sold at an initial weekly rate of 1.31 percent through July 2, 2002 thereafter the bonds will bear interest at the weekly rate. The bonds have maturity dates ranging from January 1, 2004 to January 1, 2034. Net proceeds of $115.2 million together with $4.2 million of debt service funds were used to advance refund certain maturities of Sales Tax Revenue Bonds Series 1997 and Series 1999. The advance refunding decreased the City's total debt service payments by $18.9 million and resulted in an economic gain (difference between the present values of the debt service on the old and new debt) of $6.1 million.

At the discretion of the City, the bonds may bear interest at a daily, weekly, flexible, adjustable long or fixed rate. Interest in the daily or weekly mode is payable on the first business day of each month. Interest in the flexible mode is payable on each rate change date. Interest in the adjustable long or fixed mode is payable on January 1 and July 1.

The City has appointed a remarketing agent for the bonds in other than the fixed rate mode. The remarketing agent will use its best efforts to resell the bonds at favorable rates following either an optional or mandatory tender. In the event the remarketing agent is unable to resell the bonds, the City has obtained an initial liquidity facility which may be drawn upon for the purchase of the bonds until the remarketing agent is able to resell the Series 2002 bonds.

The initial liquidity facility securing the Series 2002 bonds totals $118.3 million and terminates on January 2, 2009. Bonds purchased by the initial liquidity facility provider shall bear interest until the last day of the Bank Purchase Period at the greater of the Overnight Effective Federal Funds Rate plus .5 percent or the prime rate (Alternate Base Rate). Thereafter until due and payable, interest on the bonds will be the Alternate Base Rate plus 1.0 percent. Upon the occurrence of an event of default, the interest rate shall equal the Alternate Base Rate plus 2.0 percent. The maximum rate of interest cannot exceed 20.0 percent. The initial liquidity facility was issued by a third-party financial institution that is expected to be financially capable of honoring its agreements.

In connection with the issuance of the Sales Tax Revenue Refunding Bonds, Variable Rate Series 2002, the City entered into an interest rate swap agreement to obtain a fixed interest rate of 4.23 percent. The swap was approved by the City Council and is effective through January 1, 2034 with a notional amount equal to the principal outstanding on the bonds. Beginning on January 1, 2009, the counterparty can terminate the interest rate swap agreement on each day that the daily weighted average of the BMA Municipal Swap Index for any immediately preceding rolling consecutive 180 day period is more than 7.0 percent.

In addition, the City entered into three separate options on interest rate swap transactions in which the counterparty has the right, but not the obligation, to exercise these options if the daily weighted average of the BMA Municipal Swap Index for the 180 day period ending prior to the exercise date is more than 7.0 percent. If the options are exercised, the City would pay a variable rate based on the BMA Swap Index plus 30 basis points but will not exceed 20 percent. The initial notional amount of the options is $153.2 million and is based on the outstanding balances of certain maturities of the Series 1997, Series 1998 and Series 1999 Sales Tax Revenue Bonds. The City received a premium of $5.3 million for entering into the three options on interest rate swap transactions.

Tax Increment Allocation Bonds and Notes

As part of the City's Tax Increment Financing Neighborhood Improvement Program, the City entered into two Tax Increment Allocation Notes (South Chicago Redevelopment Project Area and Midwest Redevelopment Project Area) Taxable Series 2002 in January and March 2002, respectively. The South Chicago note is for $1.2 million and has an interest rate of 8.5 percent and maturity dates from June 1, 2002 to June 1, 2010. The Midwest note is for $4.9 million and has an interest rate of 8.0 percent and maturity dates of January 1, 2005 to January 1, 2012. The proceeds of the notes were used to fund the Neighborhood Improvement Program in the respective Project Areas. The Neighborhood Improvement Program provides grants to eligible property owners to make improvements to their property.

Tax Increment Allocation Bonds (Chatham Ridge Redevelopment Project) Series 2002 ($17.9 million) were sold in September 2002. The bonds have interest rates ranging from 3.3 percent to 6.05 percent and maturity dates from December 15, 2003 to December 15, 2013. Net proceeds of $17.3 million together with $.8 million of existing debt service reserve funds will be used to finance certain project costs in the Chatham Ridge Redevelopment Project ($13.5 million), fund the debt service reserve account ($1.8 million) and advance refund all of the Tax Increment Allocation Bonds (Chatham Ridge Redevelopment Project) Series 1987 ($2.8 million). The advance refunding decreased the City's total debt service payments by $.7 million and resulted in an economic gain (difference between the present values of the debt service on the old and new debt) of $.2 million.

As part of the City's Tax Increment Financing Neighborhood Improvement Program, the City entered into two Tax Increment Allocation Notes (Western Avenue North Redevelopment Project Area and Fullerton/Milwaukee Redevelopment Project Area) Taxable Series 2002 in December 2002. The Western Avenue North note is for $1.0 million and has an interest rate of 8.0 percent and maturity dates from January 1, 2004 to June 1, 2012. The Fullerton/Milwaukee note is for $.7 million and has an interest rate of 8.5 percent and maturity dates of January 1, 2004 to January 1, 2012. The proceeds of the notes were used to fund the Neighborhood Improvement Program in the respective Project Areas.

In 1997, in connection with the issuance of the Stockyards Industrial Tax Increment, Series 1996 A and the Stockyards Southeast Tax Increment, Series 1996 B, the City entered into an interest rate swap agreement to obtain a fixed interest rate of 5.375 percent. The swap was approved by the City Council and is effective through December 1, 2014 with a notional amount equal to the principal outstanding on the bonds.

In 1999, in connection with the issuance of the Near North Redevelopment Project, Series 1999 A and B, the City entered into an interest rate swap agreement to obtain a fixed interest rate of 5.084 percent for the Series A and 6.89 percent for the Series B which are taxable. The swaps were approved by the City Council and are effective through January 1, 2019 for the Series A and January 1, 2010 for the Series B with a notional amount equal to the principal outstanding on the bonds.

Enterprise Fund Revenue Bonds

Chicago Midway Airport Second Lien Revenue Bonds, Taxable Series 2002A ($22.0 million) were sold in February 2002. The bonds were sold at an initial weekly rate of 1.95 percent and have a maturity date of January 1, 2021. Net proceeds of $21.3 million will be used to finance authorized projects at the airport ($15.5 million), capitalized interest ($4.6 million) and fund the debt service reserve fund ($1.2 million).

At the discretion of the City, the bonds may bear interest at a weekly, flexible, adjustable long or fixed rate. Interest in the weekly mode is payable on the first business day of each month. Interest in the flexible mode is payable on each rate change date. Interest in the adjustable long or fixed mode is payable on January 1 and July 1.

The City has appointed a remarketing agent for the bonds in other than the fixed rate mode. The remarketing agent will use its best efforts to resell the bonds at favorable rates following either an optional or mandatory tender. In the event the remarketing agent is unable to resell the bonds, the City has obtained an initial liquidity facility which may be drawn upon for the purchase of the bonds until the remarketing agent is able to resell the Series 2002A bonds.

The initial liquidity facility securing the Series 2002A bonds totals $22.3 million and terminates on February 13, 2007. Bonds purchased by the initial liquidity facility provider shall bear interest until the last day of the Amortization End Date at the Base Rate plus 1.0 percent. The Base Rate is the greater of the Overnight Effective Federal Funds Rate plus .5 percent or the prime rate. Upon the occurrence of an event of default, the interest rate shall equal the Base Rate plus 3.0 percent. The maximum rate of interest cannot exceed 18.0 percent. The initial liquidity facility was issued by a third-party financial institution that is expected to be financially capable of honoring its agreements.

Chicago-O'Hare International Airport General Airport Third Lien Revenue Refunding Bonds, Series 2002A ($490.5 million) were sold in March 2002. The bonds have interest rates ranging from 5.25 percent to 5.75 percent and maturity dates ranging from January 1, 2016 to January 1, 2032. Net proceeds of $470.2 million together with $9.1 million in existing debt service funds were used to advance refund certain maturities of first and second lien bonds and for payment of outstanding commercial paper notes ($459.3 million) and to fund debt service reserve requirements ($20.0 million). The advance refunding increased the City's total debt service payments by $267.8 million and resulted in an economic gain (difference between the present values of the debt service on the old and new debt) of $11.8 million.

Option on Midway Airport Interest Rate Swap Agreement - During 1999, the City Council approved and Midway Airport entered into an Option on an Interest Rate Swap Agreement ("Option") in connection with $397.7 million (the "Notional Amount") of Chicago Midway Airport Series 1998 A, 1998 B and 1998 C Revenue Bonds. The buyer can exercise the Option if the daily weighted average of the Municipal Swap Index for the 180 days on the day prior to the exercise date is greater than 7.5 percent. Once the Option is exercised, the Airport will owe interest calculated on a floating rate equal to the Municipal Swap Index plus 25 basis points to the buyer of the swap. In return, the buyer will owe the Airport interest calculated on a fixed rate of 5.1 percent. The Notional Amount is not exchanged: it is only the basis on which interest payments are calculated. The Airport's floating rate is capped at 15.0 percent. The Airport continues to pay interest to the bondholders at the fixed rate provided by the bonds. However, during the term of the swap agreement, the Airport will effectively pay a variable rate on the bonds. The debt service requirements to maturity for these bonds (presented in this note) are based on the fixed rate. The Airport will be exposed to paying fixed rates if the buyer to the swap defaults or if the swap is terminated. A termination of the swap agreement may result in the Airport making or receiving a termination payment. The Option was not exercised during 2002.

(c) Debt Covenants

Water Fund - The ordinances authorizing the issuance of outstanding Water Revenue Bonds provide for the creation of separate accounts into which net revenues, as defined, or proceeds are to be credited, as appropriate. The ordinances require that net revenues available for bonds, as adjusted, equal 120 percent of the current annual debt service on the outstanding senior lien bonds and that City management maintain all covenant reserve account balances at specified amounts. The above requirements were met at December 31, 2002. The Water Rate Stabilization account had a balance in restricted assets of $62.3 million at December 31, 2002.

The ordinances authorizing the issuance of outstanding Second Lien Water Revenue Bonds provide for the creation of separate accounts into which moneys will be deposited, as appropriate. The ordinances require that net revenues are equal to the sum of the aggregate annual debt service requirements for the fiscal year of the outstanding senior lien bonds and 110 percent of the aggregate annual debt service requirements of the outstanding second lien bonds. This requirement was met at December 31, 2002.

Sewer Fund - The ordinances authorizing the issuance of outstanding Wastewater Transmission Revenue Bonds provide for the creation of separate accounts into which net revenues, as defined, or proceeds are to be credited, as appropriate. The ordinances require that net revenues available for bonds equal 115 percent of the current annual debt service requirements on the outstanding senior lien bonds. This requirement was met at December 31, 2002. The Sewer Rate Stabilization account had a balance in restricted assets of $9.2 million at December 31, 2002.

The ordinances authorizing the issuance of outstanding Second Lien Wastewater Transmission Revenue Bonds provide for the creation of separate accounts into which moneys will be deposited, as appropriate. The ordinances require that net revenues equal 100 percent of the sum of the current maximum annual debt service requirements of the outstanding senior lien bonds and the maximum annual debt service requirements of the second lien bonds. This requirement was met at December 31, 2002.

Chicago-O'Hare International Airport (O'Hare) Fund - In 1983, the City Council adopted the General Airport Revenue Bond ordinance authorizing the issuance and sale of Chicago-O'Hare International Airport General Airport Revenue Bonds in unlimited series for the purpose of financing the cost of improvements and expansion of O'Hare and to redeem its existing outstanding bond obligations. The ordinance further permits the issuance of second lien notes, bonds and other obligations which are payable from, and secured by, a pledge of amounts deposited in the junior lien obligation debt service account created under the ordinance. The ordinance requires that net revenues in each year equal not less than the sum of (i) the amount required to be deposited for such year in the debt service reserve fund, the maintenance reserve fund, the special capital projects fund and the junior lien debt service fund, and (ii) 110 percent of the aggregate first lien and second lien debt service for the bond year commencing during such fiscal year reduced by an amount equal to the sum of any amount held in any capitalized interest account for disbursement during such fiscal year to pay interest on bonds. This requirement was met at December 31, 2002. The ordinance provides for the creation of separate accounts which are to be credited with revenues in a specified priority. At the end of each year, any excess funds over amounts required in accounts other than Special Capital Projects, Emergency Reserve and Airport Development accounts are reallocated with the following year's revenues.

The master indenture securing the International Terminal Special Revenue Bonds requires that special revenues, as defined, together with any cash and investment balance held in the special revenue fund on the first day of the calendar year not then required to be deposited in any other fund and certain investment earnings shall equal an amount not less than the greater of (i) various fund deposit requirements and (ii) 125 percent of the annual debt service reduced by an amount equal to the aggregate amount held in all capitalized interest accounts for disbursements during the bond year to pay interest. This requirement was met at December 31, 2002.

The master indenture securing the Passenger Facility Charge (PFC) Revenue Bonds requires PFC revenues, as defined, to be deposited into the PFC Revenue Fund. The PFC Revenue Fund is required to transfer amounts no later than the twentieth day of each month to various funds, as defined, as appropriate to meet debt service and debt service reserve requirements.

Midway Airport (Midway) Fund - The master indenture securing the issuance of Chicago Midway Airport Revenue Bonds requires that the City set rates and charges for the use and operation of Midway so that revenues, together with any other available monies and the cash balance held in the Revenue Fund on the first day of such year not required to be deposited in any Fund or Account, will be at least sufficient (a) to provide for the operation and maintenance expenses for the year and (b) to provide for the greater of (i) the amounts needed to be deposited into the First and Junior Lien Debt Service Fund, the O & M Reserve Account, the Working Capital Account, the First Lien Debt Service Reserve Fund, the Repair and Replacement Fund, and the Special Project Fund and (ii) an amount not less than 125 percent of the Aggregate First Lien Debt Service for such fiscal year reduced by an amount equal to the sum of any amount held in any capitalized interest account for disbursement during such fiscal year to pay interest on First Lien Bonds. These requirements were met at December 31, 2002.

Chicago Skyway Fund - The ordinances authorizing the issuance of Skyway Toll Bridge Revenue Bonds provide for the creation of separate accounts into which net revenues, as defined, or proceeds are to be credited, as appropriate. Net revenues after debt service will be used to fund the Capital Improvement Program. The related indenture requires the City to set tolls so that net revenues are not less than the greater of 120 percent of the annual debt service requirement or 100 percent of various fund deposit requirements. This requirement was met at December 31, 2002.

The ordinance authorizing the issuance of Special Transportation Revenue Bonds provides for the creation of separate accounts into which net revenues are deposited, after all accounts are properly credited relating to the Skyway Toll Bridge Revenue Bonds, for debt service on the Special Transportation Revenue Bonds. This requirement was met at December 31, 2002.

(d) **No-Commitment Debt and Public Interest Loans** include various special assessment, private activity bonds and loans. These types of financings are used to provide private entities with low-cost capital financing for construction and rehabilitation of facilities deemed to be in the public interest. Bonds payable on no-commitment debt are not included in the accompanying financial statements because the City has no obligation to provide for their repayment which is the responsibility of the borrowing entities. In addition, federal programs/grants, including Community Development Block Grants, Urban Development Action Grants and Community Service Block Grants, provide original funding for public interest loans. Loans receivable are not included as assets because payments received on loans are used to fund new loans or other program activities in the current year and are not available for general City operating purposes. Loans are recorded as current and prior year program/grants expenditures. Funding for future loans will be from a combination of the repayment of existing loans and additional funds committed from future program/grant expenditures.

