

OFFICIAL STATEMENT

Ratings: Moody's – "Aa3"
S&P – "AA"
(See "RATINGS" herein)

NEW ISSUE - Book-Entry-Only

In the opinions of Bond Counsel, interest on the Series 2009A and 2009B Obligations is excludable from gross income for federal income tax purposes under existing law, subject to the matters described under "TAX MATTERS FOR SERIES 2009A AND 2009B OBLIGATIONS" herein, and is not includable in the federal alternative minimum taxable income of individuals or corporations. See "TAX MATTERS FOR SERIES 2009A AND 2009B OBLIGATIONS" for a discussion of the opinions of Bond Counsel and other possible tax consequences of an investment in such Obligations. Interest on the Series 2009C Bonds is not excludable from gross income for federal income tax purposes. See "TAX MATTERS FOR SERIES 2009C BABS."



METROPOLITAN TRANSIT AUTHORITY OF HARRIS COUNTY, TEXAS

\$94,465,000
SALES AND USE TAX
BONDS,
SERIES 2009A

\$42,780,000
SALES AND USE TAX
CONTRACTUAL OBLIGATIONS,
SERIES 2009B

\$82,555,000
SALES AND USE TAX
BONDS,
TAXABLE SERIES 2009C
(Direct Subsidy Build America Bonds)

Interest accrues from the Date of Delivery

Due: November 1, as shown on the inside cover

THE OBLIGATIONS. . . The Sales and Use Tax Bonds, Series 2009A (the "Series 2009A Bonds"), the Sales and Use Tax Contractual Obligations, Series 2009B (the "Contractual Obligations"), and the Sales and Use Tax Bonds, Taxable Series 2009C (the "Series 2009C BABS" and, together with the Series 2009A Bonds, the "Bonds") are being issued by the Metropolitan Transit Authority of Harris County, Texas (the "Authority"), pursuant to the terms of two separate resolutions adopted by the governing body of the Authority on May 21, 2009. The Bonds and the Contractual Obligations are referred to herein collectively as the "Obligations." See "THE OBLIGATIONS – DESCRIPTION OF THE OBLIGATIONS."

INTEREST. . . Interest on the Obligations will accrue from the date of delivery at the rates specified inside the cover page and will be payable May 1 and November 1 of each year commencing November 1, 2009 and will be calculated on the basis of a 360-day year consisting of twelve 30-day months.

REGISTERED FORM; DENOMINATIONS. . . The definitive Obligations will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Obligations may be acquired in denominations of \$5,000 or integral multiples thereof in the case of the Series 2009A Bonds and the Contractual Obligations and \$1,000 or any integral multiple thereof in the case of Series 2009C BABS. No physical delivery of the Obligations will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Obligations will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Obligations. See "THE OBLIGATIONS - BOOK-ENTRY-ONLY SYSTEM" herein. The initial Paying Agent/Registrar is Wells Fargo Bank, N.A., Houston, Texas. See "THE OBLIGATIONS - PAYING AGENT/REGISTRAR."

SECURITY FOR THE OBLIGATIONS. . . The Obligations are payable from all legally available funds of the Authority. The Obligations are secured, equally and ratably with outstanding and future parity obligations, by the grant to Wells Fargo Bank, N.A., as trustee (the "Trustee") of a senior lien on and pledge of 75% of the sales and use tax revenues collected and received by the Authority plus any investment income earned on moneys in certain funds to which such revenue is deposited (the "Pledged Revenues"). Each of the Bonds and the Contractual Obligations are also secured by a separate debt service reserve fund for such Obligations and certain parity debt to be funded by the Authority and held by the Trustee. The sales and use tax is levied by the Authority at the rate of 1% on all taxable transactions within the Authority's boundaries. See "THE OBLIGATIONS – SECURITY AND SOURCE OF PAYMENT."

PURPOSE. . . The Bonds are being issued to finance the acquisition, construction, repair, equipping, improvement or extension of the Authority's transit system, including construction of the METRORail light rail system. The Contractual Obligations are being issued to finance the acquisition of personal property, including two prototype rail cars and preparation for production, including design work and materials procurement, of other rail cars.

SEE INSIDE COVER PAGE FOR MATURITY SCHEDULES

REDEMPTION. . . The Obligations are subject to optional redemption and mandatory sinking fund redemption prior to maturity as set forth herein. See "THE OBLIGATIONS – OPTIONAL REDEMPTION OF THE OBLIGATIONS" and " – MANDATORY SINKING FUND REDEMPTION."

LEGALITY AND OFFER. . . The Obligations are offered for sale when, as and if issued by the Authority and accepted by the underwriters listed below (the "Underwriters"), subject to prior sale, to withdrawal or modification of the offer without notice, and to the approving opinions of the Attorney General of Texas and, for the Bonds, the opinions of Andrews Kurth LLP, Houston, Texas, and Bates & Coleman, P.C., Houston, Texas Co-Bond Counsel, and for the Contractual Obligations, the opinion of Andrews Kurth LLP, Houston, Texas, Bond Counsel. See APPENDIX C – "FORMS OF BOND COUNSELS' OPINIONS." Certain matters will be passed upon for the Underwriters by Fulbright & Jaworski L.L.P., Houston, Texas, and West & Associates, L.L.P., San Antonio, Texas as Co-Counsel to the Underwriters.

DELIVERY. . . It is expected that the Obligations will be available for delivery through The Depository Trust Company on or about June 11, 2009.

MERRILL LYNCH & CO.
(Joint Bookrunner for all Obligations)

GOLDMAN, SACHS & CO.
(Joint Bookrunner for all Obligations)

LOOP CAPITAL MARKETS, LLC
SAMUEL A. RAMIREZ & CO., INC.
RICE FINANCIAL PRODUCTS COMPANY
(Co-Managers for Series 2009A and Series 2009C)

ESTRADA HINOJOSA & COMPANY, INC
KIPLING JONES & CO.
(Co-Managers for Series 2009B)

The date of this Official Statement is May 28, 2009.

MATURITY SCHEDULES

\$94,465,000
Sales and Use Tax Bonds,
Series 2009A

<u>Maturity (November 1)⁽¹⁾</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP No.⁽²⁾</u>	<u>Maturity (November 1)⁽¹⁾</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP No.⁽²⁾</u>
2010	\$2,955,000	3.00%	1.00%	41422EAX1	2020	\$4,635,000	5.00%	3.77%*	41422EBH5
2011	3,045,000	3.00%	1.59%	41422EAY9	2021	4,870,000	5.00%	3.89%*	41422EBJ1
2012	3,135,000	3.00%	2.00%	41422EAZ6	2022	5,120,000	5.00%	4.07%*	41422EBK8
2013	3,265,000	5.00%	2.25%	41422EBA0	2023	5,385,000	5.00%	4.19%*	41422EBL6
2014	3,430,000	5.00%	2.60%	41422EBB8	2024	5,660,000	5.00%	4.31%*	41422EBM4
2015	3,610,000	5.00%	2.82%	41422EBC6	2025	5,950,000	5.00%	4.38%*	41422EBN2
2016	3,795,000	5.00%	3.02%	41422EBD4	2026	6,255,000	5.00%	4.50%*	41422EBP7
2017	3,990,000	5.00%	3.22%	41422EBE2	2027	6,575,000	5.00%	4.59%*	41422EBQ5
2018	4,195,000	5.00%	3.42%	41422EBF9	2028	6,915,000	5.00%	4.65%*	41422EBR3
2019	4,410,000	5.00%	3.61%	41422EBG7	2029	7,270,000	5.00%	4.69%*	41422EBS1

(Interest accrues from date of delivery)

\$42,780,000
Sales and Use Tax
Contractual Obligations,
Series 2009B

<u>Maturity (November 1)⁽¹⁾</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP No.⁽²⁾</u>	<u>Maturity (November 1)⁽¹⁾</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP No.⁽²⁾</u>
2010	\$1,085,000	3.00%	1.00%	41422EAA1	2020	\$1,570,000	5.00%	3.77%*	41422EAL7
2011	1,115,000	3.00%	1.59%	41422EAB9	2021	1,650,000	5.00%	3.89%*	41422EAM5
2012	1,150,000	3.00%	2.00%	41422EAC7	2022	1,725,000	4.00%	4.17%	41422EAN3
2013	1,185,000	3.00%	2.25%	41422EAD5	2023	1,795,000	4.00%	4.29%	41422EAP8
2014	1,225,000	4.00%	2.60%	41422EAE3	2024	1,870,000	4.25%	4.40%	41422EAQ6
2015	1,275,000	4.00%	2.82%	41422EAF0	2025	1,950,000	4.25%	4.43%	41422EAR4
2016	1,330,000	4.00%	3.02%	41422EAG8	2026	2,045,000	5.00%	4.50%*	41422EAS2
2017	1,385,000	4.00%	3.22%	41422EAH6	2027	2,145,000	4.50%	4.62%	41422EAT0
2018	1,440,000	4.00%	3.42%	41422EAJ2	2028	2,250,000	5.00%	4.65%*	41422EAU7
2019	1,500,000	4.00%	3.61%	41422EAK9	2029	2,365,000	5.00%	4.69%*	41422EAV5

\$10,725,000 5.00% TERM CONTRACTUAL OBLIGATIONS DUE NOVEMBER 1, 2033⁽¹⁾⁽³⁾; PRICED TO YIELD 5.010%; CUSIP 41422EAW3⁽²⁾

(Interest accrues from date of delivery)

\$82,555,000
Sales and Use Tax Bonds,
Taxable Series 2009C
(Direct-Subsidy Build America Bonds)

**\$82,555,000 6.875% TAXABLE TERM BONDS DUE NOVEMBER 1, 2038⁽¹⁾⁽³⁾; PRICED TO YIELD 6.984%;
CUSIP 41422EBT9⁽²⁾**

(Interest accrues from date of delivery)

- (1) The Authority reserves the right, at its option, to redeem Bonds and Contractual Obligations having stated maturities on and after November 1, 2020, in whole or in part in principal amounts of \$5,000 (in the case of Series 2009A Bonds and Contractual Obligations) or \$1,000 (in the case of Series 2009C BABs) or any integral multiple thereof, on November 1, 2019 or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. See "THE OBLIGATIONS – OPTIONAL REDEMPTION OF THE OBLIGATIONS."
- (2) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by Standard and Poor's CUSIP Service Bureau, a Division of The McGraw-Hill Companies, Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services.
- (3) Subject to mandatory sinking fund redemption. See "THE OBLIGATIONS – MANDATORY SINKING FUND REDEMPTION."

*The Obligations are priced at the specified yield to the first par call date.

The Obligations have not been registered under the United States Securities Act of 1933, as amended, in reliance upon exemptions contained in such Act. Any registration or qualification of the Obligations in accordance with applicable provisions of securities laws of the states in which the Obligations may have been registered or qualified and the exemption from registration or qualification in other states cannot be regarded as a recommendation thereof.

In making an investment decision, investors must rely on their own examination of the terms of this offering, including the merits and risks involved. The Obligations 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 Official Statement. Any representation to the contrary may be a criminal offense.

This Official Statement includes descriptions and summaries of certain events, matters, laws and documents. Such descriptions and summaries do not purport to be complete, and all such descriptions, summaries and references thereto are qualified in their entirety by reference to this Official Statement in its entirety and to each such law or document, copies of which may be obtained from the Authority or from the Co-Financial Advisors to the Authority. Any statements made in this Official Statement or the appendices hereto 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 opinions or estimates will be realized.

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

The Underwriters have provided the following sentence for inclusion in this Official Statement: The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

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

The cover page contains certain information for general reference only. Investors must read the entire Official Statement to obtain information essential to make an investment decision. See “INVESTMENT CONSIDERATIONS” for a discussion of factors that should be considered, in addition to other matters set forth herein, in evaluating the investment quality of the Obligations.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICES OF THE OBLIGATIONS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

CERTAIN STATEMENTS INCLUDED OR INCORPORATED BY REFERENCE IN THIS OFFICIAL STATEMENT (INCLUDING, WITHOUT LIMITATION, ALL APPENDICES HERETO) CONSTITUTE “FORWARD LOOKING STATEMENTS.” SUCH STATEMENTS ARE GENERALLY IDENTIFIABLE BY THE TERMINOLOGY USED, SUCH AS “PLAN,” “EXPECT,” “ESTIMATE,” “BUDGET,” “FORECAST,” OR SIMILAR WORDS.

THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD LOOKING STATEMENTS. THE ISSUER DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THOSE FORWARD LOOKING STATEMENT IF OR WHEN ITS EXPECTATIONS, OR EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH SUCH STATEMENTS ARE BASED CHANGE. INVESTORS SHOULD NOT PLACE UNDUE RELIANCE ON SUCH FORWARD LOOKING STATEMENTS. PLEASE REVIEW THE FACTORS DESCRIBED BELOW UNDER “INVESTMENT CONSIDERATIONS” AND ELSEWHERE HEREIN, WHICH COULD CAUSE ACTUAL RESULTS TO DIFFER FROM EXPECTATIONS.

TABLE OF CONTENTS

The cover page hereof, this page, the appendices included herein and any addenda, supplement or amendment hereto, are part of the Official Statement.

OFFICIAL STATEMENT SUMMARY	v	INVESTMENT CONSIDERATIONS	23
INTRODUCTION	1	Receipt of Grants Is Not Assured	23
Offering	1	Construction Costs Could Increase Substantially	24
Description of the Authority	1	The State Comptroller May Offset Current	
PLAN OF FINANCE	1	Distributions For Overpayments	24
Use of Proceeds	1	The State Comptroller May Offset Current	
Commercial Paper Notes	1	Distributions For Overpayments	24
Build America Bonds	2	Authority May Receive Payment of Sales and Use Tax	
THE OBLIGATIONS	2	Revenue Less Frequently	24
Description of the Obligations	2	Authority May Experience Variations In Its Sales and	
Authority for Issuance of the Obligations	3	Use Tax	24
Optional Redemption of the Obligations	3	Increased Internet Use May Reduce Sales and Use Tax	
Mandatory Sinking Fund Redemption	3	Revenues	24
Notice of Redemption	3	Environmental Legislation Could Increase Ridership and	
Security and Source of Payment	3	Expenses and Limit Revenue Increases	24
Additional Parity Obligations	4	Adverse Legislation Could Be Enacted	25
Debt Service Reserve Fund	4	Payment of Short-Term Parity Obligations May Depend on	
Flow of Funds	5	Market Access	25
Defeasance	6	Rights of Owners Are Limited	25
Book-Entry-Only System	6	TAX MATTERS FOR SERIES 2009A AND 2009B	
Effect of Termination of Book-Entry Only System	8	OBLIGATIONS	26
Trustee/Paying Agent/Registrar	8	Exemption for Interest	26
Amendments to Resolutions	8	Tax Treatment of Original Issue Discount	26
THE AUTHORITY	8	Tax Treatment of Original Issue Premium	27
General	8	TAX MATTERS FOR SERIES 2009C BABS	28
Jurisdiction	8	General	28
Board of Directors	8	Internal Revenue Service Circular 230 Notice	28
Management	9	Stated Interest on the Series 2009C BABS	28
Transit System	9	Disposition of Series 2009C BABS and Market Discount	28
Ridership Information	10	Backup Withholding	28
Bus Replacement Policy	10	Withholding on Payments to Nonresident Alien Individuals	
REVENUES AND INVESTMENTS	10	and Foreign Corporations	29
General	10	Reporting of Interest Payments	29
Sales and Use Tax Authority	12	CONTINUING DISCLOSURE OF INFORMATION	29
Operating Revenue	13	Annual Reports	29
Grants	14	Material Event Notices	29
Investments	14	Availability of Information From NRMSIRS and SID	30
Other Taxing Authority	14	Limitations and Amendments	30
EXPENDITURES	14	Compliance With Prior Undertakings	30
Budget	14	OTHER INFORMATION	30
Financial Hedges for Fuel	16	Ratings	30
DEBT AND OTHER OBLIGATIONS	16	Legal Investments and Eligibility to Secure Public Funds in	
Tax-Supported Debt	16	Texas	30
Annual Debt Service Requirements	17	Legal Matters	31
General Mobility Contracts	19	Authenticity of Financial Data and Other Information	31
Debt Policy	19	Co-Financial Advisors	31
Swap Policy	19	Underwriting	32
Lease/Leaseback Transactions	19	Independent Auditors	32
Retirement Plans	20	GENERAL INFORMATION	32
Other Post-Employment Benefits	20	APPENDICES	
Claims and litigation Affecting the Authority	20	Selected Provisions of the Resolutions	A
METRO SOLUTIONS	20	Audited Financial Statements and	
Description	20	Unaudited Management's Discussion and	
Design/Build and Vehicle Contract	22	Analysis and Supplemental Information	B
Capital Funding	22	Forms of Bond Counsels' Opinions	C
		Selected Information Regarding Harris	
		County, Texas	D

OFFICIAL STATEMENT SUMMARY

This summary is subject in all respects to the more complete information and definitions contained or incorporated in this Official Statement. The offering of the Obligations to potential investors is made only by means of this entire Official Statement. No person is authorized to detach this summary from this Official Statement or to otherwise use it without the entire Official Statement.

THE AUTHORITY The Authority is a metropolitan rapid transit authority created pursuant to legislation now codified as Chapter 451, Texas Transportation Code, as amended (the “*Authority Act*”), and was confirmed at a confirmation and tax election held on August 12, 1978. The Authority provides transit services to, and collects sales and use taxes on taxable transactions in a 1,285-square mile area with a population of approximately 2.9 million people. See “**THE AUTHORITY.**”

PAYMENT OF INTEREST Interest on the Obligations accrues from the date of delivery and is payable November 1, 2009, and each May 1 and November 1 thereafter until maturity or prior redemption.

AUTHORITY FOR ISSUANCE

OF THE OBLIGATIONS..... The Obligations are issued pursuant to resolutions adopted by the Board of Directors of the Authority. In addition, the Bonds are authorized by Chapter 1371, Texas Government Code, as amended, Section 451.352, Texas Transportation Code, as amended, and an election, and the Contractual Obligations are authorized by Chapter 1371, Texas Government Code, as amended, Chapter 271, Subchapter A, Texas Local Government Code, as amended. See “**THE OBLIGATIONS – AUTHORITY FOR ISSUANCE OF THE OBLIGATIONS.**”

SECURITY FOR

THE OBLIGATIONS..... The Obligations are payable from all legally available funds of the Authority. The Obligations are secured, equally and ratably with parity obligations, by a senior lien on and pledge of 75% of the sales and use tax revenues collected and received by the Authority plus any investment income earned on moneys in the Revenue Fund, Interest and Sinking Fund, and Reserve Funds described herein (the “*Pledged Revenues*”), granted to Wells Fargo Bank, N.A., as trustee (the “*Trustee*”), and the Bonds and the Contractual Obligations are each secured by a separate debt service reserve fund to be funded by the Authority over three years in an amount equal to 50% of pro forma maximum annual debt service on such respective Obligations and certain parity debt. The sales and use tax is levied by the Authority at the rate of 1% on all taxable transactions within the Authority’s boundaries. See “**THE OBLIGATIONS – SECURITY AND SOURCE OF PAYMENT.**” See the inside back cover for a map depicting the Authority’s service area and sales tax jurisdiction.

ADDITIONAL PARITY

OBLIGATIONS..... Subject to certain requirements, the Authority may issue Additional Obligations and Senior Credit Agreements (including interest rate swap and rate lock agreements) that are secured by a lien on and pledge of the Pledged Revenues on a parity with all other Senior Lien Obligations as well as obligations of inferior liens. The Authority may elect to make such additional Senior Lien Obligations payable from one of the debt service reserve funds. See “**THE OBLIGATIONS – ADDITIONAL PARITY OBLIGATIONS.**” The Authority has authorized the issuance of up to \$400 million of parity commercial paper notes, which are not payable from either debt service reserve fund. See “**PLAN OF FINANCE.**”

REDEMPTION..... The Authority reserves the right, at its option, to redeem Obligations having stated maturities on and after November 1, 2020, in whole or in part in principal amounts of \$5,000 (in the case of Series 2009A Bonds and the Contractual Obligations) or \$1,000 (in the case of Series 2009C BABs) or any integral multiple thereof, on November 1, 2019, or any date thereafter, at 100% of principal amount plus accrued interest to the date of redemption. See “**THE OBLIGATIONS – OPTIONAL REDEMPTION OF THE OBLIGATIONS.**”

Additionally, the Contractual Obligations maturing November 1, 2033, and the Series 2009C BABs are subject to mandatory sinking fund redemption prior to maturity. See “**THE OBLIGATIONS – MANDATORY SINKING FUND REDEMPTION.**”

TAX EXEMPTION FOR SERIES 2009A AND 2009B

OBLIGATIONS..... In the opinions of Bond Counsel and Co-Bond Counsel, interest on the Series 2009A Bonds and the Contractual Obligations is excludable from gross income for federal income tax purposes under existing law, subject to the matters described under the caption “**TAX MATTERS FOR SERIES 2009A AND 2009B OBLIGATIONS**” herein, and is not includable in the federal alternative minimum taxable income of individuals or corporations. See “**TAX MATTERS FOR SERIES 2009A AND 2009B OBLIGATIONS**” for a discussion of the opinions of Bond Counsel and Co-Bond Counsel and other possible tax consequences of an investment in such Obligations.

USE OF PROCEEDS..... Proceeds from the sale of the Bonds will be used (i) for the acquisition, construction, repair, equipping, improvement or extension of the Authority’s transit system, including construction of a portion of the METRORail light rail system, (ii) to fund approximately 10 months of capitalized interest on the Bonds and (iii) to pay the costs of issuance of the Bonds. Proceeds of the Contractual Obligations will be used (i) to purchase or acquire certain personal property (including rail cars), (ii) to fund approximately 6 months of capitalized interest on the Contractual Obligations and (iii) to pay the costs of issuance of the Contractual Obligations.

RATINGS Moody’s Investors Service, Inc. (“*Moody’s*”), and Standard & Poor’s Ratings Services, A Division of The McGraw-Hill Companies, Inc. (“*S&P*”) have assigned ratings of “Aa3” and “AA,” respectively, to the Obligations. See “OTHER INFORMATION – RATINGS.”

PAYMENT RECORD..... The Authority has never defaulted in payment of its obligations.

For additional information regarding the Authority, please contact:

Louise Richman
Chief Financial Officer
Metropolitan Transit Authority of
Harris County, Texas
1900 Main Street
Houston, Texas 77002
(713) 739-4602

or

Drew Masterson or
Ron Davis
First Southwest Company
1021 Main Street, Suite 2200
Houston, Texas 77002
(713) 651-9850

METROPOLITAN TRANSIT AUTHORITY OF HARRIS COUNTY, TEXAS

BOARD MEMBERS

<u>Board Member</u>	<u>Position</u>	<u>Appointing Authority</u>
Mr. David S. Wolff	Chairman	City of Houston
Mr. Gerald B. Smith	Co-Vice Chairman and Chairman, Finance and Audit Committee	City of Houston
Mr. Jackie Freeman	Secretary	Harris County
Mr. George A. DeMontrond, III	Co-Vice Chairman	City of Houston
Bishop James Dixon, II	Board Member	City of Houston
Ms. Carmen Orta	Board Member	City of Houston
Mr. Burt Ballanfant	Board Member	Multi-Cities
Ms. Trinidad Mendenhall Sosa	Board Member	Harris County
Mr. C. Jim Stewart, III	Board Member	Multi-Cities

OFFICERS

<u>Officer</u>	<u>Position</u>
Mr. Frank J. Wilson	President & Chief Executive Officer
Mr. John M. Sedlak	Executive Vice President
Ms. Louise T. Richman	Vice President/Chief Financial Officer
Mr. David F. Feeley	Senior Vice President, Operations
Ms. Pauline E. Higgins	Senior Vice President, General Counsel and Corporate Secretary
Mr. Bryan Pennington	Senior Vice President, Engineering and Construction

CONSULTANTS AND ADVISORS

Co-Bond Counsel for the Bonds

Andrews Kurth LLP
Houston, Texas

Bates & Coleman, P.C.
Houston, Texas

Bond Counsel for the Contractual Obligations

Andrews Kurth LLP
Houston, Texas

Co-Financial Advisors

First Southwest Company
Houston, Texas

Siebert Brandford Shank & Co., LLC
Houston, Texas

Trustee and Paying Agent/Registrar

Wells Fargo Bank, N.A.
Houston, Texas

[THIS PAGE LEFT BLANK INTENTIONALLY]

OFFICIAL STATEMENT

RELATING TO

\$94,465,000
METROPOLITAN TRANSIT
AUTHORITY OF
HARRIS COUNTY, TEXAS,
SALES AND USE TAX BONDS,
SERIES 2009A

\$42,780,000
METROPOLITAN TRANSIT
AUTHORITY OF
HARRIS COUNTY, TEXAS
SALES AND USE TAX
CONTRACTUAL OBLIGATIONS,
SERIES 2009B

\$82,555,000
METROPOLITAN TRANSIT
AUTHORITY OF
HARRIS COUNTY, TEXAS
SALES AND USE TAX BONDS,
TAXABLE SERIES 2009C
(Direct-Subsidy Build America Bonds)

INTRODUCTION

OFFERING . . . This Official Statement, which includes the Appendices hereto, provides certain information regarding the offer and sale by the Metropolitan Transit Authority of Harris County, Texas (the “*Authority*”) of its of Sales and Use Tax Bonds, Series 2009A (the “*Series 2009A Bonds*”) in the aggregate principal amount of \$94,465,000, Sales and Use Tax Contractual Obligations, Series 2009B (the “*Contractual Obligations*”) in the aggregate principal amount of \$42,780,000, and Sales and Use Tax Bonds, Taxable Series 2009C (the “*Series 2009C BABs*”) in the aggregate principal amount of \$82,555,000. The Series 2009A Bonds and the Series 2009C BABs are referred to collectively herein as the “*Bonds*.” The Bonds and the Contractual Obligations are referred to collectively herein as the “*Obligations*.” Capitalized terms used in this Official Statement, except as otherwise indicated herein, have the same meanings assigned to such terms in the resolutions authorizing the issuance of the Bonds (the “*Bond Resolution*”) and the Contractual Obligations (the “*Contractual Obligation Resolution*”) and, together with the Bond Resolution, the “*Resolutions*”), respectively, excerpts from which are attached as Appendix A. The Resolutions appoint Wells Fargo Bank, N.A., as trustee (together with any successor, the “*Trustee*”) for the sole purpose of holding revenues pledged to the payment of the Obligations as described herein.

There follows in this Official Statement descriptions of the Obligations and certain information regarding the Authority and its finances. All descriptions of laws and documents contained herein are only summaries and are qualified in their entirety by reference to each such law and document. Copies of such documents may be obtained from the Authority’s Co-Financial Advisors, First Southwest Company, 1012 Main Street, Suite 2200, Houston, Texas 77002, and Siebert Brandford Shank & Co., LLC, 440 Louisiana Street, Suite 1520, Houston, Texas 77002.

DESCRIPTION OF THE AUTHORITY . . . The Authority is a metropolitan rapid transit authority created pursuant to legislation now codified as Chapter 451, Texas Transportation Code, as amended (the “*Authority Act*”), and confirmed at a confirmation and tax election held on August 12, 1978. The Authority provides transit service for, and collects sales and use taxes on taxable transactions in a 1,285 square mile area with a population of approximately 2.9 million, including the cities of Houston, Bellaire, Bunker Hill Village, El Lago, Hedwig Village, Hilshire Village, Humble, Hunters Creek, Katy, Missouri City, Piney Point, Southside Place, Spring Valley Village, Taylor Lake Village, and West University Place (the “*Participating Municipalities*”), and significant portions of unincorporated Harris County. The Authority does not provide service to or collect sales and use taxes in certain portions of eastern Harris County, including the cities of Baytown, La Porte and Pasadena. See “**THE AUTHORITY**” and the map on the inside back cover of this Official Statement.

PLAN OF FINANCE

USE OF PROCEEDS. . . The Obligations, together with parity commercial paper notes being issued contemporaneously with the Obligations, are the initial financing for expansion of the Authority’s MetroRail light rail mass transit system. METROrail currently consists of a 7.5 mile Main Street line. The expansion includes the addition of five new lines totaling approximately 30 miles as part of the Authority’s capital improvement plan known as “*METRO Solutions*.” The new lines will be located along five routes designated the East End, North, Southeast, Uptown and University Corridors. See “**METRO SOLUTIONS**.”

The proceeds of the Bonds will be used (i) to finance certain portions of early work (utility relocations) and right-of-way acquisition in the North and Southeast Corridors, (ii) to fund approximately 10 months of capitalized interest on the Bonds and (iii) to pay the costs of issuance of the Bonds. The proceeds of Contractual Obligations will be used (i) to acquire two (2) prototype rail cars and to pay costs of design and materials purchases for the production of other rail cars, (ii) to fund approximately 6 months of capitalized interest on the Contractual Obligations and (iii) to pay the costs of issuance of the Contractual Obligations.

COMMERCIAL PAPER NOTES. . . The Authority has authorized the establishment of a program to issue Sales and Use Tax Commercial Paper Notes (the “*CP Notes*”) in the maximum principal amount outstanding from time to time of \$400 million. As of May 1, 2009, the Authority had \$200 million in outstanding CP Notes, partially offset by a \$50 million unexpended balance of CP Note proceeds. The CP Notes are payable from all legally available funds of the Authority and are secured by a pledge of and senior lien on the Pledged Revenues on a parity with the Obligations. The existing CP Notes are supported by a line of credit with JP Morgan Chase Bank, N.A. and Compass Bank (together, the “*Banks*”). The line of credit obligates the Banks to

provide liquidity for the payment of the principal of (but not interest on) up to \$200 million of CP Notes through June 29, 2009, subject to certain conditions. If the Banks make an advance to pay for maturity CP Notes, the Authority must repay such advances over a two-year period. The Authority currently is negotiating with banks to replace and increase to \$400 million the current line of credit prior to its expiration. There can be no assurance that it will be successful in doing so.

Promptly following replacement and increase of the current line of credit, the Authority plans to issue approximately \$200 million principal amount of additional CP Notes to provide interim financing of a portion of construction of and right-of-way acquisition for the East End Corridor. The Authority intends to refund CP Notes issued for that purpose with longer-term obligations payable from all legally available funds of the Authority and secured by a pledge of and lien on the Pledged Revenues on a parity with the Obligations.

For a description of certain risks attendant with the payment and refunding of the CP Notes, see “INVESTMENT CONSIDERATIONS – PAYMENT OF THE SHORT-TERM PARITY OBLIGATIONS NOTES MAY DEPEND ON MARKET ACCESS.”

BUILD AMERICA BONDS. . . The Authority has designated the Series 2009C BABs as “Build America Bonds” under and pursuant to the federal American Recovery and Reinvestment Act of 2009 and intends to elect irrevocably to receive directly from the United States Department of the Treasury direct subsidy payments equal to 35% of the interest payable by the Authority on the Series 2009C BABs contemporaneously with each interest payment date. Under the Stimulus Act, the Authority is entitled to receive the subsidy payments on application to the U.S. Treasury, if (1) the Authority uses 100% of the proceeds of the Series 2009C BABs (net of permitted costs of issuance) and investment earnings on such proceeds for capitalizable expenditures and (2) the Authority complies with the same conditions regarding use and investment of proceeds of the Series 2009C BABs as those applicable to the exclusion of interest on the Series 2009A Bonds from gross income for federal income tax purposes. See “TAX MATTERS FOR SERIES 2009A AND 2009B OBLIGATIONS—EXEMPTION FOR INTEREST.” The Authority intends to apply and expects to qualify for each federal interest subsidy payment. The Bond Resolution requires the Authority to deposit each federal interest subsidy payment, as received, to the Interest and Sinking Fund for the Senior Lien Obligations, thus reducing required deposits to the fund from the Authority’s sales and use tax revenue. See “THE OBLIGATIONS—FLOW OF FUNDS.” If the Authority fails to comply with the conditions to the federal subsidy throughout the term of the Series 2009C BABs, it may no longer receive the subsidy payments and could be subject to a claim for return of previously received subsidy payments.

The estimated sources and uses of funds for the plan of finance being effected by the Bonds and the Contractual Obligations are as follows:

ESTIMATED SOURCES AND USES OF FUNDS

	<u>Bonds</u>	<u>Contractual Obligations</u>	<u>Total</u>
Sources of funds:			
Principal amount	\$177,020,000.00	\$42,780,000.00	\$219,800,000.00
Net original issuance premium	<u>5,661,921.10</u>	<u>918,236.35</u>	<u>6,580,157.45</u>
TOTAL	\$182,681,921.10	\$43,698,236.35	\$226,380,157.45
Uses of funds:			
North and Southeast Corridors ⁽¹⁾	\$173,326,351.94	\$-0-	\$173,326,351.94
Two rail cars and set up	-0-	42,077,867.44	42,077,867.44
Capitalized interest ⁽²⁾	6,182,818.10	918,236.35	7,101,054.45
Costs of issuance ⁽³⁾	<u>3,172,751.06</u>	<u>702,132.56</u>	<u>3,874,883.62</u>
TOTAL	\$182,681,921.10	\$43,698,236.35	\$226,380,157.45

(1) Includes utility relocation work and right-of-way acquisition.

(2) Represents approximately 10 months interest on the Bonds and 6 months interest on the Contractual Obligations.

(3) Costs of issuance include underwriters’ discount, co-financial advisors fees, rating agencies fees, paying agent/registrar fees, legal fees, construction trustee, independent engineer and printing.

Proceeds of the Obligations and CP Notes will provide for payment of only a small portion of the estimated costs of the projects contemplated by METRO Solutions. See “METRO SOLUTIONS.” The Authority intends to finance a majority of the remaining costs of the projects through the issuance of additional parity obligations within the next year for East, North, and Southeast Corridor projects and within the next two years for Uptown and University Corridor projects.

THE OBLIGATIONS

DESCRIPTION OF THE OBLIGATIONS. . . The Obligations will accrue interest from the date of delivery thereof, and mature on November 1 in each of the years and in the amounts shown on the inside cover page hereof. Interest will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on May 1 and November 1 of each year, commencing

November 1, 2009, until maturity or earlier redemption. The definitive Obligations will be issued only in fully registered form in any integral multiple of \$5,000 for any one series and maturity, in the case of Series 2009A Bonds and Contractual Obligations, and any integral multiple of \$1,000, in the case of the Series 2009C BABs. All Obligations will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company (“DTC”) pursuant to the Book-Entry-Only System described herein. No physical delivery of the Obligations will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Obligations will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC, for subsequent payment to the beneficial owners of the Obligations. See “THE OBLIGATIONS - BOOK-ENTRY-ONLY SYSTEM.”

AUTHORITY FOR ISSUANCE OF THE OBLIGATIONS. . . The Obligations are issued pursuant to resolutions adopted by the Board of Directors of the Authority on May 21, 2009. In addition, the Bonds are authorized by Chapter 1371, Texas Government Code, as amended, Section 451.352, Texas Transportation Code, as amended, and an election and the Contractual Obligations are authorized by Chapter 1371, Texas Government Code, as amended, and Chapter 271, Subchapter A, Texas Local Government Code, as amended.

OPTIONAL REDEMPTION OF THE OBLIGATIONS. . . The Authority reserves the right, at its option, to redeem Obligations of any series having stated maturities on and after November 1, 2020, in whole or in part in principal amounts of \$5,000 (in the case of Series 2009A Bonds and Contractual Obligations) or \$1,000 (in the case of Series 2009C BABs) or any integral multiple thereof, on November 1, 2019, or any date thereafter, at a redemption price equal to 100% of the principal amount plus accrued interest to the date of redemption. If less than all of the Obligations are to be redeemed, the Authority may select the principal amount of each series and maturity to be redeemed. If less than all the Obligations of a series and maturity are to be redeemed, the Paying Agent/Registrar shall select the Obligations to be redeemed by lot or other means acceptable to it. If an Obligation (or any portion of the principal amount thereof) is called for redemption and notice of such redemption is given, such Obligation (or the principal amount thereof to be redeemed) will become due and payable on such redemption date and interest thereon will cease to accrue from and after the redemption date, provided funds for the payment of the redemption price, including accrued interest thereon, are held by the Paying Agent/Registrar on the redemption date.

MANDATORY SINKING FUND REDEMPTION. . . The Contractual Obligations maturing November 1, 2033, and the Series 2009C BABs (the “*Term Obligations*”) are subject to mandatory redemption prior to maturity on November 1 in each of the years and respective principal amounts (subject to reduction as hereinafter provided) set forth below at a redemption price equal to 100% of the principal amount plus accrued interest to the date of redemption:

Series 2009B Contractual Obligations due November 1, 2033		Series 2009C BABs due November 1, 2038	
Redemption Date (November 1,)	Principal Amount	Redemption Date (November 1,)	Principal Amount
2030	\$2,485,000	2030	\$7,620,000
2031	2,610,000	2031	7,970,000
2032	2,745,000	2032	8,330,000
2033	2,885,000 ⁽¹⁾	2033	8,715,000
		2034	9,110,000
		2035	9,530,000
		2036	9,965,000
		2037	10,420,000
		2038	10,895,000 ⁽¹⁾

⁽¹⁾Remaining due at stated maturity.

The principal amount of Term Obligations of any series to be mandatorily redeemed in each year may be reduced at the option of the Authority by the principal amount of such Term Obligations of such series that have been either redeemed at the option of the Authority or purchased by the Authority at its option as follows, at least 45 days prior to the mandatory redemption date: (i) if purchased or redeemed with money in the Interest and Sinking Fund, then a credit of 100% of the principal amount of such Obligations purchased will be made against the next mandatory redemption installment due, and (ii) if purchased or redeemed with other available moneys, then the principal amount of such Obligations will be credited against future mandatory redemption installments in any order and in any annual amount that the Authority may direct.

