• STRATEGIC PLAN
• BUSINESS PLANNING
• FY07 COST DRIVERS
• FY07 INCOME FORECASTS/ OPPORTUNITIES
• RISK ASSESSMENT
• STRATEGIC OBJECTIVES

- Defining METRO’s regional role
- Improving service
- Boosting METRO’s image and perception
- Building a transit ethic
- Enhancing financial performance
- Revising real estate approach
- Focusing METRO’s procurement policies
- Developing management capabilities
• BUSINESS PLANNING
  – Strengths
  – Weaknesses
  – Past Progress
  – Prospective Needs
• INVESTMENT FOCUS AREAS
  – People
  – Service
  – Management
  – Access to Capital
  – Communications
  – Image/Public Perception
• BUSINESS PLAN/BUDGET HIGHLIGHTS
  – Stable Expense Base
  – Controlled Service Expansion
  – Expanded Income
  – Commitment to “Value for Money”
  – Goal/Performance Driven Culture
• IDENTIFICATION/SELECTION OF INITIATIVES
  – Strategic Importance
  – Ridership growth
  – Potential for raising revenue
  – Potential for savings/cost reductions
  – Capital investments to yield operating savings
  – Public relations value – image
  – Higher skilled staff
  – All initiatives will quantify expenses, revenues and other impacts
  – All units must explore multiple sources of funds, including new opportunities
• CORPORATE GOALS
  – Ridership Goal
    ▪ 300,000 daily Bus/Rail Riders
  – Operating Ratio
    ▪ 19% including service expansion
  – Service Complaints
    ▪ 20% reduction over all categories
  – Service Reliability
    ▪ 20% improvement over FY2006
  – Change Orders (COs)
    ▪ 0% increase for vendor directed COs
    ▪ 5% for owner-directed COs
  – Expense Growth = half the rate of Inflation from 2004-2007
  – Small Business Enterprise/Disadvantaged Business Enterprise (SBE/DBE) – Contracting/Hiring to Meet Goals
  – Stable Headcount
• SERVICE GOALS
  – Expansion of Service
    ▪ Reschedule unreliable routes
    ▪ Add service where ridership growth is high
    ▪ Introduce three (3) signature bus services
      ➢ Bellaire (TMC)
      ➢ Palm Center (TMC)
      ➢ To be identified
    ▪ Develop three (3) new park & ride lots
      ➢ Katy Mills Park & Ride
      ➢ Cypress Park & Ride
      ➢ 288 S. Freeway Park & Ride (Pearland – TMC)
METRO
Business Plan & Budgets FY2007

Bellaire Signature Service

FY2007 Revenue Hours: 2,418
FY2007 Budget: $163,042
Start Date: July 2007
METRO
Business Plan & Budgets FY2007

TMC Transit Center to Palm Center Signature Service

FY2007 Revenue Hours: 398
FY2007 Budget: $26,879
Start Date: September 2007
• KEY PROJECTS

– Complete Plan to Expand HOT Lanes Program
– Complete Installation of Park & Ride Security System
– Complete Smart Card/New Fare Structure Roll-Out
– Start-Up Integrated Vehicle Operations Management System (IVOMS) Based Service Management System
– Meet All Scheduled/Budget Goals for METRO Solutions Phase 2: Open 5 field offices & Award Facility Provider Contract
– Complete the Master Plan Design & Real Estate Assembly for the North Intermodal Terminal
• KEY PROJECTS (contd.)
  – Take Delivery of 65 New Buses
  – Accelerate Main Street Rail enhancement/Remediation Project
  – Fixed Route System Review / Project Grid
  – High Visibility Proactive Police Programs
  – New Bus Communications System
  – Single Enterprise Resource Computer System
METRO
Business Plan & Budgets FY2007
FY2007 Expense Budget
($ in millions)

Operating Budget
$288M

Capital Budget
$363M

General Mobility Budget
$113M
## METRO
### Business Plan & Budgets FY2007
#### Major Additions & Deletions

<table>
<thead>
<tr>
<th>Description</th>
<th>$ millions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Major Deletions</td>
<td>(6.695)</td>
</tr>
<tr>
<td>Major Additions</td>
<td>20.822</td>
</tr>
<tr>
<td>Net Additions</td>
<td>14.127</td>
</tr>
</tbody>
</table>