(e) **Defeased Bonds** have been removed from the Statement of Net Assets because related assets have been placed in irrevocable trusts that, together with interest earned thereon, will provide amounts sufficient for payment of all principal and interest. Defeased bonds at December 31, 2002, not including principal payments due January 1, 2003, are as follows (dollars in thousands):

	Amount Defeased	Outstanding
General Obligation Project Bonds Series 1993	$ 23,985	$ 20,055
Emergency Telephone System Series 1993	213,730	194,175
General Obligation Project Bonds Series 1995	152,657	143,122
General Obligation Project Bonds Series 1995 B	79,070	63,245
General Obligation Library Bonds Series 1997	9,615	9,155
General Obligation Bonds Series 2000 A	123,805	118,900
Neighborhoods Alive 21 Program Series 2000 A	62,495	62,495
Sales Tax Revenue Bonds Series 1999	104,125	102,015
Central Station Project Tax Increment - Series 1991 A	4,205	2,745
Near South Redevelopment Project Tax Increment - Series 1994 A	23,000	21,975
Central Loop Redevelopment Project Tax Increment - Series 1997 A	96,000	96,000
Water Revenue Bonds - Series 1989	75,730	3,950
Water Revenue Senior Lien Bonds - Series 2000	80,000	80,000
Wastewater Transmission Revenue Bonds - Series 1994	55,820	55,820
Wastewater Transmission Revenue Bonds - Series 2000	68,420	66,835
Chicago-Midway Airport - Series 1994 A	54,510	52,420
Skyway Toll Bridge Refunding Revenue Bonds Series 1994	106,575	106,575
Total	$ 1,333,742	$ 1,199,482

(f) **Annual requirements** listed below for each year include amounts payable January 1 of the following year. Bonds maturing and interest payable January 1, 2003 have been excluded because funds for their payment have been provided for. Annual requirements to amortize debt outstanding as of December 31, 2002, are as follows (dollars in thousands):

Year Ending December 31,	General Obligation Principal	General Obligation Interest	Installment Purchase Principal	Installment Purchase Interest	Tax Increment Principal	Tax Increment Interest
2003	$ 109,005	$ 199,405	$ 1,400	$ 1,151	$ 52,493	$ 25,803
2004	228,544	195,846	1,400	1,046	51,290	23,192
2005	102,613	191,313	1,500	934	60,288	22,992
2006	103,830	187,759	1,700	814	52,102	25,358
2007	132,691	183,828	1,700	682	53,040	24,914
2008 - 2012	724,269	868,309	7,500	1,205	162,552	54,696
2013 - 2017	778,690	762,565	–	–	66,997	20,296
2018 - 2022	723,201	604,958	–	–	20,885	926
2023 - 2027	637,137	482,575	–	–	–	–
2028 - 2032	447,366	353.731	–	–	–	–
2033 - 2037	415,236	256,685	–	–	–	–
2038 - 2041	220,351	52,882	–	–	–	–
	$ 4,622,933	$ 4,339,856	$ 15,200	$ 5,832	$ 519,647	$ 198,177

Year Ending December 31,	Revenue Principal	Revenue Interest	Business-type Activities Principal	Business-type Activities Interest
2003	$ 10,530	$ 22,759	$ 87,523	$ 329,402
2004	11,230	22,232	150,453	325,225
2005	11,800	21,663	181,924	322,045
2006	12,405	21,067	204,243	313,447
2007	13,030	20,435	228,511	300,671
2008 - 2012	76,350	90,999	1,268,536	1,324,946
2013 - 2017	84,165	68,887	1,490,432	1,005,991
2018 - 2022	83,395	48,308	864,410	713,251
2023 - 2027	98,750	25,394	1,067,054	483,597
2028 - 2032	42,805	7,657	916,970	142,389
2033 - 2037	9,760	413	118,115	9,590
2038 - 2041	–	–	–	–
	$ 454,220	$ 349,814	$ 6,578,171	$ 5,270,554

For the requirements calculated above, interest on variable rate debt was calculated at the rate in effect or the effective rate of a related swap agreement, if applicable, as of December 31, 2002.

(10) Pension Plans

Eligible City employees participate in one of four single-employer defined benefit pension plans (Plans). These Plans are: the Municipal Employees'; the Laborers' and Retirement Board Employees'; the Policemen's; and the Firemen's Annuity and Benefit Funds of Chicago. Plans are administered by individual retirement boards represented by elected and appointed officials. Certain employees of the Chicago Board of Education participate in the Municipal Employees' or the Laborers' and Retirement Board Employees' Annuity and Benefit Funds for which the City levies taxes to make the required employer contributions. Each Plan issues a publicly available financial report which includes financial statements and required supplementary information.

The financial statements of the Plans are prepared using the accrual basis of accounting. Employer and employee contributions are recognized in the period in which employee services are performed. Benefits and refunds are recognized when payable.

Plan investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Fixed income securities are valued principally using quoted market prices provided by independent pricing services. For collective investments, the net asset value is determined and certified by the investment managers as of the reporting date. Real estate investments are valued by appraisals or carried at cost, which approximates fair value. Investments that do not have an established market are reported at estimated fair value.

The Plans have a securities lending program. At year-end, the Plans have no credit risk exposure to borrowers because the amounts the Plans owe the borrowers exceed the amounts the borrowers owe the Plans. The contract with the Plans' master custodian requires it to indemnify the Plans if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the fund for income distributions by the securities' issuers while the securities are on loan. All securities loans can be terminated on demand by either the Plans or the borrower, although the average term of the loans has not exceeded 108 days. The Funds' custodian lends securities for collateral in the form of cash, irrevocable letters of credit and/or U.S. government obligations equal to at least 102 percent of the fair value of securities or international securities for collateral of 105 percent. Cash collateral is invested in the lending agents short-term investment pool, which at year-end has a weighted average maturity which did not exceed 43 days. The Plans cannot pledge to sell collateral securities received unless the borrower defaults. Loans outstanding as of December 31, 2002 are as follows: market value of securities loaned $1,158.0 million, market value of cash collateral from borrowers $1,021.9 million and market value of non-cash collateral from borrowers $162.5 million.

The funds provide retirement, as well as, disability and death benefits as established by State law. Benefits generally vest after 20 years of credited service. Employees who retire at or after age 55 (50 for policemen and firemen) with 20 years of credited service qualify to receive a money purchase annuity and those with more than 20 years of credited service qualify to receive a minimum formula annuity. The annuity is computed by multiplying the final average salary by a percentage ranging from 2.0 percent to 2.4 percent per year of credited service. The final average salary is the employee's highest average annual salary for any four consecutive years within the last 10 years of credited service.

State law requires City contributions at statutorily, not actuarially determined rates. State law also requires covered employees to contribute a percentage of their salaries. The City's annual pension cost for the current year and related information for each plan is as follows (dollars in thousands):

	Municipal Employees'	Laborers'	Policemen's	Firemen's	Total
Contribution rates					
City	8.0%	8.0%	12.75%	10.5%	
Plan members	8.5	8.5	9.0	9.1	
Annual required contribution	$ 92,712	$ –	$ 130,237	$ 105,106	$ 328,055
Interest on net pension obligation	(25,582)	(20,425)	50,163	43,012	47,168
Adjustment to annual required contribution	24,830	4,948	(29,812)	(41,747)	(41,781)
Annual pension cost	91,960	(15,477)	150,588	106,371	333,442
Contributions made	130,966	83	141,989	59,453	332,491
Increase (decrease) in net pension obligation	(39,006)	(15,560)	8,599	46,918	951
Net pension obligation (excess), beginning of year	(319,770)	(255,311)	627,036	537,644	589,599
Net pension obligation (excess), end of year	$ (358,776)	$ (270,871)	$ 635,635	$ 584,562	$ 590,550

	Municipal Employees'	Laborers'	Policemen's	Firemen's
Actuarial valuation date	12/31/02	12/31/02	12/31/02	12/31/02
Actuarial cost method	Entry age normal	Entry age normal	Entry age normal	Entry age normal
Amortization method	Level dollar, open	Level dollar, open	Level percent, open	Level dollar, open
Remaining amortization period	40 years	40 years	40 years	40 years
Asset valuation method	5-yr. Smoothed market	5-yr. Smoothed market	5-yr. Smoothed market	5-yr. Smoothed market
Actuarial assumptions:				
Investment rate of return (a)	8.0%	8.0%	8.0%	8.0%
Projected salary increases (a)				
Inflation	3.0	3.0	3.0	3.0
Seniority/Merit	2.0	2.0	Plus additional % based on service (c)	2.0
Post retirement benefit increases (b)	3.0	3.0	(d)	(e)

(a) Compounded Annually
(b) Per Year for Annuitants Age 60 or Over (Not compounded)
(c) Up to 2.0 percent based on service
(d) Uses 3.0 percent per year for annuitants age 55 or over, born before 1950 with at least 20 years of service and 1.5 percent per year for 20 years for annuitants age 60 or over, born in 1950 or later.
(e) Uses 3.0 percent per year for annuitants age 55 or over, born before 1945 with at least 20 years of service and 1.5 percent per year for 20 years for annuitants age 60 or over, born in 1945 or later.

The following tables of information assist users in assessing each fund's progress in accumulating sufficient assets to pay benefits when due. The three-year historical information for each annuity and benefit fund is as follows (dollars in thousands):

Year	Annual Pension Cost	% of Annual Pension Cost Contributed	Net Pension Obligation
Municipal Employees':			
2000	$ 93,969	149.17%	$ (271,218)
2001	82,888	158.57	(319,770)
2002	91,960	142.42	(358,776)
Laborers':			
2000	(15,383)	N/A	(237,627)
2001	(17,024)	N/A	(255,311)
2002	15,477	N/A	(270,871)
Policemen's:			
2000	145,174	96.08	623,280
2001	143,432	97.38	627,036
2002	150,588	94.29	635,635
Firemen's:			
2000	91,629	71.95	492,871
2001	105,173	57.43	537,644
2002	106,371	55.89	584,562

SCHEDULE OF FUNDING PROGRESS
(dollars in thousands)

	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded (Surplus) AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded (Surplus) AAL as a Percentage of Covered Payroll ((b-a)/c)
Municipal Employees':							
2000	12/31/00	$ 6,297,976	$ 6,665,180	$ 367,203	95%	$ 1,243,439	30%
2001	12/31/01	6,466,798	6,934,176	467,379	93	1,375,049	34
2002	12/31/02	6,403,982	7,577,100	1,173,118	85	1,377,909	85
Laborers':							
2000	12/31/00	1,737,971	1,297,914	(440,057)	134	185,051	(238)
2001	12/31/01	1,756,080	1,402,139	(353,942)	125	211,203	(168)
2002	12/31/02	1,715,073	1,540,605	(174,469)	111	207,404	(84)
Policemen's:							
2000	12/31/00	4,019,468	5,652,031	1,632,563	71	759,343	215
2001	12/31/01	4,183,796	5,932,511	1,748,715	71	763,352	229
2002	12/31/02	4,124,580	6,384,846	2,260,266	65	866,532	261
Firemen's:							
2000	12/31/00	1,219,486	2,053,340	833,854	59	275,107	303
2001	12/31/01	1,245,130	2,068,718	823,588	60	277,965	296
2002	12/31/02	1,209,768	2,088,706	878,938	58	277,053	317

Under State law certain health benefits are available to employees who retire from the City based upon their participation in the City's pension plans. Substantially all employees who qualify as Municipal or Laborer pension plan participants older than age 55 with at least 20 years of service and Police and Fire Pension plan participants older than age 50 with at least 10 years of service may become eligible for postemployment benefits if they eventually become an annuitant. Health benefits include basic benefits for annuitants and supplemental benefits for medicare eligible annuitants.

The cost of health benefits is recognized as an expenditure in the accompanying financial statements as claims are reported and are funded on a pay-as-you-go basis. In 2002, the net expense to the City for providing these benefits to approximately 22,025 annuitants plus their dependents, was approximately $79.2 million.

(11) Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; certain benefits for and injuries to employees and natural disasters. The City provides workers' compensation benefits and employee health benefits under self-insurance programs except for insurance policies maintained for certain Enterprise Fund activities. The City uses various risk management techniques to finance these risks by retaining, transferring and controlling risks depending on the risk exposure.

Risks for O'Hare, Midway, Skyway and certain other major properties, along with various special events, losses from certain criminal acts committed by employees and public official bonds are transferred to commercial insurers. Claims have not exceeded the purchased insurance coverage in the past three years, accordingly, no liability is reported for these claims. All other risks are retained by the City and are self-insured. The City pays claim settlements and judgments from the self-insured programs. Uninsured claim expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. The General Fund is used to record all non-Enterprise Fund claims. The estimated portion of non-Enterprise Fund claims not yet settled has been recorded in the Governmental Activities in the Statement of Net Assets as claims payable along with amounts related to deferred compensatory time and estimated liabilities for questioned costs. As of December 31, 2002 the total amount of non-Enterprise Fund claims was $337.7 million. This liability is the City's best estimate based on available information. Changes in the reported liability for all funds is as follows (dollars in thousands):

		2002
Balance, January 1	$	438,144
Claims incurred on current and prior year events		364,812
Claims paid on current and prior year events		(428,018)
Balance, December 31	$	374,938

(12) Commitments and Contingencies

The City is a defendant in various pending and threatened individual and class action litigation relating principally to claims arising from contracts, personal injury, property damage, police conduct, discrimination, civil rights actions and other matters. City management believes that the ultimate resolution of these matters will not have a material adverse effect on the financial position of the City.

The City participates in a number of federal-and state-assisted grant programs. These grants are subject to audits by or on behalf of the grantors to assure compliance with grant provisions. Based upon past experience and management's judgment, the City has made provisions in the General Fund for questioned costs and other amounts estimated to be disallowed. City management expects such provision to be adequate to cover actual amounts disallowed, if any.

In 2003, the Chicago Fire Fighters Union approved a labor agreement with the City. After approval of the City Council, a payment for retroactive wages from the expiration of the previous contract (July 1, 1999) of approximately $135.5 million will be made within sixty days.

As of December 31, 2002 the Enterprise Funds have entered into contracts for approximately $503.7 million for construction projects.

In case the Water Fund does not meet its debt service obligation for its portion of the General Obligation Equipment Notes, Series 1998, any moneys, revenues, receipts, income, assets or funds of the City legally available for such purpose, including but not limited to the proceeds of the direct annual tax levied by the City upon all taxable property of the City may be used to fulfill the obligation.

(13) Subsequent Events

In January 2003, the City sold General Obligation Tender Notes, Series 2003 ($135.4 million). The notes were issued at a short-term intermediate rate of 1.22 percent through January 7, 2004 and will mature no later than January 7, 2005. Proceeds will be used to meet the cash flow requirements of the City's General, Library and City Relief Funds. After the expiration of the initial interest rate period, the notes will bear interest at a weekly, short-term intermediate or fixed rate at the discretion of the City.

In April 2003, The City sold at a premium General Obligation Bonds, Project and Refunding Series 2003A ($158.0 million) with interest rates ranging from 4.625 percent to 5.25 percent and maturity dates ranging from January 1, 2010 to January 1, 2042. Net proceeds of $158.5 million will be used to finance infrastructure improvements; transportation improvements; grants to assist not-for-profit organizations or educational or cultural institutions; or to assist other municipal corporations or units of local government or school districts; acquisition of personal property; acquisition, demolition, remediation or improvement of real property for industrial, commercial or residential purposes or to enhance public safety and welfare; constructing, equipping, altering and repairing various municipal facilities including fire stations, libraries, and senior and health centers; enhancing economic development within the City by making direct grants to and providing security for the obligations of not-for-profit or for-profit organizations doing business or seeking to do business with the City; the funding of litigation judgments or settlement agreements involving the City; contributions to the City's Policemen's, Firemen's and Municipal Annuity and Benefit Funds; and providing for facilities, services, and equipment to protect and enhance public safety ($101.9 million); to advance refund certain maturities of the Project Series 1993 and Project and Refunding Series 1999A ($56.6 million).