NOTICE OF REDEMPTION. . . Notice of any redemption shall be sent by first-class mail to the Registered Owners of the Obligations not less than 30 days before the date fixed for redemption. See “BOOK-ENTRY-ONLY SYSTEM.”

SECURITY AND SOURCE OF PAYMENT. . . The Obligations are payable from all legally available funds of the Authority. The Obligations are secured, equally and ratably with each other and with any future parity obligations, by a senior lien on and pledge of 75% of the sales and use tax revenues collected and received by the Authority, plus any investment income earned on moneys in the Revenue Fund, Interest and Sinking Fund, and Reserve Funds referred to herein (*the “Pledged Revenues”*). The lien and pledge is

granted to the Trustee by the Resolutions, under which the Authority has agreed to cause the Pledged Revenues to be paid directly to the Trustee. Under the Resolution, the Authority has also agreed to fund and maintain a separate debt service reserve fund for the Bonds and the Contractual Obligations, respectively (each, a “*Reserve Fund*”), with a balance equal to 50% of the pro forma Maximum Annual Debt Service Requirements for the Obligations and any parity Additional Obligations made payable from such Reserve Fund, as an additional source of funds to make timely payment of such Senior Lien Obligations. See “– DEBT SERVICE RESERVE FUNDS,” “– FLOW OF FUNDS” and “REVENUE AND INVESTMENTS.” See the inside back cover for a map depicting the Authority’s service area and sales tax jurisdiction. The Authority has reserved the right to pledge additional revenues as Pledged Revenues to secure payment of the Obligations and parity obligations for their remaining term. The Authority also has reserved the right to issue or incur additional parity obligations as described under “ADDITIONAL PARITY OBLIGATIONS.” The Authority has reserved the right to pledge and grant liens on Pledged Revenues in the future, on a basis subordinate to the pledge and lien securing the Obligations and parity obligations, to secure Junior Lien Obligations and Subordinate Lien Obligations. See “Section 22. Pledge and Source of Payment; Tax Levy; Other Security” in “APPENDIX A – SELECTED PROVISIONS OF THE RESOLUTIONS.”

In the Resolutions, the Authority covenants and agrees that, while any Obligations are outstanding, it will not reduce the rate at which its sales and use tax is levied below its current rate of 1% or take action to apply such tax to less than all such taxable transactions. See “REVENUES AND INVESTMENTS – SALES AND USE TAX AUTHORITY – *Imposition of Tax*” and “INVESTMENT CONSIDERATIONS – RISKS TO ENFORCEMENT OF OBLIGATIONS” herein.

Although the Obligations are payable from fare revenue as well as sales and use tax revenue, under the Authority Act the expenses of operating and maintaining the Authority’s mass transit system are a first lien on and charge against any revenue from operation or ownership of the system. The Authority has not historically earned (and does not expect to earn) any net revenue from the operation or ownership of its mass transit system. Consequently, prospective investors should not rely on operating revenue as a source of payment of the Obligations.

The Obligations are not payable from funds raised or to be raised by property taxes. The Authority has no authority to levy property taxes in proportion to value.

ADDITIONAL PARITY OBLIGATIONS. . . Outstanding CP Notes in the principal amount of \$200 million and related line of credit are secured by a lien on and pledge of the Pledged Revenues on a parity with the Obligations. The CP Notes are not entitled to the benefits of either Reserve Fund.

In the Resolutions, the Authority reserves the right to issue Additional Obligations and enter into Senior Credit Agreements payable from any and all legally available funds and secured, equally and ratably with the Obligations, by a lien on and pledge of the Pledged Revenues, but only if the Pledged Revenues for the preceding Fiscal Year or any consecutive 12-month period out of the 18-month period preceding the month in which the order or resolution authorizing such Additional Obligations or Senior Credit Agreement is adopted were at least 200% of the Maximum Annual Debt Service Requirements on all Senior Lien Obligations (“*MADS*”), after giving effect to the issuance of the Additional Obligations or execution of the Senior Credit Agreement. For these purposes, Pledged Revenues, may be adjusted to give retroactive effect to (A) any increase in the sales and use tax rate that has been in effect for at least 90 days before the date of issue or incurrence of the Additional Obligations or Senior Credit Agreement or (B) any increase in the percentage of sales and use tax revenues pledged by the Authority as Pledged Revenues, as if either such increase had been in effect for the entire applicable period.

Additional Obligations may also be issued on a parity with the Obligations to refund or defease Senior Lien Obligations (including termination payments under interest rate management agreements), regardless of the amount of historical Pledged Revenues, if the issuance of such Additional Obligations will not increase MADS by more than 10%. See “Section 33. Additional Obligations” in “APPENDIX A – SELECTED PROVISIONS OF THE RESOLUTIONS.”

For these purposes, “Maximum Annual Debt Service Requirements” is defined by the Resolutions to assume the accrual of variable rate interest at hedged or average historical rates, and to assume the refunding of demand debt and bullet maturities (including the CP Notes), as described in Appendix A. Accordingly, the MADS assumed in issuing Additional Obligations may be less than the maximum amount of debt service that could actually come due on Senior Lien Obligations in a year, and the difference could be substantial.

When issuing Additional Obligations, the Authority will determine whether such Additional Obligations shall be secured by a Reserve Fund. If they are secured by a Reserve Fund, the Authority must fund any resulting increase in the required balance of the Reserve Fund with monthly deposits ratably over the next 36 months, to the extent not then funded with proceeds of the issue or funds on hand. See “– DEBT SERVICE RESERVE FUNDS” following.

DEBT SERVICE RESERVE FUNDS. . . The Authority is required by the Resolutions to establish with the Trustee and fund a debt service reserve fund with the Trustee for the Bonds and any future Senior Lien Obligations made payable from such fund, and a separate debt service reserve fund for the Contractual Obligations and any future Senior Lien Obligations made payable from such fund (collectively, the “*Reserve Funds*”). (The CP Notes will not be entitled to be paid from either Reserve Fund.) The required balance of each Reserve Fund is equal to 50% of pro forma Maximum Annual Debt Service Requirements for all Senior Lien Obligations Outstanding from time to time and payable from such Reserve Fund. On each date for payment of principal of or interest

or other amounts on such Senior Lien Obligations, including upon call for redemption, the Trustee is required to transfer from the applicable Reserve Fund to the paying agent for such Senior Lien Obligations an amount sufficient, together with funds then transferred from the Interest and Sinking Fund, to pay such principal, interest, and other amounts when due.

Following issuance of the Obligations or any Additional Obligations payable from a Reserve Fund, or if the balance of either Reserve Fund is less than the applicable Reserve Fund Requirement as of any valuation date, the Trustee is required to make monthly transfers from the Revenue Fund in substantially equal monthly deposits over a three-year period into the applicable Reserve Fund as required to increase its balance to the applicable Reserve Fund Requirement. The Authority may provide for more rapid funding in connection with the purchase or acquisition of any Reserve Fund Surety Policy or otherwise.

In lieu of cash or investment securities, the Reserve Fund Requirement in a Reserve Fund may be satisfied in whole or in part with one or more Reserve Fund Surety Policies. Such policies may be drawn upon only after all other amounts in the applicable Reserve Fund have been used or applied, and other amounts in the applicable Reserve Fund may be used to reimburse and repay issuers of such policies for amounts drawn thereon together with interest thereon and related costs.

FLOW OF FUNDS. . . The Resolutions provide for the establishment and maintenance of certain funds and accounts for the application of the proceeds of the Obligations and for the Pledged Revenues. In addition to the Reserve Fund, the Resolutions establish with the Trustee a “*Revenue Fund*” to receive and administer Pledged Revenues, and an “*Interest and Sinking Fund*” to provide for the payment of the Senior Lien Obligations, including the Obligations.

Revenue Fund. Beginning with the Sales and Use Tax payment received by the Trustee on behalf of the Authority in July 2009, the Trustee shall deposit the portion of the Sales and Use Tax payment that constitutes Pledged Revenues into the Revenue Fund held by the Trustee under the Resolutions, promptly upon receipt. Pursuant to the Resolutions, immediately upon such deposit and upon each deposit to the Revenue Fund thereafter, the Trustee shall apply moneys from time to time on deposit to the credit of the Revenue Fund in the following order of priority:

First, to make all deposits into the Interest and Sinking Fund described below as required by the Resolutions First, to make all deposits into the Interest and Sinking Fund as provided in the Resolutions and, if the Obligations are ratably secured thereby, in any other interest and sinking fund provided in any order or resolution authorizing the issuance of any other Senior Lien Obligations;

Second, to make all deposits into the Reserve Funds as required by the Resolutions and in any other reserve fund provided in any order or resolution authorizing the issuance of any Senior Lien Obligations other than Reserve Fund Participants; provided that on any date on which there is a deficiency in the Reserve Fund, the Trustee shall not apply any moneys to any other such fund pursuant to this clause in an amount greater than that required to produce a balance therein equal to 50% of the Maximum Annual Debt Service Requirements on the applicable Senior Lien Obligations payable from such other reserve fund ratably over a 36-month period from the original date of any deficiency therein unless an additional deposit to the respective Reserve Fund is made to cure any deficiency in the respective Reserve Fund at the same rate;

Third, to make all other deposits not made pursuant to clause (ii) above into any reserve fund provided in any order or resolution authorizing the issuance of any Senior Lien Obligations;

Fourth, to make all other deposits required by the Resolutions and in any order or resolution authorizing the issuance of any Senior Lien Obligations and any related agreement or Credit Agreement;

Fifth, to make all deposits required by any order or resolution authorizing the issuance of any Junior Lien Obligations;

Sixth, to make all deposits required by any order or resolution authorizing the issuance of any Subordinate Lien Obligations; and

Seventh, to the Authority for any lawful purpose.

In case such moneys on deposit in the Revenue Fund shall at any time be insufficient to make in full all deposits and transfers then due and unpaid as provided above, then, such deposits and transfers shall be made from such moneys in the priority set out above, but ratably according to the aggregate amount within each priority to be deposited and without any preference within a priority.

Interest and Sinking Fund.

The Resolutions provide that, subject to the following paragraph, commencing on the first date on which the Trustee receives Sales and Use Tax revenues on behalf of the Authority after the issuance date of the Obligations and for so long as any Obligations remain Outstanding, the Trustee is required to transfer from the Revenue Fund to the Interest and Sinking Fund on each date on which funds are deposited to the Revenue Fund such amounts which, when added to other amounts in the Interest

and Sinking Fund, will provide for the accumulation, in substantially equal monthly installments, of amounts sufficient to pay (i) the interest scheduled to become due on all Outstanding Senior Lien Obligations on the next succeeding interest payment date (other than interest scheduled to become due but anticipated to be paid with the proceeds of Senior Lien Obligations), (ii) the principal of all Outstanding Senior Lien Obligations scheduled to mature on the next succeeding principal payment date (other than maturing principal anticipated to be paid with the proceeds of Senior Lien Obligations), (iii) payments due and payable to Credit Providers on Senior Credit Agreements (e.g., the current line of credit agreement for the CP Notes) on ensuing payment dates; and (iv) the redemption price of all Outstanding Senior Lien Obligations called or scheduled for redemption on the next redemption date, plus all fees, charges and other amounts payable to the Trustee and any paying agent/registrar, market agent, broker/dealer, remarketing agent or Credit Provider in respect of Senior Lien Obligations; provided that in all cases the Authority is required to transfer an amount sufficient to ensure that the Interest and Sinking Fund has adequate funds on deposit to make all required principal, interest, and other payments on Senior Lien Obligations through the immediately succeeding month, assuming accrual of interest at the maximum rate for any period for which the rate has not been fixed and payment thereof on the last day of such succeeding month. For a description of the application of amounts deposited to the Interest and Sinking Fund, see "Section 26. Revenue Fund and Interest and Sinking Fund" in "APPENDIX A—SELECTED PROVISIONS OF THE RESOLUTIONS." If the balance of the Interest and Sinking Fund is not sufficient to pay principal of and interest and other amounts payable on all Senior Lien Obligations when due, available funds must be transferred ratably to the paying agents for the Senior Lien Obligations, including those entitled to the benefits of the Reserve Funds, in proportion to the amount then due on each, before computing the deficiency to be funded from the applicable Reserve Fund.

Proceeds of any issue of Senior Lien Obligations on deposit in the Interest and Sinking Fund shall be available to pay interest only on such Senior Lien Obligations and shall be credited against the transfer requirements described in subsection (a)(i) above only for such issue of Senior Lien Obligations.

Investment of Funds. The Revenue Fund, the Reserve Funds, and the Interest and Sinking Fund may be invested by the Trustee at the direction of the Authority solely in investments authorized for the investment of the Authority's funds. The Resolutions impose no additional credit or term limitations on the investments except that investments must mature by the date when invested funds are expected to be applied. See "Section 29. Investment of Trust Funds" in "APPENDIX A—SELECTED PROVISIONS OF THE RESOLUTIONS."

DEFEASANCE. . . The Resolutions provide that the Obligations may be defeased in any manner now or hereafter permitted by law, including irrevocably depositing, in trust (1) direct noncallable obligations of United States of America, including obligations that are unconditionally guaranteed by the United States of America; (ii) noncallable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent; (iii) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent; or (iv) cash. Upon defeasance, Obligations will no longer be considered outstanding for purposes of the Resolutions, and the Authority will no longer be obligated to provide funds to pay such Obligations) except from and to the extent of the deposited cash and obligations. Notwithstanding the foregoing, in the event the Authority makes such a deposit with respect to Series 2009C BABs, the Authority will continue to be obligated for all payments owed the Owners of such Bonds, and will contribute additional funds or securities to the trust created for such Bonds if necessary to provide sufficient amounts to satisfy the payment of principal of and interest on such Bonds. See "Section 43. Defeasance" in "APPENDIX A—SELECTED PROVISIONS OF THE RESOLUTIONS."

BOOK-ENTRY-ONLY SYSTEM. . . *This section describes how ownership of the Obligations is to be transferred and how the principal of, premium, if any, and interest on the Obligations are to be paid to and credited by The Depository Trust Company ("DTC"), New York, New York, while the Obligations are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The Authority believes the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.*

The Authority cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the Obligations, or redemption or other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Obligations), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

DTC will act as securities depository for the Obligations. The Obligations 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 security certificate will be issued for each series and maturity of the Obligations, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the

provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("*Direct Participant*") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("*DTCC*"). DTCC, is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its registered subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing 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. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Obligations under the DTC system must be made by or through Direct Participants, which will receive a credit for the Obligations on DTC's records. The ownership interest of each actual purchaser of each Obligation ("*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 Obligations 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 Obligations, except in the event that use of the book-entry system for the Obligations is discontinued.

To facilitate subsequent transfers, all Obligations 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 Obligations 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 Obligations; DTC's records reflect only the identity of the Direct Participants to whose accounts such Obligations are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Obligations may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Obligations, such as redemptions, tenders, defaults, and proposed amendments to the Obligation documents. For example, Beneficial Owners of Obligations may wish to ascertain that the nominee holding the Obligations for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all Obligations of the same series and maturity are being redeemed, DTC will select Obligations of such series and maturity to be redeemed.

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

Redemption proceeds, distributions, and dividend payments on the Obligations will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Trustee, the Paying Agent/Registrar, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

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

EFFECT OF TERMINATION OF BOOK-ENTRY ONLY SYSTEM. . . In the event that the Book-Entry Only System is discontinued by DTC or the use of the Book-Entry Only System is discontinued by the Authority, printed certificates will be issued to the holders and the Obligations will be subject to transfer, exchange and registration provisions as set forth in the Resolutions.

TRUSTEE/PAYING AGENT/REGISTRAR. . . The initial Trustee and Paying Agent/Registrar is Wells Fargo Bank, N.A., Houston, Texas. In the Resolutions, the Authority retains the right to replace the Trustee and Paying Agent/Registrar, and either may resign under conditions set out in the Resolutions. The Authority covenants to maintain and provide a Trustee and Paying Agent/Registrar at all times until the Obligations are duly paid. Any successor Trustee or Paying Agent/Registrar must be a bank, trust company, financial institution, or other agency duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Obligations and have a minimum capital and surplus of at least \$1 billion. The Resolutions provide that no resignation or removal of the Trustee may be effective until a successor has been appointed, qualified, and accepts its appointment.

The Trustee has been appointed for the sole purpose of receiving, holding, investing, and disbursing Pledged Revenues and the Reserve Fund. The Trustee is not empowered to enforce the Resolutions or otherwise act on behalf of the Owners of the Obligations. See "Section 36. The Trustee" in "APPENDIX A—SELECTED PROVISIONS OF THE RESOLUTIONS."

AMENDMENTS TO RESOLUTIONS. . . Each Resolution constitutes a contract with the registered holders from time to time, is binding on the Authority, and will not be amended or repealed by the Authority so long as any Obligation remains Outstanding except as follows: The Authority may, without the consent of or notice to any Owners, from time to time and at any time, amend the Bond Resolution, the Contractual Obligation Resolution, or both, in any manner not detrimental to the interests of the respective Owners, including the curing of any ambiguity, inconsistency, or formal defect or omission therein. In addition, the Authority may, with the consent of respective Owners who own in the aggregate 51% of the principal amount of the Bonds or Contractual Obligations, (or, in the case of the provisions for the pledge, investment, and application of Pledged Revenues and Reserve Funds, affected Senior Lien Obligations), as applicable, then Outstanding, amend, add to, or rescind any of the provisions of the related Resolution, provided that, without the consent of all affected Owners of Outstanding Bonds or Contractual Obligations, as applicable, no such amendment, addition, or rescission shall (i) extend the time or times of payment of the principal of and interest on the related Obligations, reduce the principal amount thereof, the redemption price, or the rate of interest thereon, or in any other way modify the terms of payment of the principal of or interest on the related Obligations, (ii) give any preference to any Senior Lien Obligation over any other Obligation, or (iii) reduce the aggregate principal amount of the related Obligations or Senior Lien Obligations required to be held by the Owners for consent to any such amendment, addition, or rescission.

THE AUTHORITY

GENERAL. . . The Authority is a metropolitan rapid transit authority created pursuant to legislation now codified as Chapter 451, Texas Transportation Code, as amended, and confirmed at a confirmation and tax election held on August 12, 1978.

JURISDICTION. . . The Authority provides transit service for, and collects sales and use taxes on taxable transactions in a 1,285 square mile area with a population of approximately 2.9 million, including the cities of Houston, Bellaire, Bunker Hill Village, El Lago, Hedwig Village, Hilshire Village, Humble, Hunters Creek, Katy, Missouri City, Piney Point, Southside Place, Spring Valley Village, Taylor Lake Village, and West University Place (the "*Participating Municipalities*"), and significant portions of unincorporated Harris County.

BOARD OF DIRECTORS. . . The Authority is governed by a nine-member Board of Directors (the "*Board*"), each of whom serves a two-year term. Five directors are nominated by the Mayor of Houston and confirmed by the Houston City Council, two directors are appointed by the mayors of the Authority's 14 other Participating Municipalities (the "*Multi-Cities*") and two directors are appointed by the Harris County Commissioners Court.

A list of the current members of the Board, the position held by each member and the appointing entity for each member are provided below.

Board Member	Position	Appointing Authority	Term Expires
Mr. David S. Wolff	Chairman	City of Houston	April 2010
Mr. Gerald B. Smith	Co-Vice Chairman and Chairman, Finance and Audit Committee	City of Houston	April 2010
Mr. Jackie Freeman	Secretary	Harris County	April 2010
Mr. George A. DeMontrond, III	Co-Vice Chairman	City of Houston	April 2010
Bishop James Dixon, II	Board Member	City of Houston	April 2010
Ms. Carmen Orta	Board Member	City of Houston	April 2010
Mr. Burt Ballanfant	Board Member	Multi-Cities	February 2011
Ms. Trinidad Mendenhall Sosa	Board Member	Harris County	October 2009
Mr. C. Jim Stewart, III	Board Member	Multi-Cities	April 2011

MANAGEMENT. . . The management of the Authority is under the direction of its President and Chief Executive Officer, who performs any duties delegated to him by the Board. A list of certain of the Authority’s key executives is provided below.

Officer	Position
Mr. Frank J. Wilson	President and Chief Operating Officer
Mr. John M. Sedlak	Executive Vice President
Ms. Louise T. Richman	Vice President/Chief Financial Officer
Mr. David F. Feeley	Senior Vice President, Operations
Ms. Pauline E. Higgins	Senior Vice President, General Counsel and Corporate Secretary
Mr. Bryan Pennington	Senior Vice President, Engineering and Construction

TRANSIT SYSTEM. . . The Authority is organized to develop, operate, and maintain a mass transit system to serve the residents within and visitors to its area. The Authority’s transit system is a multi-modal system consisting of the following components:

Bus System - The Authority provides public bus service within its service area utilizing a fleet of approximately 1200 buses plus passenger facilities, including approximately 11,000 bus stops, 1,800 passenger shelters, 19 transit centers and 28 park and ride lots with more than 32,200 parking spaces. METRO buses ran 56 million revenue miles over a route system serving 1,285 square miles with approximately 101 million boardings in Fiscal Year 2008. See “TABLE 1 – SELECTED RIDERSHIP STATISTICS FOR THE LAST FIVE FISCAL YEARS.”

HOV Lane System - The High Occupancy Vehicle (“HOV”) lane program is a cooperative effort between the Texas Department of Transportation and the Authority and is funded through a combination of federal, state and local resources. There are currently 103 lane miles of HOV lanes on Houston freeways. In Fiscal Year 2008, the HOV lanes carried an average weekday volume of 47,000 vehicles (over 139,000 people) per day. The Authority’s operational responsibilities for the HOV lanes include the following functional activities:

- HOV lane enforcement;
- debris removal;
- maintenance and repair of electronic gates and signs;
- opening and closure of HOV lane gates; and
- dispatch operations, including assignment of wreckers to remove disabled vehicles.

The Texas Department of Transportation is responsible for cleaning and maintaining the HOV lanes. City of Houston wreckers perform the removal of stalled or disabled vehicles from HOV lanes.

Light Rail System - The Authority’s first light rail line began operation on January 1, 2004. This 7.5-mile line originates in the northern part of Houston’s central business district and continues south through the central business district, Midtown, the Museum District, the Texas Medical Center, and the Reliant Park Complex (formerly the Astrodome Complex) to the South Fannin Park and Ride Lot. There are 16 stations along the route. The Authority currently plans to expand the light rail system significantly. See “METRO SOLUTIONS.”

Paratransit Service - The Authority’s paratransit service provided service to 18,366 registrants with 32 paratransit vans as of Fiscal Year 2008.

Commuter Vanpool Service - The Authority’s commuter vanpool service serves 8,270 registrants with 766 vans as of Fiscal Year 2008.

RIDERSHIP INFORMATION. . . Table 1 below presents selected information regarding the Authority’s ridership during Fiscal Years ending September 30, 2004 through 2008.

TABLE 1 – SELECTED RIDERSHIP STATISTICS FOR THE LAST FIVE FISCAL YEARS

Fiscal Year	Transit Boarding	Revenue Vehicle Miles⁽¹⁾	Passenger Miles— Transit	HOV Ridership Cars, Vans & Non-Metro Buses	Passenger Miles Carpool/Vanpool Non-Metro Buses on Transitway	Total Actual Passenger Car Revenue Miles	HOV Lanes Miles
2008	100,348,037	54,018,635	646,762,573	24,732,107	254,988,018	884,171	106.4
2007	101,310,353	53,905,535	638,818,780	24,875,224	257,093,716	877,433	105.3
2006	102,827,629	53,984,414	633,249,121	22,382,441	230,762,976	859,867	105.3
2005	94,959,198	54,428,597	582,363,102	21,254,941	219,723,408	805,568	103.8
2004	96,428,515	57,809,095	618,237,026	23,128,816	238,458,131	473,368	103.8

(1) “Revenue Vehicle Miles” are the miles traveled when a vehicle is available to the general public and there is an expectation of carrying passengers.

BUS REPLACEMENT POLICY. . . The Authority’s fleet replacement plan is designed to ensure service reliability. In accordance with Federal Transit Administration standards, the Authority assumes a life expectancy of 12 years for each bus. Therefore, the Authority replaces one-twelfth of its approximately 1200-bus fleet, or approximately 100 buses, each year. For Fiscal Year 2008, the Authority acquired 98 buses in July 2008, and in Fiscal Year 2009, the Authority acquired 60 replacement buses. Under its current bus delivery schedule, the Authority anticipates that it will acquire an additional 40 buses during Fiscal Year 2010. The Authority may alter the rate of bus retirement to address unanticipated service changes and service demands. The Authority’s replacement plan is updated regularly and incorporated into the capital and operating budgets.

REVENUES AND INVESTMENTS

GENERAL. . . The Authority’s principal sources of revenue are (1) a 1% sales and use tax imposed on all taxable personal property and service transactions within the Authority’s boundaries, (2) federal and state grants for operations and capital projects, and (3) transit fare and other operating revenue. The amount of revenue received by the Authority from these and other sources in the last eleven Fiscal Years are shown in the following table:

[The remainder of this page is intentionally left blank.]

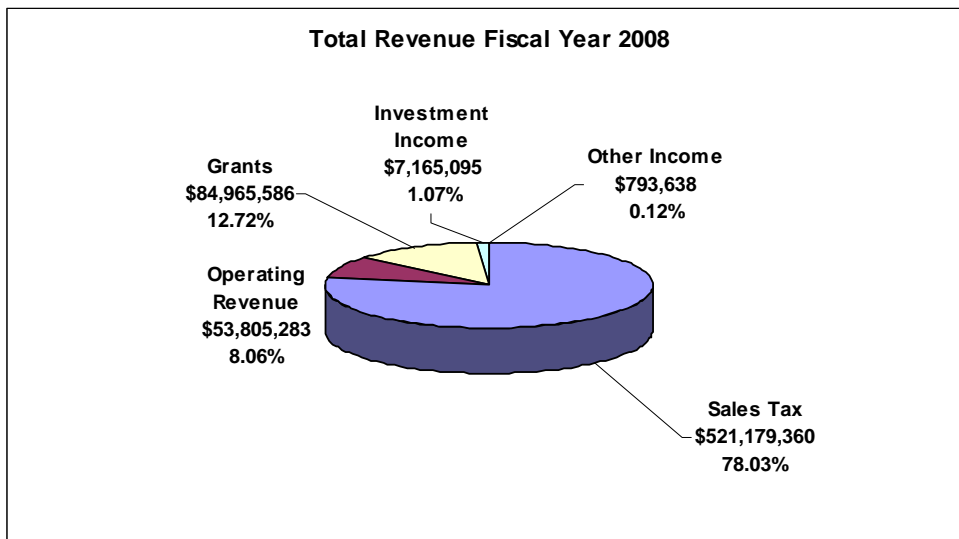
TABLE 2 - COMBINED SOURCES OF REVENUE

Fiscal Year	Sales and Use Tax ^(a)	Operating Revenue ^(b)	Grants		Investment Income ^(e)	Other Income ^(e)	Total
			Capital ^(c)	Service-Related ^(d)			
2008	\$521,179,360	\$53,805,283	\$21,767,789	\$53,685,295	\$7,156,095	\$793,638	\$658,387,460
2007	481,721,482	53,266,927	18,609,250	53,940,259	14,240,392	648,162	622,426,772
2006	467,645,812	54,186,016	22,283,227	56,718,917	7,923,445	446,526	609,203,943
2005	394,015,831	50,137,041	25,647,790	49,498,943	1,803,936	874,336	521,977,877
2004	381,932,680	51,212,231	24,825,490	41,133,644	1,568,753	410,998	501,083,796
2003	357,498,093	52,252,979	34,819,108	72,277,017	5,722,026	3,640,831	526,210,054
2002	370,857,631	54,169,911	6,268,503	30,603,859	9,113,410	4,946,934	475,960,248
2001	365,919,523	54,147,457	59,181,575	31,815,175	21,108,942	7,521,726	539,694,398

- (a) Represents 100% of sales and use tax revenue collected by the Authority. Only 75% of the sales and use tax revenue is included in Pledged Revenues. See “REVENUES AND INVESTMENTS – SALES AND USE TAX.”
- (b) Represents farebox receipts, special events fares and route guarantees for specific transit service. Only net operating revenues, if any, remaining after the payment of the Authority’s operating and maintenance expenses are available to pay the debt service on the Obligations. No net operating revenue is expected. See “REVENUES AND INVESTMENTS – OPERATING REVENUE” and “EXPENDITURES – EXPENDITURES.”
- (c) Represents revenue received under recurring federal capital grant programs. Other FTA capital programs are non-recurring, are specific to individual projects and are awarded through competitive selection process. Non-recurring federal capital grants received by the Authority in Fiscal Years 2001 through 2008 are excluded from the table and ranged from \$5,703,823 to \$72,686,407.
- (d) Represents revenue under federal operating assistance programs for bus and rail capitalized preventive maintenance, the regional vanpool program, new bus service and alternative fuel/clean air programs. Other FTA programs, the Federal Highway Administration and state programs are non-recurring, are specific to individual projects and are awarded through competitive selection process. FEMA funds are received based on reimbursement of actual eligible expenditures associated with a natural disaster. Non-recurring federal grants for non-capital uses received by the Authority in Fiscal Years 2001 through 2008 are excluded from the table and ranged from \$1,135,000 to \$14,683,658.
- (e) Investment income declined substantially after fiscal year 2001, largely due to the expenditure of accumulated sales and use tax revenues to build the first METRORail line. See “TABLE 5 – INVESTMENTS” for information relating to the Authority’s investments.
- (f) Other income consists of miscellaneous revenues such as parking revenue, concession sales, leased property revenue and rebates on procurement cards.

Table 3 below depicts total revenue, by source, including non-recurring federal and state grants that are excluded from Table 2, received by the Authority during Fiscal Year 2008.

TABLE 3 – TOTAL REVENUE BY CATEGORY



SALES AND USE TAX AUTHORITY

Imposition of Tax. State law authorizes the Authority to impose a sales tax on the sale within the Authority's boundaries of all items subject to the state sales tax and a use tax on the use, storage, or consumption within the Authority's boundaries of any such taxable items purchased, leased, or rented from a retailer, at a rate established by the Board in accordance with the Authority Act. The Board has established the rate at 1%, as authorized by public vote when the Authority was confirmed in 1978. The sales tax and use tax is referred to herein as the "sales tax."

Pursuant to an election held within the Authority in November 2003, 25% of sales tax revenue collected by the Authority through September 30, 2014 is dedicated for street improvements and mobility projects. The remaining 75% of the sales tax revenue is available for the payment of the Authority's operating expenses and other obligations, including repayment of bonds, notes, commercial paper, leases and other obligations. Between November 1, 2009 and January 1, 2013, the Authority will call an election seeking a local determination by voters regarding the Authority's continuing support after September 30, 2014 for street improvements and mobility projects.

In the Authority Act, the State has agreed with the holders of bonds issued under the Authority Act, including the Bonds, not to alter the power of the Authority under the Authority Act to impose taxes, fares, tolls, charges, rents, and other compensation in an amount sufficient to pay operating and maintenance expenses, to pay all bonds payable from tax or operating revenue, and to fulfill all obligations covenants, until all bonds and other Authority obligations in connection with the bonds are discharged. The Authority has agreed in the Resolutions not to redeem the Bonds or other bonds issued under the Authority Act prior to the payment or defeasance of the Contractual Obligations, unless bonds issued under the Authority Act will remain outstanding through the term of the Contractual Obligations. See "INVESTMENT CONSIDERATIONS - ADVERSE LEGISLATION COULD BE ENACTED" herein.

Taxable Transactions. Taxable items include any tangible personal property and certain taxable services, unless exempted from the sales and use tax. "Taxable services" include certain amusement services; personal services; motor vehicle parking and storage services; the repair, maintenance and restoration of most tangible personal property; credit reporting services; debt collection services; insurance services; information services; real property services; data processing services; real property repair and remodeling services; security services; telephone answering services; internet access services; and certain transmission or delivery of taxable electricity usage. Many items are exempted from the sales tax by State law, including items purchased for resale, food products (except food products which are sold for immediate consumption, e.g. by restaurants, lunch counters, etc.), health care supplies (including medicines, corrective lens and various therapeutic appliances and devices), agricultural items (if the item is to be used exclusively on a farm or ranch or in the production of agricultural products), gas and electricity purchased for residential use, newspapers and magazines. In addition, items which are taxed under other State laws are generally exempted from sales taxes. These items include certain natural resources, cement, motor vehicles and insurance premiums, although alcohol and tobacco products are taxed under both State alcohol and tobacco taxes as well as the sales tax. In addition, purchases made by various exempt organizations are not subject to the sales tax. Such organizations include the federal and state governments, political subdivisions, Indian tribes, religious institutions and certain charitable organizations and non-profit corporations. In addition, sales of telecommunication services (including cable and satellite TV services) are exempt from the Authority's sales tax unless the Board determines to suspend the exemption and the suspension is approved at an election within the Authority. To date, the Board has not taken any actions to suspend the exemption for telecommunication services.

In general, a sale or use of a taxable item is deemed to occur within the jurisdiction in which the sale or use is consummated. For purposes of the Authority's tax, the use, storage or consumption of tangible personal property is considered to be consummated at the location where the item is first stored, used or consumed in an area of the state where a mass transit sales tax is imposed. Thus, the use is considered to be consummated in the Authority if the item is shipped from outside the State or outside any other State mass transit agency with sales tax authority, for first use, storage, or consumption within.

Collection Procedures. With certain exceptions, sales taxes in the State are collected at the point of sale and are remitted to the Comptroller by, generally speaking, the business that collects the tax resulting from a taxable transaction. The Comptroller collects sales taxes based upon the amount of taxes reported by the seller or purchaser. Taxpayers who collect \$500 or more in state sales tax in a month must remit the taxes on or before the 20th day of the month following the month in which the taxes were collected. Taxpayers who collect less than \$500 state sales tax per month (or less than \$1,500 per calendar quarter) may file quarterly or annually depending on the amount collected. Under State law, a collecting taxpayer may deduct 1/2 percent of the amount of taxes due as reimbursement for the cost of collecting the taxes. In addition, taxpayers who file monthly or quarterly may prepay the taxes due and deduct 1/4 percent of the amount of the prepayment in addition to the 1/2 percent for the cost of collecting the sales tax.

The Comptroller is required by law to distribute funds to the Authority as often as feasible, but not less frequently than quarterly. Historically, and at the present time, the Comptroller distributes the funds monthly. Distributions to the Authority are made by electronic funds transfers.

Seasonality and Recent Collections. The Authority's sales and use tax collections are seasonal, with the greatest monthly collections typically received in the months of February and August, reflecting taxes on retail sales in the holiday and back-to-

school seasons. In the last three fiscal years, collections in the lowest revenue months were 61%, 65%, and 66%, respectively, of collections in the highest revenue months. During the first eight months of Fiscal Year 2009, sales and use tax collections were higher in comparison to the first eight months of Fiscal Year 2008 with increases ranging from 0.71% in October to 15% in December. In April 2009, sales and use tax revenues decreased 1.1% in comparison to sales and use tax revenues in April 2008. The Authority is projecting a minor decline in sales and use tax revenues for the next two fiscal years.

Collection and Allocation of Delinquent Taxes. Although sales and use taxes are imposed on purchasers, retail sellers are responsible for collecting the taxes and are the only source from which the taxes can practically be collected. Accordingly, collections are dependent on the solvency and continued operation of retail sellers. The Comptroller is responsible for enforcing the collection of sales taxes in the State. Under State law, the Comptroller utilizes sales tax permits, payment bonds and audits to encourage timely payment of sales taxes. Each entity selling, renting, leasing or otherwise providing taxable goods or services is required to have a sales tax permit. As a general rule, every person who applies for a sales tax permit for the first time, or who becomes delinquent in paying the sales or use tax, is required to post a bond in an amount sufficient to protect against the failure to pay taxes. A person who has filed security is entitled to have the Comptroller return the security if in the Comptroller’s judgment the person has for two consecutive years continuously complied with the conditions of the security. The Comptroller’s audit procedures include auditing the largest 2 percent of the sales taxpayers (who report about 65 percent of all sales tax in the State annually) every three or four years. Other taxpayers are selected at random or upon some other basis for audits. The Comptroller also engages in taxpayer education programs and mails a report to each taxpayer before the last day of the month, quarter or year that it covers.

Once a taxpayer becomes delinquent in the payment of a sales or use tax, the Comptroller may collect the delinquent tax by using one or more of the following methods: (1) collection by an automated collection center or local field office; (2) estimating the taxpayer’s liability based on the highest amount due in the previous 12 months and billing them for it; (3) filing liens and requiring a new or increased payment bond; (4) utilizing forced collection procedures such as seizing assets of the taxpayer (e.g., a checking account) or freezing assets of the taxpayer that are in the custody of third parties; (5) removing a taxpayer’s sales and use tax permit; and (6) certifying the account to the Attorney General’s Office to file suit for collection. The Authority may not sue for delinquent taxes unless it joins the Attorney General as a plaintiff or unless it first receives the permission of the Attorney General and the Comptroller.

In addition to the sales taxes levied by the Authority, the State imposes a 6 ¼ percent sales tax for its own purposes and the City of Houston (the “City”) imposes a 1% sales tax, in each case applied to essentially the same taxable transactions as those to which the Authority’s sales tax is applied. If the Comptroller is unable to collect the full amount of sales tax liability, collections are applied to the State’s share of the sales tax, first, and the applicable municipality’s share, second, before distributing any part of the collections to the Authority.

OPERATING REVENUE. . . The Authority derives operating revenue from transportation fares, which include bus, rail and METRO lift fare box receipts plus ticket sales from special events and the Texas Medical Center Route Guarantee Services. The Authority increased fares by an average of 25% effective November 2, 2008. The current fares established by the Board of Directors for most commonly used services are set forth below.