**Major Deletions**
- Bus Operator savings from increased use of part-timers and schedule optimization, plus reduction of extraboard
- Manpower savings from technology investments in yard supervisor and street supervisor functions
- Reduction of CNG non-revenue fleet by 106 vehicles
- Savings in Workers' Compensation associated with more aggressive investigation and increased focus on prevention resulting in fewer reported injuries
- Reduction of 8 net overhead positions

**TOTAL** (6.695)
## Major Additions

<table>
<thead>
<tr>
<th>Major Additions</th>
<th>Discretionary</th>
<th>Fixed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fuel cost inflation (METRO &amp; Contractors)</td>
<td>7.788</td>
<td></td>
</tr>
<tr>
<td>Power cost inflation</td>
<td>2.155</td>
<td></td>
</tr>
<tr>
<td>Increases in contract services</td>
<td>1.581</td>
<td></td>
</tr>
<tr>
<td>Inflation in union wages and benefits labor agreement</td>
<td>4.160</td>
<td></td>
</tr>
<tr>
<td>Additional investment in bus parts reflecting reliability campaigns and in train parts reflecting rail cars coming out of warranty</td>
<td>1.700</td>
<td></td>
</tr>
<tr>
<td>Investment in new service</td>
<td>1.968</td>
<td></td>
</tr>
<tr>
<td>Addition of 20 Police Officers to enhance transit security</td>
<td>1.200</td>
<td></td>
</tr>
<tr>
<td>Net of all other</td>
<td>0.270</td>
<td></td>
</tr>
<tr>
<td><strong>SUBTOTAL</strong></td>
<td><strong>5.138</strong></td>
<td><strong>15.684</strong></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$20.822</strong></td>
<td></td>
</tr>
</tbody>
</table>
METRO
Business Plan & Budgets FY2007
FY2007 Revenues
($ in millions)

- Interest Income $10M
- Fares $56M
- Sales Tax Income $400M
- Grants Income $139M
- Other Income $1M
METRO
Business Plan & Budgets FY2007
FY2007 Capital Budget
($ in millions)

- METRO Solutions $191M
- Capital Improvement Program $172M
- General Mobility $113M
- Capitalized Operating Expenses $54M

Funding Sources
- Commercial Paper 40%
- Grants 26%
- Local 34%
## Risk Drivers

| Fuel          | - Market prices highly volatile  
|               | - Large swings in prices over short time periods  
|               | - Half of year not hedged          |
| Power         | - Current contract expires 1/1/07  
|               | - Replacement contract to be bid   |
| Northwest BOF Contract | - Current contract expires January 2007  
|               | - Will be extended to June 2007    
|               | - Replacement contract to be bid   |
| Workers Compensation/ Vehicle Liability/ Subrogation | - Not controllable by METRO  
<p>|               | - Subject to random events         |</p>
<table>
<thead>
<tr>
<th>Risk Driver</th>
<th>Details</th>
</tr>
</thead>
</table>
| No Salaried Merit           | - FY2007 Budget does not contain funds for salaried merit estimated at $1.5 mil (net)  
|                              | - Savings must be achieved to fund merit program                         |
| METROLift Service           | - Under federal regulations METROLift is a demand response service      |
|                              | - METRO has no control over demand                                       |
|                              | - FTA mandated expansion of schedule availability creates unknown        |
| Special Events              | - Costing and billing under Board Policy has been challenged by partners |
| No Contingency              | - Since FY2000, Operating Budget has contained $7.0 mil contingency to cover variability in estimating projections of market pricing |
|                              | - FY2007 proposed operating budget has no contingency                   |
## Tools for Managing Risks

<table>
<thead>
<tr>
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</tr>
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<tbody>
<tr>
<td><strong>Fuel Hedge</strong></td>
<td>If market pricing for future deliveries reaches point equal to or below budget assumption, METRO can lock in savings against budget by use of future fixed price delivery contracts and/or fixed price financial hedge agreements</td>
</tr>
<tr>
<td><strong>$1.0 Million Allowance for Management Development</strong></td>
<td>When plans developed during FY2007, implementation can be deferred</td>
</tr>
<tr>
<td><strong>$1.968 Mi. New Service</strong></td>
<td>When plans formalized during FY2007, implementation can be deferred</td>
</tr>
<tr>
<td><strong>Control Filling of Position Vacancies</strong></td>
<td>During Normal course of business people leave METRO, vacancies can be held open for some time</td>
</tr>
<tr>
<td><strong>FY07 Earned Merit</strong></td>
<td>Implementation of FY2007 merit program requires that it be earned and that unidentified savings be produced to fund the program</td>
</tr>
</tbody>
</table>