In April 2003, The City sold at a premium Motor Fuel Tax Revenue Bonds, Series 2003A ($115.6 million) with interest rates ranging from 2.25 percent to 5.25 percent and maturity dates ranging from January 1, 2004 to January 1, 2033. Net proceeds of $116.4 million will be used to finance projects authorized by Division 2 of Article 7 of the Illinois Highway Code ($100.0 million) and to advance refund all outstanding maturities of the Motor Fuel Tax Revenue Bonds Series 1990 and certain maturities of the Motor Fuel Tax Revenue Bond, Refunding Series 1993 ($16.4 million).

APPENDIX D

Table of Accreted Amounts

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CITY OF CHICAGO
General Obligation Bonds
(Central Loop Redevelopment Project), Series 2003
(Capital Appreciation Bonds)

TABLE OF ACCRETED AMOUNTS

The Accreted Amounts as of each June 1 and December 1 (which includes the principal amount and accrued interest thereon) per each $5,000 of Accreted Amount at maturity for the Series 2003 Bonds are set forth in the following table.

	Series 2003A Bonds Maturing December 1,	Series 2003B Bonds Maturing December 1,			
	2008	2005	2006	2007	2008
9/17/2003	$4,231.85	$4,754.05	$4,540.50	$4,312.20	$4,053.95
12/01/2003	4,259.82	4,776.45	4,568.65	4,343.50	4,087.67
6/01/2004	4,328.61	4,831.38	4,637.87	4,420.60	4,170.85
12/01/2004	4,398.52	4,886.95	4,708.13	4,499.07	4,255.73
6/01/2005	4,469.56	4,943.15	4,779.46	4,578.93	4,342.34
12/01/2005	4,541.74	5,000.00	4,851.87	4,660.21	4,430.71
6/01/2006	4,615.09	--	4,925.38	4,742.93	4,520.88
12/01/2006	4,689.63	--	5,000.00	4,827.11	4,612.88
6/01/2007	4,765.37	--	--	4,912.80	4,706.76
12/01/2007	4,842.33	--	--	5,000.00	4,802.54
6/01/2008	4,920.53	--	--	--	4,900.28
12/01/2008	5,000.00	--	--	--	5,000.00

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APPENDIX E

Summary of the Indenture

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THE INDENTURE

The following is a summary of certain provisions of the Trust Indenture and the First Supplemental Indenture. Certain other provisions of the First Supplemental Indenture and the Trust Indenture are described elsewhere in this Official Statement. See "DESCRIPTION OF THE SERIES 2003 BONDS" and "SECURITY FOR THE SERIES 2003 BONDS." Neither the following summary nor the descriptions contained elsewhere in this Official Statement are intended to be comprehensive or definitive and are qualified in their entirety by reference to the relevant documents, copies of which are available for review prior to the issuance and delivery of the Series 2003 Bonds at the office of the City Comptroller, 33 North LaSalle Street, Sixth Floor Chicago, Illinois 60602, and thereafter at the office of the Trustee.

Definitions

The following terms used in this Official Statement and not otherwise defined will have the following meanings:

"**Ad Valorem Taxes**" means the ad valorem taxes levied by the Ordinance to pay the Accreted Amounts of the Series 2003 Bonds.

"**Accreted Amount**" means, with respect to the Series 2003 Bonds, the amount representing their initial public offering price, plus the amount of interest that has accreted on such Bonds, compounded periodically, to the date of calculation, determined by reference to accretion tables contained in each such Series 2003 Bond. The Accreted Amounts for the Series 2003 Bonds as of any date not stated in such tables shall be calculated by adding to the Accreted Amount for the Series 2003 Bonds as of the date stated in such tables immediately preceding the date of computation a portion of the difference between the Accreted Amount for such preceding date and the Accreted Amount for such Bonds as of the date shown on such tables immediately succeeding the date of calculation, apportioned on the assumption that interest accretes during any period in equal daily amounts on the basis of a 360-day year consisting of twelve 30-day months.

"**Act**" means the Tax Increment Allocation Redevelopment Act of the State of Illinois, Division 74.4 of Article 11 of the Illinois Municipal Code, 65 ILCS 5/11-74.4-1, et seq., as amended and supplemented from time to time.

"**Authorized Denomination**" means $5,000 Accreted Amount at maturity or any integral multiple of that amount.

"**Authorized Officer**" means the Mayor, the City Comptroller or, if so designated and determined by the City Comptroller, the Chief Financial Officer of the City appointed by the Mayor, or any other officer or employee of the City authorized to perform specific acts or duties under the Indenture by ordinance or resolution duly adopted by the City Council.

"**Average Annual Debt Service Requirement**" means, as of any date of calculation, the mathematical mean of the Annual Debt Service Requirements for all Outstanding Bonds.

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

"**Bond Insurer**" means XL Capital Assurance Inc., a New York insurance company and the issuer of the Policy.

"**Bond Year**" means with respect to the Series 2003 Bonds the initial period beginning on the Date of Issuance and ending on December 1, 2003, and thereafter each 12-month period commencing on December 2 of each calendar year and ending on December 1 of the next succeeding calendar year.

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

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

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

"**Central Loop Redevelopment Plan**" has the meaning assigned to such term in the Ordinance.

"**Central Loop Redevelopment Project Area**" has the meaning assigned to such term in the Central Loop Redevelopment Plan.

"**Certified Initial Equalized Assessed Value**" means with respect to the Central Loop Redevelopment Project Area, the Certified Initial Equalized Assessed Value, as certified by the Clerk of the County of Cook, Illinois in accordance with Section 11-74.4-9 of the Act.

"**City Council**" means the governing body of the City as from time to time constituted.

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

"**Counsel's Opinion**" means an opinion signed by an attorney or firm of attorneys of recognized standing in the area of law to which the opinion relates, who may be counsel to the City (including the Corporation Counsel of the City).

"**Credit Bank**" means, as to any particular Series of Bonds, the Person (other than a Bond Insurer) providing a Credit Facility, as may be provided in the Supplemental Indenture authorizing such Series.

"**Credit Facility**" means, as to any particular Series of Bonds, a letter of credit, a line of credit, a guaranty, a standby bond purchase agreement or other credit or liquidity enhancement facility, other than a Bond Insurance Policy, as may be provided in the Supplemental Indenture authorizing such Series.

"**Current Interest Bond**" means any Bond the interest on which is payable on the Interest Payment Dates provided for it in the Supplemental Indenture authorizing such Bond. The term "Current Interest Bond" also includes any Capital Appreciation and Income Bond from and after the Interest Commencement Date specified for it.

"**Date of Issuance**" means the date of original issuance and delivery of a Series of Bonds under the applicable Supplemental Indenture.

"**Debt Reserve Credit Instrument**" means, as to any particular Series of Bonds, an insurance policy or surety bond that guarantees or assures the timely payment of principal or interest, or both, on Outstanding Bonds in a stated amount subject only to notification that there are insufficient funds for such purpose. This definition shall also include any related covenants or agreements contained in any agreement with the Bond Insurer or surety required by the Bond Insurer or surety in order to obtain the policy or bond.

"**Debt Service Reserve Requirement**" means, with respect to the Bonds of any Series Outstanding at any time, that amount, if any, as shall be required to be maintained in the applicable Sub-Account of the Third Lien Reserve and Redemption Account established by the terms of the Supplemental Indenture authorizing such Series of Bonds.

"**Defeasance Obligations**" means (i) cash (insured at all times by the Federal Deposit Insurance Corporation or otherwise collateralized with obligations described in paragraph (ii) of this definition, or (ii) direct obligations (including obligations issued in book-entry form on the books of the Department of the Treasury) of the United States of America.

"**Depositary**" means any bank, national banking association or trust company having capital stock, surplus and retained earnings aggregating at least $1,000,000, selected by an Authorized Officer as a depositary of moneys and securities held under the provisions of the Indenture, and may include the Trustee.

"**Escrow Agent**" means with respect to any Bonds refunded after the date of execution and delivery of the Indenture, any trust company, bank or national banking association duly appointed to act in that capacity.

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

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

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

"General Account" means the General Account under the Senior Lien Indenture.

"**General Obligation Bonds**" means bonds or other obligations issued by the City under the Act and the Indenture to the payment of which the City has pledged its full faith and credit and/or ad valorem taxes levied on any or all taxable property within the City as provided in Section 11-74.4-7 of the Act.

"**Government Obligations**" means (i) any direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America and (ii) certificates of ownership of the principal of or interest on obligations of the type described in clause (i) of this definition, (a) which obligations are held in trust by a commercial bank which is a member of the Federal Reserve System in the capacity of a custodian; (b) the owner of which certificate is the real party in interest and has the right to proceed directly and individually against the obligor of the underlying obligations; and (c) for which the underlying obligations are held in safekeeping in a special account, segregated from the custodian's general assets, and are not available to satisfy any claim of the custodian, any Person claiming through the custodian, or any Person to whom the custodian may be obligated.

"**Incremental Taxes**" means the ad valorem taxes, if any, arising from the tax levies upon taxable real property in the Central Loop Redevelopment Project Area by any and all taxing districts or municipal corporations having the power to tax real property in the Central Loop Redevelopment Project Area, which taxes are attributable to the increase in the then current equalized assessed valuation of each taxable lot, block, tract or parcel of real property in the Central Loop Redevelopment Project Area over and above the Certified Initial Equalized Assessed Value of each such piece of property, as determined by the Clerk of The County of Cook, Illinois.

"**Incremental Taxes Fund**" means the Central Loop Redevelopment Project Area Special Tax Allocation Fund of the City, a special tax allocation fund for the Central Loop Redevelopment Project Area established by the City pursuant to Section 11-74.4-8 of the Act and continued under the Senior Lien Indenture.

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

"**Interest Payment Date**" means June 1 and December 1 of each year, commencing December 1, 2003.

"Interest Requirement" for any Bond Year or any Interest Period, as the context may require, as applied to Bonds of any Series then Outstanding, means the total of the sums that would be deemed to accrue on such Bonds during such Bond Year or Interest Period if the interest on the Current Interest Bonds of such Series were deemed to accrue daily during such year or Interest Period in equal amounts; provided, that interest expense shall be excluded from the determination of Interest Requirement to the extent that such interest is to be paid (a) from the proceeds of Bonds allocable to the payment of such interest as provided in the Supplemental Indenture authorizing the issuance of such Bonds or other available moneys or from investment (but not reinvestment) earnings on such proceeds or moneys if such proceeds or moneys shall have been invested in Investment Securities and to the extent such earnings may be determined precisely or (b) from investment earnings on deposit in the Third Lien Reserve and Redemption Account to the extent any such earnings may be determined precisely. Unless otherwise provided in a Supplemental Indenture, interest expense on Credit Facilities drawn upon to purchase but not to retire Bonds, except to the extent such interest exceeds the interest otherwise payable on such Bonds, shall not be included in the determination of Interest Requirement. If interest is not payable at a single numerical rate for the entire term of such Bonds, then the term "Interest Requirement" shall have the appropriate meaning assigned to it by the Supplemental Indenture authorizing such Bonds.

"**Investment Securities**" means any of the following securities authorized by law as permitted investments of City funds at the time it is purchased:

(i) Government Obligations;

(ii) bonds, debentures, notes or other evidences of indebtedness issued by any of the following agencies: Government National Mortgage Association, Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, Federal Land Banks, Federal Home Loan Banks, Federal Intermediate Credit Banks, Banks for Cooperatives, Tennessee Valley Authority, United States Postal Service, Farmers Home Administration, Export-Import Bank, Federal Financing Bank, Resolution Funding Corporation and Student Loan Marketing Association;

(iii) investments in a money market fund registered under the Investment Company Act of 1940, as amended (including any such money market fund sponsored by or affiliated with any Fiduciary), comprised of any of the investments set forth in subparagraph (a) or subparagraph (b) above;

(iv) negotiable or non-negotiable certificates of deposit or time deposits or other banking arrangements issued by any bank, trust company or national banking association (including any Fiduciary), which certificates of deposit or time deposits or other banking arrangements shall be continuously secured or collateralized by obligations described in subparagraphs (a), (b) or (c) of this definition, which obligations shall have a market value (exclusive of accrued interest) at all times at least equal to the principal amount of such certificates of deposit or time deposits or other banking, arrangements and shall be lodged with the Trustee, as custodian, by the bank, trust company or national banking association issuing such certificates of deposit or time deposits or other banking arrangements, which certificates of deposit or time deposits or other banking arrangements acquired or entered into pursuant to this subparagraph (d) shall be deemed for purposes of the Indenture to constitute investments and not deposits;

(v) repurchase agreements with any bank, trust company or national banking association (including any Fiduciary) or government bond dealer reporting to the Federal Reserve Bank of New York continuously secured or collateralized by obligations described in subparagraph (a) of this definition which obligations shall have a market value (exclusive of accrued interest) at all times at least equal to the amortized value of such repurchase agreements, provided, that such security or collateral is lodged with and held by the Trustee or the City as title holder, as the case may be;

(vi) public housing bonds issued by public housing authorities or by other political subdivisions or bodies politic and corporate so authorized, fully secured as to the payment of both principal and interest by a pledge of annual contributions under an annual contributions contract or contracts with the United States of America; and project notes issued by public housing authorities or by other political subdivisions or bodies politic and corporate so authorized, fully secured as to the payment of both principal and interest by a requisition or payment agreement with the United States of America;

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

(viii) any other securities authorized for investment of City funds by Article VI of Chapter 2-32 of the Municipal Code of Chicago (1990), as from time to time amended.

All securities so purchased, excepting tax anticipation warrants and investment agreements, shall show on their face that they are fully payable as to principal and interest, where applicable, within two years of the date of purchase.

"**Maximum Annual Debt Service Requirement**" means, as of any date of calculation, the largest Annual Debt Service Requirement occurring in the then current and all succeeding Bond Years.

"**Ordinance**" means the ordinance duly adopted and approved by the City Council of the City on July 9, 2003, which authorizes the issuance and sale of the Series 2003 Bonds and the execution of the Trust Indenture and the First Supplemental Indenture.

"**Outstanding**" when used, as of any date, with reference to Bonds means all Bonds previously or then being authenticated and delivered under the Indenture except:

(i) Any Bonds canceled by the Trustee at or prior to such date;

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

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

(iv) Bonds deemed to have been paid as provided in the Indenture.

"**Owner**" means any Person who shall be the registered owner of any Bond or Bonds.

"**Paying Agent**" means any bank, national banking association or trust company designated by an Authorized Officer as paying agent for the Bonds of any Series, and any successor or successors appointed by an Authorized Officer under the Indenture.

"**Payment Date**" shall mean any Interest Payment Date or Principal Payment Date.

"**Person**" means and includes an association, unincorporated organization, a corporation, a partnership, a limited liability company, a joint venture, a business trust, a government or one of its agencies or political subdivisions, or any other public or private entity, or a natural person.

"**Pledged Revenues**" means Incremental Taxes and any other revenues from any source whatsoever designated to pay principal of, premium, if any, or interest on the Senior Lien Bonds and the Subordinate Lien Bonds, including, without limitation, amounts on deposit in and pledged to various funds and accounts (other than the Third Lien Program Expenses Account and the Third Lien Rebate Account) as provided in the Senior Lien Indenture and the Subordinate Lien Indenture, together with interest earnings on such moneys.

"**Policy**" means the Municipal Bond Insurance Policy issued by the Bond Insurer unconditionally and irrevocably guaranteeing the payment of principal and Accreted Amount of and interest on the Series 2003 Bonds when due.