TABLE 4 – CURRENT FARES FISCAL YEAR 2009

	Full Fare				Discounted Fare			
	Pre-Increase	Post-Increase	Diff	% Diff	Pre-Increase	Post-Increase	Diff	% Diff
Local/METROrail	\$1.00	\$1.25	\$0.25	25%	\$0.50	\$0.60	\$0.10	20%
Park & Ride Zone 1	\$1.50	\$2.00	\$0.50	33%	\$0.75	\$1.00	\$0.25	33%
Park & Ride Zone 2	\$2.50	\$3.25	\$0.75	30%	\$1.25	\$1.60	\$0.35	28%
Park & Ride Zone 3	\$3.00	\$3.75	\$0.75	25%	\$1.50	\$1.85	\$0.35	23%
Park & Ride Zone 4	\$3.50	\$4.50	\$1.00	29%	\$1.75	\$2.25	\$0.50	29%

Groups eligible for the discount are:

- Senior citizens to age 69 (seniors 70 and older ride free)
- Disabled riders
- METROLift users who qualified after December 31, 2007 (those users who qualified prior to December 31, 2007 ride free)
- Students age 6 through full time college/university (children 5 and under ride free)
- Medicare cardholders

The Authority is required by the Authority Act to impose reasonable and nondiscriminatory fares, tolls, charges, rents, and other compensation for the use of its mass transit system sufficient to produce revenue in an amount that, together with tax revenue received by the Authority, is adequate to pay all expenses necessary to operate and maintain the system, to pay principal of and

interest on obligations of the Authority, to make required sinking fund and reserve fund deposits for the obligations, and to fulfill the terms of agreements with holders of obligations.

Under the Authority Act, the expenses of operating and maintaining the Authority's mass transit system are a first lien on and charge against revenue from operation and ownership of the system. No net operating revenue has been earned by the Authority, and none is expected to be earned in the foreseeable future. Consequently, operating revenue is not expected to be available to pay the Obligations.

GRANTS. . . The Authority is the recipient of a number of federal and state grants from a variety of programs including Urbanized Area ("UZA") Formula grants, Clean Fuel Program, New Starts, Fixed Guideway Modernization ("FGM"), Bus and Bus Facilities, Congestion Mitigation/Air Quality ("CMAQ"), Surface Transportation Program ("STP") and American Recovery and Reinvestment Act ("ARRA"). The UZA and FGM grants are annual allocations, with amounts based on the Authority's operating and financial data relative to other transit authorities in the country. UZA allocations averaged approximately \$60.5 million between FY2004 and FY2009. FGM allocations were \$10.2 million and \$11.4 million in FY2008 and FY2009, respectively. The Clean Fuel Program has averaged \$2.5 million between FY2006 and FY2009. The ARRA UZA funds of \$87.2 million and \$2.3 million for UZA and FGM funds, respectively, are one-time windfall grants provided as part of the over-all national economic stimulus package. Other grant programs are awarded on a discretionary basis through competitive processes at the federal and local levels.

Year-to-year changes in the amount of grant revenue received and recognized are dependent upon the pace at which individual projects proceed and the associated grant-eligible expenditures incurred annually. Recent major projects affecting grant revenue are implementation of several park and ride facilities, the METRONet communication system, Metro Q Card, high occupancy vehicle ("HOV") lane improvements, environmental work for the University METRO Solutions Light Rail Corridor, and engineering for the North and Southeast METRO Solutions Light Rail Corridors.

INVESTMENTS. . . The Authority invests surplus revenue in accordance with its Investment Policy. Certain features of the Authority's Investment Policy are summarized in Note 2 to the Authority's financial statements for the Fiscal Year ended September 30, 2008, which are attached hereto as APPENDIX B. As of March 31, 2009 (based on unaudited financial information), the Authority had investments totaling approximately \$119,166,709, summarized in Table 5 below. Investments are reported at fair value based on quoted market prices.

TABLE 5 – INVESTMENTS (MARCH 31, 2009)

<u>Investments</u>	<u>Amount</u>	<u>Percentage of Portfolio</u>
Cash	\$ 1,091,350	0.91%
Money Market Funds	49,953,677	41.92%
Investment Pools	58,121,681	48.77%
U.S. Treasury Notes	<u>10,000,000</u>	<u>8.39%</u>
Total Cash and Investments	\$119,166,708	100.00%

OTHER TAXING AUTHORITY. . . In addition to the power to impose sales and use taxes as described above, the Board is authorized by the Authority Act to impose other taxes of any kind (other than property taxes assessed in proportion to value) and, except as described below, at any rate, if authorized at an election within the Authority. If the Board imposes a vehicle emissions tax, it may not exceed \$6 to \$15 per vehicle, depending on engine displacement. The Board has not taken, and currently does not intend to take, any action to impose taxes in addition to the Authority's 1% sales and use tax.

EXPENDITURES

BUDGET. . . The Authority Act requires the Board to adopt an annual operating budget of all major expenditures by type and amount for each fiscal year before conducting any business in the fiscal year. The Authority must hold a public hearing on each proposed annual operating budget, or any amendment to the budget, before adopting the budget or amendment.

The Authority manages performance against its budget on a daily basis. Detailed financial reports are produced monthly and quarterly for review by the Board of Directors. Each department prepares quarterly reports and meets with the Board to review the departmental budget performance against goals and business initiative accomplishments.

The Authority budgets its Total Operating Expenses for each fiscal year. "Total Operating Expense" is the sum of all employee labor, the cost of supporting that labor (e.g., insurance, space, utilities), and the direct costs for operating and maintaining the bus and rail system, including purchased transportation and support vehicles (e.g., parts, fuel, tires, batteries, etc.) and also includes the labor expenses of the Authority's employees incurred when those employees perform work on capital improvement projects.

The Authority segregates budgeted Total Operating Expense into four areas on a full-cost basis.

- **Transit:** This category refers to the full cost of operating, maintaining and providing security for the bus and rail systems (*i.e.*, local, express, Park & Ride, METROLift, METROVan and rail), less any service cost allocated to Capital.
- **Traffic Management:** The full cost of congestion management activities, including the operation and enforcement of the HOV System, major activity center traffic management and the authority's share of the operational expenses incurred to operate the TranStar facility, a regional traffic control, emergency management and freeway incident management center.
- **Expensed Small Capital Purchases:** The Authority recognizes capital purchases less than \$1000 in this category. The purpose of this category is to reduce the cost associated with tracking and accounting for small value capital purchases.
- **Capital:** The Authority allocates individual capital purchases that have a cost of \$1000 or greater to the Capital Program category, where such capital purchases are recorded as assets and appropriately depreciated over the expected useful life.

The combination of Transit, Traffic Management and Expensed Small Capital Purchases (but excluding Capital) comprises the Operating Budget. The following table summarizes the fiscal year 2008 and 2009 operating budget.

Expense Category	OPERATING BUDGET BY COST CATEGORY						
	FY2008 Budgeted	FY2008 Actual	Variance		FY2009 Budgeted	Variance	
			Amount	%		Amount	%
Wages	\$93,987,278	\$91,383,173	(\$2,604,105)	-2.77%	\$95,264,850	\$1,369,263	1.46%
Salaries	71,616,049	73,517,007	1,900,958	2.65%	75,401,836	3,004,821	4.15%
Fringe Benefits	76,538,383	72,902,576	(3,635,807)	-4.75%	76,639,655	(135,453)	-0.18%
Total Labor and Fringe Benefits	\$242,141,710	\$237,802,756	(\$4,338,954)	-1.79%	\$247,306,341	\$4,238,631	1.74%
Purchased Transportation	\$70,032,482	\$65,576,727	(\$4,455,755)	-6.36%	\$72,539,225	\$2,488,841	3.55%
Fuel and Utilities	39,948,580	38,233,158	(1,715,422)	-4.29%	63,810,909	23,862,329	59.73%
Materials and Supplies	19,070,005	18,537,601	(532,404)	-2.79%	19,801,368	814,155	4.29%
Services	17,748,987	15,145,801	(2,603,186)	-14.67%	19,989,546	4,791,073	31.52%
Casualty and Liability	3,976,662	2,912,292	(1,064,370)	-26.77%	3,861,648	(115,014)	-2.89%
Leases, Rentals and Misc.	3,064,715	2,667,136	(397,579)	-12.97%	3,580,820	82,464	2.36%
Total Non-Labor	\$153,841,431	\$143,072,715	(\$10,768,716)	-7.00%	\$183,583,516	\$31,923,848	21.05%
Total Labor and Non-Labor	\$395,983,141	\$380,875,471	(\$15,107,670)	-3.82%	\$430,889,857	\$36,162,479	9.16%
Unused Contingency and Savings	6,123,720	0	(6,123,720)	100.00%	0.00	(4,315,123.00)	-100.00%
Cost Recovery	(8,478,709)	(6,072,515)	2,406,194	-28.30%	(8,204,461.00)	(125,752.00)	1.56%
Total Operating Expenses	\$393,628,152	\$374,802,956	(\$18,825,196)	-4.78%	\$422,685,396	\$31,721,604	8.11%
Allocation to Capital Program	(93,628,152)	(94,885,027)	(1,256,875)	1.34%	(92,685,396)	(1,721,604)	1.89%
OPERATING BUDGET	\$300,000,000	\$279,917,929	(\$20,082,071)	-6.69%	\$330,000,000	\$30,000,000	10.00%

The Authority also budgets its annual capital expenditures, consisting of capitalized purchases comprising part of Total Operating Expenses as well as the costs of labor and support costs to plan, manage and implement General Mobility, Capital Improvements, METRO Solutions, and Debt Service together with labor and support costs for bus and rail service funded by Formula and CMAQ capital funds. The sum of the total amount is referred to as the "Capital Program." The following table summarizes the Operating and Capital Budgets for fiscal years 2008 and 2009.

SUMMARY OF BUDGETS

Purpose	FY2008 Budgeted	FY2008 Actual	Variance		FY2009 Budgeted	Variance	
			Amount	%		Amount	%
Operating Budget	\$300,000,000	\$279,917,929	(\$20,082,071)	-6.69%	\$330,000,000	\$30,000,000	10.00%
Capital Program:							
General Mobility	185,328,000	177,738,334	(7,589,666)	-4.10%	163,758,000	(21,570,000)	-11.64%
Capital Improvement	173,926,000	108,736,937	(65,189,063)	-37.48%	79,063,000	(94,863,000)	-54.54%
METRO Solutions	162,460,000	169,634,211	7,174,211	4.42%	441,493,000	279,033,000	171.75%
Debt Service	0	0	0	0.00%	10,559,000	10,559,000	--
TOTAL	\$821,714,000	\$736,027,411	(\$85,686,589)	-10.43%	\$1,024,873,000	\$203,159,000	--

Substantial risks that could cause a variance between actual and budgeted expenses include possible increases in pension and other employee benefit funding requirements, possible increases in unhedged energy costs or failures of hedges, increased costs from possible storm damage and other risks that cannot be predicted or avoided. Neither the Authority's budgets nor the data in the above tables employ generally accepted accounting principles since they are prepared to manage, rather than to fairly present, financial condition and performance. Accordingly, the data in the above tables may differ from financial data appearing elsewhere in this Official Statement.

Although the Authority has successfully limited its actual expense to budgeted expense in each of the last seven fiscal years, there can be no assurance that it will be successful in doing so in the future.

FINANCIAL HEDGES FOR FUEL. . . The Authority employs physical forward and financial commodities contracts to provide fuel and energy commodity price certainty for up to 24 months of expected consumption. Counterparties to the fuel hedging contracts must either have a minimum long-term rating of "A3" or "A-" assigned by at least two of the three nationally recognized rating agencies or comply with collateral posting requirements.

Table 6 below describes the Authority's expenditures by category for its Fiscal Years ending September 30, 1998 through 2008.

TABLE 6 - OPERATING AND CAPITAL EXPENDITURES

Fiscal Year	Operating	Infrastructure	Capital Additions	Total	Depreciation⁽¹⁾
2008	\$371,600,950	\$179,845,280	\$339,201,655	\$890,647,885	\$124,856,131
2007	339,330,593	108,530,541	254,907,641	702,768,775	120,289,857
2006	328,642,561	115,616,319	126,911,880	571,170,760	107,030,889
2005	322,476,172	134,178,117	127,153,880	583,808,169	107,970,694
2004	325,613,803	188,238,144	174,773,972	688,625,919	110,336,004
2003	299,488,829	124,782,752	262,790,645	687,062,226	101,075,538
2002	280,716,662	92,559,736	186,220,187	559,596,686	96,138,041
2001	253,326,881	94,087,788	250,711,808	598,126,477	83,950,800
2000	246,805,307	125,849,412	143,044,962	515,699,681	79,771,509
1999	232,615,734	98,297,871	152,596,859	483,510,464	81,627,201
1998	223,943,807	98,021,755	136,325,583	458,291,145	78,952,936

(1) The Authority does not maintain a capital replacement fund to provide for the replacement of depreciated assets.

DEBT AND OTHER OBLIGATIONS

TAX-SUPPORTED DEBT. . . The Authority is authorized to issue up to \$640 million in long-term sales and use tax bonds to fund projects for its transit system pursuant to the November 2003 election. After the issuance of the Bonds, the Authority will have \$462,980,000 in authorized but unissued bonds from the election.

The Authority may issue sales and use tax bonds or notes with a five-year or shorter term without an election. The Authority has \$200 million of CP Notes outstanding and has authorized an increase in the amount that may be issued and outstanding to \$400 million, pending a comparable increase in, and extension or replacement of, its existing line of credit agreement, which is scheduled to expire June 29, 2009. The Authority is negotiating a new facility with certain banks with a proposed effective date of June 25, 2009. See "PLAN OF FINANCE – COMMERCIAL PAPER NOTES." The CP Notes are and will be payable from and secured by a pledge of and lien on the Pledged Revenues on a parity with the Obligations, but will not be entitled to the benefit of either Reserve Fund.

Immediately after issuance of the Obligations, the Authority will have no outstanding debt secured by a lien on and pledge of the Pledged Revenues other than the CP Notes, the Bonds and the Contractual Obligations.

The Authority has established a Master Lease Purchase Program for the lease-purchase financing from time to time of equipment, including buses, bus rapid transit vehicles and rail rapid transit vehicles. Pursuant to the terms of the Master Lease Purchase Agreement, as amended, between the Authority and First Southwest Leasing Company (“FSWL”), the Authority may acquire up to \$250 million in equipment between June 15, 2008 and June 14, 2013, by entering into one or more lease purchase agreements with the consent of FSWL, from time to time, under the Master Lease Program. The lease-purchase payments due under each lease purchase agreement are payable from sales and use taxes and other revenues, subject to appropriation on an annual basis, and are not secured by the Pledged Revenues. The Authority has entered into two lease-purchase agreements under the Master Lease Purchase Program. It is currently lease-purchasing 98 buses pursuant to the Series 2008A Lease Purchase Agreement, financed by \$62,255,000 Series 2008A Certificates of Participation, and 60 buses pursuant to the Series 2008B Lease Purchase Agreement, financed by \$45,785,000 Series 2008B Certificates of Participation. The Series 2008A Lease Purchase Agreement has a final maturity of November 1, 2020, and the Series 2008B Lease Purchase Agreement has a final maturity of November 1, 2021. The Authority may acquire up to an additional \$141,960,000 in equipment under the Master Lease Purchase Program by agreement with FSWL, or more if the parties agree in writing to increase the maximum dollar amount or extend the acquisition period.

ANNUAL DEBT SERVICE REQUIREMENTS. . . Following is a table of the Authority’s annual debt service requirements on Senior Lien Obligations, as well as other long-term debt of the Authority, after issuance of the Obligations, all computed on the noted assumptions.

[The remainder of this page is intentionally left blank.]

TABLE 7 – ANNUAL DEBT SERVICE REQUIREMENTS

Fiscal Year Ending September 30,	Series 2009A Bonds and Series 2009C BABs					Contractual Obligations			Net Total Parity Debt Service ⁽³⁾	Total Lease Payments for Series 2008A and Series 2008B COPs	Net Total Debt Service ⁽³⁾⁽⁴⁾
	Principal	Interest	Total Debt Service ⁽¹⁾	BABs Subsidy ⁽²⁾	Net Debt Service ⁽¹⁾⁽³⁾	Principal	Interest	Total Debt Service ⁽¹⁾			
2009										\$2,183,665	\$2,183,665
2010	-	\$9,081,072	\$9,081,072	(\$1,765,760)	\$7,315,312	-	\$1,681,933	\$1,681,933	\$8,997,246	10,153,910	19,151,156
2011	\$2,955,000	10,171,881	13,126,881	(1,986,480)	11,140,402	\$1,085,000	1,875,900	2,960,900	14,101,302	11,932,619	26,033,921
2012	3,045,000	10,081,881	13,126,881	(1,986,480)	11,140,402	1,115,000	1,842,900	2,957,900	14,098,302	11,930,044	26,028,346
2013	3,135,000	9,989,181	13,124,181	(1,986,480)	11,137,702	1,150,000	1,808,925	2,958,925	14,096,627	11,930,078	26,026,705
2014	3,265,000	9,860,531	13,125,531	(1,986,480)	11,139,052	1,185,000	1,773,900	2,958,900	14,097,952	11,929,488	26,027,440
2015	3,430,000	9,693,156	13,123,156	(1,986,480)	11,136,677	1,225,000	1,731,625	2,956,625	14,093,302	11,933,113	26,026,415
2016	3,610,000	9,517,156	13,127,156	(1,986,480)	11,140,677	1,275,000	1,681,625	2,956,625	14,097,302	11,930,713	26,028,015
2017	3,795,000	9,332,031	13,127,031	(1,986,480)	11,140,552	1,330,000	1,629,525	2,959,525	14,100,077	11,928,728	26,028,805
2018	3,990,000	9,137,406	13,127,406	(1,986,480)	11,140,927	1,385,000	1,575,225	2,960,225	14,101,152	11,929,494	26,030,646
2019	4,195,000	8,932,781	13,127,781	(1,986,480)	11,141,302	1,440,000	1,518,725	2,958,725	14,100,027	11,929,791	26,029,818
2020	4,410,000	8,717,656	13,127,656	(1,986,480)	11,141,177	1,500,000	1,459,925	2,959,925	14,101,102	11,929,441	26,030,543
2021	4,635,000	8,491,531	13,126,531	(1,986,480)	11,140,052	1,570,000	1,390,675	2,960,675	14,100,727	11,931,797	26,032,524
2022	4,870,000	8,253,906	13,123,906	(1,986,480)	11,137,427	1,650,000	1,310,175	2,960,175	14,097,602	5,196,350	19,293,952
2023	5,120,000	8,004,156	13,124,156	(1,986,480)	11,137,677	1,725,000	1,234,425	2,959,425	14,097,102		14,097,102
2024	5,385,000	7,741,531	13,126,531	(1,986,480)	11,140,052	1,795,000	1,164,025	2,959,025	14,099,077		14,099,077
2025	5,660,000	7,465,406	13,125,406	(1,986,480)	11,138,927	1,870,000	1,088,388	2,958,388	14,097,314		14,097,314
2026	5,950,000	7,175,156	13,125,156	(1,986,480)	11,138,677	1,950,000	1,007,213	2,957,213	14,095,889		14,095,889
2027	6,255,000	6,870,031	13,125,031	(1,986,480)	11,138,552	2,045,000	914,650	2,959,650	14,098,202		14,098,202
2028	6,575,000	6,549,281	13,124,281	(1,986,480)	11,137,802	2,145,000	815,263	2,960,263	14,098,064		14,098,064
2029	6,915,000	6,212,031	13,127,031	(1,986,480)	11,140,552	2,250,000	710,750	2,960,750	14,101,302		14,101,302
2030	7,270,000	5,857,406	13,127,406	(1,986,480)	11,140,927	2,365,000	595,375	2,960,375	14,101,302		14,101,302
2031	7,620,000	5,413,719	13,033,719	(1,894,802)	11,138,917	2,485,000	474,125	2,959,125	14,098,042		14,098,042
2032	7,970,000	4,877,813	12,847,813	(1,707,234)	11,140,578	2,610,000	346,750	2,956,750	14,097,328		14,097,328
2033	8,330,000	4,317,500	12,647,500	(1,511,125)	11,136,375	2,745,000	212,875	2,957,875	14,094,250		14,094,250
2034	8,715,000	3,731,578	12,446,578	(1,306,052)	11,140,526	2,885,000	72,125	2,957,125	14,097,651		14,097,651
2035	9,110,000	3,118,844	12,228,844	(1,091,595)	11,137,248				11,137,248		11,137,248
2036	9,530,000	2,478,094	12,008,094	(867,333)	11,140,761				11,140,761		11,140,761
2037	9,965,000	1,807,953	11,772,953	(632,784)	11,140,170				11,140,170		11,140,170
2038	10,420,000	1,107,219	11,527,219	(387,527)	11,139,692				11,139,692		11,139,692
2039	10,895,000	374,516	11,269,516	(131,080)	11,138,435				11,138,435		11,138,435
	\$177,020,000	\$204,362,407	\$381,382,407	(\$51,024,886)	\$330,357,521	\$42,780,000	\$29,917,021	\$72,697,021	\$403,054,542	\$148,769,231	\$551,823,773

- (1) Includes capitalized interest on the Obligations to be paid from proceeds of the Obligations.
- (2) See "PLAN OF FINANCE - BUILD AMERICA BONDS."
- (3) Interest netted for interest subsidy to be received on the Series 2009C BABs.
- (4) Excludes debt service on the parity CP Notes, \$400 million of which have been authorized and are expected to be issued and outstanding.

GENERAL MOBILITY CONTRACTS. . . Pursuant to the November 2003 election and interlocal agreements, the Authority is committed to make payments to or on behalf of Harris County, the City of Houston and the Participating Municipalities, totaling 25% of sales and use tax revenue collected by the Authority, for street improvements and mobility projects through September 30, 2014. The Authority is also committed by the November 2013 election to seek voter authority to renew its general mobility commitments beyond that date.

DEBT POLICY. . . In April 2009, the Board approved an updated Debt Policy for the Authority (the “*Debt Policy*”). The Debt Policy sets forth guidance on the type of debt that may be incurred by the Authority (e.g., long term versus short term), the source of payment for its debt obligations, and other factors to be considered when incurring debt. The Debt Policy allows the Authority to incur debt for only the following purposes: financing capital assets, improving infrastructure, refunding or defeasing existing obligations, funding capitalized interest, paying costs of issuance or making deposits to reserve funds and other funds required in debt instruments. The Debt Policy specifies budgeting interest costs on variable rate debt, such as 1% above the two year historical average rate for the Securities Industry and Financial Markets Association (“*SIFMA*”) Municipal Swap Index plus ongoing costs such as credit facilities. Additionally, the Debt Policy specifies financial policies such as the use of external economists for sales tax projections and maintaining a working capital reserve amount of at least 15% of annualized budgeted operating expenditures. Compliance with all continuing disclosure agreements is part of the Debt Policy.

SWAP POLICY. . . The Authority has never entered into a derivatives agreement other than the price hedges described under “EXPENDITURES – FINANCIAL HEDGES FOR FUEL.” Under Texas law, before entering into an interest rate swap, rate lock agreement or other debt-related derivatives contract, the Board must adopt a derivatives policy that addresses authorized purposes for which transactions may be entered into, permitted types and creditworthiness of counterparties, credit and other risks, liquidity, methods of selection of counterparties, limits concerning awarding a transaction, monitoring, and exposure. In addition, as a condition to entering into any transaction, the Board or an authorized officer or employee of the Authority must determine that the transaction conforms to the derivatives policy after reviewing a report of the chief financial officer of the Authority.

LEASE/LEASEBACK TRANSACTIONS. . . From December 2000 through April 2003, the Authority entered into 12 leveraged lease agreements, including “lease/leaseback” agreements for 7 bus operating facilities and 620 buses. Under each of these agreements, the Authority entered into a head-lease as lessor with an investor and simultaneously entered into a sublease agreement as lessee to lease back the assets. The Authority received upfront head-lease rent prepayments which it invested in fixed income deposits in an amount that, including interest which is to be deferred and compounded to a future date, will be sufficient to fund all of the Authority’s scheduled sublease rent payments through the date on which the Authority can exercise a designated early buyout option. Amounts relating to seven of the lease agreements was invested with a subsidiary of American International Group, Inc. and guaranteed by its parent (“*AIG*”), and amounts relating to five of the lease agreements were invested in United States Treasury and agency securities (the “*Agency Securities*”). In addition, and only in connection with those five lease agreements, Financial Security Assurance Inc. (“*FSA*”) provided certain financial guarantee coverage for the benefit of the related investors. The Authority realized approximately \$14 million in net benefit after funding these investments and paying related transaction expenses.

For such lease agreements, the Authority is obligated, among other things, to insure and maintain the facilities, the buses and other property and to replace *AIG*, *FSA* and any other party from time to time providing any similar investments or financial guarantee coverage (a “*Provider*”) if the credit rating assigned to such *Provider* by Standard & Poor’s Corporation or Moody’s Investors Corporation falls below a designated level. These agreements also provide for the Authority’s right to continue to use and control these facilities, buses and property during the term of the subleases so long as the Authority is not in default of its obligations under the lease/leaseback agreements. The Authority agreed to indemnify the investors against increased costs and any new or increased taxes or fees imposed on the leased assets, cash flows or income of the lease, other than changes to the income tax rate. Each such lease agreement states that in the case of a default by the Authority, the Authority is to pay to the investor an equity “termination payment” which varies by amount and date according to a schedule provided at the related lease closing. Based on recent estimates of the market values of the *Agency Securities* and the assumption that the market values of the investments with *AIG* equal 50% of the accreted values of those investments, the Authority estimates that currently the net amount of out-of-pocket expense to the Authority in the event it was required to make these termination payments to the investors would be approximately \$76 million. This estimate will fluctuate up and down over time based on the schedule of termination payments, market conditions and *AIG*’s credit rating.

The lease agreements did not involve the creation of a lien on Pledged Revenues of the Authority.

In September, 2008 *AIG*’s credit rating was downgraded below the designated level, and in November, 2008 *FSA*’s credit rating was downgraded below the designated level. Since such downgrades, various investors have given notice to the Authority to replace *AIG* or *FSA*, as the case may be. To date, the Authority has sought extensions of time to replace *AIG* and *FSA* and has attempted to negotiate changes with various investors. Presently, only two investors have agreed to an extension of time to replace the related *Provider*.

The Authority is also working diligently with other transit agencies in the nation to seek the intervention from the Federal Government and the U.S. Congress under the Troubled Assets Relief Program (“*TARP*”) authorized by the Emergency

Economics Stabilization Act of 2008 (“EESA”) to find the best solution that will minimize the impact this crisis may cause the transit industry.

RETIREMENT PLANS. . . The Authority contributes to two pension plans: the Transport Workers Union Plan, Local 260 AFL-CIO and the Non-Union Pension Plan. Both plans are noncontributory, single employer, defined benefit plans designed to provide retirement benefits to full time employees. The Non-Union Pension Plan was closed to new members effective September 30, 2007. Employees hired after October 1, 2007 who would have been eligible for the Non-Union Pension Plan are now placed into a defined contribution plan. As of January 1, 2008, the aggregate unfunded actuarial accrued liability for both pension funds totaled \$48,289,109. As of January 1, 2008, the market value of the assets comprising both pension funds was \$267,426,337. As of January 1, 2009, the market value of the assets comprising both pension funds was \$198,606,385. Accordingly, the Authority expects that its current unfunded actuarial accrued liability is substantially higher than it was on January 1, 2008. Certain information about the Authority’s pension plans, including the actuarial assumptions used in the valuation of the Authority’s pension plan, is summarized in Note 4 to the Authority’s financial statements for the Fiscal Year ended September 30, 2008, which are attached hereto as APPENDIX B.

OTHER POST-EMPLOYMENT BENEFITS. . . The Authority has implemented GASB Statement No. 45 “Accounting and Financial Reporting By Employers For Post-Employment Benefits Other Than Pensions.” The Authority is currently reviewing the nature and level of retirement benefits on the financial position and statements. The amount of the actuarial accrued liability will be determined, in part, by decisions the Authority makes with respect to the method of funding such benefits and various assumptions made in connection with actuarial analysis. As of October 1, 2007, the aggregate unfunded actuarial accrued liability for both defined benefit plans totaled \$377,227,481.

CLAIMS AND LITIGATION AFFECTING THE AUTHORITY. . . The Authority is a defendant in various lawsuits and is aware of pending claims arising in the ordinary course of its governmental and enterprise activities, certain of which seek substantial damages. That litigation includes lawsuits claiming damages that allege that the Authority caused personal injuries and wrongful deaths; class actions and other lawsuits and claims alleging discriminatory hiring and promotion practices; various claims from contractors for additional amounts under construction contracts; and various other liability claims. The status of such litigation ranges from an early discovery stage to various levels of appeal of judgments both for and against the Authority. The amount of damages is limited in certain cases under the Texas Tort Claims Act and is subject to appeal. The Authority regularly reviews the potential cost exposure of such cases and does not anticipate these exposures will interfere with the normal course of business. The Authority intends to defend itself vigorously against the suits; however, no prediction can be made, as of the date hereof, with respect to the liability of the Authority for such claims or the final outcome of such suits.

The Authority is also aware that various claims for inverse condemnation may be asserted against the Authority, the aggregate amounts of which are unknown and could affect the capital cost of METRO Solutions.

METRO SOLUTIONS

DESCRIPTION. . . METRO Solutions is a comprehensive transit system development plan designed to address the Greater Houston region’s traffic congestion and air quality challenges. In development since 2001, the plan was adopted by the Board of Directors of the Authority in July 2003 and approved by voters in November 2003. The Obligations are being issued to finance capital improvements that are part of the plan.

METRO Solutions calls for major multimodal transit improvements across the region. Key components are an expansion of the Authority’s METRORail light rail transit system, the development of commuter rail transit, an expansion of bus service, new transit facilities and HOV/HOT lane conversions. It also extends the General Mobility program through September 30, 2014, which sets aside 25% of the Authority’s 1% sales and use tax revenue for general mobility projects, such as street improvements, in Harris County, the City of Houston and the Participating Municipalities.

In June 2005, the Authority adopted a Phase 2 Implementation Plan as a part of METRO Solutions to provide more light rail rapid transit for the Houston region. Key components of the Implementation Plan include:

- **Approximately 30 miles of Light Rail Transit:** Phase 2 includes the construction of light rail lines in five new corridors, including new intermodal transit facilities designed to facilitate transfers between METRORail and commuter rail and bus.

North Corridor – The North Corridor is approximately 5.2 miles long and extends northward from the existing METRORail University of Houston-Downtown Station at the north end of downtown Houston. The North Corridor is planned to include eight stations that will consist of a combination of split side and center platforms. The stations are to be equipped with passenger information and fare collection systems.

East End Corridor – The East End Corridor is approximately 3 miles long. The route would begin at a transfer point at the proposed Southeast Corridor in the vicinity of Dowling Street and extend through near east neighborhoods to METRO’s Magnolia Transit Center.

Southeast Corridor – The Southeast Corridor is approximately 6.1 miles long, begins in downtown Houston and continues southeast past the University of Houston, terminating in the vicinity of Palm Center at Martin Luther King Avenue and Griggs Road.

Uptown Corridor – The Uptown Corridor extends from the Northwest Transit Center at IH 610 and IH I-10 to just south of U.S. 59. At this point the alignment will intersect with the University Corridor. A station located at this juncture will provide transfer opportunities. At least six stations will be located on Post Oak Boulevard, with the first situated north of Richmond Avenue, and the northernmost being situated adjacent to the Uptown Park Shopping District. An additional station will be placed on North Post Oak Road, which will serve The Forum, Houston's First Baptist Church, Memorial Park, and other neighboring businesses and residents. Pre-construction activities are planned to begin in 2009. As a project partner with METRO, the Uptown District is expected to implement roadway and infrastructure improvements. A “green guideway” is planned, along with landscaping and esthetic finishing touches.

University Corridor – The University Corridor extends approximately 11.3 miles from the Hillcroft Transit Center on the west end to the Eastwood Transit Center on the east end. Nineteen stations are planned. Higher educational destinations along the alignment include the University of Houston Main Campus, Texas Southern University and St. Thomas University. Business destinations include Greenway Plaza, the Menil and other businesses that operate adjacent to the alignment. Through connections to the Main Street line, University Corridor and Uptown Corridor will also provide access to Rice University, the University of Houston Downtown, and Houston Community College, the Uptown/Galleria area, Downtown Houston, the Museum District and the Texas Medical Center.

- **28 Miles of Commuter Rail Transit (“CRT”)** – The CRT facilities are designed to provide regional service (a) along U.S. 290 from the Cypress Park & Ride facility to Intermodal Facilities at the northern terminus of the Uptown Corridor and at the junction of the Main Street line and the North Corridor and (b) along U.S. 90A from Missouri City in Fort Bend County to the southwest to the Fannin South Park & Ride/Rail Station near the southern terminus of the Main Street line. The CRT facilities are in the preliminary planning phase. The Authority’s preliminary cost estimate for the U.S. 90A line is \$300-\$400 million. The Authority plans to apply for federal assistance for the CRT facilities in the next year.
- **40 Miles of Signature Bus Service/Suburban Bus Rapid Transit** – This extended bus service will offer fast crosstown service using specially designated stops/“stations”; queue jumpers; and designated buses that provide a cohesive, recognizable route serving activity centers and defined destinations. One such line along Bellaire Boulevard, which will connect to the Main Street line, is nearing completion. Another along Gessner Road will involve an estimated \$10 million capital cost and will connect with the University Corridor light rail line.
- **HOV/HOT Conversion** – The project will convert existing one-way, reversible High Occupancy Vehicle (“HOV”) lanes to two-way High Occupancy Toll (“HOT”) lanes. The Authority has been awarded federal stimulus funds to cover much of the estimated \$50 million capital cost of the HOT conversion.

The following map illustrates the location of the components of the light rail transit system. (In the caption to the map, the existing Main Street line is depicted as the “Red Line.”)

[The remainder of this page is intentionally left blank.]

The Authority plans to implement portions of Phase 2 over the next two years by issuing notices to proceed for the development of METRORails lines in the East End, North, Southeast and Uptown Corridors under the Design-Build Contract and awarding a contract for construction of the University Corridor line. The Authority intends to finance most of the associated capital expense through the issuance of additional bonds, commercial paper, notes, contractual obligations and deferred payment obligations as well as internally-generated funds and federal aid, if awarded. To the extent that federal aid is not awarded or projects exceed estimated costs, the Authority plans to defer and stage completion of METRORail and/or other capital projects. Any deferral of part of the METRORail system could adversely affect usage of and revenue from completed portions.

The total expenditures anticipated to be committed by the Authority in its current two-year (Fiscal Year 2009-2010) capital improvement plan equal approximately \$2 billion. Of such amount, 50% of the costs for the North, Southeast and University Corridors are budgeted to be funded from federal aid (none of which has yet been committed) and the remainder is budgeted to be funded from (i) bond proceeds, (ii) "pay-as-you-go" capital funds, and (iii) other financing sources.

The following table summarizes estimated METRORail funding requirements:

METRORAIL CAPITAL BUDGET

<u>Project</u>	<u>Status of Final Design</u>	<u>Estimated Financing Period</u>	<u>Approximate Metro Cost (2009 \$, \$ in millions)⁽¹⁾</u>
East End Line	Current -2009	Mid-2009	\$349
North Line	Expected Late 2009	Late 2009	388 ⁽²⁾
Southeast Line	Expected Late 2009	Late 2009	441 ⁽²⁾
Uptown Line	Preliminary Engineering	Late 2010	282
University Line	Preliminary Engineering	Late 2010	<u>886⁽²⁾</u>
Total			\$2,346

- (1) Represents total project cost, including significant design and utility costs previously funded and including costs to be funded by the Obligations and contemporaneous offering. Exclusive of right of way costs estimated at \$18.3 million for the East End, Southeast, North and Uptown lines and \$90 million for the University line.
- (2) Includes 100% of budgeted costs, including 50% to be funded by federal New Start grants, if received. There can be no assurance that the Authority will be awarded federal New Start grants.

Additionally, the Authority anticipates funding approximately \$798 million in other "pay-as-you-go" capital projects in Fiscal Years 2009 through 2013. These projects include funding for planning, signature bus, transit and operating facilities, HOT lanes, commuter rail and Main Street light rail upgrades.

The Authority's funding of its capital improvement plan is subject to available funding sources and access to the financial markets. The amount of debt service the Authority must pay will directly affect the amount of the Pledged Revenues, after the payment of debt service, which is available to the Authority to support its operations, maintenance and capital reinvestment needs. The Authority does not intend to issue any debt which could be expected to adversely affect the sufficiency of residual revenue to pay costs of operation and maintenance of the Authority's transportation services. Consequently, the Authority intends to adjust its capital plans as necessary to finance the plans consistent with available resources and operating needs.

INVESTMENT CONSIDERATIONS

THE PURCHASE OF THE OBLIGATIONS IS SUBJECT TO CERTAIN RISKS. EACH PROSPECTIVE INVESTOR IN THE OBLIGATIONS IS ENCOURAGED TO READ THIS OFFICIAL STATEMENT IN ITS ENTIRETY, INCLUDING ALL APPENDICES HERETO. PARTICULAR ATTENTION SHOULD BE GIVEN TO THE FACTORS DESCRIBED BELOW, WHICH, AMONG OTHERS, COULD AFFECT THE PAYMENT OF PRINCIPAL OF AND INTEREST ON THE OBLIGATIONS AND WHICH COULD ALSO AFFECT THE MARKET PRICE OF THE OBLIGATIONS TO AN EXTENT THAT CANNOT BE DETERMINED.