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

"**Principal Payment Date**" means the date upon which the principal of any Bond is stated to mature or upon which the principal of any Term Bond is subject to redemption in satisfaction of a Sinking Fund Installment, in each case as established in the Supplemental Indenture authorizing such Series.

"**Project**" means the redevelopment project approved by the Central Loop Redevelopment Plan.

"**Project Costs**" means those costs of the Project included in the definition of "Redevelopment Project Costs" in the Act as in effect on the effective date of the Indenture and shall include any costs added to the definition of "Redevelopment Project Costs" in the Act from time to time after the effective date of the Indenture and shall also include the purpose set forth in 65 ILCS 5/11-74.4-4(q) and any other purpose authorized under the Act; in no event, however, shall the removal of a cost from the definition of "Redevelopment Project Costs" from and after the effective date of the Indenture cause such cost not to be a "Project Cost" within the meaning of the Indenture.

"**Qualified Swap Agreement**" means an agreement between the City and a Swap Provider under which the City agrees to pay the Swap Provider an amount calculated at an agreed-upon rate or index based upon a notional amount and the Swap Provider agrees to pay the City for a specified period of time an amount calculated at an agreed-upon rate or index based upon such notional amount, where (i) each Rating Agency (if such Rating Agency also rates the unsecured obligations of the Swap Provider or its guarantor) has assigned to the unsecured obligations of the Swap Provider, or the Person who guarantees the obligations of the Swap Provider to make its payments to the City, as of the date the swap agreement is entered into, a rating that is equal to or higher than the rating then assigned to the Bonds by such Rating Agency (without regard to Bond Insurance or any other Credit Facility), and (ii) the City has notified each Rating Agency (whether or not such rating Agency also rates the unsecured obligations of the Swap Provider or its guarantor) in writing, at least 15 days prior to executing and delivering the swap agreement, of its intention to enter into the swap agreement and has received from such Rating Agency a written indication that the entering into the swap agreement by the City shall not, in and of itself, cause a reduction or withdrawal by such Rating Agency of its rating on the Bonds.

"**Rating Agencies**" means each and every one of the nationally recognized rating services that shall have assigned ratings to any Bonds Outstanding as requested by or on behalf of the City, and which ratings are then currently in effect.

"**Record Date**" means, for the Series 2003 Bonds, May 15 and November 15 of each year.

"**Redemption Price**" means, with respect to any Bond, the Principal of such Bond plus the applicable premium, if any, payable upon the date fixed for its redemption.

"**Refunding Bonds**" means all Bonds issued to refunding Outstanding Bonds under the Indenture.

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

"**Senior Lien Bonds**" means bonds issued and outstanding under the Senior Lien Indenture from time to time.

"**Senior Lien Indenture**" means the Trust Indenture dated as of November 1, 1997, from the City to Cole Taylor Bank, as Trustee, pursuant to which the Senior Lien Bonds are issued and secured, as such indenture has been and may be amended or supplemented from time to time.

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

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

"**Series 1997 Bonds**" means the City's Tax Increment Allocation Bonds (Central Loop Redevelopment Project), Series 1997A, in the original aggregate principal amount of $96,000,000 and the City's Tax Increment Allocation Bonds (Central Loop Redevelopment Project), Taxable Series 1997B, in the original aggregate principal amount of $91,000,000, issued under the Senior Lien Indenture for the purpose of paying a portion of the Project Costs.

"**Series 2000 Bonds**" means the City's Tax Increment Allocation Bonds (Central Loop Redevelopment Project), Series 2000A, in the original aggregate principal amount of $79,996,614 and the City's Tax Increment Allocation Bonds (Central Loop Redevelopment Project), Taxable Series 2000B, in the original aggregate principal amount of $62,350,000, issued under the Senior Lien Indenture for the purpose of paying a portion of the Project Costs.

"**Series 2000A Subordinate Bonds**" means the City's Subordinate Tax Increment Allocation Bonds (Central Loop Redevelopment Project), Series 2000A, in the original aggregate principal amount of $98,800,000, issued under the Subordinate Lien Indenture for the purpose of refunding certain outstanding Series 1997 Bonds and paying a portion of the Project Costs.

"**Series 2003A Bonds**" means the City of Chicago General Obligation Bonds (Central Loop Redevelopment Project), Series 2003A, authorized to be issued pursuant to the First Supplemental Indenture and the Trust Indenture.

"**Series 2003B Bonds**" means the City of Chicago General Obligation Bonds (Central Loop Redevelopment Project), Series 2003B (Taxable), authorized to be issued pursuant to the First Supplemental Indenture and the Trust Indenture.

"**Sinking Fund Installment**" means with respect to any Series of Bonds, each principal amount of Bonds scheduled to be redeemed through sinking fund redemption provisions of a Supplemental Indenture creating such Series by the application of amounts on deposit in the Third Lien Principal and Interest Account.

"**SLG's**" means United States Treasury Certificates of Indebtedness, Notes and Bonds State and Local Government Series.

"**State**" means the State of Illinois.

"**Subordinate Lien Bonds**" means bonds issued and outstanding under the Subordinate Lien Indenture from time to time.

"**Subordinate Lien Indenture**" means the Trust Indenture dated as of October 1, 2000, from the City to Cole Taylor Bank, as Trustee, pursuant to which the Subordinate Lien Bonds are issued and secured, as such indenture may be amended or supplemented from time to time.

"**Supplemental Indenture**" means any Supplemental Indenture of the City authorized pursuant to the Indenture.

"**Swap Provider**" means any counterparty with whom the City enters into a Qualified Swap Agreement.

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

"**Tender Option Bonds**" means any Bonds with respect to which the Owners have the option to tender to the City, to any Fiduciary or to any agent of a Fiduciary, all or a portion of such Bonds for payment or purchase; provided, that no Tender Option Bonds shall be issued unless (i) the City has notified each Rating Agency in writing of its intention to issue such Tender Option Bonds, and (ii) each Rating Agency has notified the City that the issuance of such Tender Option Bonds by the City shall not, in and of itself, cause a reduction or withdrawal by such Rating Agency of its rating on the Bonds.

"**Third Lien Principal and Interest Account**" means the account of that name established in the Indenture.

"**Third Lien Program Expenses**" means, in any Bond Year, all initial and ongoing administrative expenses related to or incurred in connection with the Bonds, including, specifically, (i) the sum necessary to pay all rating agency surveillance fees and costs and expenses of any Trustee, registrar or paying agent, (ii) the expected annual fees or premiums of any issuer or provider of any Credit Facility, Debt Reserve Credit Instrument or Bond Insurance Policy with respect to the Bonds, which expected annual fees may include additional amounts owing to such issuer or provider pursuant to any reimbursement or other agreement, other than reimbursement obligations arising from any draw or payment under such Credit Facility and other than payments on the Bonds, (iii) fees related to the calculation or verification of any required payment to the United States of America pursuant to Section 148(f) of the Code, and (iv) auditing fees incurred in connection with the preparation of the financial statements required pursuant to the Indenture; but excluding, specifically, expenses of the City relating specifically to the administration of the Project.

"**Third Lien Program Expenses Account**" means the Third Lien Program Expenses Account established in the Indenture.

"**Third Lien Rebate Account**" means the Third Lien Rebate Account established in the Indenture.

"**Third Lien Reserve and Redemption Account**" means the account of that name established in the Indenture.

"**Third Lien Revenue Fund**" means the Third Lien Revenue Fund established in the Indenture.

"**Third Lien Revenues**" means amounts transferred from the General Account under the Senior Lien Indenture to the Third Lien Revenue Fund pursuant to the Indenture to pay the principal, redemption price and interest on the Bonds issued under the Indenture.

"**Treasurer**" means the City Treasurer of the City.

"**Trust Estate**" means the property conveyed to the Trustee pursuant to the Granting Clauses hereof.

"**Trustee**" means Cole Taylor Bank, an Illinois banking corporation duly organized and existing under the laws of the State of Illinois, and its successors and any entity resulting from or surviving any consolidation or merger to which it or its successors may be a party, and any successor Trustee at the time serving as successor trustee under the Indenture.

"**Variable Rate Bonds**" means any Bonds the interest rate on which is not established at the time of their issuance at a single numerical rate for the entire term of the Bonds; provided, that no Variable Rate Bonds shall be issued unless (i) the City has notified each Rating Agency in writing of its intention to issue such Variable Rate Bonds, and (ii) each Rating Agency has notified the City that the issuance of such Variable Rate Bonds by the City shall not, in and of itself, cause a reduction or withdrawal by such Rating Agency of its rating on the Bonds.

General Provisions for Issuance and Delivery of Bonds

Any Series of Bonds shall be created by a Supplemental Indenture which shall prescribe expressly or by reference with respect to such Series (unless otherwise determined in the Indenture):

(a) the authorized principal amount, designation and Series of such Bonds;

(b) the purpose or purposes for which such Series of Bonds is being issued;

(c) the manner in which the proceeds of the Bonds of such Series are to be applied;

(d) the date and the maturity date or dates of the Bonds of such Series;

(e) the interest rate or rates of the Bonds of such Series, or the manner of determining such rate or rates, and the Interest Payment Dates and Record Dates therefor;

(f) the Authorized Denominations and the manner of dating, numbering and lettering of the Bonds of such Series;

(g) the Registrar and the Paying Agent or Paying Agents for the Bonds of such Series;

(h) the Redemption Price or Prices, if any, and any redemption dates and terms for the Bonds of such Series;

(i) the place or places of payment of the principal and Redemption Price, if any, of, and interest on, the Bonds of such Series or the manner of designating the same;

(j) the amount and date of each Sinking Fund Installment, if any, for Bonds of like maturity of such Series; provided that the aggregate of such Sinking Fund Installments shall equal the aggregate principal amount of all such Bonds less the principal amount scheduled to be retired at maturity;

(k) provisions as to registration of the Bonds of such Series;

(l) the form and text of the Bonds of such Series and provision for the Trustee's authentication of such Bonds by certificate or otherwise;

(m) the amount of the Debt Service Reserve Requirement with respect to such Series of Bonds, if any, calculated immediately after their authentication and delivery; and

(n) any other provisions deemed advisable by the City as shall not conflict with the provisions of the Indenture.

Bonds of the same Series and maturity shall be of like tenor except as to denomination and form. After the original issuance of Bonds of a Series, no Bonds of such Series shall be issued except in lieu of or in substitution for other Bonds of such Series pursuant to the Indenture.

Bonds issued pursuant to the Indenture may be issued as Current Interest Bonds, Capital Appreciation Bonds, Capital Appreciation and Income Bonds, Variable Rate Bonds, Tender Option Bonds, Serial Bonds or Term Bonds or any combination of such Bonds, all as provided in the Supplemental Indenture providing for their issuance; provided, that the City shall not issue Tender Option Bonds unless it shall have delivered to the Trustee upon the authentication of such Bonds a Credit Facility which the Trustee or another Fiduciary may draw upon to pay the purchase price of any such Bonds upon tender of such Bonds.

Conditions Precedent to the Delivery of any Series

Bonds of any Series that are issued pursuant to a Supplemental Indenture shall be executed by the City and delivered to the Trustee and shall then be authenticated by the Trustee and delivered to the City or upon its order, but only following the receipt by the Trustee of:

(a) A copy of an ordinance adopted by the City Council, certified by the City Clerk, authorizing the issuance of the Bonds of such Series and the execution and delivery of the Supplemental Indenture, together with evidence that such ordinance has become effective;

(b) If the Bonds of such Series are General Obligation Bonds, (i) evidence that the ordinance referred to in subsection (a) above was published within ten days of its adoption as required by the Act, and (ii) either a certificate from the City Clerk to the effect that no petitions, signed by electors in the City numbering ten percent (10.0%) of the registered voters in the City and asking that the issuance of the Bonds of such Series secured by the pledge of the City's full faith and credit and/or ad valorem taxes unlimited as to rate or amount be submitted to referendum, was filed with the City Clerk within thirty (30) days after the date of the publication of the ordinance, or, if such petitions were filed with the County Clerk, evidence satisfactory to the attorney rendering the opinion described in subsection (c) below that issuance of the Bonds of such Series was approved at the subsequent referendum held on that question.

(c) A Counsel's Opinion to the effect that (i) the City had the right and power to adopt the ordinance referred to in subsection (a) above; (ii) the ordinance has been duly and lawfully adopted by the City Council, is in full force and effect, is valid and binding upon the City and is enforceable in accordance with its terms (except as may be limited by any applicable bankruptcy, liquidation, reorganization, insolvency or other similar laws and by general principles of equity in the event that equitable remedies are sought); (iii) the Indenture and such Supplemental Indenture have been duly and lawfully executed by authorized officers of the City and delivered, are in full force and effect, are valid and binding upon the City and are enforceable in accordance with their terms (except as may be limited by any applicable bankruptcy, liquidation, reorganization, insolvency or other similar laws and by general principles of equity in the event that equitable remedies are sought); (iv) the Indenture and the Supplemental Indenture create the valid pledge of Third Lien Revenues, moneys and securities held under them for the benefit and security of the Bonds, subject to their application in the manner provided in the Indenture and such Supplemental Indenture; and (v) upon their execution, authentication and delivery, the Bonds of such Series shall have been duly and validly authorized and issued in accordance with the Constitution and laws of the State of Illinois, the Indenture and such Supplemental Indenture and shall constitute valid and legally binding obligations of the City in accordance with their tenor and terms. If the Bonds of such Series are General Obligation Bonds, the Counsel's

Opinion shall also be to the effect, as applicable, that the Bonds of such Series are secured by a pledge of the full faith and credit of the City and/or by ad valorem taxes levied against all taxable property in the City without limitation as to rate or amount.

(d) A written order as to the delivery of such Series, executed by an Authorized Officer (i) stating the identity of the purchasers, aggregate purchase price and date and place of delivery of such Series and that no Event of Default has occurred and is continuing under the Indenture and (ii) fixing and determining all terms and provisions of the Bonds of such Series not fixed or determined by the Indenture or the Supplemental Indenture;

(e) An original executed counterpart of the Indenture (or a copy duly certified by the City Clerk of the City) and the Supplemental Indenture; and

(f) With respect to all Series of Bonds, other than General Obligation Bonds or Refunding Bonds to the extent permitted by the Indenture, issued and delivered subsequent to the initial Series of Bonds, a certificate of an Authorized Officer:

(i) setting forth the projected Incremental Taxes to be generated for the current calendar year and each calendar year thereafter, which projection shall be based on a report prepared by an independent consultant having recognized urban renewal and tax increment financing expertise;

(ii) setting forth for the current Bond Year and each Bond Year thereafter, the Annual Debt Service Requirement on account of all Bonds, all Senior Lien Bonds and all Subordinate Lien Bonds then Outstanding and the Bonds proposed to be issued under the Indenture;

(iii) establishing that the amount shown in subparagraph (i) above shall not be less than 150 percent of the Maximum Annual Debt Service Requirement on account of all Bonds, all Senior Lien Bonds and all Subordinate Lien Bonds then Outstanding and the Bonds proposed to be issued (exclusive of the final maturing principal amount of any series to the extent of the applicable Debt Service Reserve Requirement if amounts held in the Reserve and Replacement Account for such series are expected to be available to pay Bonds, or Senior Lien Bonds or Subordinate Lien Bonds, of such series on such final maturity date); and

(iv) stating that all required deposits to all Funds, Accounts and Sub-Accounts under the Indenture and under the Senior Lien Indenture and the Subordinate Lien Indenture are current.

In applying the foregoing test, if any of the Bonds to be Outstanding immediately prior to or after the issuance of the Bonds to be issued constitute Tender Option Bonds or Variable Rate Bonds, the provisions described under the caption "Refunding Bonds—Tender Option Bonds" and "—Variable Rate Bonds" shall be applied in determining the Annual Debt Service Requirements on account of such Bonds.