RECEIPT OF GRANTS IS NOT ASSURED. . . The receipt of capital grants in the amounts and at the times estimated by the Authority is not assured and is subject to appropriations by the United States Congress and to the allocation and delivery procedures of the U. S. Department of Transportation and the Federal Transit Administration. To the extent the receipt of grants is delayed, not approved, cancelled or otherwise not forthcoming, the Authority may find it necessary to issue additional parity debt in amounts greater than its current estimate in order to complete the system as contemplated. Such increase in the issuance of debt would, in turn, decrease the currently estimated debt service coverage for all outstanding parity debt and could adversely affect the ratings for the Obligations.

In addition, the Authority currently estimates the receipt of \$57,938,412 of service-related grants during Fiscal Year 2008. The receipt of these service-related grants in the amounts and at the times estimated by the Authority is similarly not assured and is similarly subject to appropriations by the United States Congress and to the allocation and delivery procedures of the U. S.

Department of Transportation and the Federal Transit Administration. While, under the Authority Act, the expenses of operating and maintaining the Authority's mass transit system are a first lien on and charge against revenue from operation or ownership of the system, and not a lien on or charge against sales and use tax revenue, to the extent the receipt of service-related grants is delayed, not approved, cancelled or otherwise not forthcoming, the Authority may find it necessary to increase its use of sales and use tax revenue above its current estimate in order to provide for the timely and full payment of the expenses of operating and maintaining the system. Such increase would, in turn, decrease the amount of sales and use tax revenue for other purposes and could adversely affect the ratings for the Obligations.

CONSTRUCTION COSTS COULD INCREASE SUBSTANTIALLY. . . Presently, except for certain aspects of the East End Corridor line construction, the costs of construction are estimated and are not the subject of firm contracts. Except for the East End Corridor line, the estimates are based on preliminary design only. Therefore, the actual costs of construction could exceed estimates, and it is not possible to determine with any certainty the amount by which costs could exceed such estimates. To the extent that costs of construction exceed such estimates, the Authority may find it appropriate or necessary to change the scope of completing the system, increase its use of sales and use tax revenue to pay such additional costs of construction or increase the amount of parity debt issued to fund completion of the system. Any of these results could adversely affect the ratings for the Obligations. Construction projects can be upset by a variety of contingencies, such as contractor insolvencies, site complications and other factors that cannot be predicted. Any interruption or postponement of completion of construction of the system could result in a corresponding reduction in ridership and operating revenue.

ADDITIONAL DEBT SERVICE OBLIGATIONS ARE EXPECTED TO BE INCURRED. . . Subject to certain financial tests and limitations contained in the Resolutions, the Authority may issue Additional Obligations and enter into Senior Credit Agreements, each of which may be secured by a pledge of and lien on Pledged Revenues on a parity with the Obligations and be entitled to the benefits of a Reserve Fund. The Authority expects to issue a substantial amount of Additional Obligations to finance METRO Solutions. The financial tests that must be satisfied to permit issuance of Additional Obligations are based on certain assumptions concerning future revenue and debt service requirements, including that future sales and use tax revenue will not decline, that demand and bullet debt will be refinanced, and that interest on variable rate debt will accrue at assumed rates. Actual debt service requirements may exceed assumed requirements, and the excess could be substantial. Satisfaction of the conditions to Additional Obligations does not guarantee that Pledged Revenues will be sufficient to pay the Obligations and any Additional Obligations, when due and payable. In addition, the Authority may issue obligations of inferior lien without meeting any conditions. See "RIGHTS OF OWNERS ARE LIMITED" below.

THE STATE COMPTROLLER MAY OFFSET CURRENT DISTRIBUTIONS FOR OVERPAYMENTS. . . The Comptroller periodically identifies underpayments and overpayments of sales and use tax revenues and responds to claims by taxpayers. In the event that the Comptroller determines that the Authority received an overpayment, the sales and use tax revenues for future periods are subject to reduction or the Authority may be required to make a repayment in order to reimburse the overpayment. Under State law, the Authority has no legal standing or ability to intervene or appeal the Comptroller's determination.

AUTHORITY MAY RECEIVE PAYMENT OF SALES AND USE TAX REVENUE LESS FREQUENTLY. . . State law requires the Comptroller to remit sales and use tax revenue to the Authority as often as feasible and at least quarterly. The Comptroller remits sales and use tax revenues to the Authority and other taxing entities on a monthly basis. While the Authority has no reason to believe that the Comptroller's current practice will be discontinued, there is no assurance that the Comptroller will continue to remit sales and use tax revenues to the Authority on a monthly basis. Thus, temporary cash flow irregularities could occur.

AUTHORITY MAY EXPERIENCE VARIATIONS IN ITS SALES AND USE TAX REVENUES. . . Variations in the amount of receipts can be adversely affected by a number of variables, including possible (1) changes in State law and administrative practices governing the remittance and allocation of sales and use tax receipts, (2) changes in the transactions against which the sales and use tax may be imposed, and (3) changes in economic activity within the Authority's taxing jurisdiction.

INCREASED INTERNET USE MAY REDUCE SALES AND USE TAX REVENUES. . . The increasing use of the Internet to conduct electronic commerce may affect the collection of the sales and use tax. To the extent that transactions subject to the sales and use tax imposed by the Authority avoid normal collection and remittance procedures because they occur over the Internet, the Authority's receipt of sales and use tax may be adversely affected. At this time, the Authority is unable to predict how Internet sales may affect the amount of sales and use tax collected in the future. If, due to increases in Internet or other tax-exempt sales, the Authority's sales and use tax revenue decreases or increases more slowly than operating expenses and debt service requirements, the Authority's ability to pay the Obligations and maintain operations could be adversely affected to an extent that cannot be predicted.

The federal Internet Tax Freedom Act, as amended, imposes a moratorium on taxes on online commerce. The Act was first approved in 1998 and has been extended twice, most recently in 2007. The amendments to the Act extend the moratorium until November 2014. There can be no assurance that the Act will not be extended past that time

ENVIRONMENTAL LEGISLATION COULD INCREASE RIDERSHIP AND EXPENSES AND LIMIT REVENUE INCREASES. . . New legislative and regulatory initiatives are under consideration by the federal and state governments to address the causes of climate change, including initiatives to reduce emissions of greenhouse gases. In addition, the Houston Galveston Brazoria consolidated metropolitan statistical area has been designated by the United States Environmental Protection Agency as being in non-attainment with the national ambient air ozone standards, triggering an obligation on the part of the State of Texas to

develop and implement a strategic plan to reduce ozone concentrations so that the area can ultimately comply with the federal standard. Although it is not possible at this time to predict how these initiatives would impact the Authority, any such future laws and regulations could impede the rate of growth of the area within the Authority (and its sales and use tax revenue), increase transit ridership (and therefore Authority operating and capital replacement expenses), and result in increased compliance costs, each of which could have a material adverse effect on the Authority's financial condition and prospects.

ADVERSE LEGISLATION COULD BE ENACTED. . . The Texas Legislature and the U.S. Congress may enact legislation that could materially affect the operations, financial condition and financial prospects of the Authority. Consistent with the Texas Constitution and federal law, they may in the exercise of their police power make such modifications in the terms and conditions of contractual covenants relating to the payment of indebtedness of a political subdivision as are reasonable and necessary for attainment of an important public purpose. Accordingly, there can be no assurance that the U.S. Congress or Texas Legislature will not enact tax moratoriums or exemptions or other legislation that may adversely affect the Authority's ability to pay the Obligations.

PAYMENT OF SHORT-TERM PARITY OBLIGATIONS MAY DEPEND ON MARKET ACCESS. . . The Authority plans to issue one or more series of CP Notes shortly after the issuance of the Obligations. The Authority is obligated to redeem the CP Notes within two years after expiration of the supporting line of credit, unless they are sooner refunded. The Authority may also issue parity Additional Obligations that are short-term obligations or subject to mandatory tender by the owners thereof and purchase or redemption by the Authority, with or without a supporting credit or liquidity facility.

Given the extraordinary recent events in the financial markets, the Authority cannot provide any assurance that it will have market access to remarket or refund such obligations, if issued, or the CP Notes upon mandatory tender thereof for purchase or at maturity. The Authority may be unable to remarket or refund such parity obligations at that time due to then-existing market conditions or an unanticipated and substantial deterioration in the financial condition of the Authority. The Authority is not obligated to fund or maintain any reserve fund for payment of the CP Notes or Additional Obligations, but if it elects to do so such Senior Lien Obligations could be entitled to be paid from one of the Reserve Funds. In addition, Pledged Revenues in excess of monthly accruals of debt service may be expended for other purposes. Consequently, if the CP Notes or any parity short-term or demand obligations cannot be remarketed or refunded and if Pledged Revenues and other legally available funds on hand are not sufficient to pay or redeem such obligations when due and pay principal of and interest on the other Senior Lien Obligations, the Reserve Funds could be depleted, and the Authority may be unable to pay principal of and interest on the Obligations in full when due.

RIGHTS OF OWNERS ARE LIMITED. . . The Resolutions do not establish specific events of default with respect to the Obligations. Under State law there is no right to the acceleration of maturity of the Obligations upon the failure of the Authority to observe any covenant under the Resolutions. In addition, under State law the Authority is immune from a suit for damages from any default by the Authority on the Obligations or under either Resolution. Even if a judgment against the Authority could be obtained, it could not be enforced by direct levy and execution against the Authority's property, which under state law is exempt from forced sale. An owner's only practical remedy, if a default occurs, is a mandamus or mandatory injunction proceeding to compel Authority officers to observe or perform any of their undisputed obligations under the Resolutions. The enforcement of any such remedy may be difficult and time consuming, and an owner of the Obligations could be required to enforce such remedy on a periodic basis. Except for acting as custodian for the Pledged Revenues until disbursed in accordance with the Resolutions, the Trustee is not empowered to represent the interests of the registered holders upon any failure of the Authority to perform in accordance with the terms of the Resolutions, or upon any other condition. The opinions of Bond Counsel and Co-Bond Counsel will note that all opinions relative to the enforceability of the Resolutions and the Obligations are qualified with respect to the customary rights of debtors relative to their creditors.

The Authority is authorized by state law to file a petition for the adjustment of its debts under the United States Bankruptcy Code. The Authority may do so under Chapter 9 of the Bankruptcy Code if it is unable to pay its debts as they become due and it desires to effect a plan to adjust its debts. If the Authority files a petition for the adjustment of its debts under Chapter 9, owners of the Obligations would be automatically stayed from taking action to enforce their claims against the Authority during the pendency of the case, unless permitted by the court; the Authority's pledge of Pledged Revenues as security for the Obligations would be ineffective as to sales and use taxes collected after the commencement of the case; and with the approval of the court the Authority could use previously collected Pledged Revenue for purposes other than paying the Obligations if it provides "adequate protection" to the owners of the Obligations, among other consequences. In a proceeding for the adjustments of its debts, the Authority could propose, and the court could order, a plan that changes payment terms on the Obligations without the consent of the owners of the affected Obligations, if the plan is accepted by at least one class of Authority creditors and the court determines that the plan is in the best interests of the Authority's creditors and does not discriminate unfairly among, and is fair and equitable to, each class of creditors whose claims are impaired and have not accepted the plan. For these purposes, a plan would be deemed accepted by the owners of the Obligations if approved by the owners of two-thirds in amount and a majority in number of the claims for the Obligations. All descriptions herein of contractual obligations of the Authority on the Obligations and under the Resolutions are subject to these provisions of the Bankruptcy Code.

TAX MATTERS FOR SERIES 2009A AND 2009B OBLIGATIONS

EXEMPTION FOR INTEREST. . . In the opinion of Andrews Kurth LLP, Houston, Texas, and Bates & Coleman, P.C., Houston, Texas Co-Bond Counsel for the Bonds, and of Andrews Kurth LLP, Houston, Texas, Bond Counsel for the Contractual Obligations, interest on the Series 2009A Bonds and the Contractual Obligations (1) is excludable from gross income of the owners thereof for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”) and (2) is not includable in the federal alternative minimum taxable income of individuals or corporations.

The foregoing opinions of Bond Counsel and Co-Bond Counsel are based on the Code and the regulations, rulings and court decisions thereunder in existence on the date of issue of the Obligations. Such authorities are subject to change and any such change could prospectively or retroactively result in the inclusion of the interest on the Series 2009A Bonds and the Contractual Obligations in gross income of the owners thereof or change the treatment of such interest for purposes of computing alternative minimum taxable income.

In rendering its opinions, Bond Counsel and Co-Bond Counsel have assumed continuing compliance by the Authority with certain covenants of the Resolutions and relied on representations by the Authority with respect to matters solely within the knowledge of the Authority, which Bond Counsel and Co-Bond Counsel have not independently verified. The covenants and representations relate to, among other things, the use of Series 2009A Bonds and Contractual Obligation proceeds and any facilities financed therewith, the source of repayment of the Series 2009A Bonds and the Contractual Obligations, the investment of Series 2009A Bonds and Contractual Obligation proceeds and certain other amounts prior to expenditure, and requirements that excess arbitrage earned on the investment of Series 2009A Bonds and Contractual Obligation proceeds and certain other amounts be paid periodically to the United States and that the Authority file an information report with the Internal Revenue Service (the “Service”). If the Authority should fail to comply with the covenants in the Resolutions, or if its representations relating to the Series 2009A Bonds and the Contractual Obligations that are contained in the Resolutions should be determined to be inaccurate or incomplete, interest on the Series 2009A Bonds and the Contractual Obligations could become taxable from the date of delivery of the Series 2009A Bonds and the Contractual Obligations, regardless of the date on which the event causing such taxability occurs.

Except as stated above and set forth below under “TAX TREATMENT OF ORIGINAL ISSUE DISCOUNT” and “TAX TREATMENT OF ORIGINAL ISSUE PREMIUM,” neither Bond Counsel or Co-Bond Counsel will express any opinion as to any federal, state or local tax consequences resulting from the ownership of, receipt or accrual of interest on or acquisition or disposition of the Series 2009A Bonds and the Contractual Obligations.

The opinions of Bond Counsel and Co-Bond Counsel are not a guarantee of a result, but represent the respective legal judgment of such firms based upon review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the Authority described above. No ruling has been sought from the Internal Revenue Service (the “Service”) with respect to the matters addressed in the opinions of Bond Counsel and Co-Bond Counsel, and such opinions are not binding on the Service. The Service has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the Series 2009A Bonds and the Contractual Obligations is commenced, under current procedures the Service is likely to treat the Authority as the “taxpayer,” and the owners of the Series 2009A Bonds and the Contractual Obligations would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Series 2009A Bonds and the Contractual Obligations, the Authority may have different or conflicting interests from the owners of the Series 2009A Bonds and the Contractual Obligations. Public awareness of any future audit of the Series 2009A Bonds and the Contractual Obligations could adversely affect the value and liquidity of the Series 2009A Bonds and the Contractual Obligations during the pendency of the audit, regardless of its ultimate outcome.

Under the Code, taxpayers are required to provide information on their returns regarding the amount of tax-exempt interest, such as interest on the Series 2009A Bonds and the Contractual Obligations, received or accrued during the year.

Prospective purchasers of the Series 2009A Bonds and the Contractual Obligations should be aware that the ownership of tax-exempt obligations, such as the Series 2009A Bonds and the Contractual Obligations, may result in collateral federal income tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who are deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations and individuals otherwise eligible for the earned income tax credit. Such prospective purchasers should consult their own tax advisors as to the consequences of investing in the Series 2009A Bonds and the Contractual Obligations.

TAX TREATMENT OF ORIGINAL ISSUE DISCOUNT. . . The Contractual Obligations maturing in the years 2022 through 2025, inclusive, 2027 and 2033 (the “Discount Obligations”) are offered at an initial offering price which is less than the stated redemption price at maturity of such Contractual Obligations. If a substantial amount of any maturity of the Discount Obligations is sold to members of the public (which for this purpose excludes bond houses, brokers and similar persons or entities acting in the capacity of wholesalers or underwriters) at such initial offering price, an initial owner who purchases the Discount Obligations of that maturity will be considered to have “original issue discount” for federal income tax purposes equal

to the difference between (a) the stated redemption price payable at the maturity of such Discount Obligation and (b) the initial offering price to the public of such Discount Obligation. Under existing law, such original issue discount will be treated for federal income tax purposes as additional interest on an obligation and such initial owner will be entitled to exclude from gross income for federal income tax purposes that portion of such original issue discount deemed to be earned (as discussed below) during the period while such Discount Obligation continues to be owned by such initial owner. Except as otherwise provided herein, the discussion regarding interest on the Obligations under the caption "EXEMPTION FOR INTEREST" above generally applies to original issue discount deemed to be earned on a Discount Obligation while held by an owner who has purchased such Discount Obligation at the initial offering price in the initial public offering of the Obligations and that discussion should be considered in connection with this portion of the Official Statement.

In the event of a redemption, sale, or other taxable disposition of a Discount Obligation prior to its stated maturity, however, any amount realized by such initial owner in excess of the basis of such Discount Obligation in the hands of such owner (increased to reflect the portion of the original issue discount deemed to have been earned while such Discount Obligation continues to be held by such initial owner) will be includable in gross income for federal income tax purposes.

Because original issue discount on a Discount Obligation will be treated for federal income tax purposes as interest on an Obligation, such original issue discount must be taken into account for certain federal income tax purposes as it is deemed to be earned even though there will not be a corresponding cash payment. Owners of a Discount Obligation may be required to take into account such original issue discount as it is deemed to be earned for purposes of determining certain collateral federal tax consequences of owning a Discount Obligation. See "EXEMPTION FOR INTEREST" above for a reference to collateral federal tax consequences for certain other owners.

The characterization of original issue discount as interest is for federal income tax purposes only and does not otherwise affect the rights or obligations of the owner of a Discount Obligation or of the Authority. The portion of the principal of a Discount Obligation representing original issue discount is payable upon the maturity or earlier redemption of such Obligation to the registered owner of the Discount Obligation at that time.

Under special tax accounting rules prescribed by existing law, a portion of the original issue discount on each Discount Obligation is deemed to be earned each day. The portion of the original issue discount deemed to be earned each day is determined under an actuarial method of accrual, using the yield to maturity as the constant interest rate and semi-annual compounding.

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition of Discount Obligations by an owner that did not purchase such Obligations in the initial public offering and at the initial offering price may be determined according to rules which differ from those described above. All prospective purchasers of Discount Obligations should consult their tax advisors with respect to the determination for federal, state and local income tax purposes of interest and original issue discount accrued upon redemption, sale or other disposition of such Discount Obligations and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such Discount Obligations.

TAX TREATMENT OF ORIGINAL ISSUE PREMIUM. . . All of the Series 2009A Bonds and the Contractual Obligations maturing in the years 2010 through 2021, inclusive, 2026, 2028, and 2029 (the "*Premium Obligations*") were offered at an initial offering price which exceeds the stated redemption price payable at the maturity of Premium Obligations. If a substantial amount of any maturity of the Premium Obligations is sold to members of the public (which for this purpose excludes bond houses, brokers and similar persons or entities acting in the capacity of wholesalers or underwriters) at such initial offering price, each of the Premium Obligations of such maturity will be considered for federal income tax purposes to have "bond premium" equal to the amount of such excess. The basis for federal income tax purposes of a Premium Obligation in the hands of an initial purchaser who purchases such Premium Obligation in the initial offering must be reduced each year and upon the sale or other taxable disposition of the Premium Obligation by the amount of amortizable bond premium. This reduction in basis will increase the amount of any gain (or decrease the amount of any loss) recognized for federal income tax purposes upon the sale or other taxable disposition of a Premium Obligation by the initial purchaser. Generally, no corresponding deduction is allowed for federal income tax purposes, for the reduction in basis resulting from amortizable bond premium. The amount of bond premium on a Premium Obligation which is amortizable each year (or shorter period in the event of a sale or disposition of a Premium Obligation) is determined under special tax accounting rules which use a constant yield throughout the term of the Premium Obligation based on the initial purchaser's original basis in such Obligation.

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition by an owner of Premium Obligations not purchased in the initial offering or which are purchased at an amount representing a price other than the initial offering price for the Series 2009A Bonds or the Contractual Obligations of the same maturity may be determined according to rules which differ from those described above. Moreover, all prospective purchasers of Premium Obligations should consult their tax advisors with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of Premium Obligations.

TAX MATTERS FOR SERIES 2009C BABS

GENERAL. . . The following is a general summary of United States federal income tax consequences of the purchase and ownership of the Series 2009C BABs. The discussion is based upon laws, Treasury Regulations, rulings and decisions now in effect, all of which are subject to change (possibly with retroactive effect) or possibly differing interpretations. No assurances can be given that future changes in the law will not alter the conclusions reached herein. The discussion below does not purport to deal with United States federal income tax consequences applicable to all categories of investors. Further, this summary does not discuss all aspects of United States federal income taxation that may be relevant to a particular investor in the Series 2009C BABs in light of the investor's particular personal investment circumstances or to certain types of investors subject to special treatment under United States federal income tax laws (including insurance companies, tax exempt organizations, financial institutions, broker-dealers, and persons who have hedged the risk of owning the Series 2009C BABs). The summary is therefore limited to certain issues relating to initial investors who will hold the Series 2009C BABs as "capital assets" within the meaning of section 1221 of the Code, and acquire such Series 2009C BABs for investment and not as a dealer or for resale. This summary addresses certain federal income tax consequences applicable to beneficial owners of the Series 2009C BABs who are United States persons within the meaning of section 7701(a)(30) of the Code ("*United States persons*") and, except as discussed below, does not address any consequences to persons other than United States persons. Prospective investors should note that no rulings have been or will be sought from the IRS with respect to any of the U.S. federal income tax consequences discussed below, and the discussion below is not binding on the IRS.

INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISORS IN DETERMINING THE FEDERAL, STATE, LOCAL, FOREIGN AND ANY OTHER TAX CONSEQUENCES TO THEM FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE SERIES 2009C BABS.

INTERNAL REVENUE SERVICE CIRCULAR 230 NOTICE. . . You should be aware that:

- (i) the discussion with respect to United States federal tax matters in this Official Statement was not intended or written to be used, and cannot be used, by any taxpayer for the purpose of avoiding penalties that may be imposed on the taxpayer;
- (ii) such discussion was written to support the promotion or marketing (within the meaning of IRS Circular 230) of the transactions or matters addressed by such discussion; and
- (iii) each taxpayer should seek advice based on his or her particular circumstances from an independent tax advisor.

This notice is given solely for purposes of ensuring compliance with IRS Circular 230.

STATED INTEREST ON THE SERIES 2009C BABS. . . The stated interest on the Series 2009C BABs will be included in the gross income, as defined in section 61 of the Code, of the beneficial owners thereof and be subject to U.S. federal income taxation when paid or accrued, depending on the tax accounting method applicable to the beneficial owners thereof.

DISPOSITION OF SERIES 2009C BABS. . . A beneficial owner of Series 2009C BABs will generally recognize gain or loss on the redemption, sale or exchange of a Series 2009C BAB equal to the difference between the redemption or sales price (exclusive of the amount paid for accrued interest) and the beneficial owner's adjusted tax basis in the Series 2009C BAB. Generally, the beneficial owner's adjusted tax basis in a Series 2009C BABs will be the beneficial owner's initial cost, increased by any original issue discount previously included in the beneficial owner's income to the date of disposition and reduced by any amortized bond premium. Any gain or loss generally will be capital gain or loss and will be long-term or short-term, depending on the beneficial owner's holding period for the Series 2009C BAB.

No defeasance of the Series 2009C BABs will relieve the Authority of its obligation to pay principal of and interest on the Series 2009C BABs or, consequently, result in a constructive disposition of the defeased Series 2009C BABs.

BACKUP WITHHOLDING. . . Under section 3406 of the Code, a beneficial owner of the Series 2009C BABs who is a United States person, as defined in section 7701(a)(30) of the Code, may, under certain circumstances, be subject to "backup withholding" with respect to current or accrued interest on the Series 2009C BABs or with respect to proceeds received from a disposition of Series 2009C BABs. This withholding applies if such beneficial owner of Series 2009C BABs: (i) fails to furnish to the payor such beneficial owner's social security number or other taxpayer identification number ("*TIN*"); (ii) furnishes the payor an incorrect TIN; (iii) fails to report properly interest, dividends, or other "reportable payments" as defined in the Code; or (iv) under certain circumstances, fails to provide the payor with a certified statement, signed under penalty of perjury, that the TIN provided to the payor is correct and that such beneficial owner is not subject to backup withholding.

Backup withholding will not apply, however, with respect to payments made to certain beneficial owners of the Series 2009C BABs. Beneficial owners of the Series 2009C BABs should consult their own tax advisors regarding their qualification for exemption from backup withholding and the procedures for obtaining such exemption.

WITHHOLDING ON PAYMENTS TO NONRESIDENT ALIEN INDIVIDUALS AND FOREIGN CORPORATIONS. . . Under sections 1441 and 1442 of the Code, nonresident alien individuals and foreign corporations are generally subject to withholding at the current rate of 30% (subject to change) on periodic income items arising from sources within the United States, provided such income is not effectively connected with the conduct of a United States trade or business. Assuming the interest income of such beneficial owners of Series 2009C BABs is not treated as effectively connected income within the meaning of section 864 of the Code, such interest will be subject to 30% withholding, or any lower rate specified in an income tax treaty, unless such income is treated as portfolio interest. Interest will be treated as portfolio interest if: (i) the beneficial owner provides a statement to the payor certifying, under penalties of perjury, that such beneficial owner is not a United States person and providing the name and address of such beneficial owner; (ii) such interest is treated as not effectively connected with the beneficial owner's United States trade or business; (iii) interest payments are not made to a person within a foreign country which the IRS has included on a list of countries having provisions inadequate to prevent United States tax evasion; (iv) interest payable with respect to the Series 2009C BABs is not deemed contingent interest within the meaning of the portfolio debt provision; (v) such beneficial owner is not a controlled foreign corporation, within the meaning of section 957 of the Code; and (vi) such beneficial owner is not a bank receiving interest on the Series 2009C BABs pursuant to a loan agreement entered into in the ordinary course of the bank's trade or business.

Assuming payments on the Series 2009C BABs are treated as portfolio interest within the meaning of sections 871 and 881 of the Code, then no withholding under section 1441 and 1442 of the Code and no backup withholding under section 3406 of the Code is required with respect to beneficial owners or intermediaries who have furnished Form W-8 BEN, Form W-8 EXP or Form W-8 IMY, as applicable, provided the payor does not have actual knowledge or reason to know that such person is a United States person.

REPORTING OF INTEREST PAYMENTS. . . Subject to certain exceptions, interest payments made to beneficial owners with respect to the Series 2009C BABs will be reported to the IRS. Such information will be filed each year with the IRS on Form 1099 which will reflect the name, address, and TIN of the beneficial owner. A copy of Form 1099 will be sent to each beneficial owner of a Series 2009C BAB for U.S. federal income tax purposes.

CONTINUING DISCLOSURE OF INFORMATION

In the Resolutions, the Authority has made the following agreement for the benefit of the holders and beneficial owners of the Obligations. The Authority is required to observe the agreement for so long as it remains obligated to advance funds to pay the Obligations. Under the agreement, the Authority will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to certain information vendors. Information that is filed with information vendors will be available to securities brokers and others who subscribe to receive the information from the vendors.

ANNUAL REPORTS. . . The Authority will provide certain updated financial information and operating data to certain information vendors annually. The information to be updated includes all quantitative financial information and operating data with respect to the Authority of the general type included in this Official Statement under Tables numbered 1 through 6 and in Appendix B. The Authority will update and provide this information within six months after the end of each fiscal year. The Authority will provide the updated information to each nationally recognized municipal securities information repository ("NRMSIR") approved by the staff of the United States Securities and Exchange Commission ("SEC") and to the Texas Municipal Advisory Council, the state information depository ("SID") designated by the State of Texas and approved by the SEC staff.

The Authority may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12. The updated information will include audited financial statements, if the Authority commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the Authority will provide unaudited financial information and operating data which is customarily prepared by the Authority by the required time, and audited financial statements when and if such audited financial statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix B or such other accounting principles as the Authority may be required to employ from time to time pursuant to state law or regulation.

The Authority's current fiscal year end is September 30. Accordingly, it must provide updated information by March 31 in each year, unless the Authority changes its fiscal year. If the Authority changes its fiscal year, it will notify each NRMSIR and the SID of the change.

The Municipal Advisory Council of Texas (the "MAC") has been designated by the State of Texas and approved by the SEC staff as a qualified SID. The address of the MAC is 600 West 8th Street, P.O. Box 2177, Austin, Texas 78768-2177, and its telephone number is 512/476-6947.

MATERIAL EVENT NOTICES. . . The Authority will also provide timely notices of certain events to certain information vendors. The Authority will provide notice of any of the following events with respect to the Obligations, if such event is material to a decision to purchase or sell Obligations: (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 Obligations; (7) modifications to rights of holders of the Obligations; (8) Obligation calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Obligations; and (11) rating changes. In addition, the Authority will provide timely notice of any failure by the Authority to provide information, data, or financial statements in accordance with its agreement described above under "ANNUAL REPORTS." (Note that the Resolutions make no provision for credit or liquidity enhancement and that the Series 2009C BABs are not tax-exempt.) The Authority will provide each notice described in this paragraph to the SID and to either each NRMSIR or the Municipal Securities Rulemaking Board ("*MSRB*").

AVAILABILITY OF INFORMATION FROM NRMSIRS AND SID. . . The Authority has agreed to provide the foregoing information only to NRMSIRs, any SID, and the MSRB, if applicable. Prior to July 1, 2009, the information will be available to holders of Obligations only if the holders comply with the procedures and pay the charges established by such information vendors or obtain the information through securities brokers who do so. Effective July 1, 2009, all such information must be filed with the MSRB, rather than the current NRMSIRs. The MSRB intends to make the information available to the public without charge through an internet portal as part of its Electronic Municipal Market Access ("*EMMA*") system. Investors will be able to access continuing disclosure information filed with the MSRB at www.emma.msrb.org.

LIMITATIONS AND AMENDMENTS. . . The Authority has agreed to update information and to provide notices of material events only as described above. The Authority has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The Authority makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Obligations at any future date. The Authority disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement. Holders or beneficial owners of Obligations may seek as their sole remedy a writ of mandamus to compel the Authority to comply with its agreement. No default by the Authority with respect to its continuing disclosure agreement shall constitute a breach of or default under the Resolutions for purposes of any other provision of the Resolutions. Nothing in this paragraph is intended or shall act to disclaim, waive, or otherwise limit the duties of the Authority under federal and state securities laws. The Authority's undertakings and agreements are subject to appropriation of necessary funds and to applicable legal restrictions.

The Authority may amend its continuing disclosure agreement from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the Authority, if (i) the agreement, as amended, would have permitted an underwriter to purchase or sell Obligations in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (ii) either (a) the holders of a majority in aggregate principal amount of the outstanding Obligations consent to the amendment or (b) any person unaffiliated with the Authority (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Obligations. The Authority may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provisions of the SEC Rule 15c2-12 or a court of final jurisdiction enters judgment that such provisions of the SEC Rule 15c2-12 are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Obligations in the primary offering of the Obligations. If the Authority so amends the agreement, it has agreed to include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

COMPLIANCE WITH PRIOR UNDERTAKINGS. . . The Authority has not failed to comply with any previous undertaking in accordance with SEC Rule 15c2-12.

OTHER INFORMATION

RATINGS. . . Moody's Investors Service, Inc. ("*Moody's*") and Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies, Inc. ("*S&P*") have assigned their municipal bond ratings of "Aa3" and "AA", respectively, to the Obligations based on the Authority's underlying credit. An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The ratings reflect only the respective views of such organizations and the Authority makes no representation as to the appropriateness of the ratings. The Authority is not obligated to maintain the current ratings on the Obligations and there is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by either or both of such rating companies, if in the judgment of either or both companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings, or either of them, may have an adverse effect on the market price of the Obligations. The Authority and the Co-Financial Advisors will undertake no responsibility to oppose any revision or withdrawal of such ratings.

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS. . . Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Obligations are negotiable instruments, investment securities governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. With respect to investment in the Obligations by municipalities or other political subdivisions or public

agencies of the State of Texas, the Public Funds Investment Act, Chapter 2256, Texas Government Code, requires that the Obligations be assigned a rating of “A” or its equivalent as to investment quality by a national rating agency. See “OTHER INFORMATION – RATINGS” herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Obligations are legal investments for state banks, savings banks, trust companies with at capital of one million dollars or more, and savings and loan associations. The Obligations are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value. No review by the Authority has been made of the laws in other states to determine whether the Obligations are legal investments for various institutions in those states.

LEGAL MATTERS. . . The Authority will furnish a complete transcript of proceedings incident to the authorization and issuance of the Obligations, including the unqualified approving legal opinions of the Attorney General of Texas approving the initial Obligations and to the effect that the Obligations are valid and legally binding obligations of the Authority, and based upon examination of such transcript of proceedings, the approving legal opinions (a) as to the Bonds, of Andrews Kurth LLP, Houston, Texas, and Bates & Coleman, P.C., Co-Bond Counsel, and (b) as to the Contractual Obligations, of Andrews Kurth LLP, Houston, Texas, Bond Counsel, including to the effect that the interest on the Series 2009A Bonds and the Contractual Obligations will be excludable from gross income for federal income tax purposes under Section 103(a) of the Code and the alternative minimum tax imposed on individuals or corporations, subject to the matters described under “TAX MATTERS FOR SERIES 2009A AND 2009B OBLIGATIONS”. The forms of Bond Counsels’ opinions are attached hereto as Appendix C. The legal fee to be paid to Co-Bond Counsel for services rendered in connection with the issuance of the Obligations is contingent upon the issuance of the Obligations. Certain matters will be passed upon for the Authority by its General Counsel and for the Underwriters by their co-counsel, Fulbright & Jaworski LLP, Houston, Texas, and West & Associates, L.L.P., San Antonio, Texas.

Co-Bond Counsel were engaged by, and only represent, the Authority. Except as noted below, Co-Bond Counsel did not take part in the preparation of the Official Statement, and such firms have not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, Andrews Kurth LLP has reviewed the information describing the Obligations, the Resolutions, and federal and state law in the Official Statement under the captions “THE OBLIGATIONS” (except for the information under the subcaptions “BOOK-ENTRY-ONLY SYSTEM”), “REVENUES AND INVESTMENTS – SALES AND USE TAX AUTHORITY – IMPOSITION OF TAX,” “TAX MATTERS FOR SERIES 2009A AND 2009B OBLIGATIONS,” “CONTINUING DISCLOSURE OF INFORMATION” (except for the subcaption “COMPLIANCE WITH PRIOR UNDERTAKINGS”), “OTHER INFORMATION - LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS,” and “OTHER INFORMATION – LEGAL MATTERS” (except for the last sentence of the first paragraph thereof), and in Appendix A, and such firm is of the opinion that the information relating to the Obligations, the Resolutions, and federal and state law contained therein fairly and accurately describes the Obligations, the Resolutions, and federal and state law summarized therein.

Andrews Kurth LLP and Bates & Coleman, P.C. represent the Underwriters from time to time in matters unrelated to the issuance of the Obligations.

The various legal opinions to be delivered concurrently with the delivery of the Obligations express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction, nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

AUTHENTICITY OF FINANCIAL DATA AND OTHER INFORMATION. . . The financial data and other information contained herein have been obtained from Authority records, audited financial statements and other sources which are believed to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes, documents and resolutions contained in this Official Statement are made subject to all of the provisions of such statutes, documents and resolutions. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

CO-FINANCIAL ADVISORS. . . First Southwest Company and Siebert Brandford Shank & Co., LLC are employed as Co-Financial Advisors to the Authority in connection with the issuance of the Obligations. The Co-Financial Advisors’ fees for services rendered with respect to the sale of the Obligations are contingent upon the issuance and delivery of the Obligations. First Southwest Company and Siebert Brandford Shank & Co., LLC, in their capacity as Co-Financial Advisors, do not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Obligations, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

The Co-Financial Advisors to the Authority have provided the following sentence for inclusion in this Official Statement. The Co-Financial Advisors have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to the Authority and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Co-Financial Advisors do not guarantee the accuracy or completeness of such information.

UNDERWRITING. . . Merrill Lynch, Pierce, Fenner & Smith Incorporated, Goldman Sachs & Co., Loop Capital Markets, LLC, Samuel A. Ramirez & Co., Inc. and Rice Financial Products Company have agreed, subject to certain conditions, to purchase the Series 2009A Bonds at a discount of \$986,705 and the Series 2009C BABs at a discount of \$1,184,993 from the initial offering prices for such Obligations specified inside the cover page. Merrill Lynch, Pierce, Fenner & Smith Incorporated, Goldman Sachs & Co., Estrada Hinojosa & Company, Inc. and Kipling Jones & Co. have agreed, subject to certain conditions, to purchase the Contractual Obligations at a discount of \$448,138 from the initial offering prices for such Obligations specified inside the cover page. The respective Underwriters will be obligated to purchase all of the applicable Obligations if any such Obligations are purchased. The Obligations to be offered to the public may be offered and sold to certain dealers (including the respective Underwriters and other dealers depositing Obligations into investment trusts) at prices lower than the public offering prices of such Obligations and such public offering prices may be changed, from time to time, by the Underwriters. The Authority has also agreed to reimburse the Underwriters for certain expenses in connection with the offering.

INDEPENDENT AUDITORS. . . The Authority's financial statements, as of and for the year ending September 30, 2008, included in this Official Statement in Appendix B, have been audited by KPMG LLP, independent auditors, as stated in their report appearing herein, which is based on their audit and the reports of other auditors. *KPMG LLP has not been engaged to perform and has not performed, since the date of its report appearing in Appendix B hereto, any procedures on the financial statements addressed in that report. KPMG LLP also has not performed any procedures relating to this Official Statement.*

GENERAL INFORMATION

This Official Statement does not create a contract between or among the Authority, the Underwriters and the purchasers of the Obligations.

The Resolutions approve the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorize its further use in the reoffering of the Obligations by the respective Underwriters.

ATTEST:

/s/ Pauline E. Higgins
Senior Vice President, General
Counsel and Corporate Secretary
Metropolitan Transit Authority of
Harris County, Texas

/s/ Frank J. Wilson
President and CEO
Metropolitan Transit Authority of
Harris County, Texas

APPENDIX A

SELECTED PROVISIONS OF THE RESOLUTIONS

[THIS PAGE LEFT BLANK INTENTIONALLY]

APPENDIX A
SELECTED PROVISIONS OF THE RESOLUTIONS

Presented below are brief summaries of certain provisions contained in the Resolutions. Such summaries are not to be considered full statements pertaining thereto. Reference is directed to the Resolutions for the complete text thereof. Copies of such documents are available upon request from the Authority or the Authority's Bond Counsel.

As used in the Resolutions, the following terms and expressions shall have the meanings set forth below, unless the text of the Resolutions specifically indicates otherwise.

The term "*Acquisition Fund*" means, with respect to the Contractual Obligations, that certain fund established pursuant to and used in accordance the Contractual Obligation Resolution.

The term "*Act*" means, with respect to the Bonds, Chapter 1371, Texas Government Code, as amended, and Section 451.352, Texas Transportation Code, as amended.

The term "*Act*" means, with respect to the Contractual Obligations, Chapter 1371, Texas Government Code, as amended, and the Public Property Finance Act, Chapter 271, Subchapter A, Texas Local Government Code, as amended.

The term "*Additional Obligations*" means any bonds, notes or other debt obligations (including capital lease obligations) and obligations to make deferred payments for goods and services in furtherance of METRO Solutions Phase 2, which deferred payments have been assigned to a third party and used to make payments to owners of public securities) which the Authority reserves the right to issue or incur in the Resolutions, which are secured by a senior lien on Pledged Revenues.

The term "*Adjustable Rate Obligations*" means any Senior Lien Obligations that initially bear interest at an adjustable or variable rate of interest, including Adjustable Rate Obligations which may be, but have not yet been, converted to Senior Lien Obligations bearing a fixed rate of interest.

The term "*Attorney General*" means the Attorney General of Texas.

The term "*Authority Act*" means Chapter 141, Acts of the 63rd Legislature of the State of Texas, Regular Session, 1973 (Article 1118x, Vernon's Texas Civil Statutes, as amended, now codified as Chapter 451, Texas Transportation Code, as amended).

The term "*Authorized Representative*" means the Chairman of the Board or, in the event of his or her inaccessibility or incapacity, the Vice Chairman of the Board or, in the event of their inaccessibility or incapacity, the President and Chief Executive Officer, or in the event of their inaccessibility or incapacity, the Chief Financial Officer or, in the event of their inaccessibility or incapacity, the General Counsel of the Authority and, except for purposes of executing an Officer's Pricing Certificate, their designees. The execution of a document by any such officer as an Authorized Representative shall conclusively evidence the inaccessibility or incapacity of any other such officer with superior authority.

The term "*BAB*" means any Bond which the Authority has designated as a "Build America Bond," pursuant to Section 54AA of the Code.

The term "*Board*" means the Board of Directors of the Authority.

The term "*Bond Resolution*" means the resolution authorizing the Bonds.

The term "*Bonds*" means, together, the Series 2009A Bonds and Series 2009C Bonds.

The term "*Bullet Obligation*" means all Senior Lien Obligations of a series maturing in any single year in a principal amount that totals at least 15% of the initial aggregate principal amount of the entire series of such Senior Lien Obligations.

The term "*Business Day*" means any day other than (i) a Saturday, a Sunday, or other day on which commercial banks located in the States of New York or Texas are authorized or required by law or executive order to close or (ii) a day on which the New York Stock Exchange is closed.

The term "*Code*" means the Internal Revenue Code of 1986, as amended.

The term "*Comptroller*" means the Comptroller of Public Accounts of the State of Texas.

The term "*Construction Fund*" means that certain fund established pursuant to and used in accordance with the Bond Resolution.

The term “*Contractual Obligation Resolution*” means the resolution authorizing the Contractual Obligations.

The term “*Contractual Obligations*” means the Authority’s Sales and Use Tax Contractual Obligations, Series 2009B issued as Senior Lien Obligations by the Authority pursuant to the Contractual Obligation Resolution.

The term “*CP Notes*” means the Sales and Use Tax Commercial Paper Notes, Series A of the Authority currently authorized to be issued in the maximum aggregate principal amount of \$400,000,000.

The term “*Credit Agreement*” means a credit agreement, as such term is defined in Chapter 1371, Texas Government Code, as amended, including but not limited to a loan agreement, revolving credit agreement, agreement establishing a line of credit, letter of credit, reimbursement agreement, insurance contract, commitment to purchase obligations, purchase or sale agreement, interest rate swap, cap, floor, collar or similar agreement, or other commitment or agreement authorized by the Board in anticipation of, related to, or in connection with the authorization, issuance, sale, resale, security, exchange, payment, purchase, remarketing, or redemption of some or all of the Authority’s obligations (as such term is defined in Chapter 1371) or interest on obligations, or both, or as otherwise authorized by such chapter.

The term “*Credit Provider*” means the provider of any Credit Agreement.

The term “*Debt Service Requirements*” means, with respect to any Senior Lien Obligation, as of any period of time for which such calculation applies, an amount equal to the sum of the following:

A. Current interest scheduled to be paid during such period on such Senior Lien Obligations; plus

B. That portion of the principal of, or compounded interest on, such Senior Lien Obligations scheduled to be payable during such period (either at maturity or by reason of scheduled mandatory redemptions, but after taking into account all prior optional and mandatory redemptions of Senior Lien Obligations); provided, however, that in making such calculations, the following rules shall apply:

(1) For any series of Senior Lien Obligations issued as Short Term Obligations, Demand Obligations or Bullet Obligations, Debt Service Requirements shall be computed on the assumption that the principal amount shall be refinanced at maturity (or an earlier date on which principal thereof is payable on demand) by fixed rate Senior Lien Obligations bearing interest at (a) if the interest on such obligations is excludable from gross income of the owners thereof for federal income tax purposes, a Revenue Bond Index published by the Bond Buyer or any successor publication or (b) if the interest on such obligations is not excludable from gross income of the owners thereof for federal income tax purposes, the yield on the Treasury Constant Maturity Series as reported in Federal Reserve Statistical Release H.15, Selected Interest Rates of the Board of Governors of the Federal Reserve System, or any successor publication as certified by the Authority’s financial advisor, in both cases (a) and (b) within 30 days prior to the date of such calculation (or the gross fixed or capped rate payable by the Authority under an interest rate swap or cap agreement that substantially hedges the rate of interest on such Senior Lien Obligations) and maturing in substantially equal annual payments of principal and interest over a term of 25 years (or such longer period as a nationally recognized financial advisor or investment banker certifies is then reasonably attainable) or less; and

(2) For any series of Senior Lien Obligations issued as Adjustable Rate Obligations that are not Short Term Obligations, Demand Obligations or Bullet Obligations, Debt Service Requirements may be computed on the assumption that such Senior Lien Obligations will bear interest at (a) to the extent the rate of interest thereon is effectively hedged by an interest rate swap or cap agreement, the gross fixed or capped rate payable by the Authority under agreement, and (b) otherwise the greater of (i) the average rate on such Senior Lien Obligations over a 12-month period ending within two months of the date of such calculation and (ii) a rate estimated by the Authority’s financial advisor in a written certificate delivered to the Authority at the time of such calculation to be the average rate of interest such Senior Lien Obligations would bear if issued as long-term bonds, in the same principal amount and with the same priority of lien, bearing interest at fixed rates based on the average life of the Adjustable Rate Obligations; and

(3) For any series of Senior Lien Obligations for which the Authority is entitled to receive payments from the federal or state government in such period on account of, and substantially contemporaneously with, interest paid on such Senior Lien Obligations, the amount to be received in such period may be deducted from such interest in computing Debt Service Requirements.

Debt Service Requirements shall be calculated with the assumption that no Senior Lien Obligations Outstanding at the time of calculation will cease to be Outstanding except by reason of the payment of scheduled principal maturities or scheduled mandatory redemptions, except as provided above.

The term “*Demand Obligation*” means any Senior Lien Obligation the principal of which is payable by the Authority on demand of the owner or holder thereof.

The term “*DTC*” means The Depository Trust Company, New York, New York, or any successor securities depository.

The term “*DTC Participant*” means brokers and dealers, banks, trust companies, clearing corporations and certain other organizations on whose behalf DTC was created to hold securities to facilitate the clearance and settlement of securities transactions among DTC Participants.

The term “*Fiscal Year*” means the Fiscal Year of the Authority, currently beginning on October 1 of any year and ending on September 30 of the next succeeding year, but which may be changed by the Board.

The term “*Interest and Sinking Fund*” means the fund established by the Authority pursuant to each Resolution.

The term “*Interest Payment Date*” means November 1, 2009, and each May 1 and November 1 thereafter until maturity or prior redemption, unless otherwise provided in the respective Officer’s Pricing Certificate.

The term “*Junior Lien Obligations*” means any one or more of those series of bonds, notes or other debt obligations (including capital lease obligations and obligations to make deferred payments for goods and services in furtherance of METRO Solutions Phase 2, which deferred payments have been assigned to a third party and used to make payments to owners of public securities) or Credit Agreements that is secured, with or without other security, by a lien on Pledged Revenues that is junior and subordinate to the lien thereon of the Senior Lien Obligations but is senior and superior to the lien thereon of the Subordinate Lien Obligations.

The term “*Maximum Annual Debt Service Requirements*” for any Senior Lien Obligations means the maximum Debt Service Requirements for such Senior Lien Obligations calculated to occur in any future Fiscal Year or the then current Fiscal Year.

The term “*Officer’s Pricing Certificate*” means a certificate to be signed by the Authorized Representative and containing the information regarding the Bonds or the Contractual Obligations, as the case may be, as specified in the related Resolution.

The term “*Outstanding*” means, when used with respect to the Senior Lien Obligations, as of the date of determination, all Senior Lien Obligations theretofore delivered under the Resolutions or other authorizing resolution, except:

1. Senior Lien Obligations theretofore canceled and delivered to the Authority or delivered to the Paying Agent/Registrar for cancellation;
2. Senior Lien Obligations upon transfer of or in exchange for and in lieu of which other Senior Lien Obligations have been delivered; and
3. Senior Lien Obligations which have been released, discharged or extinguished in accordance with the terms thereof, or due to the deposit of cash or investments with the paying agent therefore or an escrow agent, the obligation of the Authority to pay the same is payable solely from and to the extent of such cash and investments and income therefrom.

The term “*Owner*” or “*Registered Owner*” means any person who shall be the registered owner of any outstanding Obligation.

The term “*Paying Agent/Registrar*” means the entity identified as such in the Paying Agent/Registrar Agreement.

The term “*Paying Agent/Registrar Agreement*” means the paying agent/registrar agreement relating to the Bonds or the Contractual Obligations, as the case may be.

The term “*Person*” means any individual, corporation, partnership, joint venture, unincorporated association, association, trust, joint stock company, unincorporated organization, government or government agency or other legal entity capable of carrying on a trade or business.

The term “*Pledged Revenues*” means seventy-five percent (75%) of the revenues collected and received by the Trustee or the Authority from its levy of the Sales and Use Tax, plus any investment income earned on any moneys in the Revenue Fund, the Interest and Sinking Fund, and any debt service reserve fund for Senior Lien Obligations, including the Reserve Funds, which revenues and income are pledged as security for the payment of the Obligations, and any other funds or revenues, including additional Sales and Use Tax revenues, which the Authority may, in the future, pledge as security for payment of the Senior Lien Obligations.

The term “*Record Date*” means the fifteenth day of the month next preceding each Interest Payment Date whether or not such date is a Business Day.

The term “*Register*” means the books of registration kept by the Paying Agent/Registrar in which are maintained the names and addresses of, and the principal amounts of the Obligations registered to, each Owner.

The term “*Reserve Fund*” means each fund confirmed by the Authority pursuant to Section 28 of the Resolutions. References to “the Reserve Fund” in a Resolution are to the Reserve Fund created by that Resolution.

The term “*Reserve Fund Participant*” for either Reserve Fund means the Bonds or the Contractual Obligations, as applicable, and any Additional Obligations which the Authority designates at or before the time of issue as Reserve Fund Participants to share the applicable Reserve Fund. All such issues designated as a Reserve Fund Participant shall be entitled to a parity claim on the funds deposited into such shared Reserve Fund as and to the extent provided in the applicable Resolution.

The term “*Reserve Fund Requirement*” for either Reserve Fund means an amount equal to 50% of the Maximum Annual Debt Service Requirements on the Reserve Fund Participants for such Reserve Fund. The reserve fund requirement, if any, for Additional Obligations which are not Reserve Fund Participants shall be provided in the order or resolution authorizing their issuance.

The term “*Reserve Fund Surety Policy*” shall mean any reserve fund surety policy or bond, letter of credit or other instrument, however denominated, provided by a qualifying financial institution as described in the following sentence, pursuant to which the Trustee or Paying Agent may draw on such Reserve Fund Surety Policy to enable a Reserve Fund to make a required transfer to the paying agent for Senior Lien Obligations. Reserve Fund Surety Policies may only be acquired from a financial institution with a long term credit rating in one of the two highest generic rating categories from at least two nationally recognized rating services and having a credit rating or claims paying ability such that the purchase of such surety policy will not cause any rating agency then rating any Senior Lien Obligations to withdraw or lower its rating.

The term “*Resolutions*” collectively, means the Bond Resolution and the Contractual Obligation Resolution.

The term “*Revenue Fund*” means the fund confirmed by the Authority pursuant to the Resolutions.

The term “*Sales and Use Tax*” means the tax levied by the Authority pursuant to the Authority Act, orders of the Authority’s Board and an election held within the Authority on August 12, 1978. Under the authority of the Authority Act and pursuant to such resolutions, the rate of such tax is equal to 1% of the receipts from the sale at retail or on the sale price or the lease or rental price on the storage, use or other consumption of all taxable items within the boundaries of the Authority.

The term “*Senior Credit Agreement*” means any Credit Agreement to the extent the obligations of the Authority thereunder are secured by a senior lien on Pledged Revenues.

The term “*Senior Lien Obligations*” means the Bonds, the Contractual Obligations, the CP Notes, any Additional Obligations and any Senior Credit Agreements.

The term “*Series 2009A Bonds*” means the Authority’s Sales and Use Tax Bonds, Series 2009A issued as Senior Lien Obligations pursuant to the Bond Resolution.

The term “*Series 2009C Bonds*” means the Authority’s Sales and Use Tax Bonds, Taxable Series 2009 (Direct-Subsidy Build America Bonds) issued as Senior Lien Obligations pursuant to the Bond Resolution.

The term “*Short Term Obligations*” means each series of bonds, notes and other debt obligations issued pursuant to a commercial paper or other similar financing program, the payment of principal of which is scheduled to be payable within one year from the date of issuance and is contemplated at the time of issuance to be refinanced through the issuance of Additional Obligations

The term “*Subordinate Lien Obligations*” means any one or more of any series of bonds, notes or other obligations (including lease obligations and obligations to make deferred payments for goods and services in furtherance of METRO Solutions Phase 2 and which have been assigned to a third party and used by such party to make payments to owners of public securities) or Credit Agreements secured, with or without other security, by a lien on Pledged Revenues that is junior and subordinate to the lien thereon of the Senior Lien Obligations and the Junior Lien Obligations.

The term “*Trustee*” means Wells Fargo Bank, N.A., as the trustee under the Resolutions, and any successor to or replacement of such trustee appointed to serve in such capacity in accordance with the Resolutions.

Section 22. Pledges and Sources of Payment; Tax Levy; Other Security. (a) The Authority hereby transfers, sets over and assigns to the Trustee all of the Pledged Revenues, in trust, in order to provide for the payment of the principal of and interest on the Senior Lien Obligations, Junior Lien Obligations and Subordinate Lien Obligations and all expenses of paying the same and to provide for the disposition of the remaining Pledged Revenues in accordance with the Resolutions. In order to facilitate the transfer made in the foregoing sentence, the Authority hereby irrevocably appoints the Trustee as its lawful agent and attorney-in-fact for the purpose of (i) performing those duties of its treasurer which consist of receiving the Pledged Revenues from the Comptroller pursuant to the Act and other applicable law, and (ii) taking such steps as may be necessary, if any, to perfect and maintain the

liens granted under the Resolutions. The Pledged Revenues shall be set aside for and irrevocably pledged to the payment of the Senior Lien Obligations, including the Bonds, the Contractual Obligations, any Additional Obligations, any Senior Credit Agreements, any Junior Lien Obligations and any Subordinate Lien Obligations.

(b) The Senior Lien Obligations may be payable from all legally available funds of the Authority and shall be equally and ratably secured by (i) a senior lien on and pledge of the Pledged Revenues, as collected and received by the Authority or the Trustee, which pledge and lien is expressly made senior to the pledge of and lien on Pledged Revenues which the Authority has granted or may grant to secure the Junior Lien Obligations and the Subordinate Lien Obligations and (ii) to the extent such Senior Lien Obligations are Reserve Fund Participants, the applicable Reserve Fund.

(c) The Authority shall, by appropriate notice, direction, request or other legal method, cause the Comptroller to pay all Pledged Revenues (or, if required in order to do so, all Sales and Use Tax collections) directly to the Trustee for the account of the Revenue Fund. If the Comptroller shall refuse or shall not be legally obligated to make transfers in accordance with such notice, direction or request, then the Authority shall itself cause the Pledged Revenues to be transferred to the Trustee in their entirety immediately upon receipt thereof by the Authority or by others for its account wherever located. If all Sales and Use Tax collections are paid to the Trustee by the Comptroller, the Trustee shall promptly remit all such payments that are not part of the Pledged Revenues to the Authority. All Pledged Revenues received by the Trustee shall be deposited in the Revenue Fund and applied in accordance with the Resolutions.

(d) The lien on and pledge of Pledged Revenues granted by the Resolutions shall not secure payment of any termination payment under an interest rate management agreement; provided, however, that nothing in either Resolution shall prevent the Authority from granting a junior and subordinate lien on and pledge of the Pledged Revenues for such purpose.

Section 24. Special Funds. The Authority hereby recognizes and confirms the prior establishment of the Revenue Fund, which Fund shall be maintained with the Trustee and shall be kept fund separate and apart from all other funds and accounts of the Authority. The Authority also hereby confirms the establishment of the Interest and Sinking Fund to serve as the Interest and Sinking Fund for all Senior Lien Obligations, including the Obligations. The Interest and Sinking Fund shall be maintained as a separate fund with the Trustee, which shall hold such Fund in trust for the registered owners of the Senior Lien Obligations. The Authority also hereby establishes the respective Reserve Funds to serve as the Reserve Fund for all Reserve Fund Participants entitled to be paid therefrom, including the respective Obligations. Each Reserve Fund shall be maintained as a separate fund with the Trustee, which shall hold such Fund in trust for the registered owners of the respective Reserve Fund Participants. All of the foregoing Funds shall be used solely as herein provided so long as any Senior Lien Obligation remains Outstanding.

The Authority or the Trustee may create accounts and subaccounts within any Fund created by the Resolutions when, in the judgment of the Authority or the Trustee, the creation of such accounts or subaccounts will enable the Authority or the Trustee to better administer the Funds.

Section 25. Flow of Funds. Beginning with the Sales and Use Tax payment received by the Trustee of behalf of the Authority in July 2009, the Trustee shall deposit the portion of the Sales and Use Tax payment that constitutes Pledged Revenues into the Revenue Fund promptly upon receipt. Immediately upon such deposit and upon each deposit to the Revenue Fund thereafter, the Trustee shall apply moneys on deposit to the credit of the Revenue Fund in the following order of priority:

- (i) First, to make all deposits into the Interest and Sinking Fund as provided in the Resolutions and, if the Obligations are ratably secured thereby, in any other interest and sinking fund provided in any order or resolution authorizing the issuance of any other Senior Lien Obligations;
- (ii) Second, to make all deposits into the Reserve Funds as provided in the Resolutions and in any other reserve fund provided in any order or resolution authorizing the issuance of any Senior Lien Obligations other than Reserve Fund Participants; provided that on any date on which there is a deficiency in the Reserve Fund, the Trustee shall not apply any moneys to any such fund other than the Reserve Fund pursuant to this clause (ii) in an amount greater than that required to produce a balance therein equal to 50% of the Maximum Annual Debt Service Requirements on the Senior Lien Obligations payable from such other reserve fund ratably over a 36-month period from the original date of any deficiency therein unless an additional deposit to the respective Reserve Fund is made to cure any deficiency in the respective Reserve Fund at the same rate;
- (iii) Third, to make all other deposits not made pursuant to clause (ii) above into any reserve fund provided in any order or resolution authorizing the issuance of any Senior Lien Obligations;
- (iv) Fourth, to make all other deposits required by any order or resolution authorizing the issuance of any Senior Lien Obligations and any related agreement or Credit Agreement;

- (v) Fifth, to make all deposits required by any order or resolution authorizing the issuance of any Junior Lien Obligations (a copy of which shall be provided by the Authority to the Trustee on or before the issuance of such Junior Lien Obligations);
- (vi) Sixth, to make all deposits required by any order or resolution authorizing the issuance of any Subordinate Lien Obligations (a copy of which shall be provided by the Authority to the Trustee on or before the date of issuance of such Subordinate Lien Obligations); and
- (vii) Seventh, to the Authority for any lawful purpose.

In case such months on deposit in the Revenue Fund shall at any time be insufficient to make in full all deposits and transfers then due and unpaid as provided above, then such deposits and transfers shall be made from such moneys in the priority set out above, but ratably according to the aggregate amount within each priority to be deposited, and without preference within a priority.

Section 26. Revenue Fund and Interest and Sinking Fund. Moneys from time to time on deposit to the credit of the Revenue Fund shall be applied by the Trustee as follows:

(a) Subject to subsections (b) and (c) below, commencing on the first date on which the Trustee receives Sales and Use Tax collections on behalf of the Authority after the issuance date of any Senior Lien Obligation and for so long as any Senior Lien Obligations remain Outstanding, the Trustee shall transfer from the Revenue Fund to the Interest and Sinking Fund on each date on which funds are deposited to the Revenue Fund such amounts which, when added to other amounts in the Interest and Sinking Fund, will provide for the accumulation, in substantially equal monthly installments, of amounts sufficient to pay (i) the interest scheduled to become due on all Outstanding Senior Lien Obligations on the next succeeding interest payment date (other than interest scheduled to become due but anticipated to be paid with the proceeds of Senior Lien Obligations), (ii) the principal of all Outstanding Senior Lien Obligations scheduled to mature on the next succeeding principal payment date (other than maturing principal anticipated to be paid with the proceeds of Senior Lien Obligations), (iii) payments due and payable to Credit Providers or Senior Credit Agreements on ensuing payment dates; and (iv) the redemption price of all Outstanding Senior Lien Obligations called or scheduled for redemption on the next redemption date, plus all fees, charges and other amounts payable to any Paying Agent/Registrar, market agent, broker/dealer, remarketing agent or Credit Provider in respect of Senior Lien Obligations; provided that in all cases the Trustee shall transfer an amount sufficient to ensure that the Interest and Sinking Fund has adequate funds on deposit to make all required principal, interest, and other payments on Senior Lien Obligations through the immediately succeeding month, assuming accrual of interest at the maximum rate for any period for which the rate has not been fixed and payment thereof on the last day of such succeeding month.

(b) Proceeds of any issue of Senior Lien Obligations on deposit in the Interest and Sinking Fund shall be available to pay interest only on such Senior Lien Obligations and shall be credited against the transfer requirements described in subsection (a)(i) above only for such issue of Senior Lien Obligations.

(c) The refundable credit received pursuant to Section 6431 of the Code in respect of the Series 2009C BABs shall be deposited directly into the Interest and Sinking Fund upon receipt and shall be used solely for the purposes of paying interest on such Series 2009C BABs while they remain outstanding. In determining the amount to be transferred to the Interest and Sinking Fund, no balance therein attributable to Series 2009C BABs shall be credited against the principal, interest or other payment requirements on any other Senior Lien Obligations.

(d) Whenever the total amount on deposit to the credit of the Interest and Sinking Fund shall be equal to the sum of the aggregate principal amount of all Outstanding Senior Lien Obligations plus the aggregate amount of all interest accrued and to accrue thereon and all bank charges and other costs and expenses related to the payment thereof, no further payments need be made into such Funds, and the Senior Lien Obligations shall not be regarded as being Outstanding except for the purpose of being paid with the moneys on deposit in such Funds.

(e) Monies deposited to the credit of the Interest and Sinking Fund shall be used solely for the purpose of paying the principal of and interest and other payments on the Outstanding Senior Lien Obligations, plus all bank charges, fees and expenses of the Trustee and paying agents and registrars and Credit Providers, and other costs and expenses relating to such payment. On or before each due date for the payment of principal and/or interest or other amounts on Senior Lien Obligations, the Trustee shall pay (or transfer to the applicable paying agent for the payment of) the principal of and interest and other amounts payable on the Senior Lien Obligations on such date, together with an amount equal to all bank charges, fees and expenses of the Trustee and paying agents and registrars and Credit Providers and other costs and expenses relating to such payment; provided that, if the balance of the Interest and Sinking Fund is insufficient on any such date to pay such principal, interest and other amounts then due in full, then the Trustee shall apply all available funds therein to pay (or transfer to the applicable paying agents for the payment of) such principal, interest, and other amounts ratably, in proportion to the amounts then due, without any preference or priority of any Senior Lien Obligation over any other Senior Lien Obligations. Any moneys remaining in the Interest and Sinking Fund after all Senior Lien Obligations are no longer outstanding shall be transferred to the Revenue Fund.

(f) The Trustee shall pay, out of the Interest and Sinking Fund, to the Paying Agent in no event later than each applicable principal payment date and Interest Payment Date for any Outstanding Obligations, an amount (as determined by the Paying Agent) sufficient for the Paying Agent to pay principal of and interest on the Outstanding Obligations due on such dates (and to be paid by such Paying Agent).

Section 27. Construction Fund. The Series 2009A Construction Fund is created as a special fund of the Authority. Money on deposit in the Construction Fund shall be used only for the purposes set forth in the Bond Resolution. Money on deposit in the Construction Fund may, at the option of the Authority, be invested as permitted by Texas law, provided that all such deposits and investments shall be made in such manner that the money required to be expended from the Construction Fund will be available at the proper time or times.

Section 27. Acquisition Fund. The Series 2009B Acquisition Fund is created as a special fund of the Authority. Money on deposit in the Acquisition Fund shall be used only for the purposes set forth in the Contractual Obligation Resolution. Money on deposit in the Acquisition Fund may, at the option of the Authority, be invested as permitted by Texas law, provided that all such deposits and investments shall be made in such manner that the money required to be expended from the Acquisition Fund will be available at the proper time or times.

Section 28. Reserve Fund.

(a) If the applicable Reserve Fund is not fully funded on the date of issuance of any Reserve Fund Participant in such Reserve Fund with proceeds of such issuance, other funds of the Authority or a combination of both, or if the balance in such Reserve Fund is less than the applicable Reserve Fund Requirement as of any other valuation date, then on the first Business Day of each month thereafter, the Trustee shall transfer into such Reserve Fund, out of money held in the Revenue Fund, an amount equal to 1/36 of the Reserve Fund Requirement for such Reserve Fund or the amount needed to attain the Reserve Fund Requirement for such Reserve Fund, whichever is lesser, which transfers shall continue until such Reserve Fund contains such Reserve Fund Requirement; provided, however, that the Authority may provide for other or greater transfers in connection with the purchase or acquisition of any Reserve Fund Surety Policy or otherwise.

(b) If, on any Interest Payment Date, any date a principal installment is due or any other date, after giving effect to all transfers pursuant to Section 25, the Paying Agent/Registrar and other paying agents for the Reserve Fund Participants have not received sufficient funds to make all payments of interest on and principal of such Reserve Fund Participants then due and payable or to make any other then required payments on such Reserve Fund Participants, the Trustee shall transfer amounts from such Reserve Fund to the Paying Agent/Registrar and other paying agents to the extent necessary to enable them to make such payments; provided that, if the balance of such Reserve Fund is insufficient on any such date to make all such transfers in full, then the Trustee shall apply all available funds therein to make transfers to the applicable paying agents ratably, in proportion to the transfers then due, without any preference or priority of any Reserve Fund Participant over any other Reserve Fund Participant.

(c) When the amount in either Reserve Fund, together with the amounts in the Interest and Sinking Fund, is sufficient to fully pay all Outstanding Senior Lien Obligations in accordance with their terms (including principal or redemption price and interest thereon), the funds on deposit in the Reserve Fund at the direction of the Authority may be used to pay the principal and redemption price of and interest on all Outstanding Senior Lien Obligations.

(d) In lieu of cash or investment securities, the Reserve Fund Requirement for either Reserve Fund may be satisfied in whole or in part with one or more Reserve Fund Surety Policies. Such policies may be drawn upon only after all other amounts in the Reserve Fund have been used or applied, and other amounts in the Reserve Fund may be used to reimburse and repay issuers of such policies for amounts drawn thereon together with interest thereon and related costs.

(e) Whenever the amount in either Reserve Fund exceeds the applicable Reserve Fund Requirement and all reimbursement and repayment obligations pursuant to any debt service Reserve Fund Surety Policy have been satisfied, the Authority may direct the Trustee to transfer such excess to the Interest and Sinking Fund or to any other Fund under the applicable Resolution.

Section 29. Investment of Trust Funds. Amounts in any fund or account held by the Trustee may, to the extent permitted by applicable law, be invested in accordance with the Authority's investment policy upon written instruction of an Authorized Representative and the Trustee shall have no obligation or responsibility for selecting such investments or for any loss therefrom. Such investments shall mature in such amounts and at such times as may, in the judgment of such Authorized Representative, be necessary to provide funds when needed to make timely payments from such fund or account. In order to comply with the directions of such Authorized Representative, the Trustee may cause the liquidation prior to their maturities of obligations in which funds have been invested, and the Trustee shall not be liable for any loss or penalty of any nature resulting therefrom. In order to avoid loss in the event of a need for funds, the Authority may instruct the Trustee, in lieu of a liquidation of investments in the fund or account

needing funds, to exchange such investments for investments in another fund or account that may be liquidated at no, or at a reduced, loss.

Obligations purchased as an investment of any money credited to any Fund or any account thereof shall be deemed at all times to be a part of such Fund or account. Except as otherwise provided in the Resolutions, the interest accruing on obligations so purchased and any profit realized from such investment shall be credited to the Revenue Fund and any loss resulting from such investment shall be charged to such Fund or account. For the purpose of determining the amount on deposit to the credit of any such Fund, obligations in which money in such Fund shall have been invested shall be computed at the fair market value thereof.

All money in excess of the amount guaranteed by the Federal Deposit Insurance Corporation or other federal agency shall be continuously secured by the Trustee, for the benefit of the Authority and the owners of the Senior Lien Obligations, as their interests appear, either (a) in the manner provided by the Public Funds Collateral Act, Chapter 2257, Texas Government Code, or (b) in any other manner as may then be required or permitted by applicable state or federal laws and regulations regarding the security for, or granting a preference in the case of, the deposit of trust funds; provided, however, that it shall not be necessary for the Trustee or the Paying Agent/Registrar to give such security for the deposit with it of any money to be used to pay principal (and premium, if any) or interest which is at the time of such deposit due and payable with respect to any Senior Lien Obligations, or for the Trustee to give security for any money which shall be represented by obligations purchased under the provisions of this Section as an investment of such money.

The Trustee shall retain all records of its application and investment of funds under the Resolutions for at least six years after the final maturity of Obligations.

Section 33. Additional Obligations. (a) Subject to the requirements of subsection (b) of this Section, the Authority reserves the right to issue, at any time and from time to time, in one or more installments, for any lawful purpose, Additional Obligations, which, when issued and delivered, shall be payable from and secured by the senior lien on and pledge of the Pledged Revenues granted to the Trustee by the Resolutions on a parity with all other Senior Lien Obligations and shall in all respects be on a parity and of equal dignity with and shall be secured in the same manner as the Obligations. Such pledge of a lien on the Pledged Revenues securing the Senior Lien Obligations is and shall be senior to the pledge of and lien on the Pledged Revenues which the Authority has granted or may grant to secure the Junior Lien Obligations and the Subordinate Lien Obligations.

(b) Except as provided in paragraph (c) of this Section, no Additional Obligations may be issued and no Senior Credit Agreement may be entered into, unless the Chief Financial Officer of the Authority shall certify that to the Trustee in writing that, for either the preceding Fiscal Year or any consecutive 12-month period out of the 18-month period preceding the month in which the order or resolution authorizing such Additional Obligations or Senior Credit Agreement is adopted (the "*Base Period*"):

- (1) The Pledged Revenues were not less than 200% of the combined Maximum Annual Debt Service Requirements, after giving effect to the issuance of the Additional Obligations or execution of the Senior Credit Agreement, as applicable; or
- (2) Pledged Revenues, adjusted to give effect to the occurrence prior to the adoption of the order or resolution authorizing such Additional Obligations of (A) any increase in the Sales and Use Tax rate or (B) any increase in the percentage of the Sales and Use Tax revenues designated by the Authority as Pledged Revenues, as if either such increase had been in effect for the entire Base Period, would have been not less than 200% of the combined Maximum Annual Debt Service Requirements after giving effect to the issuance of the Additional Obligations or execution of the Senior Credit Agreement, as applicable.

(c) Additional Obligations issued to refund Senior Lien Obligations are not subject to subsection (b) of this Section if their issuance will not increase Maximum Annual Debt Service Requirements by more than 10%.

Section 34. Covenant to Maintain Sales and Use Tax Rate. The Authority agrees and covenants that at all times while there are Outstanding Obligations, it will not reduce the rate at which the Sales and Use Tax is levied below its current rate of 1% of the receipts from the sale at retail or on the sale price or the lease or rental price on the storage, use or other consumption of all taxable items within the boundaries of the Authority or take action to apply such tax to less than all of such transactions.

Section 36. The Trustee.

(a) Wells Fargo Bank, N.A. is hereby appointed as Trustee for the sole purpose of holding, investing, securing and disbursing the Pledged Revenues in accordance with the Resolutions and is not acting in a fiduciary capacity for the Owners. The Trustee undertakes to perform such functions and duties and only such functions and duties as are specifically set forth in the Resolutions, and no implied duties or obligations shall be read into the Resolutions against the Trustee.

(b) The Trustee shall be under no obligation to perform any duty or exercise any right or power under the Resolutions until it is provided with adequate funds to do so and receives an indemnity reasonably satisfactory to it against any and all costs and expenses, outlays, and counsel fees and other disbursements, and against all liability not due to its negligence or willful misconduct. No provision of either Resolution shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties, or in the exercise of any of its rights or to take any action, which in the judgment of the Trustee would conflict with any rule of law or with the terms of the Resolutions or would expose it to liability.

(c) The Authority shall pay to the Trustee from time to time reasonable compensation for its services. The Trustee's compensation shall not be limited by any law on compensation of a trustee of an express trust. The Authority shall promptly reimburse the Trustee upon request for all reasonable out-of-pocket expenses incurred by it. Such expense shall include the reasonable compensation and out-of-pocket expenses of its agents and counsel.

(d) The Trustee shall be protected and shall incur no liability in acting or proceeding, or in not acting or not proceeding, in good faith, reasonably and in accordance with the terms of the Resolutions, upon any resolution, order, notice, request, consent, waiver, certificate, statement, affidavit, requisition, bond or other paper or documents which it shall in good faith reasonably believe to be genuine and to have been adopted or signed by the proper board or person, or to have been prepared and furnished pursuant to any of the provisions of the Resolutions, or upon the written opinion of any attorney (who may be an attorney for the Authority), engineer, appraiser or accountant (any of which, unless otherwise specified herein, may be an employee of the Authority) reasonably believed by the Trustee to be qualified in relation to the subject matter. The Trustee shall not be liable for any error of judgment made in good faith by the Trustee unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts. The Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the express provisions of the Resolutions.

(e) Whenever, in the administration of the trust created by the Resolutions, the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action thereunder, such matter (unless other evidence in respect thereof is specifically prescribed therein) may, in the absence of bad faith on the part of the Trustee, be deemed to be proved and established by a certificate of an Authorized Representative; and, in the absence of bad faith on the part of the Trustee, such certificate shall constitute full authority for any action taken, suffered or omitted by the Trustee under the provisions of the Resolutions in reliance thereon.

(f) The Trustee shall not be concerned with or accountable to anyone for the subsequent use or application of any money which shall be released or withdrawn and used in accordance with the provisions of the Resolutions.

(g) The Trustee may execute any of the trusts or powers hereof and perform the duties required of it under the Resolutions by or through attorneys, accountants, agents or receivers and may, in all cases, pay, and be reimbursed for, the reasonable fees and expenses thereof. The Trustee shall not be responsible for the conduct of such attorneys, accountants, agents or receivers it appointed with due care.