Refunding Bonds

Following the issuance and delivery of the Series 2003 Bonds, one or more Series of Refunding Bonds may be authenticated and delivered upon original issuance to refund or advance refund any or all Outstanding Bonds of one or more Series, to pay costs and expenses incident to the issuance of such Refunding Bonds and to make deposits in any Fund, Account or Sub-Account under the Indenture as determined by the City in the Supplemental Indenture authorizing such Bonds.

Refunding Bonds of a Series to refund or advance refund Outstanding Bonds shall be authenticated and delivered by the Trustee only upon receipt by it (in addition to the documents, securities and moneys required by the Indenture) of:

(a) Such instructions to the Trustee as necessary to comply with all requirements described under the caption "Defeasance" below so that the Bonds to be refunded or advance refunded shall be paid or deemed to be paid pursuant to the Indenture.

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

(c) In the case of Refunding Bonds other than General Obligation Bonds, a certificate of an Authorized Officer evidencing either that (i) (A) the term of the Refunding Bonds does not exceed the term of the Bonds being refunded, and (B) the Annual Debt Service Requirements for any Bond Year on account of all Bonds Outstanding, after the issuance of such Refunding Bonds and the redemption or provision for payment of the Bonds to be refunded, shall not exceed the Annual Debt Service Requirements for the corresponding Bond Years on account of all the Bonds Outstanding, including the Bonds to be refunded, immediately prior to the issuance of such Refunding Bonds, or (ii) in the case of a refunding of Outstanding Bonds that does not meet the requirements of the preceding clause (i), satisfaction of the test set forth in the Indenture in connection with the issuance of Bonds as applied to the Refunding Bonds to be issued, giving effect to the redemption or provision for payment of the Bonds being refunded.

In applying the test set forth in paragraph (c) above, if any, if the Bonds Outstanding immediately prior to or after the issuance of the Refunding Bonds to be issued constitute Tender Option Bonds or Variable Rate Bonds, the following provisions shall be applied in determining the Annual Debt Service Requirements of such Bonds:

Tender Option Bonds. If any of the Outstanding Bonds constitute Tender Option Bonds, then for purposes of the amounts to be shown as set forth in paragraph (c) above, the options of the Owners of such Bonds to tender the same for payment prior to their stated maturity or maturities shall be ignored, and (1) if such Bonds also constitute Variable Rate Bonds, the City shall adjust such amounts to be shown as set forth in paragraph (c) as provided in "— Variable Rate Bonds" below, (2) if such Bonds are secured by a Credit Facility, the Credit Bank or obligations secured by credit facilities issued by such Credit Bank shall be rated in one of the three highest rating categories (without reference to graduations such as "plus" or "minus") by any of the Rating Agencies, and (3) any obligation the City may have, other than its obligation on such Bonds (which need not be uniform as to all Owners), to reimburse any Credit Bank, including any obligations so to reimburse in excess of the Annual Debt Service Requirements on such Bonds (determined without regard to whether such Credit Bank shall then be holding or shall then have had pledged to it such Bonds) shall be subordinated to the obligation of the City on the Bonds.

Variable Rate Bonds. If any of the Outstanding Bonds constitute Variable Rate Bonds, then for purposes of the amounts to be shown as set forth in paragraph (c) above, the interest rate used in such computation shall be the lesser of (a) the maximum interest rate established in the Supplemental Indenture authorizing such Bonds and (b) if and so long as a Qualified Swap Agreement is in effect, the interest rate determined as if the Variable Rate Bonds had interest payments equal to the interest payable on those Variable Rate Bonds less any payments to the City from the Swap Provider and plus any payments by the City to the Swap Provider as provided by the Qualified Swap Agreement (other than fees for providing the Qualified Swap Agreement). The conversion of Bonds constituting Variable Rate Bonds to bear interest at a different variable rate or a fixed rate or rates, in accordance with their terms, shall not constitute a new issuance of Bonds under the Indenture.

Hedging Transactions

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

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

(i) any net payments required to be made by the City to the Swap Provider pursuant to the Qualified Swap Agreement from Third Lien Revenues shall be made solely from amounts on deposit to the credit of the Third Lien Revenue Fund; and

(ii) any net payments received by the City from the Swap Provider pursuant to such Qualified Swap Agreement shall be deposited to the credit of the Third Lien Revenue Fund.

(b) If the City enters into a swap agreement of the type generally described in paragraph (a) above that does not satisfy the requirements for qualification as a Qualified Swap Agreement, then:

(i) the interest rate adjustments or assumptions referred to under the caption "Refunding Bonds—Variable Rate Bonds" shall not be made;

(ii) any net payments required to be made by the City to the Swap Provider pursuant to such swap agreement from Third Lien Revenues shall be made only from amounts on deposit in the General Account established in the Senior Lien Indenture remaining after all other payments and transfers required to be made from the General Account have been made; and

(iii) any net payments received by the City from the Swap Provider pursuant to such swap agreement may be treated as Third Lien Revenues at the option of the City, and if so treated, shall be deposited to the credit of the Third Lien Revenue Fund.

Funds and Revenues

The following describes the flow of funds in the Third Lien Revenue Fund.

Third Lien Program Expenses Account. From Third Lien Revenues first received by the Trustee, the Trustee shall credit to and shall deposit into the Third Lien Program Expenses Account an amount of Third Lien Revenues sufficient to pay Third Lien Program Expenses, if any, for the next succeeding calendar year. The City shall provide to the Trustee information, calculations or estimates of Third Lien Program Expenses for the next succeeding calendar year, and the Trustee may reasonably rely upon such information, calculations or estimates of such Third Lien Program Expenses as necessary to determine the proper amount of such deposit into the Third Lien Program Expenses Account. A portion of the proceeds of the Bonds may also be deposited into the Third Lien Program Expenses Account and applied by Trustee to pay Costs of Issuance at the direction of the City. Amounts on deposit in the Third Lien Program Expenses Account are not pledged to payment of the Bonds.

Third Lien Principal and Interest Account. The Trustee shall next make a transfer to the Third Lien Principal and Interest Account in an amount sufficient to pay the principal of and interest on all Outstanding Bonds coming due during the next succeeding calendar year in which principal of or interest on Outstanding Bonds fall due, which amount shall be set aside within the Third Lien Principal and Interest Account for such purpose. Except as provided below, such moneys shall be used solely and only for the purpose of paying principal of and redemption premium, if any, and interest on the Bonds as the same become due whether at maturity or upon mandatory redemption. Any capitalized interest received upon the sale of the Bonds shall be deposited to and held in the Capitalized Interest Sub-Account created by the Indenture within the Third Lien Principal and Interest Account and shall be used to pay interest coming due on the Bonds prior to applying any other moneys for that purpose.

Third Lien Reserve and Redemption Account. The Trustee shall next transfer the balance of the Pledged Revenues into the Reserve and Redemption Account and shall credit any amounts so transferred, pro rata, among the separate Sub-Accounts of the Reserve and Redemption Account established for each Series of Bonds Outstanding until the aggregate amount in each Sub-Account equals the Debt Service Reserve Requirement for the related Series of Bonds. Thereafter no further transfers shall be made into such Sub-Accounts, except that when any money has been transferred from one of such Sub-Accounts to the Principal and Interest Account, transfers into such Sub-Account from Pledged Revenues shall be resumed and continued until that Sub-Account has been restored to an aggregate amount equal to the Debt Service Reserve Requirement for the related Series of Bonds. The Trustee shall value the investments in the Reserve and Redemption Account, on the basis of market price, on the 15th day preceding each June 1 and December 1.

There is no Debt Service Reserve Requirement for the Series 2003 Bonds.

Moneys on deposit in each Sub-Account of the Reserve and Redemption Account shall be transferred to the Principal and Interest Account as may be necessary from time to time to prevent or remedy a default in the payment of interest or premium, if any, on or principal of the applicable Series of Bonds. Amounts on deposit in each Sub-Account in excess of its Debt Service Reserve Requirement shall be transferred to the Principal and Interest Account and applied to the payment of principal of the applicable Series of Bonds.

Third Lien Rebate Account. The Trustee shall next transfer the Third Lien Revenues into the Third Lien Rebate Account to the extent necessary to ensure that there are on deposit in the Third Lien Rebate Account sufficient moneys to make, at the required times, all rebate payments to the United States of America required to be made by Section 148 of the Code and Regulations. The City shall provide to the Trustee information, calculations or estimates of amounts to be deposited in the Third Lien Rebate Account for the next succeeding calendar year. The Trustee may reasonably rely upon such information, calculations or estimates to determine the proper amount to be deposited into the Third Lien Rebate Account and shall not be required to make transfers of the Third Lien Revenues into the Third Lien Rebate Account under this subsection if it has not been provided with such information, calculations and estimates. The Trustee shall make any necessary rebate payments to the United States of America that are required by the Code and Regulations from moneys on deposit in the Third Lien Rebate Account. Amounts on deposit in the Third Lien Rebate Account are not pledged to the payment of the Bonds.

After the foregoing deposits have been made, the Trustee shall transfer any balance remaining in the Third Lien Revenue Fund to the General Account established in the Senior Lien Indenture.

Project Fund. The Project Fund is established, and shall be held as a separate, segregated fund by the City in a Depositary. There shall be paid into the Project Fund the amounts required to be so paid by the provisions of the Indenture and any Supplemental Indenture, and there may be paid into the Project Fund, at the option of the City, any moneys determined to be so applied by the City.

The City shall hereafter establish within the Project Fund in connection with the issuance of each Series of Bonds separate, segregated accounts for the deposit of proceeds of such Bonds issued to finance additional Project Costs. The City may deposit any such separate, segregated account with the Project Fund with a Depositary pursuant to the provisions of a Supplemental Indenture.

Amounts in each separate, segregated account established as provided in the immediately paragraph preceding shall be applied to the purpose or purposes and in the manner specified in the Supplemental Indenture authorizing the Bonds, the proceeds of which were deposited in such account and upon the written direction of an Authorized Officer.

Moneys in the Project Fund shall be invested at the direction of an Authorized Officer to the fullest extent practicable in Investment Securities maturing in such amounts and at such times as may be necessary to provide funds when needed to pay Project Costs. The City may, and to the extent required for payments from the Project Fund shall, sell any such Investment Securities at any time, and the proceeds of such sale, and of all payments at maturity and upon redemption of such investments, shall be held in the applicable account in the Project Fund. Earnings received on moneys or securities in a separate account in the Project Fund shall be held as a part of such account and available for the purposes for which moneys in such account are otherwise held.

The completion of the Project to be paid for from an account in the Project Fund shall be evidenced by a certificate of an Authorized Officer of the City, which certificate shall be filed promptly with the Trustee, stating the date of such completion and the amount, if any, required in the opinion of the signer of such certificate for the payment of any remaining part of the cost of the Project. Upon the filing of such certificate evidencing the completion of the Project to be paid from the Project Fund, the balance in said account in excess of the amount, if any, stated in such certificate of the City shall be applied by the City in the following order of priority: (1) to the applicable Sub-Account of the Third Lien Reserve and Redemption Account, to the extent necessary to cause the amount on deposit in such Sub-Account to equal the applicable Debt Service Reserve Requirement; and (2) the remainder to the City for any lawful purpose under the Act.

Creation of Additional Accounts and Sub-Accounts for Bonds. The City has reserved the right to issue multiple Series of Bonds pursuant to the Indenture, respectively, from time to time for the purposes authorized in the Central Loop Redevelopment Plan. Any such Bonds shall share ratably and equally with the Series 2003 Bonds in the Third Lien Revenues and, except as provided below for General

Obligation Bonds, the Funds and Accounts established under the Indenture and shall have the terms established in the Supplemental Indenture authorizing such Series of Bonds. No Series of Bonds shall have any terms creating a preference or priority over any other Series of Bonds; provided, that the City may, in any Supplemental Indenture, provide for the establishment of separate Sub-Accounts within the Third Lien Reserve and Redemption Account of the Third Lien Revenue Fund relating to one or more Series of Bonds; and provided further, that the City may, in any Supplemental Indenture adopted in connection with a Series of General Obligation Bonds, provide for a separate segregated Sub-Account in the Third Lien Principal and Interest Account in the Third Lien Revenue Fund for such Series into which shall be deposited the proceeds of any ad valorem tax levied by the City to pay such Series and from which payments may be made only with respect to such Series. The creation of such separate Sub-Accounts shall not create a preference of any Series of Bonds over any other Series of Bonds with respect to Third Lien Revenues, except to the extent that a Supplemental Indenture authorizing a Series of Bonds provides that amounts on deposit in any such Sub-Account shall secure only the one or more series of Bonds with respect to which such Sub-Account is established.

The Trustee shall, at the written request of the City, establish such additional Accounts within any of the Funds established under the Indenture, and Sub-Accounts within any of the Accounts established under the Indenture, as shall be specified in such written request, for the purpose of enabling the City to identify or account for more precisely the sources, timing and amounts of transfers or deposits into such Funds, Accounts and Sub-Accounts, the amounts on deposit in or credited to such Funds, Accounts or Sub-Accounts as of any date or dates of calculation, and the sources, timing and amounts of transfers, disbursements or withdrawals from such Funds, Accounts or Sub-Accounts; but the establishment of any such additional Accounts or Sub-Accounts shall not alter or modify in any manner or to any extent any of the requirements of the Indenture with respect to the deposit or use of moneys in any Fund, Account or Sub-Account established under the Indenture.

Depositaries, Security for Deposits and Investments of Funds

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

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

All moneys held for the City under the Indenture shall be continuously and fully secured for the benefit of the City and the Owners of the Bonds in the same manner as provided by the City for similar funds of the City.

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

Moneys held in any Fund, Account or Sub-Account by the City, the Trustee or a Depositary shall be invested and reinvested by the City at the direction of an Authorized Officer in Investment Securities that mature no later than necessary to provide moneys when needed for payments to be made from such Fund, Account or Sub-Account.

Moneys held in two or more Funds, Accounts or Sub-Accounts may be jointly invested in one or more Investment Securities, provided, that such investment complies with all the terms and conditions of the Indenture relating to the investment of moneys in such Funds, Accounts or Sub-Accounts, as the case may be, and the City maintains books and records as to the allocation of such investment as among such Funds, Accounts or Sub-Accounts.

Any earnings on investments held in the Third Lien Reserve and Redemption Account shall be credited to and held in the applicable Sub-Account of the Third Lien Reserve and Redemption Account so long as the balance of any Sub-Account is less than the Debt Service Reserve Requirement for such Sub-Account and next shall be transferred to the Third Lien Principal and Interest Account. Investment income from investments held in the various Funds, Accounts and Sub-Accounts shall remain in and be a part of the respective Funds, Accounts and Sub-Accounts in which such investments are held, except as otherwise provided in the Indenture.

Notwithstanding any other provisions of the Indenture to the contrary, all investments made under the Indenture shall be consistent with the expectations expressed in any arbitrage certificate executed on behalf of the City and filed with the Trustee with respect to any Series of Bonds issued under the Indenture.

Investment Securities in any Fund, Account or Sub-Account created under the provisions of the Indenture shall be deemed at all times to be part of such Fund, Account or Sub-Account and any profit realized from the liquidation of such investment shall be credited to such Fund, Account or Sub-Account and any loss resulting from liquidation of such investment shall be charged to such Fund, Account or Sub-Account.

Valuations of Investment Securities held in the Funds, Accounts and Sub-Accounts established under the Indenture shall be made by the City as required under the Indenture. In computing, the amounts in such Funds, Accounts and Sub-Accounts, Investment Securities shall be valued.

The value of Investment Securities shall be their fair market value; provided, that all SLG's shall be valued at par and those obligations which are redeemable at the option of the holder shall be valued at the price at which such obligations are then redeemable.