(h) The Trustee shall not be responsible for any recital or statement in the Resolutions, any amendment to the Resolutions, the Obligations, or any official statement or other disclosure document prepared or distributed in connection with the Obligations or for the validity of the execution by the Authority of the Resolutions, any amendment to the Resolutions or the Obligations, or for the validity of the execution of any other or supplemental instrument by the Authority, or for the validity or sufficiency of the security for the Obligations or intended to be secured by the Resolutions, or for the value of or title to the security for the Obligations pledged thereunder or for the creditworthiness of the Authority. Except as otherwise expressly provided in the Resolutions, the Trustee shall have no duty to ascertain or inquire as to the performance or observance of any of the terms, conditions, covenants or agreements therein or in an amendment to the Resolutions, but the Trustee may require of the Authority full information and advice as to the performance of such covenants, conditions and agreements set forth therein and in an amendment to the Resolutions.

(i) The Trustee makes no representation or warranty, express or implied, as to the title, value, design, compliance with specifications or legal requirements, quality, operation, condition, merchantability or fitness for any particular purpose for the use contemplated by the Authority of the Project. In no event shall the Trustee be liable for incidental, indirect, special or consequential damages in connection with or arising from the Resolutions for the existence, furnishing or use of the Project.

(j) The permissive right of the Trustee to do things enumerated in the Resolutions shall not be construed as an obligation or duty of the Trustee. The Trustee shall not be required to give any bond or surety in respect of the execution of its trusts and powers thereunder or otherwise in respect of these premises, except as provided in Section 29. Nothing contained in the Resolutions or in the Obligations shall be construed to impose any duties upon the Trustee beyond those expressly contained in the Resolutions or in an amendment to the Resolutions. All immunities, indemnities and other provisions of the Resolutions as related to the duties and liabilities of the Trustee shall apply to the Obligations.

(k) Under no circumstances shall the Trustee be liable in its individual capacity for the obligations evidenced by the Obligations. In accepting the trust created by the Resolutions, the Trustee acts solely as Trustee for the trust estates thereunder and

not in its individual capacity and, except as otherwise provided therein, all persons, including without limitation the Owners and the Authority, having any claim against the Trustee arising from the Resolutions shall look for payment only from the funds and accounts held by the Trustee thereunder.

(l) The Authority covenants and agrees, to the extent permitted by applicable law and solely from the amounts held or required to be held under the Resolutions, to indemnify the Trustee for any loss, liability, outlays and reasonable fees of its in-house and/or outside counsel, other reasonable disbursements, expenses or advances reasonably incurred or made, without negligence or willful misconduct on the part of the Trustee, arising out of or in connection with its acceptance or administration of the trust or performance of its duties under the Resolutions. All indemnifications and releases from liability granted to the Trustee thereunder shall extend to its directors, officers, employees, officials and agents.

(m) The Trustee shall not be disqualified from buying, selling, holding, owning or dealing in Senior Lien Obligations solely because it is trustee under the Resolutions, nor is the Trustee disqualified from being the depository of the Authority of moneys not entrusted to it thereunder.

(n) The Trustee may resign and thereby become discharged from the trusts created under the Resolutions upon the acceptance thereof by a successor by notice in writing to be given to the Authority and by notice mailed, postage prepaid to all Owners not less than 60 days before such resignation is to take effect, but such resignation shall take effect immediately upon the appointment of a successor Trustee pursuant to this Section, if such successor Trustee shall be appointed before the time specified by such notice and shall accept such appointment. If no successor Trustee is appointed within 60 days after the date of such notice of resignation, the resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor Trustee. The Trustee may be removed, with or without cause, at any time by an instrument or concurrent instruments in writing, filed with the Trustee, and signed by the Owners of a majority in principal amount of the Senior Lien Obligations.

(o) The Authority covenants that at all times while any Obligations are Outstanding it will engage a legally qualified bank, trust company, financial institution or other agency with a minimum capital and surplus at the time of deposit of at least \$1,000,000,000 to act as Trustee for the Obligations. The Authority reserves the right to change the Trustee for the Obligations on not less than sixty (60) days' written notice to the Trustee, as long as any such notice is effective not less than 60 days prior to the next succeeding principal or interest payment date on the Obligations. Any successor Trustee appointed under the Resolutions shall execute, acknowledge, and deliver to its predecessor Trustee, and also to the Authority, an instrument accepting such appointment, and thereupon such successor Trustee, without any further act, deed or conveyance, shall become fully vested with all moneys, estates, properties, rights, powers, duties, and obligations of such predecessor Trustee, with like effect as if originally named as Trustee; but the Trustee ceasing to act shall nevertheless, on the written request of the Authority, or of the successor Trustee, execute, acknowledge, and deliver such instruments of assignment and further assurance and do such other things as may reasonably be required for more fully and certainly vesting and confirming in such successor Trustee all the right, title, and interest of the predecessor Trustee in and to any property held by it under the Resolutions, and shall pay over, assign, and deliver to the successor Trustee any money or other property subject to the trusts and conditions therein set forth. Any such successor Trustee shall promptly notify any paying agents and registrars of its appointment as Trustee. Each Trustee, by acting in that capacity, shall be deemed to have agreed to the provisions of the Resolutions. No resignation or removal of the Trustee and no appointment of a successor Trustee pursuant to this Section shall become effective until the acceptance of appointment by the successor Trustee under this Section.

Section 38. Resolution is a Contract; Amendments. The Authority contractually obligates and commits itself to utilize the net proceeds of the Contractual Obligations, after payment of the costs of issuance related thereto, for the acquisition of the Equipment (as defined in the Contractual Obligations Resolution). The Resolutions shall constitute contracts with the Owners from time to time, be binding on the Authority and the Trustee, and shall not be amended or repealed by the Authority so long as any Bond or Contractual Obligation, as the case may be, remains Outstanding except as permitted in this Section. The Authority may, without the consent of or notice to any Owners, but with notice to the Trustee, from time to time and at any time, amend the Resolution in any manner not detrimental to the interests of the Owners, including the curing of any ambiguity, inconsistency, or formal defect or omission herein. In addition, the Authority may, with the written consent of the Trustee and Owners who own in the aggregate 51% of the principal amount of the Bonds or Contractual Obligations, as the case may be then Outstanding, amend, add to, or rescind any of the provisions of the Resolution; provided that, without the consent of all Owners of Outstanding Bonds or Contractual Obligations, as the case may be, no such amendment, addition, or rescission shall (i) extend the time or times of payment of the principal of and interest on the Bonds or Contractual Obligations, as the case may be, reduce the principal amount thereof, the redemption price, or the rate of interest thereon, or in any other way modify the terms of payment of the principal of or interest on the Bonds or Contractual Obligations, as the case may be, (ii) give any preference to any Bonds or Contractual Obligations, as the case may be, over any other Bond or Contractual Obligation, as the case may be, or (iii) reduce the aggregate principal amount of the Bonds or Contractual Obligations, as the case may be, required to be held by Owners for consent to any such amendment, addition, or rescission.

No one or more Owner of Outstanding Obligations shall have any right in any manner whatever by virtue of, or by availing of, any provision of the Resolutions to affect, disturb, or prejudice the rights of any other Owner of Outstanding Obligations or the Trustee, or to obtain or to seek to obtain priority or preference over any other Owner of Outstanding

Obligations or to enforce any right under the Resolutions, except in the manner provided in the Resolutions and for the equal and ratable benefit of all Owners of Outstanding Obligations and, on a basis subordinate thereto, all Owners of Junior Lien Obligations and Subordinate Lien Obligations.

Section 43. Defeasance. The Authority may defease the provisions of a Resolution and discharge its obligation to the Owners of any or all of the Senior Lien Obligations (except to the extent otherwise expressly provided therein) to pay the principal of and interest thereon in any manner now or hereafter permitted by law, including (but not limited to) by depositing with the Paying Agent/Registrar, the Comptroller or any other entity with which such deposits may be made (as specified in Section 1207.061, Texas Government Code, as amended) which has a minimum capital and surplus at the time of deposit of at least \$100,000,000 either:

- (a) cash in an amount equal to the principal amount of and interest thereon to the date of maturity or earlier redemption, if any, or
- (b) pursuant to an escrow or trust agreement, cash and/or (i) direct noncallable obligations of United States of America, including obligations that are unconditionally guaranteed by the United States of America; (ii) noncallable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that are rated as to investment quality by a nationally recognized investment rating firm not less than “AAA” or its equivalent; or (iii) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that are rated as to investment quality by a nationally recognized investment rating firm not less than “AAA” or its equivalent, which, in the case of (i), (ii) or (iii), may be in book-entry form, and the principal of and interest on which will, when due or redeemable at the option of the holder, without further investment or reinvestment of either the principal amount thereof or the interest earnings thereon, provide money in an amount which, together with other moneys, if any, held in such escrow at the same time and available for such purpose, shall be sufficient to provide for the timely payment of the principal of and interest thereon to the date of maturity or earlier redemption, if any; *provided, however*, that if any of such Bonds or Contractual Obligations, as the case may be, are to be redeemed prior to their respective dates of maturity, provision shall have been made for giving notice of redemption as provided in the related Resolution. Upon such deposit, such Bonds or Contractual Obligations, as the case may be, shall no longer be regarded to be outstanding or unpaid. Any surplus amount not required to accomplish such defeasance shall be returned to the Authority. Notwithstanding the foregoing provisions of this Section 43, in the event the Authority make a deposit with respect to Bonds which the Authority has designated as BABs, the Authority shall continue to be obligated for all payments owed the Owners of such BABs, and shall contribute additional funds or securities to the trust for such BABs if necessary to provide sufficient amounts to satisfy the payment of principal of and interest on such BABs.

Notwithstanding the foregoing provisions of Section 43, in the event the Authority makes such a deposit with respect to the Series 2009C BABs, the Authority shall continue to be obligated for all payments owed the Owners of such BABs and shall contribute additional funds or securities to the trust created for such BABs if necessary to provide sufficient amounts to satisfy the payment of principal of and interest on such BABs.

Upon such defeasance of all Senior Lien Obligations as provided in this Section, the lien on and pledge of the Pledged Revenues and powers of the Trustee granted under the Resolutions and all covenants, agreements and other obligations of the Authority to the Owners thereof shall thereupon cease, terminate and become void and be discharged and satisfied. In such event, the Trustee shall cause an accounting for such period or periods as shall be requested by the Authority to be prepared and filed with the Authority and, upon the request of the Authority, shall execute and deliver to the Authority all such instruments as may be desirable to evidence such discharge and satisfaction, and shall pay over or deliver to the Authority all moneys or securities held by it pursuant to the Resolutions which are not required for the payment of principal or redemption price, if applicable, on Senior Lien Obligations not theretofore surrendered for such payment, or redemption.

Section 45. Legal Holidays. In any case where the date interest becomes payable on the Obligations or principal of the Obligations matures or the date fixed for redemption of any Obligations shall not be a Business Day, then payment of interest or principal need not be made on such date, but payment may be made on the next succeeding Business Day and in the same amount with the same force and effect as if made on the scheduled date for payment, and no interest shall accrue for the period from the date of maturity or redemption to the date of actual payment.

[THIS PAGE LEFT BLANK INTENTIONALLY]

APPENDIX B
AUDITED FINANCIAL STATEMENTS AND
UNAUDITED MANAGEMENT'S DISCUSSION AND ANALYSIS AND
SUPPLEMENTAL INFORMATION OF THE
METROPOLITAN TRANSIT AUTHORITY OF HARRIS COUNTY, TEXAS
FOR FISCAL YEAR ENDED SEPTEMBER 30, 2008

[THIS PAGE LEFT BLANK INTENTIONALLY]



Financials

F 2 Independent Auditors' Report

F 4 Management's Discussion and Analysis

F 16 Basic Financial Statements

Statement of Net Assets

Statement of Revenues, Expenses and Changes in Net Assets

Statement of Cash Flows

F 22 Notes to the Basic Financial Statements

Summary of Significant Accounting Policies

Deposits and Investment Securities

Capital Assets

Retirement Plans

Self Insurance

Commitments and Contingencies

F 44 Required Supplementary Information

Schedule of Funding Progress for the Non-Union and Transport Workers

Union Pension Plan

Statistical

F 48 Statistical Section (Unaudited)

Statement of Net Assets

Statement of Revenues, Expenses and Changes in Net Assets

Revenue Capacity for the Last Two FYs

Debt Capacity for the Last Two FYs

Demographic Statistics for the Last Ten Years

Principal Employers Current Year and Nine Years Ago

Operating Statistics for the Last Five FYs

[THIS PAGE INTENTIONALLY LEFT BLANK.]



KPMG LLP
700 Louisiana Street
Houston, TX 77002

Telephone 713 319 2000
Fax 713 319 2041
Internet www.us.kpmg.com

Independent Auditors' Report

The Board of Directors
Metropolitan Transit Authority
of Harris County, Texas

We have audited the accompanying financial statements of the Metropolitan Transit Authority of Harris County, Texas (the Authority), as of and for the years ended September 30, 2008 and 2007, as listed in the table of contents. These financial statements are the responsibility of the Authority'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 Authority's retirement plans in 2008 or 2007. The financial information related to the Employee Plans is included in footnote 4 of the notes to the financial statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority, as of September 30, 2008 and 2007, and the changes in its financial position and its cash flows thereof for the years then ended in conformity with U.S. generally accepted accounting principles.

The Authority adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pension*, and GASB Statement No. 50, *Pension Disclosures*, as of September 30, 2008.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 6, 2009 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and the Required Supplementary Information on pages F5 through F14 and F46 respectively are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The information in the introduction and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information in the introduction and statistical sections has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

KPMG LLP

February 6, 2009

KPMG LLP, a U.S. limited liability partnership, is the U.S. member firm of KPMG International, a Swiss cooperative.




Management's Discussion and Analysis for the Metropolitan Transit Authority of Harris County, Texas Years Ended September 30, 2008, 2007, and 2006

Financial Highlights

Fiscal Year 2008 vs. 2007

- FY2008 Sales Tax revenues were \$521.2 million (Table A-3), 8.2% higher than in FY2007 (Table A-3). Fares in FY2008 were \$53.8 million, 0.9% more than in FY2007 (Table A-1). There was no fare increase in FY2008. The increase in fare revenue was due to increased fixed route ridership of 0.6% and the effects of fare restructuring (see Operating Revenue section). Sales Tax improvement resulted from the economic improvement in Houston, and the accompanying job growth.
- FY2008 total operating expenses (including depreciation) were \$496.4 million, an increase of 8.0% over FY2007 (Table A-1). This increase was primarily due to new GASB rules which require governments to account for their "other post employment benefits" (OPEB) obligations and higher depreciation cost.
- The balance sheet shows net assets as of September 30, 2008 were \$1,771.4 million, a decrease of 0.5% over September 30, 2007 (Table A-4).
- Total capital assets (net of depreciation) were \$1,847.9 million as of September 30, 2008, an increase of 13.1% over September 30, 2007 (Table A-5). This increase is primarily the result of work performed on METRO Solutions projects and implementation of Smart Card fare collection system. METRO Solutions began construction of the East End Corridor the first of five LRT corridors and continued the purchase of land in three of the five corridors (East End, North, and Southeast).

Fiscal Year 2007 vs. 2006

- FY2007 Sales Tax revenues were \$481.7 million (Table A-3), 3.0% higher than in FY2006 (Table A-3). Fares in FY2007 were \$53.3 million, 1.7% less than in FY2006 (Table A-1). There was no fare increase in FY2007. The decrease in fare revenue was due to lower fixed route ridership of 1.9%. Sales Tax improvement resulted from the economic improvement in Houston, and the accompanying job growth.
 - FY2007 total operating expenses (including depreciation) were \$459.6 million, an increase of 5.5% over FY2006 (Table A-1). This increase was primarily due to higher depreciation cost, caused by purchase of new buses and property improvements.
 - The balance sheet shows net assets as of September 30, 2007 were \$1,780.9 million, an increase of 4.8% over September 30, 2006 (Table A-4).
 - Total capital assets (net of depreciation) were \$1,634.2 million as of September 30, 2007, an increase of 8.5% over September 30, 2006 (Table A-5). This increase is primarily the result of land purchases for Intermodal Terminal project and the purchase of new buses.
- 



Overview of the Financial Statements

The financial section of this report consists of four parts: management's discussion and analysis (this section), the basic financial statements, the notes to the financial statements, and other supplementary information.

METRO's financial statements are prepared in conformity with United States of America generally accepted accounting principles in the (GAAP) as applied to government units on an accrual basis. Under this basis, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred, and depreciation of assets is recognized in the Statement of Revenues, Expenses and Changes in Net Assets. METRO's Statement of Net Assets presents the same information as a balance sheet. It assesses the balance of a government's assets.

Financial Analysis of METRO

Net Assets

Fiscal Year 2008 vs. 2007

The decrease in net assets from FY2007 to FY2008 was approximately \$9.5 million (Table A-1) or -0.5% (Table A-4). METRO's total operating revenues increased by 0.9% to \$53.8 million (see Operating Revenue section), and total operating expenses increased 8.0% to \$496.4 million. Accordingly, the operating subsidy (Operating Loss) including depreciation increased 8.9% (see Expense Factors section). Non-operating income decreased by \$38.0 million, or 9.8% and capital contribution (Grants) decreased by \$16.3 million or 16.1%.

The \$9.5 million decrease in net assets from FY2007 to FY2008 is the net of an increase of \$84.5 million in total assets and an increase of \$94 million in total liabilities. Total assets (Table A-4) increased 3.6% to \$2,422.8 million and total liabilities increased by 16.9% to \$651.4 million. As a result of increased capital purchases and capital lease obligations, unrestricted assets decreased \$158.8 million, or 100.1%.

Fiscal Year 2007 vs. 2006

The increase in net assets from FY2006 to FY2007 was approximately \$81.1 million (Table A-1) or 4.8% (Table A-4). METRO's total operating revenues decreased by 1.7% to \$53.3 million, and total operating expenses increased 5.5% to \$459.6 million. Accordingly, the operating subsidy (Operating Loss) including depreciation increased 6.5%. Non-operating income and capital contribution increased by \$13.8 million, or 2.9%.

The \$81.1 million increase in net assets from FY2006 to FY2007 is the net of an increase of \$125.9 million in total assets and an increase of \$44.8 million in total liabilities. Total assets (Table A-4) increased 5.7% to \$2,338.3 million and total liabilities increased by 8.7% to \$557.4 million.



Table A-1
Changes in METRO's Net Assets (in millions of dollars)

	FY2008	FY2007	Percentage Change FY2008-2007	FY2006
Operating Revenue				
Transportation Fares	\$ 53.8	\$ 53.3	0.9%	\$ 54.2
Total Operating Revenue	53.8	53.3	0.9%	54.2
Operating Expense				
Operating Expenses	371.5	339.3	9.5%	328.7
Depreciation & Amortization	124.9	120.3	3.8%	107.0
Total Operating Expense (Table A-2)	496.4	459.6	8.0%	435.7
Operating Loss	(442.6)	(406.3)	8.9%	(381.5)
Non-Operating Revenue / (Expenses)	348.1	386.1	-9.8%	350.1
Loss Before Contribution	(94.5)	(20.2)	-367.8%	(31.4)
Capital Contribution	85.0	101.3	-16.1%	123.5
Change in Net Assets	(9.5)	81.1	-111.7%	92.1
Total Net Assets, Beginning of the year	1,780.9	1,699.8	4.8%	1,607.7
Total Net Assets, End of Year	\$ 1,771.4	\$ 1,780.9	-0.5%	\$ 1,699.8

Operating Revenue

Fiscal Year 2008 vs. 2007

The 0.9% increase in FY2008 operating revenue over FY2007 is due to an increase in ridership of 0.6% resulting from higher fuel cost, and the effects of fare restructuring. Fare restructuring included the elimination of discounts for prepaid fare media and reverse commutes, and the reduction of transfer time from three hours to two hours.

Fiscal Year 2007 vs. 2006

The 1.7% decrease in FY2007 operating revenue over FY2006 is due to a decrease in ridership of 1.9% due to especially bad weather in January, April, August, and September, and street closing and construction primarily in the University area.

Operating Expense

Table A-2
METRO's Total Operating Expenses (including depreciation)
(in thousands of dollars)

	FY2008	FY2007	Percentage Change FY2008-2007	FY2006
Scheduled Services - Fixed Route				
Bus & Rail Operations - Direct	\$ 148,356	\$ 131,195	13.1%	\$ 126,865
Contract Service	39,518	39,844	-0.8%	38,907
Materials	5,804	4,604	26.1%	4,300
Preventative Maintenance	47,194	41,397	14.0%	41,756
Central Shops & Maint. Support	13,086	11,650	12.3%	12,956
Safety & Training	796	729	9.2%	533
Subtotal Scheduled Services	254,754	229,419	11.0%	225,317
Non-Scheduled Services - Special				
METROLift	34,237	32,216	6.3%	30,548
METROVan	4,079	5,185	-21.3%	3,579
Special Events	624	3,053	-79.6%	3,507
Subtotal Non-Scheduled Services	38,941	40,454	-3.7%	37,634
Service Support				
Service Planning & Evaluation	587	416	41.1%	349
Marketing	5,709	4,186	36.4%	3,862
Transit Security	14,333	11,087	29.3%	10,607
Insurance & Claims	4,476	3,336	34.2%	3,142
Ticket & Fare Collection	1,786	818	118.3%	971
Facility Maintenance	20,863	15,884	31.3%	13,941
Subtotal Service Support	47,754	35,727	33.7%	32,872
Traffic Management - Services				
Traffic Management	11,514	10,585	8.8%	9,549
Subtotal Traffic Management	11,514	10,585	8.8%	9,549
Organizational Support				
Business, Community & Gov't Dev.	911	455	100.2%	447
Administrative, Financial & Personnel	10,657	17,022	-37.4%	17,123
Information Systems	2,401	2,468	-2.7%	2,188
Purchasing	1,400	891	57.1%	1,224
Oversight, Audit & Legal	3,269	2,309	41.6%	2,288
Subtotal Organizational Support	18,638	23,145	-19.5%	23,270
Depreciation & Amortization	124,856	120,290	3.8%	107,031
Total Operating Expenses	\$ 496,457	\$ 459,620	8.0%	\$ 435,673

Expense Factors

Fiscal Year 2008 vs. 2007

The increases in expenses were due to new GASB rules which require governments to account for their “other post employment benefits” (OPEB) obligations of \$31.6 million for FY2008, and an increase in depreciation and amortization expense for new transit centers and the effects of changes in rail car components amortization period.

Fiscal Year 2007 vs. 2006

The increases in expenses were due to an increase in depreciation and amortization expense for new transit center and additional buses; a 44.9% increase in METROVan operating cost due to full year of miniPOOL expenses in FY2007 verses only five months of miniPOOL program in FY2006; a 10.0% increase in operating expenses associated with additional resources for security and safety.

Depreciation and Amortization

Fiscal Year 2008 vs. 2007

In FY2008 METRO purchased buses and constructed facilities needed to improve transit service, and sold equipment it no longer needed. As a result of these capital asset acquisitions and sales, the depreciation and amortization expense in FY2008 increased \$4.6 million or 3.8%.

Fiscal Year 2007 vs. 2006

In FY2007 METRO purchased buses and constructed facilities needed to improve transit service, and sold equipment it no longer needed. As a result of these capital asset acquisitions and sales, the depreciation and amortization expense in FY2007 increased \$13.3 million or 12.4%.

Non-Operating Income Discussion

Table A-3
Changes in METRO's Non-Operating Revenue (in millions of dollars)

	FY2008	FY2007	Percentage Change FY2008-2007	FY2006
Non-Operating Revenues (expenses) and Capital Contributions				
Sales Tax	\$ 521.2	\$ 481.7	8.2%	\$ 467.6
Investment Income	7.1	14.2	-50.0%	7.9
Other Income/Expense	0.8	0.6	33.3%	0.4
Local Infrastructure Assistance	(179.8)	(108.5)	65.7%	(115.6)
Loss on Sale of Assets	(1.2)	(1.9)	-36.8%	(10.2)
Total Net Non-Operating Revenues	348.1	386.1	-9.8%	350.1
Capital Contribution (Grants)	85.0	101.3	-16.1%	123.5
Total Net Non-Operating Revenues and Capital Contributions	\$ 433.1	\$ 487.4	-11.1%	\$ 473.6



Sales Tax

Fiscal Year 2008 vs. 2007

METRO collects a one-percent Sales Tax in its 1,285 square mile service area, a tax approved by public vote when METRO was established in 1978. FY2008 Sales Tax revenues were \$39.5 million higher than in FY2007, an 8.2% increase.

Population and employment are the major drivers of Sales Tax. During the course of FY2008 the Houston regional economy improved and as a result Sales Tax revenue increased.

According to Barton Smith's (Professor of Economics, University of Houston) sales tax report, "While the region's energy independent economic base and most non-energy related secondary sectors were weak, upstream energy had been keeping Houston's economy growing. As of early September, the Houston economy remained the fastest growing large urban economy in the country."

Fiscal Year 2007 vs. 2006

FY2007 Sales Tax revenues were \$14.1 million higher than in FY2006, a 3.0% increase.

Capital Contributions (Grants)

Fiscal Year 2008 vs. 2007

METRO is the recipient of a number of federal and state grants from a variety of programs including Formula Funds, New Starts, Fixed Guideway Modernization, Bus and Bus Facility, and Congestion Mitigation/Air Quality (CMAQ). These funds are received on the basis of project expenditures made. As projects are advanced and expenditures incurred, the grants are received and recognized. In FY2007 total grants were \$101.3 million. In FY2008, the total received was \$85.0 million, a decrease of \$16.3 million. The decrease is primarily due to lower than expected federal reimbursements of METRO Solutions grant-eligible expenses. The reimbursements were delayed because METRO received no federal New Starts appropriations in FY2007, thus by FY2008 all previously appropriated funds had been reimbursed. FY2008 New Start appropriations were awarded in December 2008, and are being drawn down during FY2009.

Fiscal Year 2007 vs. 2006

In FY2006 total grants were \$123.5 million. In FY2007, the total received was \$101.3 million, a decrease of \$22.2 million. The decrease is primarily due to the close-out of Regional Bus Plan construction projects.

Investment Income

Fiscal Year 2008 vs. 2007

METRO's average invested funds for FY2008 were \$185.5 million and for FY2007 \$261.2 million. The decrease was primarily due to outflows for METRO Solutions and General Mobility projects being paid from unencumbered cash rather than incurring additional debt. METRO's average realized return was 3.28% for 2008 and 5.23% for 2007. The investment portfolio consisted of the following: U.S. Treasuries, U.S. Agencies, Commercial Paper, Cash and Money Market Funds during FY2008. METRO's realized return decrease from 5.23% to 3.28% is due to the effect of substantial decrease in the Fed Funds Target Rates (from 4.75% to 2.0%) on Money Market rates.





Fiscal Year 2007 vs. 2006

METRO's average invested funds for FY2007 were \$261.2 million and for FY2006 \$177.3 million. The increase was primarily due to the FY2007 collection of the Federal Transportation Administration portion of eligible expenditures made in FY2006 and increases in Sales Tax receipts. METRO's average realized return was 5.23% for 2007 and 4.61% for 2006. The investment portfolio consisted of the following: U.S. Treasuries, U.S. Agencies, Commercial Paper, Cash and Money Market Funds. METRO's realized return increased from 4.61% to 5.23% is due to the continued rise of federal funds rates throughout FY2007. The Federal funds rate increased 150 basis points (3.75% to 5.25%) during fiscal year 2006.

Local Infrastructure Assistance

Fiscal Year 2008 vs. 2007

METRO has a set of programs to construct, rebuild and rehabilitate streets in the Houston region. These programs include the General Mobility Program, Regional Bus Plan – Downtown/Midtown/Texas Medical Center street improvements and Regional Computerized Traffic Signal System, and transit mobility. The streets are not the property of METRO so the construction expenditures are reported as current period non-operating expenses. These street projects are a major contribution to enhanced mobility and reduced congestion in the METRO service area – a key part of METRO's mission. These investments in regional mobility totaled \$108.5 million in FY2007 and \$179.8 million in FY2008 (Table A-3). The increase in local infrastructure assistance expense is due primarily to the funding of \$69 million for General Mobility Program "Future Designated Projects".

Fiscal Year 2007 vs. 2006

Investments in regional mobility totaled \$115.6 million in FY2006 and \$108.5 million in FY2007 (Table A-3). The decrease in local infrastructure assistance expense is due to the end of Regional Bus Plan projects being transferred to other governmental entities.

Loss on Sale of Assets

Fiscal Year 2008 vs. 2007

In FY2008 the loss was due to the sale of obsolete parts and retired transit equipment, neither of which had remaining useful value to the Authority.

Fiscal Year 2007 vs. 2006

In FY2007 the loss was due to the sale of surplus real estate holdings and retired transit equipment, neither of which had remaining useful value to the Authority.



Table A-4
Changes in METRO's Net Assets (in millions of dollars)

	FY2008	FY2007	Percentage Change FY2008-2007	FY2006
Current Assets	\$ 308.6	\$ 426.6	-27.7%	\$ 414.8
Capital Assets (net)	1,847.9	1,634.2	13.1%	1,506.0
Prepaid and Other Assets	266.3	277.5	-4.0%	291.6
Total Assets	2,422.8	2,338.3	3.6%	2,212.4
Current Liabilities	299.1	275.2	8.7%	211.3
Other Liabilities	352.3	282.2	24.8%	301.3
Total Liabilities	651.4	557.4	16.9%	512.6
Net Assets:				
Investments in capital assets	1,763.9	1,613.6	9.3%	1,485.4
Restricted for capital projects	8.8	9.8	-10.2%	10.0
Unrestricted	(1.3)	157.5	-100.8%	204.4
Total Net Assets	\$ 1,771.4	\$ 1,780.9	-0.5%	\$ 1,699.8

Capital Assets

Fiscal Year 2008 vs. 2007

As of September 30, 2008, METRO had invested approximately \$2,821.2 million in capital assets, including rail and equipment, buildings, buses and equipment, transitways, other property and equipment, leasehold improvements, land, and construction-in-progress. Net of accumulated depreciation, METRO's net capital assets at September 30, 2008 totaled \$1,847.9 million (Table A-5). This amount represents a net increase (including additions and disposals, net of depreciation) of \$213.7 million or 13.1% over September 30, 2007. Additional analysis is located in financial note 3.

The increase in total capital assets (before depreciation) from FY2007 to FY2008 was \$289.8 million, an increase of 11.2%. A number of projects were completed during the year and transferred from construction-in-progress to specific asset categories.

Fiscal Year 2007 vs. 2006

As of September 30, 2007, METRO had invested approximately \$2,587.7 million in capital assets, including rail and equipment, buildings, buses and equipment, transitways, other property and equipment, leasehold improvements, land, and construction-in-progress. Net of accumulated depreciation, METRO's net capital assets at September 30, 2007 totaled \$1,634.2 million (Table A-5). This amount represents a net increase (including additions and disposals, net of depreciation) of \$128.2 million or 8.5% over September 30, 2006.

The increase in total capital assets (before depreciation) from FY2006 to FY2007 was \$181.0 million, an increase of 7.5%. A number of projects were completed during the year and transferred from construction-in-progress to specific asset categories.

Table A-5
METRO's Capital Assets (in thousands of dollars)

	FY2008	FY2007	Percentage Change FY2008-2007	FY2006
Rail and Equipment	\$ 297,909	\$ 327,559	-9.1%	\$ 327,679
Buildings and Improvements	411,543	478,371	-14.0%	481,193
Park & Ride Lots	263,065	140,645	87.0%	136,798
Buses and Equipment	533,351	531,872	0.3%	526,590
Transitways	511,862	502,904	1.8%	499,875
Other Property and Equipment	95,883	86,125	11.3%	85,606
	2,113,613	2,067,476	2.2%	2,057,741
Less: Accumulated Depreciation and Amortization	(1,029,583)	(953,495)	8.0%	(900,687)
Net Depreciable Property and Improvements	1,084,030	1,113,981	-2.7%	1,157,054
Land	287,434	240,610	19.5%	231,368
Construction-in-Progress	476,484	279,635	70.4%	117,623
Capital Assets (Net)	\$ 1,847,948	\$ 1,634,226	13.1%	\$ 1,506,045

Outstanding Commitments

Fiscal Year 2008 vs. 2007

The Authority has entered into various contracts and purchase orders to acquire goods and services or to assist in developing infrastructure improvements within the Authority service area. Many of these contracts extend beyond a single fiscal year. These items total approximately \$449,739,357 as of September 30, 2008. Additional analysis is located in financial note 6.

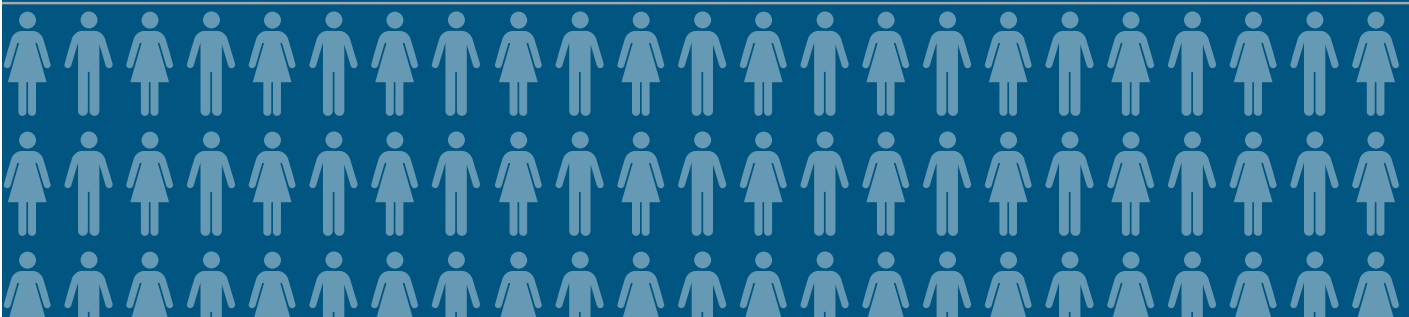
Economic Outlook FY2009

The Houston economy continued its economic expansion in FY2008. The price of oil and natural gas, and the recovery of the US economy as a whole are the drivers' of growth. Predicting these events in the future is very difficult due to the complexity of national and international economies and events, and many uncertainties and instabilities that continue to exist.

For many years, three factors have been the driving force in determining the course of Houston's economy: the health of the national economy, the price of oil and the value of the dollar against other major currencies. As we look ahead to FY2009, all three of these factors are expected to inhibit economic growth in Houston. Gross National Product growth has turned negative, price of oil has collapsed, and the dollar has risen sharply. On the basis of these fundamentals, an economic slowdown may occur in the Houston economy in FY2009. The question will be how severe will the slowdown be and how long will it last.



2008 Basic Financial Statements for the Metropolitan Transit Authority of Harris County, Texas



Metropolitan Transit Authority of Harris County, Texas
Statement of Net Assets, September 30, 2008 and 2007

	2008	2007
Assets		
Current assets		
Cash	\$ 121,392	\$ 231,459
Cash - restricted	8,764,498	9,214,638
Investments	142,262,789	271,234,401
Investments - restricted	5,760	555,775
Receivables		
Sales tax	83,275,323	82,267,723
Federal government - Federal Transit Administration	7,508,972	12,837,240
Joint projects - City of Houston	95,528	1,430,539
Interest	169,539	487,925
Bus passes	3,757,723	549,262
Other	4,739,971	1,580,084
Total receivables	99,547,056	99,152,773
Material and supplies inventory	32,086,923	22,901,955
Prepaid pension	1,057,934	657,930
Other current assets	3,054,762	973,238
Prepaid lease payments	21,657,708	21,657,708
Total current assets	308,558,822	426,579,877
Noncurrent assets		
Capital assets, net of depreciation	1,847,947,918	1,634,225,906
Prepaid pension	28,597,532	18,055,470
Other noncurrent assets	2,992,574	3,153,564
Prepaid lease payments	234,675,957	256,333,665
Total noncurrent assets	2,114,213,981	1,911,768,605
Total assets	2,422,772,803	2,338,348,482
Liabilities		
Current liabilities		
Trade payables	104,155,476	91,844,230
Accrued wages, compensated absences and payroll taxes	13,427,003	8,643,270
Liabilities for injuries and damages	6,632,936	5,883,512
Commercial paper	143,000,000	143,000,000
Other current liabilities	7,823,172	4,136,485
Deferred rental payments	21,657,708	21,657,708
Lease obligation payment	2,406,683	-
Total current liabilities	299,102,978	275,165,205
Noncurrent liabilities		
Liabilities for injuries and damages	16,865,137	15,248,000
Accrued compensated absences	8,104,487	10,658,142
Deferred rental payments	234,675,957	256,333,665
Lease obligation	61,039,473	-
Other post employment benefit	31,603,807	-
Total noncurrent liabilities	352,288,861	282,239,807
Total liabilities	651,391,839	557,405,012
Net Assets		
Invested in capital assets, net of related debt	1,763,904,490	1,613,628,634
Restricted for capital projects	8,770,258	9,770,413
Unrestricted	(1,293,784)	157,544,423
Total net assets	\$ 1,771,380,964	\$ 1,780,943,470

The accompanying notes are an integral part of the financial statements.