(d) Except as otherwise provided in the Indenture, the Trustee at the direction of an Authorized Officer shall sell at the best price obtainable, or present for redemption, any Investment Security held in any Fund, Account or Sub-Account held by the Trustee whenever it shall be necessary to provide moneys to meet any payment or transfer from such Fund, Account or Sub-Account as the case may be. The Trustee shall not be liable or responsible for making any such investment in the manner provided above or for any loss resulting from any such investment.

Particular Covenants and Representations of the City

If the maturity of any Bond or installment of interest shall be extended pursuant to the written consent of the Owner of such Bond, such Bond or installment of interest shall not be entitled, in case of any default under the Indenture, to the benefit of the Indenture or to payment out of Third Lien Revenues or the Funds, Accounts and Sub-Accounts established by the Indenture or moneys held by Fiduciaries or

Depositaries (except moneys held in trust for the payment of such Bond or installment of interest) until the prior payment of the principal of all Bonds Outstanding the maturity of which has not been extended and of such portion of the accrued interest on the Bonds as shall not be represented by such extended claims for interest. These provisions do not limit the right of the City to issue Refunding Bonds and such issuance shall not be deemed to constitute an extension of maturity of Bonds.

The City shall at all times maintain one or more Paying Agents and Registrars with offices in Chicago, Illinois, or in New York, New York, at which Bonds may be presented for payment and at which Bonds may be presented for registration of any, transfer or exchange.

The City covenants and agrees with the Owners of the Bonds that, so long as any Bonds remain outstanding and unpaid:

(a) The City shall cause to be punctually paid from the Third Lien Revenue Fund, but solely to the extent that adequate amounts are on deposit in that Fund for that purpose, the principal of, interest on and premium, if any, to become due in respect of the Bonds in strict conformity with the terms of the Bonds, the Indenture and the applicable Supplemental Indenture, and it shall faithfully observe and perform all of the conditions, covenants and requirements of the Bonds, the Indenture and each Supplemental Indenture.

(b) The City shall cause to be punctually paid and discharged, from the Third Lien Revenue Fund, but solely to the extent that adequate amounts are on deposit in that Fund for that purpose, any and all lawful claims which, if unpaid, might become a lien or charge upon the Third Lien Revenues, or any part of the Third Lien Revenues, or upon any funds in the hands of the Trustee, or which might impair the security of the Bonds. Nothing in the Indenture shall require the City to make any such payment so long as the City in good faith shall contest the validity of said claims.

(c) The City shall keep, or cause to be kept, proper books of record and accounts, separate from all other records and accounts of the City, in which complete and correct entries shall be made of all transactions relating to the Bonds and to the Third Lien Revenues. Such books of record and accounts, and any other report, shall at all times during regular business hours be subject to the inspection of the Owners of not less than ten percent (10%) of the principal amount of the Bonds then Outstanding, or their representatives authorized in writing.

The City shall prepare, or cause the preparation of, within 270 days after the close of each Fiscal Year of the City so long as any of the Bonds are Outstanding, audited financial statements with respect to the preceding Fiscal Year showing the Third Lien Revenues received and all disbursements from the funds and accounts created by the Indenture, on a consolidated basis, as of the end of such Fiscal Year, which statements shall be accompanied by a certificate or opinion in writing of an independent certified public accountant.

(d) The City shall preserve and protect the security of the Bonds and the rights of the Owners, and shall warrant and defend their rights against all claims and demands of all Persons. From and after the sale and delivery of any of the Bonds by the City, the Bonds shall be incontestable by the City.

(e) The City shall execute and deliver any and all such instruments and assurances as may be reasonably necessary or proper to carry out the intention of, or to facilitate the performance of, the Indenture, and for the better assuring and confirming unto the registered owners of the Bonds of the rights and benefits provided in the Indenture.

Events of Default

Each of the following events is declared to be an "Event of Default:"

(a) subject to the following paragraph, default shall be made in the payment of the principal of or Redemption Price on any Bond when such payment shall become due and payable, either at maturity or by proceedings for redemption or otherwise; or

(b) subject to the following paragraph, default shall be made in the payment of any installment of interest on any Bond when and as such payment shall become due and payable; or

(c) subject to the following paragraph, default shall be made by the City in the performance of any obligation in respect of the Third Lien Reserve and Redemption Account and such default shall continue for 60 days after such default; or

(d) the City shall (1) commence a voluntary case under the federal bankruptcy laws, as now or hereafter constituted, or any other applicable federal or state bankruptcy, insolvency or other similar law, (2) make an assignment for the benefit of its creditors, (3) consent to the appointment of a receiver of itself or of the whole or any substantial part of its property or (4) be adjudicated a bankrupt or have entered against it any order for relief in respect of an involuntary case under the federal bankruptcy laws, as now or hereafter constituted, or any other applicable federal or state bankruptcy, insolvency or other similar law and such order continues in effect for a period of 60 days without stay or vacation; or

(e) a court of competent jurisdiction shall enter an order, judgment or decree appointing a receiver of the City, or of the whole or any substantial part of its property, or approving a petition seeking reorganization of the City under the federal bankruptcy laws or any other applicable federal or state law or statute and such order, judgment or decree is not vacated or set aside or stayed within 60 days from the date of the entry of such order, judgment or decree; or

(f) under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of the City or of the whole or any substantial part of its property, if such custody or control is not terminated or stayed within 60 days from the date of assumption of such custody or control; or

(g) the City shall default in the due and punctual performance of any other of the covenants, conditions, agreements and provisions contained in the Bonds or in the Indenture on the part of the City to be performed, and such default continues for 60 days after written notice specifying such default and requiring such default to be remedied has been given to the City by the Trustee (which may give such notice whenever it determines that such a default is subsisting and shall give such notice at the written request of the registered Owners of not less than a majority of the principal amount of the Bonds then Outstanding); then, in each and every such case, the Trustee may, and upon the written request of the Owners of a majority of the principal amount of the Bonds affected by the Event of Default and then Outstanding under the Indenture shall, proceed to protect and enforce its rights and the rights of the Owners of the Bonds by a suit, action or special proceeding in equity or at law, by mandamus or otherwise, either for the specific performance of any covenant or agreement contained in the Indenture or in aid or execution of any power granted by the Indenture or for any enforcement of any proper legal or equitable remedy as the Trustee, being advised by counsel, shall deem most effective to protect and enforce those rights.

A payment default as described in subparagraph (a) or (b) above or a performance default as described in paragraph (c) above shall not constitute an Event of Default if the payment default or performance default occurred because there were insufficient moneys remaining on deposit in the General Account established in the Senior Lien Indenture after (i) all required deposits have been made under the Senior Lien Indenture, and (ii) all amounts required to be transferred to the Junior Lien Revenue Fund established in the Subordinate Lien Indenture have been made, to permit the City to make such payment or perform such obligations. The preceding sentence does not apply to General Obligation Bonds.

During the continuance of an Event of Default, all moneys received by the Trustee under the Indenture from the City or from any other source shall be applied by the Trustee in accordance with the terms of the Indenture described below under the caption "Application of Revenues and Other Moneys After Default."

Accounting and Examination of Records after Default

The City covenants that if an Event of Default shall have happened and shall not have been remedied, the books of record and account of the City and all other records relating to the Third Lien Revenues and, for General Obligation Bonds, the taxes levied for their payment shall at all times be subject to the inspection of the Trustee and of its authorized agents and attorneys.

The City covenants that if an Event of Default shall have happened and shall not have been remedied, the City, upon demand of the Trustee, shall account, as if it were the trustee of an express trust, for all Third Lien Revenues and other moneys, securities and funds held by the City pursuant to the terms of the Indenture for such period as shall be stated in such demand.

Application of Revenues and Other Moneys after Default

The City covenants that if an Event of Default shall happen and shall not have been remedied, the Trustee shall apply all moneys, securities and funds received by the Trustee pursuant to any right given or action taken as follows and in the following order:

(a) First, to the payment of the reasonable and proper expenses of the Trustee, the Bond Registrar and Paying Agents, and thereafter;

(b) Second, to the payment of principal or redemption premium, if any, and interest then due on the Bonds as follows:

(c) Unless the principal of all the Bonds shall have become due and payable, all such moneys shall be applied as follows:

(i) first, to the payment to the Persons so entitled of all installments of interest then due, in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any particular installment, then to the payment ratably, according to the amounts due on such installment, to the Persons entitled to such payment, without any discrimination or preference;

(ii) second, to the payment to the Persons so entitled of the unpaid principal of any of the Bonds which shall have become due (other than Bonds called for redemption for the payment of which moneys are held pursuant to the provisions of the Indenture), in the order of their due dates, with interest upon such Bonds from the respective dates upon which they became due, and, if the amount available shall not be sufficient to pay in full Bonds due on any particular date, together with such interest, then to the payment first of such interest, ratably according to the amount of such interest due on such date, and then to the payment of such principal ratably according to the amount of such principal due on such date, to the Persons entitled to payment without any discrimination or preference; and

(iii) third, to the payment of the Redemption Price of any Bonds called for redemption pursuant to the provisions of the Indenture.

If the principal of all the Bonds shall have become due and payable, all such moneys shall be applied to the payment of the principal and interest then due and unpaid upon the Bonds, with interest on the Bonds as provided above, without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably, according to the amounts due respectively for principal and interest, to the Persons entitled to payment without any discrimination or preference.

Whenever moneys are to be applied by the Trustee pursuant to the provisions of this paragraph, such moneys shall be applied by the Trustee at such times, and from time to time, as the Trustee in its sole discretion shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. The deposit of such moneys with the Paying Agents, or otherwise setting aside such moneys, in trust for the proper purpose, shall constitute proper application by the Trustee; and the Trustee shall incur no liability whatsoever to the City, to any Owner or to any other Person for any delay in applying any such funds, so long as the Trustee acts with reasonable diligence, having due regard to the circumstances, and ultimately applies the same in accordance with such provisions of the Indenture as may be applicable at the time of application by the Trustee. Whenever the Trustee shall exercise such discretion in applying such funds, it shall fix the date (which shall be an interest payment date unless the Trustee shall deem another date more suitable) upon which such application is to be made and upon such date interest on the amounts of principal paid on such date shall cease to accrue. The Trustee shall give such notice as it may deem appropriate of the fixing of any such date and of the endorsement to be entered on each Bond on which payment shall be made, and shall not be required to make payment to the Owner of any unpaid Bond until such Bond shall be presented to the Trustee for appropriate endorsement, or some other procedure deemed satisfactory by the Trustee.

Proceedings Brought by Trustee

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

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

All actions against the City under the Indenture shall be brought in a state or federal court located in the State.

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

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

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

Restriction on Owners' Action

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

Nothing contained in the Indenture or in the Bonds shall affect or impair the obligation of the City, which is absolute and unconditional, to pay at the respective dates of maturity and places expressed in the Bonds, but solely from Third Lien Revenues and as may otherwise be provided in the applicable Supplemental Indenture, the principal of and interest on the Bonds to their respective Owners, or affect or impair the right of action, which is also absolute and unconditional, of any Owner to enforce such payment of its Bond, but solely from Third Lien Revenues and as may be otherwise provided in any Supplemental Indenture.

No Owner of any Bond shall have the right to cause the acceleration of the Bonds if any Event of Default shall have occurred under the Indenture.

Remedies Not Exclusive

No remedy by the terms of the Indenture conferred upon or reserved to the Trustee or the Owners is intended to be exclusive of any other remedy, but shall be cumulative and shall be in addition to every other remedy given under the Indenture or existing at law or in equity or by statute on or after the date of the execution and delivery of the Indenture.

Effect of Waiver and Other Circumstances

No delay or omission of the Trustee or any Owner to exercise any right or power arising upon the happening of an Event of Default shall impair any right or power or shall be construed to be a waiver of or an acquiescence in any such default.

The Owners of not less than two thirds in principal amount of the Bonds at the time Outstanding, or their attorneys-in-fact duly authorized, may on behalf of the Owners of all of the Bonds waive any past default under the Indenture and its consequences, except a default in the payment of interest on or principal or Redemption Price of any of the Bonds. No such waiver shall extend to any subsequent or other default or impair any right consequent on such default.

Notices of Default. The Trustee shall promptly mail written notice of the occurrence of any Event of Default to the Owners of the Bonds.

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

Notwithstanding anything contained in the Indenture to the contrary, but subject to the provisions of any applicable Supplemental Indenture, to the extent any Bond Insurer has exercised its rights as subrogee for the particular Bonds of which it has insured payment, (i) such Bonds shall be deemed to be Outstanding and such Bond Insurer shall succeed to the rights and interests of the Owners to the extent of the amounts paid as specified in respect of the Bond Insurance Policy until such amount has been reimbursed and (ii) upon presentation to the Registrar, such Bonds shall be registered in the name of the Bond Insurer or its nominee.

The Fiduciaries

Trustee; Appointment and Acceptance of Duties. The Trustee accepts and agrees to the trusts created by the Indenture, but only upon the additional terms set forth in the Indenture, to all of which the City agrees and the respective Owners of the Bonds, by their purchase and acceptance of their Bonds, agree. Except during the continuance of an Event of Default, the Trustee undertakes such duties and only such duties as are specifically set forth in the Indenture.

Paying Agents; Appointment and Acceptance of Duties. The Trustee is appointed Paying Agent for the Series 2003 Bonds. The City shall appoint one or more Paying Agents for the Bonds of each other Series, and may at any time or from time to time appoint one or more other Paying Agents having the qualifications set forth in the Indenture for a successor Paying Agent. The Trustee may be appointed a Paying Agent for the Bonds of other Series. The Trustee accepts the duties and obligations imposed upon it as Paying Agent by the Indenture.

Unless otherwise provided, the principal or corporate trust offices of the Paying Agents are designated as the respective offices or agencies of the City for the payment of the principal or Redemption Price of the Bonds.

Registrar; Appointment and Acceptance of Duties. The Trustee is appointed Registrar for the Series 2003 Bonds. The City shall appoint a Registrar for each other Series of Bonds. Each Registrar shall have the qualifications set forth in the Indenture for a successor Registrar. The Trustee or any Paying Agent may be appointed a Registrar for the Bonds of other Series.

Responsibilities of Fiduciaries. The recitals of fact contained in the Indenture and the Bonds shall be taken as the statements of the City and no Fiduciary assumes any responsibility for the correctness of the same. No Fiduciary makes any representations as to the validity or sufficiency of the Indenture or of any Bonds or as to the security afforded by the Indenture, and no Fiduciary shall incur any liability in respect of such matters. The Trustee shall, however, be responsible for any representation contained in its certificate on the Bonds. No Fiduciary shall be under any responsibility or duty with respect to the application of any moneys paid to the City or to any other Fiduciary. No Fiduciary shall be under any obligation or duty to perform any act which would involve it in expense or liability or to institute or defend any suit, or to advance any of its own moneys, unless properly indemnified. Subject to the following paragraph, no Fiduciary shall be liable in connection with the performance of its duties under the Indenture except for its own negligence or misconduct.

In case an Event of Default has occurred and has not been remedied, the Trustee shall exercise such of the rights and powers vested in it by the Indenture, and shall use the same degree of care and skill in their exercise as a prudent person would exercise or use under the circumstances in the conduct of his or her own affairs. Any provision of the Indenture relating to action taken or to be taken by the Trustee or to evidence upon which the Trustee may rely shall be subject to the provisions of the Indenture.

Evidence on Which Fiduciaries May Act. Each Fiduciary shall be protected in acting upon any notice, ordinance, resolution, request, consent, order, certificate, report, opinion (including Counsel's Opinion), bond or other paper or document furnished to it pursuant to and conforming to the requirements of the Indenture, and believed by it to be genuine and to have been signed or presented by the proper party or parties.

Whenever any Fiduciary shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action under the Indenture, such matter (unless the Indenture specifically requires other evidence of such matter) may be deemed to be conclusively proved and established by a certificate of an Authorized Officer, but in its discretion the Fiduciary may in lieu of such certificate accept other evidence of such fact or matter or may require such further or additional evidence as it may deem reasonable.

Except as otherwise expressly provided in the Indenture, any request, order, notice or other direction required or permitted to be furnished by the City to any Fiduciary shall be sufficiently executed if signed by an Authorized Officer.

Compensation. Unless otherwise determined by contract between the City and each Fiduciary, the City shall pay to each Fiduciary from time to time reasonable compensation determined by the City for all services rendered under the Indenture.

Certain Permitted Acts. Any Fiduciary may become the Owner of any Bonds, with the same rights it would have if it were not a Fiduciary. To the extent permitted by law, any Fiduciary may act as Depositary for, and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Owners or to effect or aid in any reorganization growing out of the enforcement of the Bonds or the Indenture, whether or not any such committee shall represent the Owners of a majority in principal amount of the Bonds then Outstanding.

Resignation of Trustee. The Trustee may at any time resign and be discharged of the duties and obligations imposed upon it by the Indenture by giving not less than 60 days' written notice to the City, all Owners of the Bonds, the Depositaries and the other Fiduciaries, and such resignation shall take effect upon the day specified in such notice but only if a successor shall have been appointed by the City or the Owners as provided in the Indenture, in which event such resignation shall take effect immediately on the appointment of such successor whether or not the date specified for such resignation to take effect has arrived. If a successor Trustee shall not have been appointed within a period of 90 days following the giving of notice, then the Trustee shall be authorized to petition any court of competent jurisdiction to appoint a successor Trustee as provided in the Indenture.

Removal of Trustee. The Trustee may be removed at any time by an instrument in writing delivered to the Trustee and signed by the City; provided, that if an Event of Default shall have occurred and be continuing, the Trustee may be so removed by the City only with the written concurrence of the Owners of a majority in principal amount of Bonds then Outstanding. The Trustee may be removed at any time by the Owners of a majority in principal amount of the Bonds then Outstanding, excluding any Bonds held by or for the account of the City, by an instrument or concurrent instruments in writing signed and duly acknowledged by such Owners or their attorneys-in-fact duly authorized, and delivered to the City. Copies of each such instrument shall be delivered by the City to each Fiduciary.

Appointment of Successor Trustee. In case at any time the Trustee shall resign or shall be removed or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or if a receiver, liquidator or conservator of the Trustee, or of its property, shall be appointed, or if any public officer or court shall take charge or control of the Trustee, or of its property or affairs, the City shall appoint a successor Trustee. The City shall cause notice of any such appointment by it made to be mailed to all Owners of the Bonds.

If no appointment of a Trustee shall be made by the City pursuant to the foregoing provisions of the Indenture, the Owner of any Bond Outstanding may apply to any court of competent jurisdiction to appoint a successor Trustee. Such court may thereupon, after such notice, if any, as such court may deem proper and prescribe, appoint a successor Trustee.

Any Trustee appointed under the Indenture in succession to the Trustee shall be a bank or trust company or national banking association, doing business and having its principal corporate trust office in the State of Illinois, and having capital stock and surplus aggregating at least $1,000,000, if there be such a bank or trust company or national banking association willing and able to accept the office on reasonable and customary terms and authorized by law to perform all the duties imposed upon it by the Indenture.

Transfer of Rights and Property to Successor Trustee. Any successor Trustee appointed under the Indenture shall execute, acknowledge and deliver to its predecessor Trustee, and also to the City, an instrument accepting such appointment, and thereupon such successor Trustee, without any further act, deed or conveyance, shall be become fully vested with all moneys, estates, properties, rights, powers, duties and obligations of such predecessor Trustee; but the predecessor Trustee shall nevertheless, on the written request of the City or of the successor Trustee, execute, acknowledge and deliver such instruments of conveyance and further assurances and do such other things as may reasonably be required for more fully and certainly vesting and confirming in such successor Trustee all its right, title and interest in and to any property held by it under the Indenture, and shall pay over, assign and deliver to the successor

Trustee any moneys or other property subject to the trusts and conditions set forth in the Indenture. Should any deed, conveyance or instrument from the City be required by such successor Trustee for more fully and certainly vesting in and confirming to such successor Trustee any such moneys, estates, properties, rights, powers and duties, such deed, conveyance or instrument shall be executed, acknowledged and delivered by the City. Any such successor Trustee shall promptly notify the Paying Agents of its appointment as Trustee.

Merger or Consolidation. Any company into which any Fiduciary may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which all or substantially all of the corporate trust business of any Fiduciary may be sold or transferred, shall be the successor to such Fiduciary and be bound to the obligations and duties of such Fiduciary under the Indenture without the execution or filing of any paper or the performance of any further act, unless such successor delivers written notice of its resignation pursuant to the provisions of the Indenture; provided, that such company shall be a bank or trust company organized under the laws of any state of the United States or a national banking association and shall be authorized by law to perform all the duties imposed upon it by the Indenture.

Resignation or Removal of Paying Agent and Appointment of Successor. Any Paying Agent may at any time resign and be discharged of the duties and obligations imposed upon it by the Indenture by giving at least 60 days' written notice to the City and the other Fiduciaries. Any Paying Agent may be removed at any time by an instrument signed by an Authorized Officer and filed with such Paying Agent and the Trustee. Any successor Paying Agent shall be appointed by the City and shall be a bank or trust company organized under the laws of any state of the United States or a national banking association, having capital stock and surplus aggregating at least $1,000,000, shalling and able to accept the office on reasonable and customary terms and authorized by law to perform all the duties imposed upon it by the Indenture.

In the event of the resignation or removal of any Paying Agent, such Paying Agent shall pay over, assign and deliver any moneys held by it as Paying Agent to its successor, or if there be no successor, to the Trustee and shall be subject to audit of all of its books, records and accounts with respect to the Bonds. In the event that for any reason there shall be a vacancy in the office of any Paying Agent, the Trustee shall act as such Paying Agent.

Resignation or Removal of Registrar and Appointment of Successor. Any Registrar may at any time resign and be discharged of the duties and obligations imposed upon it by the Indenture by giving at least 60 days' written notice to the City and the other Fiduciaries. Any Registrar may be removed at any time by an instrument signed by an Authorized Officer and filed with such Registrar and the Trustee. Any successor Registrar shall be appointed by the City and shall be a bank, trust company or national banking association doing business and having an office in the State of Illinois or in the Borough of Manhattan, in the City and State of New York, if there be such a bank, trust company or national banking association shalling and able to accept the office on reasonable and customary terms and authorized by law to perform all the duties imposed upon it by the Indenture.

In the event of the resignation or removal of any Registrar, such Registrar shall deliver all books, records and other property including the bond register of the City to its successor, or if there be no successor, to the Trustee. In the event that for any reason there shall be a vacancy in the office of any Registrar, the Trustee shall act as such Registrar.

Trustee Not Deemed to Have Notice of Default. The Trustee shall not be deemed to have notice of any default under the Indenture except a default under the Indenture or the failure of the City to file with the Trustee any document required by the Indenture unless any officer in its corporate trust department shall have actual knowledge of such default or the Trustee shall be specifically notified in writing of such default by the City or by the Owners of not less than a majority in principal amount of the Bonds Outstanding; and all notices or other instruments required by the Indenture to be delivered to the Trustee must, in order to be effective, be delivered at the principal corporate trust office of the Trustee.

Monthly Report by Trustee and Depositaries. Within seven days after the end of each month, the Trustee, any Paying Agent and each Depositary shall prepare a written report for each Fund, Account and Sub-Account held by it pursuant to the provisions of the Indenture. Such report shall set out the receipts and disbursements, both principal and income, and shall list the Investment Securities held by the Trustee and each Depositary at the end of the month. A copy of each such report shall be furnished to the City and any Persons designated by the City.

In addition, the Trustee, any Paying Agent and each Depositary shall, at any time when requested, Including, without limitation, any request at the time of the resignation of the Trustee, any Paying Agent or any Depositary, furnish to the City and any Persons designated by the City a report of the amount of moneys, including Investment Securities, held in each Fund, Account or Sub-Account by the Trustee and each Depositary. For purposes of this certification, the Investment Securities in each such Fund, Account and Sub-Account shall be treated as having a value equal to their aggregate market value as of the date of this request.

Supplemental Indentures

Supplemental Indentures Not Requiring Consent of Owners. The City and the Trustee may without the consent of, or notice to, any of the Owners, enter into a Supplemental Indenture or Supplemental Indentures as shall not be inconsistent with the terms and provisions of the Indenture for any one or more of the following purposes:

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

(b) to close the Indenture against, or impose additional limitations or restrictions on, the issuance of Bonds, or of other notes, Bonds, obligations or evidences of indebtedness;

(c) to impose additional covenants or agreements to be observed by the City;

(d) to impose other limitations or restrictions upon the City;

(e) to surrender any right, power or privilege reserved to or conferred upon the City by the Indenture;

(f) to confirm, as further assurance, any pledge of or lien upon the Third Lien Revenues or any other moneys, securities or funds;

(g) to cure any ambiguity, omission or defect in the Indenture;

(h) to provide for the appointment of a successor securities depository in the event any Series of Bonds is held in book-entry only form;

(i) to provide for the appointment of any successor Fiduciary; and

(j) to make any other change which, in the judgment of the Trustee, is not to the prejudice of the Trustee or the Owners.

Supplemental Indentures Effective upon Consent of Owners. Any Supplemental Indenture not effective in accordance with the Indenture shall take effect only if permitted and approved and in the manner prescribed by the Indenture.

Filing of Counsel's Opinion. Each Supplemental Indenture shall be accompanied, when filed with the Trustee, by a Counsel's Opinion to the effect that such Supplemental Indenture has been duly authorized by the City in accordance with the provisions of the Indenture, is authorized or permitted by the Indenture and, when executed and delivered, shall be valid and binding upon the City, the Owners and the Trustee.

Amendments

Notices. Any provision in the Indenture for the mailing of a notice or other information to Owners shall be fully complied with if it is mailed by first class mail, postage prepaid or delivered only to each Owner of Bonds then Outstanding at its address, if any, appearing upon the registration books of the City kept by the Registrar and to each Bond Insurer.

Powers of Amendment. Except for Supplemental Indentures, any modification or amendment of the Indenture and of the rights and obligations of the City and of the Owners of the Bonds under the Indenture, in any particular, may be made by a Supplemental Indenture with the written consent given as provided the Indenture of (a) the Owners of at least a majority in principal amount of the Bonds Outstanding at the time such consent is given, and (b) in case less than all of the several Series of Bonds then Outstanding are affected by the modification or amendment, the Owners of at least a majority in principal amount of the Bonds of each Series so affected and Outstanding at the time such consent is given; provided, that if such modification or amendment shall, by its terms, not take effect so long as any Bonds of any specified like Series and maturity remain Outstanding, the consent of the Owners of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds. No such modification or amendment shall permit a change in the terms of redemption or maturity of the principal of any Outstanding Bonds, or of any installment of interest or a reduction in the principal amount or the Redemption Price of any Bond or in the rate of interest on any Bond without the consent of the Owner of such Bond, or shall reduce the percentages or otherwise affect the classes of Bonds the consent of the Owners of which is required to effect any such modification or amendment, or shall change or modify any of the rights or obligations of any Fiduciary without its written assent. A Series shall be deemed to be affected by a modification or amendment of the Indenture if the same adversely affects or diminishes the rights of the Owners of Bonds of such Series. The Trustee may in its discretion determine whether or not the rights of the Owners of Bonds of any particular Series or maturity would be adversely affected or diminished by any such modification or amendment, and its determination shall be binding and conclusive on the City and all Owners of the Bonds.

Consent of Owners. The City may at any time authorize the execution and delivery of a Supplemental Indenture making a modification or amendment permitted by the provisions of the Indenture. Upon the authorization of such Supplemental Indenture, a copy of such Supplemental Indenture shall be delivered to and held by the Trustee for the inspection of the Owners. A copy of such Supplemental Indenture (or a summary of it or reference to it in form approved by the Trustee) together with a request to Owners for their consent in form satisfactory to the Trustee, shall be mailed to the Owners, but failure to mail such copy and request shall not affect the validity of such Supplemental Indenture when consented to. Such Supplemental Indenture shall not be effective unless and until, and shall take effect in accordance with its terms when (a) there shall have been filed with the Trustee (i) the written consents of the Owners of the required principal amount of Outstanding Bonds, and (ii) a

Counsel's Opinion stating that the execution and delivery of such Supplemental Indenture has been duly authorized by the City in accordance with the provisions of the Indenture, is authorized or permitted by the Indenture and, when effective, shall be valid and binding upon the City, the Owners and the Trustee, and (b) a notice shall have been mailed. A certificate or certificates by the Trustee delivered to the City that consents have been given by the Owners of the Bonds described in such certificate or certificates of the Trustee shall be conclusive. Any such consent shall be binding upon the Owner of the Bonds giving such consent and upon any subsequent Owner of such Bonds and of any Bonds issued in exchange for such Bonds whether or not such subsequent Owner has notice of such consent; provided, that any consent may be revoked by any Owner of such Bonds by filing with the Trustee, prior to the time when the Trustee's written statement is filed, a written revocation, with proof that such Bonds are held by the signer of such revocation. The fact that a consent has not been revoked may be proved by a certificate of the Trustee to the effect that no revocation is on file with it. Any consent, or revocation of a consent, may be delivered or filed prior to any mailing or publication required by the Indenture and shall not be deemed ineffective by reason of such prior delivery or filing. Within 30 days of any date on which the consents on file with the Trustee and not previously revoked shall be sufficient, the Trustee shall make and deliver to the City a written statement that the consents of the Owners of the required principal amount of Outstanding Bonds have been filed with the Trustee. Such written statement shall be conclusive that such consents have been so filed. Any time thereafter notice, stating in substance that the Supplemental Indenture has been consented to by the Owners of the required principal amount of Outstanding Bonds, shall be given by mailing to the Owners (but failure to mail such notice or any defect in such mailing shall not prevent such Supplemental Indenture from becoming effective and binding). The Trustee shall deliver to the City proof of the mailing of such notice. A record, consisting of the information required or permitted to be delivered by or to the Trustee, shall be proof of the matters stated in the record.

Modifications by Unanimous Action. The Indenture and the rights and obligations of the City and of the Owners of the Bonds under the Indenture may be modified or amended in any respect by a Supplemental Indenture effecting such modification or amendment and with the consents of the Owners of all the Bonds then Outstanding, each such consent to be accompanied by proof of the holding at the date of such consent of the Bonds with respect to which such consent is given. Such Supplemental Indenture shall take effect upon the filing (a) with the Trustee of (i) a copy of such Supplemental Indenture, (ii) such consents and accompanying proofs and (iii) the Counsel's Opinion referred to in the Indenture and (b) with the City of the Trustee's written statement that the consents of the Owners of all Outstanding Bonds have been filed with it. No mailing or publication of any Supplemental Indenture (or reference to it or summary of it) or of any request or notice shall be required. No such modification or amendment, however, shall change or modify any of the rights or obligations of any Fiduciary without its written assent to it.

Exclusion of Bonds. Bonds owned or held by or for the account of the City shall not be deemed Outstanding and shall be excluded for the purpose of any calculation required by the Indenture. At the time of any consent or other action taken under the Indenture, the City shall furnish the Trustee a certificate of an Authorized Officer, upon which the Trustee may rely, identifying all Bonds so to be excluded.