Metropolitan Transit Authority of Harris County, Texas

Statement of Revenues, Expenses and Changes in Net Assets for the Years Ended September 30, 2008 and 2007

	2008	2007
Operating revenues:		
Transportation fares	\$ 53,805,283	\$ 53,266,927
Operating expenses:		
Scheduled services - fixed route		
Bus and rail operations - direct	148,355,656	131,195,120
Contract service	39,517,766	39,844,157
Materials	5,804,008	4,603,536
Preventative maintenance	47,194,361	41,396,795
Central shop and maintenance support	13,086,172	11,650,263
Safety and training	795,904	728,688
Subtotal scheduled services - fixed route	254,753,867	229,418,559
Non-scheduled services - special		
METROLift	34,237,245	32,215,665
METROVan	4,079,490	5,184,800
Special events	624,013	3,053,355
Subtotal Non-Scheduled Services - Special	38,940,748	40,453,820
Service support		
Service planning and evaluation	586,792	415,576
Marketing	5,708,560	4,186,209
Transit security	14,332,699	11,087,339
Insurance and claims	4,476,482	3,336,401
Ticket and fare collection	1,786,021	818,416
Facility maintenance	20,863,515	15,883,937
Subtotal service support	47,754,069	35,727,878
Traffic management - services	11,514,654	10,585,299
Organizational support		
Business, community and governmental development	910,623	455,465
Administrative, financial and personnel	10,656,994	17,021,569
Information systems	2,401,196	2,467,722
Purchasing	1,400,093	891,513
Oversight, audit and legal	3,268,706	2,308,768
Subtotal organizational support	18,637,612	23,145,037
Depreciation and amortization	124,856,131	120,289,857
Total operating expenses	496,457,081	459,620,450
Operating loss	(442,651,798)	(406,353,523)
Nonoperating revenues (expenses):		
Sales tax	521,179,360	481,721,482
Investment income	7,165,095	14,240,392
Other expenses (income)	793,638	648,162
Local infrastructure assistance	(179,845,280)	(108,530,541)
Loss on sale or disposal of assets	(1,169,107)	(1,941,917)
Total nonoperating revenues (expenses)	348,123,706	386,137,578
Loss before contributions	(94,528,092)	(20,215,945)
Capital contributions	84,965,586	101,322,505
Changes in net assets	(9,562,506)	81,106,560
Net assets - beginning of the year	1,780,943,470	1,699,836,910
Net assets - end of the year	\$ 1,771,380,964	\$ 1,780,943,470

The accompanying notes are an integral part of the financial statements.

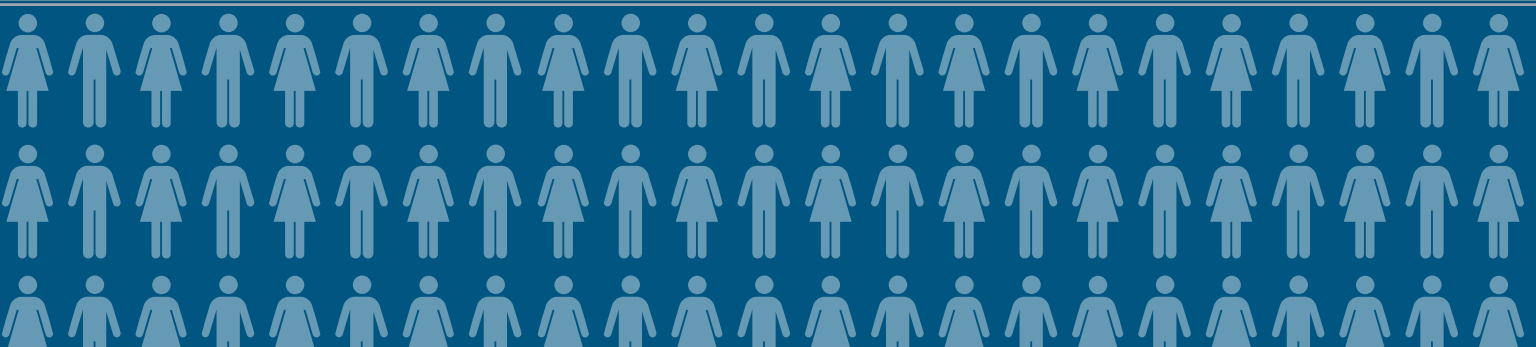
Metropolitan Transit Authority of Harris County, Texas
Statement of Cash Flows For The Years Ended September 30, 2008 and 2007

	2008	2007
Cash flows from operating activities:		
Cash received from customers	\$ 54,389,479	\$ 53,688,808
Cash payments to employees	(218,436,443)	(212,808,380)
Cash payments to suppliers for goods and services	(143,362,356)	(112,186,102)
Net cash used by operating activities	(307,409,320)	(271,305,674)
Cash flows from noncapital financing activities:		
Sales tax	518,738,604	477,823,699
Cash payments for local infrastructure assistance	(162,471,461)	(123,289,570)
Cash proceeds from other activities	781,128	640,529
Net cash provided by noncapital financing activities	357,048,271	355,174,658
Cash flows from capital and related financing activities:		
Grants	90,293,854	107,455,380
Cash received from commercial paper	1,327,000,000	523,000,000
Cash payments for commercial paper	(1,327,000,000)	(469,000,000)
Proceeds from sale of assets	208,452	4,585,616
Capital purchases	(277,706,573)	(240,547,296)
Net cash flows for capital and related financing activities	(187,204,267)	(74,506,300)
Cash flows from investing activities:		
Proceeds from sale and maturities of investments	289,969,528	4,200,268,206
Purchase of investments	(159,728,708)	(4,221,242,694)
Investment income	6,764,289	14,944,236
Net cash flows from investing activities	137,005,109	(6,030,252)
Net change in cash	(560,207)	3,332,432
Cash at beginning of year	9,446,097	6,113,665
Cash at end of year	8,885,890	9,446,097
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	(442,651,798)	(406,353,523)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	124,856,131	120,289,857
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable	(3,208,461)	399,248
Decrease (increase) in accounts receivable-other	(3,147,380)	683,692
Decrease (increase) in inventory	(9,184,966)	7,024,105
Increase in accrued payroll	2,230,076	702,573
Increase in accounts payable	23,697,077	5,948,374
Cash used by operating activities	(307,409,320)	(271,305,674)
Non cash investing activities		
The net decrease (increase) in fair value of investments	910,648	696,802
Capital leases	\$ 63,446,156	—

The accompanying notes are an integral part of the financial statements.



Notes to the 2008 Financial Statements for the
Metropolitan Transit Authority of Harris County, Texas





Notes to the 2008 Financial Statements for the Metropolitan Transit Authority of Harris County, Texas

1. Summary of Significant Accounting Policies

The Metropolitan Transit Authority of Harris County, Texas (the Authority) prepares its financial statements in accordance with generally accepted accounting principles established or approved by the Governmental Accounting Standards Board (GASB), the more significant of which are described below.

Reporting Entity

The Authority is a stand-alone governmental entity as defined by Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, amended by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*.

The Authority is a political subdivision of the State of Texas established in 1977. The Authority began operations in 1979 to develop, maintain and operate a public mass transportation system, principally within Harris County, Texas and is governed by a nine member Board of Directors (the Board). Five are nominated by the Mayor of the City of Houston and confirmed by City Council. Two are nominated by the Harris County Judge and confirmed by the Harris County Commissioners Court and two are elected by the Mayors of the 14 cities other than Houston within the Authority's service area.

Related Organizations

The following related organizations are excluded from the financial reporting entity because the Authority's accountability does not extend beyond making appointments and/or defined contributions and financial information is available from the respective organizations.

City of Houston, Texas (the City) - Incorporated under the laws of the State of Texas, the City provides governmental services as authorized or required by its charter. While the City appoints a voting majority of the Authority's board members, it is not financially accountable for the actions of the Authority as it is unable to impose its will, and a financial benefit or burden relationship does not exist.

Transport Workers Union - Metropolitan Transit Authority Health & Welfare Trust (Trust) - Established to provide health and welfare benefits for certain employees of the Authority. Although the Authority appoints two of the four members of the Board, the Authority does not have significant influence over its management, budget or policies, and its financial accountability is limited to negotiated defined contributions.

The Non-union Pension Plan (NUPP) and Transport Workers Union Pension Plan Local 260, AFL-CIO (TWUPP) - The NUPP is administered by a seven-member committee appointed by the Authority and the TWUPP is administered by four trustees, two appointed by the Authority and two appointed by local 260. These committee members and trustees are responsible for oversight and management of the plans. The assets of the plans are held by a custodian in the name of the NUPP and TWUPP and are not available for use by the Authority.





Nature of Operating and Nonoperating Activities

Operating

The Authority uses the flow of economic resources measurement focus and accrual basis of accounting when preparing financial statements. Using this approach, revenues are recognized when earned and expenses are recognized when incurred. In accordance with GASB Statement No. 20, the Authority follows all Financial Accounting Standard Board (FASB) pronouncements issued prior to November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The Authority has elected not to follow FASB pronouncements issued subsequent to that date.

Operating revenue consists of transit fares including special events while expenses consist of transit operations, traffic management, and organizational support. During FY2008 the Authority implemented a new revenue collection system. This system allows quicker boarding and better tracking of ridership and unused ticket value. The value of unused tickets have been reported as deferred revenue and included in other current liability, in the Statement of Net Assets.

Transit operations - provide the public with a high quality and cost effective public transportation system. Transit operations include the designing and constructing of maintenance facilities, rail lines, transit centers, park & ride lots, and bus storage facilities; selecting bus/rail routes; purchasing buses and rail equipment; maintaining equipment; and hiring/training personnel who deliver transit services and provide security.

Traffic management operations - provide comprehensive, effective and efficient management of traffic and vehicular movement in order to enhance the utilization of the Authority's Regional Street and Road Network, thereby improving regional mobility. The Authority also provides traffic and transportation law enforcement activities in order to increase safety for the area's motorists and pedestrians.

Organizational support - provides the Authority with oversight, direct assistance, and community/business development opportunities.

Nonoperating

Nonoperating revenue and expenses include the one percent sales tax levied in the Authority's service area, Investment income, Local infrastructure assistance, Gain/Loss on disposal of assets and Other income which includes leasing of property not used in transit operations, and cash receipts from lease/sub-lease arrangements.

Cash and Investments

Cash consist of amounts maintained in demand deposit and petty cash accounts. Restricted cash consist of deposits with State of Texas and other governmental entities. Investments consist of a variety of items including: money market accounts, commercial paper, mortgage backed securities, mutual funds, repurchase agreements, certificates of deposit, U.S. Treasury securities and U.S. Agency securities. All investments, except money market accounts, are available for participation in the securities lending program established by JPMorgan Chase Bank of Texas. All investments are reported at fair value based on quoted market prices. Investments from commercial paper borrowing have been reported as Restricted Investments on the Statement of Net Assets.





Receivables

Receivables generally consist of amounts due from customers, grantor agencies, cost sharing agreements, employees, warranties and miscellaneous activities.

Inventories of Materials and Supplies

Inventories are valued using a weighted average costing method and consist principally of diesel fuel, repair parts and other supplies that are used to maintain the bus, rail and facilities.

Capital Assets

The Authority's overall capitalization policy requires expenditures to be capitalized when they exceed \$1,000 and (a) the useful life of the asset acquired exceeds one year and/or (b) the useful life of an existing asset is increased beyond its original useful life. Depreciation of such property and equipment is calculated using the straight-line method over the following estimated useful lives:

Park & Ride lots	4 - 30 years
Buses	3 - 12 years
Other property and equipment	3 - 10 years
Transitways	4 - 30 years
Rail cars	4 - 25 years
Rail infrastructure	4 - 30 years
Buildings and improvements	4 - 40 years

Capital assets, including capital leases, are recorded at historical cost and expenditures relating to normal repair and maintenance are expensed as incurred. The cost and accumulated depreciation of assets retired or sold are removed from the accounts with any gain or loss included in nonoperating revenues. Liabilities relating to capital leases are reflected separately on the Statement of Net Assets.

Compensated Absences

Compensated absences are earned by all full time and part time employees. Employees covered by the Authority's Union Contract earn vacation hours each December 31 based on years of service. A maximum of 200 vacation hours per year can be earned. Earned vacation hours must be used in the next calendar year. These employees also accumulate one sick day per month up to a maximum of 30 days based on date of hire and years of service. Accumulated sick pay in excess of eight days may be sold each September 30, back to the Authority. Vacation and sick pay for these employees are expensed when earned with unpaid balances being reported as a liability in the Statement of Net Assets.

Non-union employees can earn vacation hours up to 16.67 each month and can accumulate, based on years of service, up to 520 hours. Vacation expense is recorded when earned with the unused balance being reported as a liability in the Statement of Net Assets. Employees are paid for their unused vacation time upon termination or retirement. In addition, these employees receive 10 sick days per year at the beginning of each calendar year. Unused sick leave can not be carried forward to subsequent years and there is no payment at the end of a calendar year, termination or retirement. Sick leave for non-union employees is expensed when incurred.





Commercial Paper

Funds received from the issuance of tax exempt commercial paper are recorded as a current liability with interest accrued monthly.

Sales Tax

Revenue from the one percent sales tax is recognized when taxable sale transactions occur within the Authority service area. The Comptroller for the State of Texas collects and distributes these amounts to the appropriate governmental organizations with funding normally occurring within approximately 60 days from date of the sale.

Use of Estimates

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

Implementation of new GASB Standards

During FY2008 the Authority implemented GASB No. 45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension* and GASB No. 50 *Pension Disclosures*. The Authority will be evaluating the implementation of GASB 49 *Accounting and Financial Reporting for Pollution Remediation Obligations* during FY2009.

2. Deposits and Investment Securities

Deposits and Investment policy

The Authority's deposits and investment policy complies with the Texas Public Funds Investment Act and other requirements established by the Board. Investments can include: Obligations of the United States of America and its agencies and instrumentalities, money market accounts, commercial paper, mutual funds, fully collateralized repurchase agreements, local government investment pools, certificates of deposit and other investments authorized by the Public Funds Investment Act.

Interest Rate and Credit Risk

The Authority's investment policy is to minimize interest rate and credit risk by investing a majority of the portfolio in short-term investments such as commercial paper, money market accounts, mutual funds and obligations of the United States of America with maturities generally less than two years. Investments not insured or guaranteed by a governmental entity must be rated by a nationally recognized organization with rating not less than AA, A-1, P-1, F-1 or equivalent ratings.

Custodial Credit Risk

The Authority's investment policy requires bank deposits to be insured by federal deposit insurance or collateralized at 102 percent of value with the collateral being held by a nonaffiliated, federally insured financial institution. Investment securities are registered in the Authority's name and held by an independent custodian.



Concentration of Credit Risk

The Authority's investment policy requires a diversified portfolio that minimizes the risk of loss resulting from over-concentration of assets in specific maturity, specific issuer or specific class of securities and places limits on the allocation of investments between investment types. Investments issued or explicitly guaranteed by the U.S. Government, mutual funds and investment pools are not subject to Concentration of Credit Risk disclosure and represented 100% of total investments.

Deposits

As of September 30, 2008 and 2007 the Authority's deposits and unrestricted cash book balances were:

	Fiscal 2008	Fiscal 2007
Local bank deposit	\$ 1,231,556	\$ 67,317
Unrestricted cash book balance	\$ 121,392	\$ 231,459

The fair value of the Authority's investments is estimated based on quoted market prices. The investments held at September 30, 2008 and 2007 are indicative of the type of investments made by the Authority during each fiscal year and consist of the following:

	Fiscal 2008 Fair Value	Fiscal 2007 Fair Value	Rating Agencies
Investment securities:			
U.S. Treasury securities	\$ 10,321,875	\$ 19,587,500	
U.S. Agency securities	—	45,536,534	AAA
Commercial paper	—	46,855,555	A-1, P-1, F-1
Total investment securities	10,321,875	111,979,589	
Money Market Mutual Funds	131,946,674	159,810,587	Aaa , AAAm
Total investments	\$ 142,268,549	\$ 271,790,176	

Investment by type and weighted average maturity as of September 30, 2008 consisted of:

	Fiscal 2008 Fair Value	Investment Maturity		Weighted Average Maturity
		1 day	5 years	
Investment securities:				
U.S. Treasury securities	\$ 10,321,875	—	\$ 10,321,875	4.67 years
Money Market Mutual Funds	131,946,674	131,946,674	—	1 day
Total investments	\$ 142,268,549	\$ 131,946,674	\$ 10,321,875	

The Board has authorized the Authority to enter into a securities lending agreement with JPMorgan Chase Bank of Texas (CT) and its affiliate JPMorgan Chase Manhattan Bank (CM) for securities held by the Authority. This agreement authorizes CT to act as the Authority's agent and deliver to CM securities which may be loaned to those organizations that are reported on the approved borrowers list maintained by CM. The Authority has the right to further limit the organizations that CM may conduct securities lending transactions on its behalf. In addition, the Authority or the borrower may terminate the loan on demand.



As of September 30, 2008 and 2007 collateral received by CM for securities lending transactions is held in the name of the Authority and consists of cash or governmental securities and equals 102 percent or more of the fair value of the securities loaned, which is determined at the end of each business day by CM. Investment of the Authority’s cash collateral by CM is limited to U.S. Treasury and Agency securities and Repurchase agreements with maturities not to exceed 90 days. Repurchase agreements must be fully collateralized by securities that are issued or guaranteed as to principal and interest by the United States Government, its agencies or instrumentalities. Because of these restrictions, the Authority is not subject to any credit risk.

The Authority is responsible for any deficits that result from the sale of investments that relate to the cash collateral held by CM. When the collateral is in the form of securities, CM will indemnify the Authority if the borrower fails to return any of the borrowed securities upon termination of the loan. The collateral is held by CM in the name of the Authority and can be pledged or sold only if the borrower defaults. All Investment securities are available for use in the security lending program and security lending activity for fiscal 2008 and 2007 consisted of:

	Fiscal 2008	Fiscal 2007
Investment Securities available for lending	\$ 10,321,875	\$ 111,979,589
Amount on loan	9,684,828	19,532,010
Gross earnings	227,286	1,047,236
Rebates	201,565	1,006,142
Agent fees	24,497	16,442
Amount reported in Investment income	36,744	24,652
Percentage on loan	93.8 %	17.4 %

3. Capital Assets

During fiscal year 2008 the Authority reviewed its asset classification which resulted in combining or separating some assets into different asset categories and reducing estimated service life of certain assets. Changes in the estimated service life will be treated as a change in accounting estimate and will increase depreciation expense over the next 5 years by \$15,863,322. Movement between categories are included as part of the Transfers and Completed Projects column.



Changes in capital assets for fiscal 2008 were:

Capital Assets	October 1, 2007	Additions	Retirements	Transfers and Completed Projects	September 30, 2008
Capital assets not depreciated:					
Land	\$ 240,609,772	—	—	\$ 46,823,967	\$ 287,433,739
Construction in progress	279,635,085	337,937,637	(12,770)	(141,075,847)	476,484,105
Total capital assets not depreciated	520,244,857	337,937,637	(12,770)	(94,251,880)	763,917,844
Capital assets depreciated:					
Administration & operating facilities	478,370,724	—	(653,706)	(66,174,394)	411,542,624
Park & Ride lots and transit centers	140,644,890	635,848	(645)	121,784,888	263,064,981
Buses and equipment	531,871,464	—	(27,315,895)	28,795,000	533,350,569
Rail cars	327,558,875	—	—	(269,271,674)	58,287,201
Rail infrastructure	—	—	—	239,621,653	239,621,653
Transitways	502,904,725	—	—	8,958,170	511,862,895
Other property and equipment	86,125,408	628,170	(21,409,146)	30,538,237	95,882,669
Total capital assets depreciated	2,067,476,086	1,264,018	(49,379,392)	94,251,880	2,113,612,592
Less: Accumulated depreciation and amortization					
Administration & operating facilities	(204,870,236)	(24,774,549)	1,043,527	45,877,412	(182,723,846)
Park & Ride lots and transit centers	(75,473,068)	(6,880,825)	645	(49,079,282)	(131,432,530)
Buses and equipment	(363,068,281)	(42,835,189)	26,489,815	(4,318,440)	(383,732,095)
Rail cars	(44,733,186)	(13,108,786)	—	47,873,680	(9,968,292)
Rail infrastructure	—	(773,980)	—	(40,659,184)	(41,433,164)
Transitways	(213,922,087)	(17,907,464)	—	16,654	(231,812,897)
Other property and equipment	(51,428,179)	(18,575,338)	21,234,663	289,160	(48,479,694)
Total accumulated depreciation and amortization	(953,495,037)	(124,856,131)	48,768,650	—	(1,029,582,518)
Total capital assets being depreciated, net	1,113,981,049	(123,592,113)	(610,742)	94,251,880	1,084,030,074
Total capital assets, net	\$ 1,634,225,906	\$ 214,345,524	\$ (623,512)	—	\$ 1,847,947,918

Changes in capital assets for fiscal 2007 were:

Capital Assets	October 1, 2006	Additions	Retirements	Transfers and Completed Projects	September 30, 2007
Capital assets not depreciated:					
Land	\$ 231,368,290	—	\$ (1,027,448)	\$ 10,268,930	\$ 240,609,772
Construction in progress	117,622,534	253,882,415	(41,016)	(91,828,848)	279,635,085
Total capital assets not depreciated	348,990,824	253,882,415	(1,068,464)	(81,559,918)	520,244,857
Capital assets depreciated:					
Building and improvements	481,192,894	—	(17,044,811)	14,222,641	478,370,724
Park & Ride lots	136,797,835	—	—	3,847,055	140,644,890
Buses and equipment	526,590,087	—	(41,067,764)	46,349,141	531,871,464
Rail and equipment	327,679,081	—	—	(120,206)	327,558,875
Transitways	499,874,606	1,025,226	—	2,004,893	502,904,725
Other property and equipment	85,606,074	—	(14,737,060)	15,256,394	86,125,408
Total capital assets depreciated	2,057,740,577	1,025,226	(72,849,635)	81,559,918	2,067,476,086
Less: Accumulated depreciation and amortization					
Building and improvements	(201,998,731)	(17,113,375)	14,182,897	58,973	(204,870,236)
Park & Ride lots	(70,431,432)	(5,041,636)	—	—	(75,473,068)
Buses and equipment	(355,155,668)	(46,883,990)	39,173,974	(202,597)	(363,068,281)
Rail and equipment	(26,331,849)	(18,557,511)	—	156,174	(44,733,186)
Transitways	(196,527,663)	(17,385,178)	—	(9,246)	(213,922,087)
Other property and equipment	(50,241,396)	(15,308,167)	14,124,688	(3,304)	(51,428,179)
Total accumulated depreciation and amortization	(900,686,739)	(120,289,857)	67,481,559	—	(953,495,037)
Total capital assets being depreciated, net	1,157,053,838	(119,264,631)	(5,368,076)	81,559,918	1,113,981,049
Total capital assets, net	\$ 1,506,044,662	\$ 134,617,784	\$ (6,436,540)	—	\$ 1,634,225,906

As part of the Master Lease Purchase Finance Program (MLPFP), the Authority entered into its first capital lease on July 15, 2008 totaling \$62,255,000 for the acquisition of 98 diesel electric hybrid buses. The Authority recorded the buses in construction in progress (CIP) and established the related lease obligation. As buses are received and placed into service they will be transferred from CIP to buses and equipment and depreciation will begin. As of September 30, 2008 eight buses have been delivered.

In addition to the MLPFP, the Authority entered into a 5 year lease for copiers and a 50 year lease with three 15 year extensions for the use of land and related improvements for a Park & Ride lot. Land improvements for this Park & Ride have been capitalized and will be depreciated over their remaining useful life with payments for land being reported as an operating lease.



Capital leased assets are depreciated over their estimated useful life or the life of the lease, if shorter, and have been reported as part of capital assets, net with a corresponding capital lease liability on the Statement of Net Assets. Schedule payments over the lease terms are:

Fiscal Years	Payments		
	MLPFP 1st Acquisition Buses	Copiers	Park & Ride Land Improvements
2009	\$ 2,183,665	\$ 144,557	\$ 78,461
2010	6,756,869	144,557	78,461
2011	6,776,244	144,557	78,461
2012	6,732,794	144,557	78,461
2013	6,759,703	144,557	82,384
2014-2020	53,689,755	—	326,377
Total	82,899,030	722,785	722,605
Interest	20,644,030	123,094	131,138
Present value of minimum lease payments	\$ 62,255,000	\$ 599,689	\$ 591,467

4. Retirement Plans

The Authority has three pension plans and two postemployment health care plans. Two of the pension plans are noncontributory, single employer, defined benefit plans and one is a defined contribution plan. The defined contribution plan became effective October 1, 2007 for new employees who are not eligible for the Non-union Pension Plan. The postemployment health care plans are single employers, defined benefit plans that are available to retirees. Stand-alone audited financial statements are available for both defined benefit pension plans and the Health and Welfare Trust (one of the post employment benefit plans) from the Authority's Treasury Division. Pension plan and post employment health care contributions are authorized by the Board during the annual budgeting process. Administration of the pensions and Non-union postemployment health care benefit plans are performed by the Authority with the Health and Welfare Trust managing benefits for their participants. KPMG, LLP did not audit the pension plans or the Health and Welfare Trust.

Calculating the annual required contribution and obligations for the defined benefit pensions and the defined post employment health care benefit plans requires the use of actuarial estimates, which are reviewed and updated annually, some of which include; future employment, mortality, asset returns, salaries, funding and health care cost trend rates which are listed in tables on the following pages. These actuarial calculations reflect long-term perspective and uses techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and assets. The required scheduled of funding progress immediately following the notes to the financial statements present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities.





Defined Benefits Plans

Transport Workers Union Pension Plan Local 260, AFL-CIO (TWUPP) - The TWUPP provides monthly normal retirement benefits based on participants' years of service but not less than \$300. Plan participants have a 100 percent vested interest in employer contributions to the Plan after 5 years of credited service. Participants become eligible to receive benefits at the earlier of 28 years of credited service or age 60 with 5 years of credited service. The requirements for early retirement with reduced benefits are that an employee reaches age 55 and has 25 years of credited service. In addition, the Plan provides for disability retirement benefits with the requirements being 5 years of credited service. Additional requirements include 5 years of vesting service for vested deferred retirement benefits and for pre-retirement spousal benefits. Four trustees administer the TWUPP. Two trustees are appointed by the Authority and two are appointed by Local 260.

TWUPP required contributions are based on actuarial valuations prepared annually by an independent actuary from data furnished by the Authority. The unfunded actuarial accrued liability as of January 1, 2008 was \$32,706,024 and the pension expenses recognized in the financial statements for the current and previous two fiscal years were \$9,583,095, \$9,310,903 and \$9,835,137. Actual contributions for the current and previous two fiscal years were \$16,751,827, \$16,884,299, and \$19,496,315.

Non-union Pension Plan (NUPP) - NUPP participants have a 100 percent vested interest in employer contributions to the Plan after 5 years of credited service. The minimum annual normal retirement benefit of a participant who retires on or after his normal retirement date is \$300 a month, provided the participant has at least 10 years of credited service at retirement regardless of the date of his retirement. Participants become eligible to receive benefits at age 65 with special provisions allowing for retirement at an earlier age. The requirements for early retirement with reduced benefits are that an employee reaches age 55 and has 15 years of credited service. In addition, the Plan provides for disability retirement benefits with the eligibility requirement being total and permanent disability at any age with benefits deferred to normal retirement date. Additional requirements include 5 years of service for vested deferred retirement benefits and pre-retirement spousal benefits. The NUPP plan is administered by a seven-member administrative committee appointed by the Authority.

This plan was closed to new members effective September 30, 2007. Employees hired on/after October 1, 2007 that would have previously been eligible for the NUPP will now be placed into the defined contribution plan.

NUPP required contributions are based on actuarial valuations prepared annually by an independent actuary from data furnished by the Authority. The unfunded actuarial accrued liability as of January 1, 2008 was \$15,583,085 and the pension expenses recognized in the financial statements for the current and previous two fiscal years were \$9,313,695, \$9,508,765 and \$9,344,250. Actual contributions for the current and previous two fiscal years were \$13,087,028, \$10,015,433 and \$12,054,347.



Significant actuarial assumptions used in the Authority's plan valuations and funded status is listed below.

	TWUPP	NUPP
Valuation date	January 1st of each year	January 1st of each year
Cost method	Unit credit	Projected Unit credit (closed)
Asset valuation method	Five-year moving market	Five-year moving market
Interest rates:		
Investment rate of return	8.0% per annum	8.0% per annum
Funding rate	8.0% per annum, compounded annually	8.0% per annum, compounded annually
Cost of living adjustments	None	None
Projected salary increase	None	4.0% per annum
Disability retirement rate	Revenue Ruling 96-7	Revenue Ruling 96-7
Assumed annual retirement rate	Varying percentage ranging from 5% to 100% for age 70	Varying percentage ranging from 5% to 100% for ages 55 through 70 respectively
Mortality basis after normal retirement	RP-2000 Combined Mortality Table	RP-2000 Combined Mortality Table
Amortization of gains and losses		
Method	Level dollars/open	Level dollars/open
Period	30 years	30 years (closed as of 9/30/2007)

The amount of the annual required contribution calculated by the actuary has not been adjusted for past excess or deficient contributions. The current fiscal year contributions and changes in the Net Pension Obligations (amortized over 30 years) for the period are:

	TWUPP	NUPP
Annual required contributions	\$ 8,751,828	\$ 9,087,028
Amortization of Net Pension Obligation	831,267	226,667
Annual Pension cost	9,583,095	9,313,695
Current year contribution	16,751,827	13,087,028
Current year change in Net Pension Obligation	(7,168,732)	(3,773,334)
Net Pension Obligation/(Asset) balance October 1, 2007	(16,080,066)	(2,633,334)
Net Pension Obligation/(Asset) balance September 30, 2008	(23,248,798)	(6,406,668)
Percentage of annual pension cost contributed	174.81%	140.51%

Defined Contribution Plan

The defined contribution plan is for employees hired after October 1, 2007 and not eligible for the Non-union Pension Plan. The Authority contributes 2 percent of the employee's annual salary and will match up to an additional 4 percent. Vesting rates varies from 0 to 100 percent by the end of the 5th year. Contributions by the Authority for FY2008 totaled \$106,289.

Other Post Employment Benefits Other Than Pension (first year implementation)

The Authority sponsors two, single employer, defined benefit Other Post Employment Health Care Plans which includes the Transport Workers Union - Metropolitan Transit Authority Health & Welfare Trust (Trust) and the



Non-Union Plan. These plans cover medical, dental and life insurance for retirees with retiree’s contribution being the same as active employees. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and historical pattern of cost sharing between the employer and plan members. The Authority is on a pay-as-you-go funding of the benefits.

The Trust is a separate legal entity that is managed by four Trustees who are responsible for managing resources and establishing benefits. Two of the trustees are from the Transport Workers Union Local 260, AFL-CIO and two are from the Authority. Payments to the Trust are irrevocable and made monthly for eligible employees and retirees based on amounts established during contract negotiations with the union. To qualify for this retirement benefit, an employee must be 60 years old with 5 years of credited services or any age with 28 years of credited services or 55 years old with 25 years of credited services or meet disability qualifications. FY2008 expenses and contributions for retirees to the trust totaled \$5,371,636 with unfunded actuarial accrued liabilities of \$236,771,728 as of October 1, 2007.

The Non-Union plan covers full and certain part-time employees with payments made as services are provided with administration managed by the Authority. To qualify for this retirement benefit, an employee must be 55 years old with 15 years of credited services or 65 years old with 5 years of credited services. FY2008 expenses and payments for retirees totaled \$3,109,843 with unfunded actuarial accrued liabilities of \$140,455,753 as of October 1, 2007

Significant actuarial assumptions used in the Authority’s Other Post Employment Plans valuations are as follows:

	Trust	Non-Union
Valuation date	January 1st of each year	January 1st of each year
Cost method	Unit credit	Unit credit
Health Care Cost Trend Rate	Varying from 11% declining to 4.5 in 2015	Varying from 11% declining to 4.5 in 2015
Discount rate	4.0% per annum	4.0% per annum
Disability retirement rate	Revenue Ruling 96-7	Revenue Ruling 96-7
Assumed annual retirement rate	Varying percentage ranging from 5% to 100% for age 70	Varying percentage ranging from 5% to 100% for ages 55 through 70 respectively
Mortality basis after normal retirement	1983 Group Annuity Mortality Table	1983 Group Annuity Mortality Table
Amortization of gains and losses		
Method	Level dollars/open	Level dollars/open
Period	30 years	30 years



Calculation for Other Post Employment Cost and Net Post Employment Benefit Obligation are as follows:

	Trust	Non-Union
Annual required contributions	\$ 24,900,521	\$ 15,184,765
Amortization of Net Post Employment Benefit Obligation	—	—
Other Post Employment Cost	24,900,521	15,184,765
Current year contribution	5,371,636	3,109,843
Current year change in Net Post Employment Benefit Obligation	19,528,885	12,074,922
Net Post Employment Benefit Obligation balance October 1, 2007	—	—
Net Post Employment Benefit Obligation September 30, 2008	\$ 19,528,885	\$ 12,074,922
Percentage of Post Employment Benefit cost contributed	21.57%	20.48%

The unaudited funded status of the TWUPP and NUPP pension plans as of January 1, 2008 were:

	Actuarial Value of Assets	Actuarial Accrued Liabilities (AAL)	Unfunded AAL	Funded Ratio Percentage	Covered Payroll	UAAL as a Percentage of Covered Payroll
TWUPP	\$ 160,889	\$ 193,401	\$ 32,706	83.2%	\$ 84,414	38.7%
NUPP	\$ 104,824	\$ 120,407	\$ 15,583	87.1%	\$ 62,930	24.8%

The TWUPP and NUPP Annual Pension Cost (APC) and Net Pension Obligation are:

	Annual Pension Cost	Percentage of APC Funded	Year-End Net Pension Obligation/(Asset)
TWUPP			
2006	\$ 9,835,137	198.2	\$ (8,506,670)
2007	9,310,903	181.3	(16,080,066)
2008	9,583,095	174.8	(23,248,798)
NUPP			
2006	9,344,250	129.0	(2,126,266)
2007	9,508,765	105.3	(2,633,334)
2008	\$ 9,313,695	140.5	\$ (6,406,668)

5. Self Insurance

The Authority is self insured for workers' compensation, unemployment and other general liabilities and purchases property and flood insurance which covers the risk of loss (after deductible) to all real and personal property, including transit buses, located on the Authority's property.

The Authority is protected by governmental immunity, except as provided by the Texas Tort Claims Act (TTCA). Under the TTCA, liabilities for claims arising from the ownership and use of motor vehicles cannot exceed \$100,000 per person and \$300,000 per accident for bodily injury and \$100,000 per accident for property damages. Bodily injury claims arising from the ownership of real and personal property are also limited to



\$100,000 per person and \$300,000 per accident. Settlements have not exceeded our insurance coverage for any of the past three fiscal years.

Liabilities for injuries and damages were \$23,498,073 at September 30, 2008 and \$21,131,512 at September 30, 2007. These amounts are reported at their net present value using a 5 percent discount rate. Gross reserves for 2008 and 2007 were \$26,860,347 and \$24,171,949 respectively. These amounts were developed from historical information maintained by the Authority and consisted of both reported but not paid and incurred but not yet reported claims. Changes in liabilities for injury and damages for fiscal 2008 and 2007 were:

	Balance Beginning of the Fiscal Year	Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
October 1, 2007 - September 30, 2008	\$ 21,131,512	\$ 7,303,079	\$ (4,936,518)	\$ 23,498,073
October 1, 2006 - September 30, 2007	\$ 18,008,795	\$ 7,895,706	\$ (4,772,989)	\$ 21,131,512

The Authority's ultimate liability for workers' compensation claims may be more or less than the amount accrued; however, management believes the differences will not materially affect the Authority's financial position.

6. Commitments and Contingencies

In addition to the retirement plans discussed in Note 4, the Authority has various commitments and contingencies which include commercial paper, infrastructure assistance, outstanding contracts and purchase orders, capital leases and operating leases, compensated absences, financial hedges for diesel fuel, litigation and audit by other governmental entities. Descriptions and changes for these items are listed below:

Commercial paper

The Authority is authorized to issue up to \$400,000,000 in Sales and Use Tax Revenue Commercial Paper Notes (CP). These notes are supported by pledging 75% of the Authority's Sales and Use Tax Revenue and interest earned on related investments. To support the CP program, the Authority has implemented a revolving credit facility totaling \$300 million, none of which was used during FY2008. In the event of a remarketing failure, the credit line will be invoked to fund maturities and will incur interest costs at a base rate equal to the higher of (a) the Administration Agent's U.S. prime commercial lending rate in effect for such day (as such U.S. prime commercial lending rate is announced from time to time by the Administration Agent at its principal New York office) plus 2.00% per annum, (b) the sum of 3.00% per annum plus the Federal Funds Rate for such day (it being understood that each change is effective for the Administrative Agent's purpose), and (c) 9.00% per annum. The Authority is required to pay an annual commitment fee of 0.35% for funds that are available but not used.



Proceeds from CP are for use in expanding, maintaining and improving public transit or eliminating outstanding notes of the same series. Changes in CP for fiscal year 2008 and outstanding items as of September 30, 2008 were:

Balance October 1, 2007	Proceeds	Repayment	Balance September 30, 2008
\$ 143,000,000	\$ 1,327,000,000	\$ 1,327,000,000	\$ 143,000,000

Amount Issued	Maturity Date	Days Outstanding	Nominal Rate
\$ 36,500,000	12/9/2008	98	1.60%
36,500,000	10/06/2008	33	1.55%
20,000,000	10/06/2008	33	1.55%
50,000,000	10/06/2008	33	1.55%
\$ 143,000,000			

Outstanding value of contracts and purchase orders

The Authority has entered into various contracts and purchase orders to acquire goods and services or to assist in developing infrastructure improvements within the Authority's service area. The outstanding value of these items as of September 30, 2008 totals approximately \$449,739,356. Payments will be made from sale tax collections, transit fares, grants and master lease agreement.

Agreements to fund local infrastructure improvements and congestion mitigation/traffic management programs

The Authority makes payments to or on behalf of Harris County, the City of Houston, and 14 cities within the Authority's service area for infrastructure improvement and mobility programs. Expenses related to these agreements are reported as Local infrastructure assistance in the Statement of Revenues, Expenses, and Changes in Net Assets. Expenses for the current and previous two fiscal years were \$179,845,280, \$108,530,541 and \$115,616,319.