Notation on Bonds. Bonds authenticated and delivered after the effective date of any action taken as provided in the Indenture may, and if the Trustee so determines shall, bear a notation by endorsement or otherwise in form approved by the City and the Trustee as to such action, and upon demand of the Owner of any Bond Outstanding at such effective date and presentation of its Bond to the Trustee, suitable notation shall be made on such Bond by the Trustee as to any such action. If the City or the Trustee shall so determine, new Bonds so modified which, in the opinion of the Trustee and the City, conform to such action may be prepared, authenticated and delivered, and upon demand of the Owner of any Bond then Outstanding shall be exchanged, without cost to such Owner, for such Bond then Outstanding.

Defeasance

If the City shall pay or cause to be paid or there shall otherwise be paid to the Owners of all Bonds the principal or Redemption Price, if applicable, and interest due or to become due on such Bonds, at the times and in the manner stipulated in such Bonds and in the Indenture, then the pledge of any Third Lien Revenues and other moneys and securities pledged under the Indenture and all covenants, agreements and other obligations of the City to the Owners shall thereupon be discharged and satisfied. In such event, the Trustee, upon request of the City, shall provide an accounting of the assets managed by the Trustee to be prepared and filed with the City for any year or part of a year requested, and shall execute and deliver to the City all such instruments as may be desirable to evidence such discharge and satisfaction, and the Fiduciaries shall pay over or deliver to the City all moneys and securities held by them pursuant to the Indenture which are not required for the payment of Bonds not previously surrendered for such payment or redemption. If the City shall pay or cause to be paid, or there shall otherwise be paid, to the Owners of all Outstanding Bonds of a particular Series, maturity within a Series or portion of any maturity within a Series (which portion shall be selected by lot by the Trustee in the manner provided in the Indenture for the selection of Bonds to be redeemed in part), the principal or Redemption Price, if applicable, of such Bonds and interest due or to become due on such Bonds, at the times and in the manner stipulated in such Bonds and in the Indenture, such Bonds shall cease to be entitled to any lien, benefit or security under the Indenture, and all covenants, agreements and obligations of the City to the Owners of such Bonds and to the Trustee shall thereupon be discharged and satisfied.

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

Amounts deposited with the Trustee for the payment of the principal of and interest on any Bonds deemed to be paid, if so directed by the City, shall be applied by the Trustee to the purchase of such

Bonds. Bonds for which a redemption date has been established may be purchased on or prior to the 45th day preceding the redemption date. The principal amount of Bonds to be redeemed shall be reduced by the principal amount of Bonds so purchased. Bonds which mature on a single future date may be purchased at any time prior to the maturity date. All such purchases shall be made at prices not exceeding the applicable principal amount or Redemption Price established pursuant to the Indenture, plus accrued interest, and such purchases shall be made in such manner as the Trustee shall determine. No purchase shall be made by the Trustee pursuant to this subsection if such purchase would result in the Trustee holding less than the moneys and Defeasance Obligations required to be held for the payment of all other Bonds deemed to be paid.

The City may purchase with any available funds any Bonds deemed to be paid. Bonds for which a redemption date has been established may be purchased by the City on or prior to the 45th day preceding the redemption date. On or prior to the 45th day preceding the redemption date the City shall give notice to the Trustee of its intention to surrender such Bonds on the redemption date. The Trustee shall proceed to call for redemption the remainder of the Bonds due on the redemption date and shall pay to the City on the redemption date the Redemption Price of and interest on such Bonds upon surrender of such Bonds to the Trustee. Bonds which mature on a single future date may be purchased at any time prior to the maturity date. The Trustee shall pay to the City the principal amount of and interest on such Bonds upon surrender of such Bonds on the maturity date.

Any time after any Bonds are deemed to be paid , the City shall not at any time permit any of the proceeds of the Bonds or any other funds of the City to be used directly or indirectly to acquire any securities or obligations the acquisition of which would cause any Bond to be an "arbitrage bond" as defined in the Code and Regulations.

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

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

No Recourse on the Bonds

No recourse shall be had for the payment of the principal or Redemption Price of or interest on the Bonds or for any claim based on them or on the Indenture against any past, present or future member of the City Council, officer, employee or agent of the City, or any successor, public body or any person executing the Bonds, either directly or through the City, under any rule of law or equity, statute or constitution or otherwise and all such liability of any such members, officers, employees or agents as such is expressly waived and released as a condition of and consideration for the execution of the Indenture and the issuance of the Bonds.

No officer, member, agent or employee of the City shall be individually or personally liable for the payment of the principal or Redemption Price of or interest on the Bonds; but nothing contained in the

Indenture shall relieve any such officer, member, agent or employee from the performance of any official duty provided by law.

All covenants, stipulations, obligations and agreements of the City contained in the Indenture shall be deemed to be covenants, stipulations, obligations and agreements of the City to the full extent authorized and permitted by the Constitution and laws of the State of Illinois, and no covenants, stipulations, obligations or agreements contained in the Indenture shall be deemed to be a covenant, stipulation, obligation or agreement of any present or future member, officer, agent or employee of the City in his or her individual capacity, and no officer executing the Bonds shall be liable personally on the Bonds or be subject to any personal liability or accountability by reason of the issue of such Bonds. No member, officer, agent or employee of the City shall incur any personal, liability in acting or proceeding or in not acting or not proceeding in accordance with the terms of the Indenture.

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XL CAPITAL ASSURANCE℠

1221 Avenue of the Americas
New York, New York 10020
Telephone: (212) 478-3400

MUNICIPAL BOND INSURANCE POLICY

ISSUER: [ ]

BONDS: [ ]

Policy No: [ ]

Effective Date: [ ]

XL Capital Assurance Inc. (XLCA), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy (which includes each endorsement attached hereto), hereby agrees unconditionally and irrevocably to pay to the trustee (the "Trustee") or the paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the benefit of the Owners of the Bonds or, at the election of XLCA, to each Owner, that portion of the principal and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment.

XLCA will pay such amounts to or for the benefit of the Owners on the later of the day on which such principal and interest becomes Due for Payment or one (1) Business Day following the Business Day on which XLCA shall have received Notice of Nonpayment (provided that Notice will be deemed received on a given Business Day if it is received prior to 10:00 a.m. New York time on such Business Day; otherwise it will be deemed received on the next Business Day), but only upon receipt by XLCA, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in XLCA. Upon such disbursement, XLCA shall become the owner of the Bond, any appurtenant coupon to the Bond or the right to receipt of payment of principal and interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by XLCA hereunder. Payment by XLCA to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of XLCA under this Policy.

In the event the Trustee or Paying Agent has notice that any payment of principal or interest on a Bond which has become Due for Payment and which is made to an Owner by or on behalf of the Issuer of the Bonds has been recovered from the Owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such Owner within the meaning of any applicable bankruptcy law, such Owner will be entitled to payment from XLCA to the extent of such recovery if sufficient funds are not otherwise available.

The following terms shall have the meanings specified for all purposes of this Policy, except to the extent such terms are expressly modified by an endorsement to this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment", when referring to the principal of Bonds, is when the stated maturity date or a mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity, unless XLCA shall elect, in its sole discretion, to pay such principal due upon such acceleration; and, when referring to interest on the Bonds, is when the stated date for payment of interest has been reached. "Nonpayment" means the failure of the Issuer to have provided sufficient funds to the Trustee or Paying Agent for payment in full of all principal and interest on the Bonds which are Due for Payment. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to XLCA which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

XLCA may, by giving written notice to the Trustee and the Paying Agent, appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy. From and after the date of receipt by the Trustee and the Paying Agent of such notice, which shall specify the name and notice address of the Insurer's Fiscal Agent, (a) copies of all notices required to be delivered to XLCA pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to XCLA and shall not be deemed received until received by both and (b) all payments required to be made by XLCA under this Policy may be made directly by XLCA or by the Insurer's Fiscal Agent on behalf of XLCA. The Insurer's Fiscal Agent is the agent of XLCA only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of XLCA to deposit or cause to be deposited sufficient funds to make payments due hereunder.

Except to the extent expressly modified by an endorsement hereto, (a) this Policy is non-cancelable by XLCA, and (b) the Premium on this Policy is not refundable for any reason. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Bond, other than at the sole option of XLCA, nor against any risk other than Nonpayment. This Policy sets forth the full undertaking of XLCA and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto.

THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, XLCA has caused this Policy to be executed on its behalf by its duly authorized officers.

Name:
Title:

Name:
Title:

XLCAP-005
Form of Municipal Policy [Specimen]

APPENDIX G

Opinion of Co-Bond Counsel

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September __, 2003

City of Chicago
City Hall
121 North LaSalle Street
Chicago, Illinois 60602

The underwriters listed
on ***Exhibit A***

Cole Taylor Bank, as trustee under the Indenture
defined below111 West Washington Street
Chicago, Illinois 60602

We have acted as co-bond counsel in connection with the issuance and delivery by the City of Chicago (the **"City"**) of $74,772,557.65 aggregate original principal amount of its General Obligation Bonds (Central Loop Redevelopment Project), Series 2003A (the **"Series 2003A Bonds"**) and $62,228,998.65 aggregate original principal amount of its General Obligation Bonds (Central Loop Redevelopment Project), Series 2003B (Taxable) (the **"Series 2003B Bonds"** and, together with the Series 2003A Bonds, the **"Bonds"**).

In that regard, we examined a certified copy of the record of proceedings of the City, together with various accompanying certificates, pertaining to the issuance of the Bonds. The record of proceedings includes an Ordinance, adopted by the City Council of the City on July 9, 2003, providing for the issuance of the Bonds, the Notification of Sale of the City Comptroller of the City in connection with the sale of the Bonds provided for in that Ordinance (together, the **"Bond Ordinance"**), the Trust Indenture, dated as of September 1, 2003 (the **"Original Indenture"**), from the City to Cole Taylor Bank, as Trustee (the **"Trustee"**), the First Supplemental Indenture, dated as of September 1, 2003, with respect to the Bonds (together with the Original Indenture, the **"Indenture"**), and certificates of officers of the City, the County of Cook, Illinois, the Trustee, and the Underwriters for the Bonds as to various factual matters.

The Bonds are being issued as "Capital Appreciation Bonds" under the Indenture, are dated September 17 2003, and mature on December 1 of each of the years 2005 to 2008, inclusive, in the amounts for each year and each series provided in the Indenture, and will accrete interest from their date, compounded semiannually on June 1st and December 1st of each year commencing on December 1, 2003, payable only at maturity, at the approximate yields to maturity for each maturity and each series provided in the Indenture.

The Bonds are not subject to redemption in advance of their maturity.

Based upon this examination, we are of the opinion that:

1. The City has the right and power to adopt the Bond Ordinance. The Bond Ordinance has been duly and lawfully adopted by the City Council of the City, is in full force and effect, is valid and binding upon the City, and is enforceable in accordance with its terms.

2. The Indenture has been duly and lawfully executed and delivered by authorized officers of the City and, assuming due authorization, execution and delivery by the Trustee, represents a valid and binding agreement of the City enforceable in accordance with its terms. The Indenture is in full force and effect and creates the valid pledge of Third Lien Revenues (as defined in the Indenture), moneys and securities held under the Indenture for the benefit and security of the Bonds, subject to their application in the manner provided in the Indenture.

3. The Bonds have been duly and validly authorized and issued in accordance with the Constitution and laws of the State of Illinois and the Indenture and are valid and legally binding obligations of the City in accordance with their tenor and terms. The Bonds, together with additional bonds which may be issued in the future on a parity with the Bonds, have a claim for payment, as to principal, redemption premium, if any, and interest, on an equal and ratable basis solely from the Third Lien Revenues (as defined in the Indenture) received by the City, including certain funds and accounts provided for in the Indenture, all as and to the extent and in the priority as provided for in the Indenture. In addition, the Bonds are valid and legally binding general obligations of the City in accordance with their terms, payable from ad valorem taxes levied against all of the taxable property in the City without limitation as to rate or amount. The City has pledged its full faith and credit to the payment of the Bonds.

4. Interest on the Series 2003A Bonds under present law is not included in "gross income" for federal income tax purposes and thus is exempt from federal income taxes based on gross income. This opinion is subject to compliance by the City with its covenant in the Indenture to comply with all requirements which must be met in order for interest on the Series 2003A Bonds not to be included in gross income for federal income tax purposes under present law. The City has the power to comply with its covenant. If the City were to fail to comply with these requirements, interest on the Series 2003A Bonds could be included in gross income for federal income tax purposes retroactive to the date the Series 2003A Bonds are issued. Interest on the Series 2003A Bonds is not an item of tax preference for calculation of an alternative minimum tax for individuals or corporations under present law. Interest on the Series 2003A Bonds will be taken into account in computing an adjustment used in determining the alternative minimum tax for certain corporations and in computing the "branch profits tax" imposed on certain foreign corporations. Ownership of the Series 2003A Bonds may result in other federal tax consequences to certain taxpayers, and we express no opinion regarding any such collateral consequences arising with respect to the Series 2003A Bonds.

5. The interest on the Bonds is not exempt from present Illinois taxes.

The rights of owners of the Bonds, the obligations of the City and the enforceability of the Bonds and the Indenture may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights. Enforcement of provisions of the Bonds or the Indenture by equitable or similar remedies may be subject to general principles of law or equity governing such remedies, including the exercise of judicial discretion whether to grant any particular form of relief.

This opinion is based upon facts known or certified to us and laws in effect on its date and speaks as of that date. We have not undertaken any obligation to revise or supplement this opinion to reflect any facts or circumstances that may come to our attention after the date of this opinion or any changes in law that may occur after that date.

Very respectfully yours,

Exhibit A

The Underwriters

Mesirow Financial, Inc.
350 North Clark Street
Chicago, Illinois 60610

Melvin Securities, L.L.C.
111 West Jackson Boulevard
Chicago, Illinois 60604

J. P. Morgan Securities Inc.
227 West Monroe Street
Chicago, Illinois 60606

Podesta & Co.
208 South LaSalle Street
Chicago, Illinois 60604

(9) ANALYSIS OF DEBT SERVICE - 65 ILCS 5/11-74.4-5(d)(8)(B)

This information is contained in the official statements, limited offering memoranda, promissory notes or debt service schedules of such obligations. See attached.

(10) CERTIFIED AUDIT REPORTS - 65 ILCS 5/11-74.4-5(d)(9)

Please see attached.

Deloitte

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180 N. Stetson Avenue
Chicago, IL 60601-6779
USA

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www.deloitte.com

INDEPENDENT AUDITORS' REPORT

To the Honorable Richard M. Daley, Mayor, and
Members of the City Council
City of Chicago, Illinois

We have audited, in accordance with auditing standards generally accepted in the United States of America, the accompanying financial statements of the government-wide activities, governmental funds and agency fund of the City of Chicago, Illinois' Central Loop Redevelopment Project (the "Project") as of December 31, 2003, and have issued our report thereon dated June 15, 2004.

In connection with our audit, nothing came to our attention that caused us to believe that the Project failed to comply with the regulatory provisions of Subsection (q) of Section 11-74.4-3 of the Illinois Tax Increment Redevelopment Allocation Act insofar as they relate to financial and accounting matters. However, our audit was not directed primarily toward obtaining knowledge of noncompliance with such subsection.

This report is intended solely for the information and use of the management of the City of Chicago, the Project and the State of Illinois, and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

June 15, 2004

(11) GENERAL DESCRIPTION AND MAP

The Central Loop Redevelopment Project Area is generally bounded by Wacker Drive on the north, Michigan Avenue on the east, Congress Parkway on the south, and Dearborn, LaSalle, and North Franklin Streets on the west. The map below illustrates the location and general boundaries of the Project Area. For precise boundaries, please consult the legal description in the Redevelopment Plan.