Lease/sub-lease agreements for Operating Facilities and Buses -

The Authority currently has 12 active lease/sub-leases involving seven (7) Bus Operating Facilities (BOFs), 620 buses and bus equipment that are classified as Qualified Technological Equipment (QTE) for a total Fair Market Value (FMV) of \$462,000,000 at closings with the Authority receiving a net benefit of \$6,762,000 in 2001, \$4,015,941 in 2002, and \$3,345,521 in 2003.

Bank of America and Norlease are the Equity Investors of the Authority's BOF leases. Wells Fargo and Comerica are the Equity Investors of the Bus and QTE leases. American International Group (AIG) is the Payment Guarantor for the BOF leases and Financial Security Assurance (FSA) is Payment Guarantor for the Bus and QTE leases. Both Guarantors were AAA (S&P) and Aaa (Moody's) rated companies at the time they entered into the transactions.

In September 2008, triggered by the downgrade of the AIG's credit rating by both S&P and Moody's, Bank of America, the equity investor of the Buffalo and Kashmere BOF leases, sent the Authority a request to replace the initial Equity Payment Agreement and initial LOC based on provision of the Operative Document. In December 2008, Bank of America sent the Authority another request for replacement of Series B Payment

Agreement. The Authority had successfully negotiated with Bank of America to extend their deadline to March 2, 2009 for both requests. The Authority has not yet received any requests from Norlease regarding their Lease of other five Bus Operating Facilities. To unwind all 7 BOF leases could cost approximately \$27 million.

In December 2008, the Authority sent to Comerica and Wells Fargo a request to extend the deadline for the replacement of the Strip Surety Provider of bus and QTE leases due to FSA downgrade in November 2008. Comerica granted the extension until March 2, 2009; however, the Authority has not yet received a response from Wells Fargo.

The Authority is also working diligently with other transit agencies in the nation to seek the intervention from the Federal Government and U.S. Congress under the Troubled Assets Relief Program (TARP) authorized by the Emergency Economic Stabilization Act of 2008 (EESA) to find the best solution that will minimize the impact this crisis may cause to the transit industry.

Amounts placed with the payment undertakers are amortized on a straight-line basis over the life of the specific lease. Unamortized balances are reported on the Statement of Net Assets as Prepaid lease payments with a corresponding liability titled Deferred rental payments. Sale and sub-lease terms and original amounts placed with payment undertakers are:

Facility	Original Lease Expiration Date	Sub-Lease Early Purchase Option Date	Sub-Lease Expiration Date	Amortization Period (Years)
Buffalo Bayou	Dec. 14, 2075	Jan. 1, 2026	Jun. 14, 2035	34
Fallbrook	Dec. 14, 2087	Jan. 1, 2026	Dec. 14, 2036	35
Field Service Center	Jun. 14, 2068	Jan. 1, 2026	Dec. 14, 2034	33
Hiram Clarke	Dec. 14, 2075	Jan. 1, 2026	Jun. 14, 2035	34
Kashmere	Jun. 14, 2083	Jan. 1, 2026	Jun. 14, 2037	36
Northwest	Dec. 14, 2075	Jan. 1, 2026	Jun. 14, 2035	34
West	Jun. 14, 2083	Jan. 1, 2026	Dec. 14, 2036	35
Transit Buses	May 02, 2052	—	Jan. 01, 2012-15	10-13
Transit Buses	Dec. 19, 2052	—	Jan. 1, 2014	12
Transit Buses	Dec. 19 2052	—	Jan. 1, 2016	14
Fare boxes/radios	Apr. 22, 2043	—	Jan. 1, 2018	16

Amortization of the amounts placed with payment undertakers for fiscal year 2008 and 2007 were:

	Unamortized Balance Remaining with Payment Undertakers September 30, 2007	Current Year Amortization	Unamortized Balance Remaining with Payment Undertakers September 30, 2008
Facility			
Buffalo Bayou	\$ 7,444,396	\$ 275,719	\$ 7,168,677
Fallbrook	42,717,394	1,526,555	41,190,839
Field Service Center	17,400,724	669,258	16,731,466
Hiram Clarke	21,576,288	799,122	20,777,166
Kashmere	37,822,687	1,304,231	36,518,456
Northwest	21,268,423	787,720	20,480,703
West	25,904,788	925,171	24,979,617
Transit buses	36,436,158	5,735,631	30,700,527
Transit buses	32,726,905	6,116,271	26,610,634
Transit buses	5,466,531	607,392	4,859,139
Transit buses	4,882,387	697,484	4,184,903
Fare boxes/radios	24,344,692	2,213,154	22,131,538
Total	\$ 277,991,373	\$ 21,657,708	\$ 256,333,665

	Unamortized Balance Remaining with Payment Undertakers September 30, 2006	Current Year Amortization	Unamortized Balance Remaining with Payment Undertakers September 30, 2007
Facility			
Buffalo Bayou	\$ 7,720,115	\$ 275,719	\$ 7,444,396
Fallbrook	44,243,949	1,526,555	42,717,394
Field Service Center	18,069,982	669,258	17,400,724
Hiram Clarke	22,375,410	799,122	21,576,288
Kashmere	39,126,918	1,304,231	37,822,687
Northwest	22,056,143	787,720	21,268,423
West	26,829,959	925,171	25,904,788
Transit buses (286)	42,171,789	5,735,631	36,436,158
Transit buses (286)	38,843,176	6,116,271	32,726,905
Transit buses (24)	6,073,923	607,392	5,466,531
Transit buses (24)	5,579,871	697,484	4,882,387
Fare boxes/radios	26,557,846	2,213,154	24,344,692
Total	\$ 299,649,081	\$ 21,657,708	\$ 277,991,373

These are considered listed transactions by the Internal Revenue Service and an excise tax must be calculated and paid annually. The amount of tax, if any, is not considered material and is being calculated for fiscal year 2008, 2007 and 2006.



Operating lease

The Authority leases land, buildings and data processing equipment under various operating leases. In most cases, management expects to renew or replace these leases as they expire. Future minimum payments under operating leases with initial or remaining terms of one year or more consisted of the following on September 30, 2008:

Year Ending September 30	Operating Leases
2009	\$ 1,192,195
2010	1,201,999
2011	1,093,171
2012	994,127
2013	994,127
Total minimum lease payments (excluding prepaid)	\$ 5,475,619

Rent expenses (including amortization of prepaid rent) for fiscal year 2008 and 2007 were \$1,130,479 and \$1,233,340.

Financial Hedges for Diesel Fuel

The Authority developed and implemented a plan through physical forward contracts and/or financial contracts, which will provide fuel and energy commodity price certainty for up to 24 months of expected consumption. The tactics to achieve this goal include: Fixed Price Future Delivery Contracts, Guaranteed Price Contracts (Swaps), Maximum/Minimum Price Contracts (Collars) and Maximum Price Contracts (Caps).

Credit risk is minimized because all counterparties of contracts shall either have a minimum long-term rating of "A3" or "A-" by at least two of the three nationally recognized rating agencies or have collateral posting requirements for entities with ratings below this level.

During FY2007 the Authority entered into two commodity swaps for diesel fuel that were settled monthly from October 2007 to September 2008. The notional amounts totaled 13,524,000 gallons, which represented approximately 98 percent of the Authority's diesel fuel usage during FY2008 and resulted in a net gain of \$17,251,340. The Authority also liquidated a FY2009 swap during FY2008 and will receive \$698,124 during FY2009 as the swap settles. These gains have been reported as reductions to related operating expenses in the Statement of Revenues, Expenses and Changes in Net Assets.

On September 30, 2008 the Authority had six swap agreements outstanding. Five swaps are for FY2009 and total 13,608,000 gallons which represents approximately 98 percent of the Authority's anticipated usage. The remaining swap is for 3,402,000 gallons and will settle during FY2010. These outstanding swaps had a negative value of \$7,568,494 as of September 30, 2008 as calculated by the counterparties both of whom are nationally recognized commodity traders Koch Supply & Trading, LLP and J. Aron & Company.

Compensated absences are earned, as discussed in note one, based on employee classification. Changes during the last two years are reflected below with \$4,519,218 reported as a current liability as of September 30, 2008.



	Balance Beginning of the Fiscal Year	Taken	Earned	Balance at Fiscal Year-End
October 1, 2007 - September 30, 2008	\$ 14,383,258	\$ (16,089,482)	\$ 14,329,929	\$ 12,623,705
October 1, 2006 - September 30, 2007	\$ 13,903,080	\$ (14,916,061)	\$ 15,396,239	\$ 14,383,258

Litigation

The Authority is a defendant in various legal actions occurring in the normal course of its operations and has recognized, to the extent it believes necessary, liabilities for any reasonably expected losses which might arise from the final resolution of such litigation. In certain cases, however, management is not presently able to determine the ultimate liability, if any, which might arise upon final resolution of the various legal actions. In these instances, management believes the ultimate liability in excess of amounts recorded, if any, will not materially affect the Authority's financial position.

Federal and State Grants

Expenditures financed by federal and state grants are subject to audit by the granting agencies. Management believes that no significant liability will arise from any such audits.



This page intentionally left blank.





Required Supplementary Information for the Metropolitan Transit Authority of Harris County, Texas



Metropolitan Transit Authority of Harris County, Texas
 Schedule of Funding Progress for the Non-Union and Transport Workers Union Pension Plan
 (Unaudited)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Unit credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio Percentage (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
Non-union pension plan						
Jan. 1, 2007	\$ 92,588	\$ 113,708	\$ 21,120	81.4%	\$ 64,349	32.82%
Jan. 1, 2006	88,141	111,898	23,757	78.8%	58,554	40.57%
Jan. 1, 2005	85,188	108,439	23,251	78.6%	62,869	36.98%
Transport Workers union pension plan						
Jan. 1, 2007	139,914	172,140	32,226	81.3%	81,287	39.64%
Jan. 1, 2006	121,483	164,424	42,941	73.9%	82,900	51.80%
Jan. 1, 2005	\$ 104,180	\$ 146,044	\$ 41,864	71.3%	\$ 87,157	48.03%



Statistical Section (Unaudited) for the Metropolitan Transit Authority of Harris County, Texas

This part of the Authority's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the Authority's overall financial health.

Listed below are the areas covered in the statistical section:

Financial Trends

These schedules contain trend information to help the reader understand how the Authority's financial performance and well-being have changed over time.

Revenue Capacity

This schedule contains information to help the reader assess the Authority's most significant revenue source.

Debt Capacity

This schedule presents information to help the reader assess the current levels of outstanding debt and the ability to issue additional debt in the future.

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the Authority's financial activities take place.

Operating Information

This schedule contains service and infrastructure data to help the reader understand how the information in the Authority's financial report relates to the service the Authority provides and the activities it performs.



Metropolitan Transit Authority of Harris County, Texas
Statement of Net Assets, September 30, 2008, 2007, 2006 and 2005

	2008	2007	2006	2005
Assets				
Current assets				
Cash	\$ 121,392	\$ 231,459	\$ 480,999	\$ 1,141,984
Cash - restricted	8,764,498	9,214,638	5,632,666	2,447,541
Investments	142,262,789	271,234,401	245,227,457	104,516,140
Investments - restricted	5,760	555,775	4,370,072	—
Receivables				
Sales tax	83,275,323	82,267,723	78,514,236	67,495,967
Federal government - Federal Transit Administration	7,508,972	12,837,240	18,970,115	12,653,593
Joint projects- City of Houston	95,528	1,430,539	2,727,697	4,174,036
Interest	169,539	487,925	2,409,928	408,545
Bus passes	3,757,723	549,262	948,510	409,295
Other	4,739,971	1,580,084	2,256,053	1,496,832
Total receivables	99,547,056	99,152,773	105,826,539	86,638,268
Material and supplies inventory	32,086,923	22,901,955	29,758,196	23,278,027
Prepaid pension	1,057,934	657,930	366,667	—
Other current assets	3,054,762	973,238	1,486,436	1,249,029
Prepaid lease payments	21,657,708	21,657,708	21,657,708	21,657,708
Total current assets	308,558,822	426,579,877	414,806,740	240,928,697
Noncurrent assets				
Capital assets, net of depreciation	1,847,947,918	1,634,225,906	1,506,044,662	1,499,727,161
Prepaid pension	28,597,532	18,055,470	10,266,669	—
Other noncurrent assets	2,992,574	3,153,564	3,314,553	3,474,690
Prepaid lease payments	234,675,957	256,333,665	277,991,373	299,649,081
Total noncurrent assets	2,114,213,981	1,911,768,605	1,797,617,257	1,802,850,932
Total assets	2,422,772,803	2,338,348,482	2,212,423,997	2,043,779,629
Liabilities				
Current liabilities				
Trade payables	104,155,476	91,844,230	82,589,611	62,222,230
Accrued wages and payroll taxes	13,427,003	8,643,270	8,500,583	12,486,394
Liabilities for injuries and damages	6,632,936	5,883,512	4,953,276	4,933,521
Commercial paper	143,000,000	143,000,000	89,000,000	—
Other current liabilities	7,823,172	4,136,485	4,683,614	13,454,666
Deferred rental payments	21,657,708	21,657,708	21,657,708	21,657,708
Lease obligation payment	2,406,683	—	—	—
Total current liabilities	299,102,978	275,165,205	211,384,792	114,754,519
Noncurrent liabilities				
Liabilities for injuries and damages	16,865,137	15,248,000	13,055,519	12,120,851
Accrued compensated absences	8,104,487	10,658,142	10,155,403	9,554,239
Deferred rental payments	234,675,957	256,333,665	277,991,373	299,649,081
Lease obligation	61,039,473	—	—	—
Other post employment benefit	31,603,807	—	—	—
Total noncurrent liabilities	352,288,861	282,239,807	301,202,295	321,324,171
Total liabilities	651,391,839	557,405,012	512,587,087	436,078,690
Net Assets				
Invested in capital assets, net of related debt	1,763,904,490	1,613,628,634	1,485,447,390	1,499,727,161
Restricted for capital projects	8,770,258	9,770,413	10,002,738	2,447,541
Unrestricted	(1,293,784)	157,544,423	204,386,782	105,526,237
Total net assets	\$ 1,771,380,964	\$ 1,780,943,470	\$ 1,699,836,910	\$ 1,607,700,939

Source: METRO's Comprehensive Annual Financial Report

Metropolitan Transit Authority of Harris County, Texas
Statement of Revenues, Expenses and Changes in Net Assets
For the Years Ended September 30, 2008, 2007, 2006 and 2005

	2008	2007	2006	2005
Operating revenues:				
Transportation fares	\$ 53,805,283	\$ 53,266,927	\$ 54,186,016	\$ 50,137,041
Operating expenses:				
Scheduled services - fixed route				
Bus and rail operations - direct	148,355,656	131,195,120	126,865,459	125,262,654
Contract service	39,517,766	39,844,157	38,906,779	36,332,284
Materials	5,804,008	4,603,536	4,299,865	4,241,837
Preventative maintenance	47,194,361	41,396,795	41,755,975	39,384,631
Central shop and maintenance support	13,086,172	11,650,263	12,956,132	13,480,763
Safety and training	795,904	728,688	532,939	3,791,481
Subtotal scheduled services - fixed route	254,753,867	229,418,559	225,317,149	222,493,650
Non-scheduled services - special				
METROLift	34,237,245	32,215,665	30,547,646	28,884,037
METROVan	4,079,490	5,184,800	3,578,916	2,563,513
Special events	624,013	3,053,355	3,506,689	3,636,986
Subtotal Non-Scheduled Services - Special	38,940,748	40,453,820	37,633,251	35,084,536
Service support				
Service planning and evaluation	586,792	415,576	348,891	1,177,777
Marketing	5,708,560	4,186,209	3,861,995	4,260,466
Transit security	14,332,699	11,087,339	10,607,564	9,188,740
Insurance and claims	4,476,482	3,336,401	3,141,878	3,021,310
Ticket and fare collection	1,786,021	818,416	971,469	1,227,181
Facility maintenance	20,863,515	15,883,937	13,940,679	11,283,070
Subtotal service support	47,754,069	35,727,878	32,872,476	30,158,544
Traffic management - services	11,514,654	10,585,299	9,549,401	11,011,559
Organizational support				
Business, community and governmental development	910,623	455,465	447,374	528,487
Administrative, financial and personnel	10,656,994	17,021,569	17,122,603	15,665,098
Information systems	2,401,196	2,467,722	2,188,249	2,929,732
Purchasing	1,400,093	891,513	1,223,727	1,747,664
Oversight, audit and legal	3,268,706	2,308,768	2,288,331	2,856,902
Subtotal organizational support	18,637,612	23,145,037	23,270,284	23,727,883
Depreciation and amortization	124,856,131	120,289,857	107,030,889	107,970,694
Total operating expenses	496,457,081	459,620,450	435,673,450	430,446,866
Operating loss	(442,651,798)	(406,353,523)	(381,487,434)	(380,309,825)
Nonoperating revenues (expenses):				
Sales tax	521,179,360	481,721,482	467,645,812	394,015,831
Investment income	7,165,095	14,240,392	7,923,445	1,803,936
Other expenses (income)	793,638	648,162	446,526	(874,336)
Local infrastructure assistance	(179,845,280)	(108,530,541)	(115,616,319)	(134,178,117)
Loss on sale or disposal of assets	(1,169,107)	(1,941,917)	(10,245,545)	(2,392,293)
Total nonoperating revenues (expenses)	348,123,706	386,137,578	350,153,919	258,375,021
Loss before contributions	(94,528,092)	(20,215,945)	(31,333,515)	(121,934,804)
Capital contributions	84,965,586	101,322,505	123,469,486	150,607,114
Changes in net assets	(9,562,506)	81,106,560	92,135,971	28,672,310
Net assets - beginning of the year	1,780,943,470	1,699,836,910	1,607,700,939	1,579,028,629
Net assets - end of the year	\$ 1,771,380,964	\$ 1,780,943,470	\$ 1,699,836,910	\$ 1,607,700,939

Source: METRO's Comprehensive Annual Financial Report

Metropolitan Transit Authority of Harris County, Texas
Revenue Capacity for the Last Two Fiscal Years

	2008	2007
Net sales tax	\$ 521,179,360	\$ 481,721,482
Taxable retail sales	53,181,567,347	49,155,253,265
Ratio of sales tax to taxable retail sales	0.98%	0.98%
Transit fares	53,805,283	53,266,927
Total transit boarding	100,348,037	101,310,353
Ratio of transit fares to total transit boarding	0.536187	0.525780

Please refer to MD&A for additional information

Metropolitan Transit Authority of Harris County, Texas
Debt Capacity for the Last Two Fiscal Years

	2008	2007
Sales tax	\$ 521,179,360	\$ 481,721,482
Pledged to debt payments	0.75	0.75
Net available to pay debt	390,884,520	361,291,112
Outstanding Commercial paper	143,000,000	143,000,000
Coverage ratio	2.73	2.53

Please refer to MD&A for additional information

Metropolitan Transit Authority of Harris County, Texas
Demographic Statistics for the Last Ten Years

Fiscal Year	Population	Per Capita		Unemployment Rate
		Personal Income	Total Retail Sales (000)	
2008	5,090,600	\$ 46,632	\$ 79,056,411	4.3
2007	4,918,200	44,571	74,138,991	4.3
2006	4,729,300	43,174	79,836,590	5.0
2005	4,622,400	40,734	75,241,576	5.6
2004	4,428,400	37,402	66,806,776	6.2
2003	4,376,600	35,054	63,995,848	6.8
2002	4,340,900	34,458	62,764,016	6.1
2001	4,268,100	35,411	61,924,674	4.7
2000	4,177,600	34,047	60,627,939	4.4
1999	4,057,800	\$ 31,168	\$ 56,756,722	4.8

Source: Institute for Regional Forecasting A Division of the Center for Public Policy University of Houston

Metropolitan Transit Authority of Harris County, Texas
Principal Employers Current Year and Nine Years Ago*
(amounts in thousands)

Employer	2007			1998		
	Employees	Rank	Percentage of Total County Employment	Employees	Rank	Percentage of Total County Employment
Administaff Inc.	20,800	1	0.82%	—	—	—
Wal-Mart Stores Inc.	16,500	2	0.65%	—	—	—
Exxon Mobil	14,800	3	0.59%	—	—	—
Memorial Hermann Hospital System	13,700	4	0.54%	13,600	4	0.61%
Shell Oil Co.	12,000	5	0.48%	13,800	3	0.62%
Methodist Hospital System	8,600	6	0.34%	—	—	—
Baker Hughes Inc.	8,000	7	0.32%	—	—	—
Baylor College of Medicine	7,200	8	0.29%	—	—	—
Chevron	7,000	9	0.28%	—	—	—
BP America	6,500	10	0.26%	—	—	—
Halliburton Companies	—	—	—	15,100	1	0.68%
Continental Airlines	—	—	—	14,200	2	0.64%
Compaq Computer	—	—	—	13,500	5	0.61%
Kroger Food Stores	—	—	—	11,800	6	0.53%
Houston Industries (HL&P &Entex)	—	—	—	11,600	7	0.52%
Randalls Food Markets, Inc.	—	—	—	11,000	8	0.50%
Columbia/HCA	—	—	—	10,000	9	0.45%
SBC (former SW Bell Telephone)	—	—	—	8,000	10	0.36%

* Based on calendar year

Source: Houston Business Journal First Survey/Greater Houston Partnership/HBJ

Note: Total County Employment for 2007 was approximately 2,525,000 and for 1998 was 2,218,952.

Metropolitan Transit Authority of Harris County, Texas
Operating Statistics for the Last Five Fiscal Years

Fiscal Year	HOV Ridership Cars, Vans & Non-METRO Buses	*Transit Boarding	*Revenue Vehicle Miles	*Passenger Miles-Transit	Passenger-Miles Carpool/Vanpool Non-METRO buses on Transitways
2008	24,732,107	100,348,037	54,018,635	646,762,573	254,988,018
2007	24,875,224	101,310,353	53,905,535	638,818,780	257,093,716
2006	22,382,441	102,827,629	53,984,414	633,249,121	230,762,976
2005	21,254,941	94,959,198	54,428,597	582,363,102	219,732,408
2004	23,128,816	96,428,515	57,809,095	618,237,026	238,458,131
2003	22,666,399	93,740,511	56,150,814	607,364,245	233,690,569

Fiscal Year	Number of						Directional Route Miles		
	Emp	*Buses	Rail Cars	BOF	TC	P&R	Rail	HOV Lanes	Service Area (sq. mile)
2008	3,528	1,342	18	6	19	28	14.8	106.4	1,285
2007	3,429	1,328	18	6	19	27	14.8	105.3	1,285
2006	3,356	1,330	18	6	19	25	14.8	105.3	1,285
2005	3,360	1,412	18	6	19	26	14.8	103.8	1,285
2004	3,699	1,553	18	6	15	25	0	103.8	1,285
2003	3,784	1,565	0	6	15	25	0	101.5	1,285

Source: Metropolitan Transit Authority Office of Management and Budget

BOF = Bus Operating Facility

TC = Transit Centers

P&R = Park & Ride Lots

* includes METROLift

APPENDIX C
FORMS OF BOND COUNSELS' OPINIONS

[THIS PAGE LEFT BLANK INTENTIONALLY]

ANDREWS KURTH LLP
600 Travis, Suite 4200
Houston, Texas 77002

BATES & COLEMAN, P.C.
1402 Alabama St.
Houston, TX 77004

June 11, 2009

WE HAVE ACTED as Co-Bond Counsel for the METROPOLITAN TRANSIT AUTHORITY OF HARRIS COUNTY, TEXAS (the "Authority") in connection with an issue of bonds (the "Bonds") described as follows:

METROPOLITAN TRANSIT AUTHORITY OF HARRIS COUNTY, TEXAS SALES AND USE TAX BONDS, SERIES 2009A, in the aggregate principal amount of \$94,465,000 maturing on November 1 in each year from 2010 through 2029, inclusive. The Bonds are issuable in fully registered form only, in denominations of \$5,000 or any integral multiple thereof, bear interest, are subject to redemption prior to maturity and may be transferred and exchanged as set out in the Bonds and in the resolution (the "Resolution") adopted by the Board of Directors of the Authority authorizing their issuance.

WE HAVE ACTED as Co-Bond Counsel for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas and with respect to the exclusion of interest on the Bonds from gross income under federal income tax law. In such capacity we have examined the Constitution and laws of the State of Texas; federal income tax law; and a transcript of certain certified proceedings pertaining to the issuance of the Bonds. The transcript contains certified copies of certain proceedings of the Authority; certain certifications and representations and other material facts within the knowledge and control of the Authority, upon which we rely; and certain other customary documents and instruments authorizing and relating to the issuance of the Bonds. We have also examined executed Bond No. T-1 of this issue.

WE HAVE NOT BEEN REQUESTED to examine, and have not investigated or verified, any original proceedings, records, data or other material, but have relied upon the transcript of certified proceedings. We have not assumed any responsibility with respect to the financial condition or capabilities of the Authority or the disclosure thereof in connection with the sale of the Bonds. Our role in connection with the Authority's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

BASED ON SUCH EXAMINATION, it is our opinion as follows:

1. The transcript of certified proceedings evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and laws of the State of Texas presently in effect; the Bonds constitute valid and legally binding obligations of the Authority enforceable in accordance with the terms and conditions thereof, except to the extent that the rights and remedies of the owners of the Bonds may be limited by laws heretofore or hereafter enacted relating to bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the rights of creditors of political subdivisions and the exercise of judicial discretion in appropriate cases; and the Bonds have been authorized and delivered in accordance with law; and

2. The Bonds are payable from all legally available funds of the Authority and are secured, as to both principal and interest, by a lien on and pledge of the Pledged Revenues (as defined in the Resolution), including, but not limited to, seventy-five percent (75%) of the revenues collected and received by the Authority from the levy of its Sales and Use Tax (as defined in the Resolution) plus any investment income earned on any moneys in the Revenue Fund (as defined in the Resolution), the Interest and Sinking Fund (as defined in the Resolution) and the Reserve Fund (as defined in the Resolution) which lien is senior to any other lien on or pledge of such Pledged Revenues, except parity liens and pledges permitted by the Resolution.

IT IS OUR FURTHER OPINION, also based on our examination as described above, and subject to the restrictions hereinafter described, that interest on the Bonds is excludable from gross income of the owners thereof for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and is not subject to the alternative minimum tax on individuals or corporations. The opinion set forth in the first sentence of this paragraph is subject to the condition that the Authority comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The Authority has covenanted in the Resolution to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. The Code and the existing regulations, rulings and court decisions thereunder, upon which

the foregoing opinions of Co-Bond Counsel are based, are subject to change, which could prospectively or retroactively result in the inclusion of the interest on the Bonds in gross income of the owners thereof for federal income tax purposes.

EXCEPT AS DESCRIBED ABOVE, we express no opinion as to any federal, state or local tax consequences resulting from the ownership of, receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations, such as the Bonds, may result in collateral federal income tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who are deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, individuals who may otherwise qualify for the earned income tax credit and taxpayers owning an interest in a FASIT that holds tax-exempt obligations. Such prospective purchasers should consult their tax advisors as to the consequences of investing in the Bonds.

OUR OPINIONS ARE BASED ON EXISTING LAW, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

June 11, 2009

WE HAVE ACTED as Bond Counsel for the METROPOLITAN TRANSIT AUTHORITY OF HARRIS COUNTY, TEXAS (the "Authority") in connection with an issue of contractual obligations (the "Obligations") described as follows:

METROPOLITAN TRANSIT AUTHORITY OF HARRIS COUNTY, TEXAS SALES AND USE TAX CONTRACTUAL OBLIGATIONS, SERIES 2009B, in the aggregate principal amount of \$42,780,000 maturing on November 1 in each year from 2010 through 2029, inclusive, and in the year 2033. The Obligations are issuable in fully registered form only, in denominations of \$5,000 or any integral multiple thereof, bear interest, are subject to redemption prior to maturity and may be transferred and exchanged as set out in the Obligations and in the resolution (the "Resolution") adopted by the Board of Directors of the Authority authorizing their issuance.

WE HAVE ACTED as Bond Counsel for the sole purpose of rendering an opinion with respect to the legality and validity of the Obligations under the Constitution and laws of the State of Texas and with respect to the exclusion of interest on the Obligations from gross income under federal income tax law. In such capacity we have examined the Constitution and laws of the State of Texas; federal income tax law; and a transcript of certain certified proceedings pertaining to the issuance of the Obligations. The transcript contains certified copies of certain proceedings of the Authority; certain certifications and representations and other material facts within the knowledge and control of the Authority, upon which we rely; and certain other customary documents and instruments authorizing and relating to the issuance of the Obligations. We have also examined executed Obligation No. T-1 of this issue.

WE HAVE NOT BEEN REQUESTED to examine, and have not investigated or verified, any original proceedings, records, data or other material, but have relied upon the transcript of certified proceedings. We have not assumed any responsibility with respect to the financial condition or capabilities of the Authority or the disclosure thereof in connection with the sale of the Obligations. Our role in connection with the Authority's Official Statement prepared for use in connection with the sale of the Obligations has been limited as described therein.

BASED ON SUCH EXAMINATION, it is our opinion as follows:

1. The transcript of certified proceedings evidences complete legal authority for the issuance of the Obligations in full compliance with the Constitution and laws of the State of Texas presently in effect; the Obligations constitute valid and legally binding obligations of the Authority enforceable in accordance with the terms and conditions thereof, except to the extent that the rights and remedies of the owners of the Obligations may be limited by laws heretofore or hereafter enacted relating to bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the rights of creditors of political subdivisions and the exercise of judicial discretion in appropriate cases; and the Obligations have been authorized and delivered in accordance with law; and

2. The Obligations are payable from all legally available funds of the Authority and are secured, as to both principal and interest, by a lien on and pledge of the Pledged Revenues (as defined in the Resolution), including, but not limited to, seventy-five percent (75%) of the revenues collected and received by the Authority from the levy of its Sales and Use Tax (as defined in the Resolution) plus any investment income earned on any moneys in the Revenue Fund (as defined in the Resolution), the Interest and Sinking Fund (as defined in the Resolution) and the Reserve Fund (as defined in the Resolution) which lien is senior to any other lien on or pledge of such Pledged Revenues, except parity liens and pledges permitted by the Resolution.

IT IS OUR FURTHER OPINION, also based on our examination as described above, and subject to the restrictions hereinafter described, that interest on the Obligations is excludable from gross income of the owners thereof for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and is not subject to the

alternative minimum tax on individuals or corporations. The opinion set forth in the first sentence of this paragraph is subject to the condition that the Authority comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Obligations in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The Authority has covenanted in the Resolution to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Obligations in gross income for federal income tax purposes to be retroactive to the date of issuance of the Obligations. The Code and the existing regulations, rulings and court decisions thereunder, upon which the foregoing opinions of Bond Counsel are based, are subject to change, which could prospectively or retroactively result in the inclusion of the interest on the Obligations in gross income of the owners thereof for federal income tax purposes.

EXCEPT AS DESCRIBED ABOVE, we express no opinion as to any federal, state or local tax consequences resulting from the ownership of, receipt or accrual of interest on, or the acquisition or disposition of, the Obligations. Prospective purchasers of the Obligations should be aware that the ownership of tax-exempt obligations, such as the Obligations, may result in collateral federal income tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who are deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, individuals who may otherwise qualify for the earned income tax credit and taxpayers owning an interest in a FASIT that holds tax-exempt obligations. Such prospective purchasers should consult their tax advisors as to the consequences of investing in the Obligations.

OUR OPINIONS ARE BASED ON EXISTING LAW, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

ANDREWS KURTH LLP
600 Travis, Suite 4200
Houston, Texas 77002

BATES & COLEMAN, P.C.
1402 Alabama St.
Houston, TX 77004

June 11, 2009

WE HAVE ACTED as Co-Bond Counsel for the METROPOLITAN TRANSIT AUTHORITY OF HARRIS COUNTY, TEXAS (the "Authority") in connection with an issue of bonds (the "Bonds") described as follows:

METROPOLITAN TRANSIT AUTHORITY OF HARRIS COUNTY, TEXAS SALES AND USE TAX BONDS, TAXABLE SERIES 2009C (DIRECT-SUBSIDY BUILD AMERICA BONDS), in the aggregate principal amount of \$82,555,000 maturing on November 1, 2038. The Bonds are issuable in fully registered form only, in denominations of \$1,000 or any integral multiple thereof, bear interest, are subject to redemption prior to maturity and may be transferred and exchanged as set out in the Bonds and in the resolution (the "Resolution") adopted by the Board of Directors of the Authority authorizing their issuance.

WE HAVE ACTED as Co-Bond Counsel for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas and with respect to the exclusion of interest on the Bonds from gross income under federal income tax law. In such capacity we have examined the Constitution and laws of the State of Texas; federal income tax; and a transcript of certain certified proceedings pertaining to the issuance of the Bonds. The transcript contains certified copies of certain proceedings of the Authority; certain certifications and representations and other material facts within the knowledge and control of the Authority, upon which we rely; and certain other customary documents and instruments authorizing and relating to the issuance of the Bonds. We have also examined executed Bond No. T-1 of this issue.

WE HAVE NOT BEEN REQUESTED to examine, and have not investigated or verified, any original proceedings, records, data or other material, but have relied upon the transcript of certified proceedings. We have not assumed any responsibility with respect to the financial condition or capabilities of the Authority or the disclosure thereof in connection with the sale of the Bonds. Our role in connection with the Authority's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

BASED ON SUCH EXAMINATION, it is our opinion as follows:

1. The transcript of certified proceedings evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and laws of the State of Texas presently in effect; the Bonds constitute valid and legally binding obligations of the Authority enforceable in accordance with the terms and conditions thereof, except to the extent that the rights and remedies of the owners of the Bonds may be limited by laws heretofore or hereafter enacted relating to bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the rights of creditors of political subdivisions and the exercise of judicial discretion in appropriate cases; and the Bonds have been authorized and delivered in accordance with law; and

2. The Bonds are payable from all legally available funds of the Authority and are secured, as to both principal and interest, by a lien on and pledge of the Pledged Revenues (as defined in the Resolution), including, but not limited to, seventy-five percent (75%) of the revenues collected and received by the Authority from the levy of its Sales and Use Tax (as defined in the Resolution) plus any investment income earned on any moneys in the Revenue Fund (as defined in the Resolution), the Interest and Sinking Fund (as defined in the Resolution) and the Reserve Fund (as defined in the Resolution) which lien is senior to any other lien on or pledge of such Pledged Revenues, except parity liens and pledges permitted by the Resolution.

We express no opinion as to the treatment of the interest on the Bonds for federal income tax purposes or any other tax matter.

OUR OPINIONS ARE BASED ON EXISTING LAW, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective.

[THIS PAGE LEFT BLANK INTENTIONALLY]

APPENDIX D
SELECTED INFORMATION REGARDING HARRIS COUNTY, TEXAS

[THIS PAGE LEFT BLANK INTENTIONALLY]

SELECTED INFORMATION REGARDING HARRIS COUNTY, TEXAS

Harris County is a southeast Texas county and a major component of the Houston Primary Metropolitan Statistical Area. The economy is based on petrochemicals, tourism, shipping, refining, chemicals, space exploration, manufacturing, and education. The County is ranked as the 6th largest manufacturing county in the country. The County seat is Houston, Texas.

The Authority does not provide service to or collect sales and use taxes in certain portions of eastern Harris County, including the cities of Baytown, La Porte and Pasadena. The chart below presents selected demographic statistics for all of Harris County, including those portions not served by the Authority, for years 1998 to 2007.



**Demographic Statistics
(1998 – 2007)**

Fiscal Year	Harris County Population^(a)	Harris County Per Capita Personal Income^(a)	Per Capita Personal Income (State of Texas)^(b)	Harris County Total Retail Sales^(a)	Harris County Unemployment Rate^(a)	Unemployment Rate (State of Texas)^(c)
2007	4,841,854	\$44,164	37,187	\$76,897,000	4.3%	4.3%
2006	4,718,000	42,984	35,166	69,279,000	4.7%	4.9%
2005	4,764,000	41,009	33,253	63,475,000	5.2%	5.4%
2004	4,415,000	39,252	30,948	62,248,000	6.3%	6.0%
2003	4,377,000	34,578	29,404	59,159,000	6.9%	6.7%
2002	4,341,000	34,401	28,835	58,209,000	6.0%	6.4%
2001	4,268,000	35,489	29,036	57,374,000	4.7%	5.0%
2000	4,178,000	34,041	28,314	56,213,000	4.4%	4.4%
1999	4,058,000	31,168	26,250	52,697,000	4.8%	4.7%
1998	3,965,000	30,066	25,186	53,192,000	4.4%	4.9%

Source: (a) Institute for Regional Forecasting A Division of the Center for Public Policy University of Houston.
 (b) U.S. Department of Commerce, Bureau of Economic Analysis. Released March 26, 2008.
 (c) Texas Workforce Commission.

[THIS PAGE LEFT BLANK INTENTIONALLY]

Metropolitan Transit Authority Of Harris County, Texas Sales Tax Jurisdiction

-  METRO Sales Tax Area
-  Non-METRO Sales Tax Area

The areas shown in blue are subject to the MTA Sales Tax of 1 percent. Darker blue areas collect a City Sales Tax of 1 percent. Light blue areas may be subject to 1 percent City Sales Tax. For more information on the imposition of local Sales and Use Taxes, call the State Comptroller's Office at 1-800-252-6666 (Tax Administration).

Metropolitan Transit Authority Boundary Information is available by contacting METRO at (713) 739-4609 or (713) 739-4895.

This map is available on the METRO Web site at: www.ridemetro.org/pdf/salesmap.pdf



**Financial Advisory Services
Provided By**

 | **First Southwest Company**

 **Siebert
Brandford
Shank & Co, L.L.C.**