

Fiscal Year 2007
Business Plan & Budgets



METRO



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- **STRATEGIC PLAN**
- **BUSINESS PLANNING**
- **FY07 COST DRIVERS**
- **FY07 INCOME FORECASTS/ OPPORTUNITIES**
- **RISK ASSESSMENT**

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• **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**

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- **BUSINESS PLANNING**
 - **Strengths**
 - **Weaknesses**
 - **Past Progress**
 - **Prospective Needs**

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- **INVESTMENT FOCUS AREAS**

- **People**

- **Service**

- **Management**

- **Access to Capital**

- **Communications**

- **Image/Public Perception**

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• **BUSINESS PLAN/BUDGET HIGHLIGHTS**

- Stable Expense Base**
- Controlled Service Expansion**
- Expanded Income**
- Commitment to “Value for Money”**
- Goal/Performance Driven Culture**

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- **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**

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• 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**

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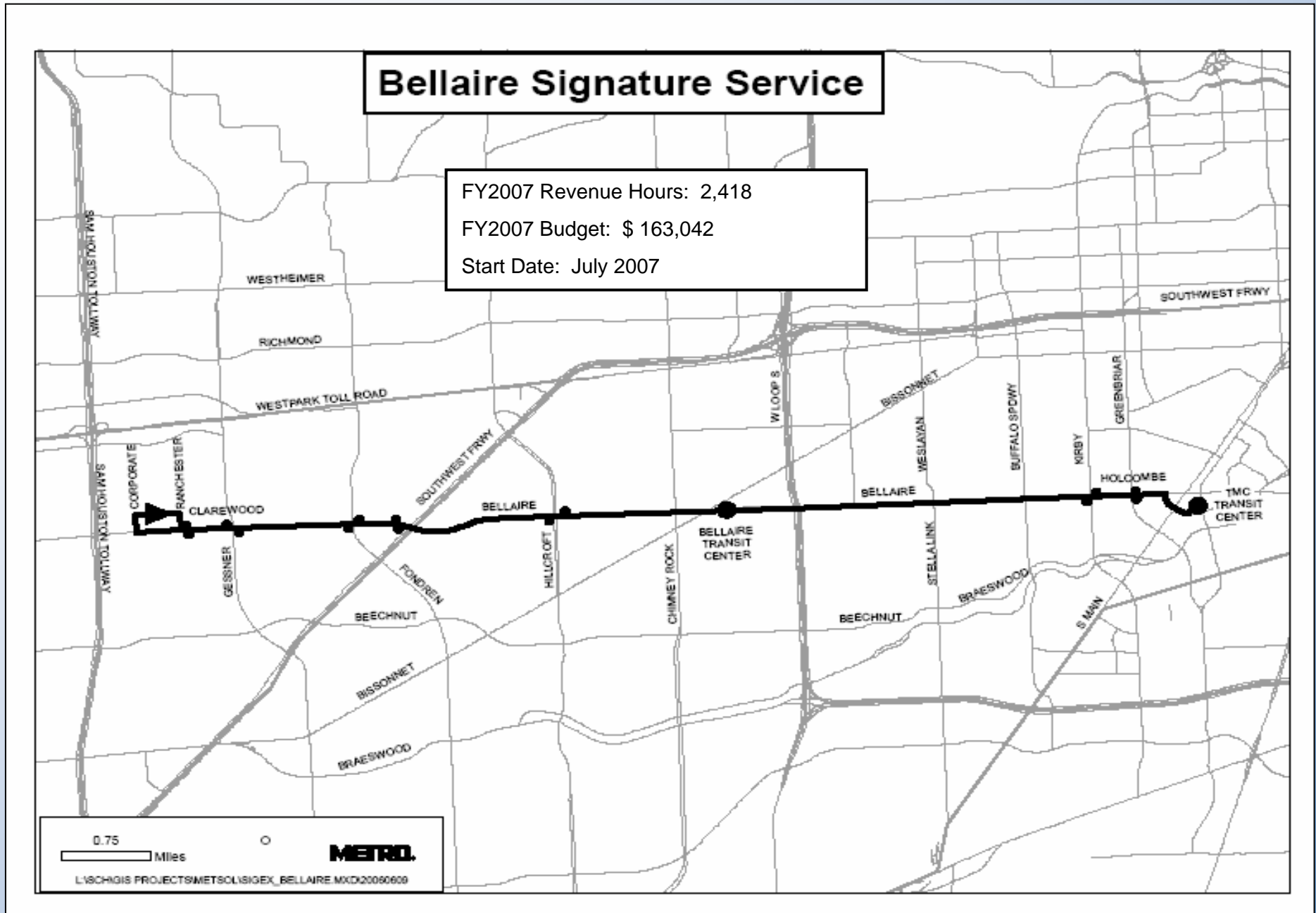
- **SERVICE GOALS**

- **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)**

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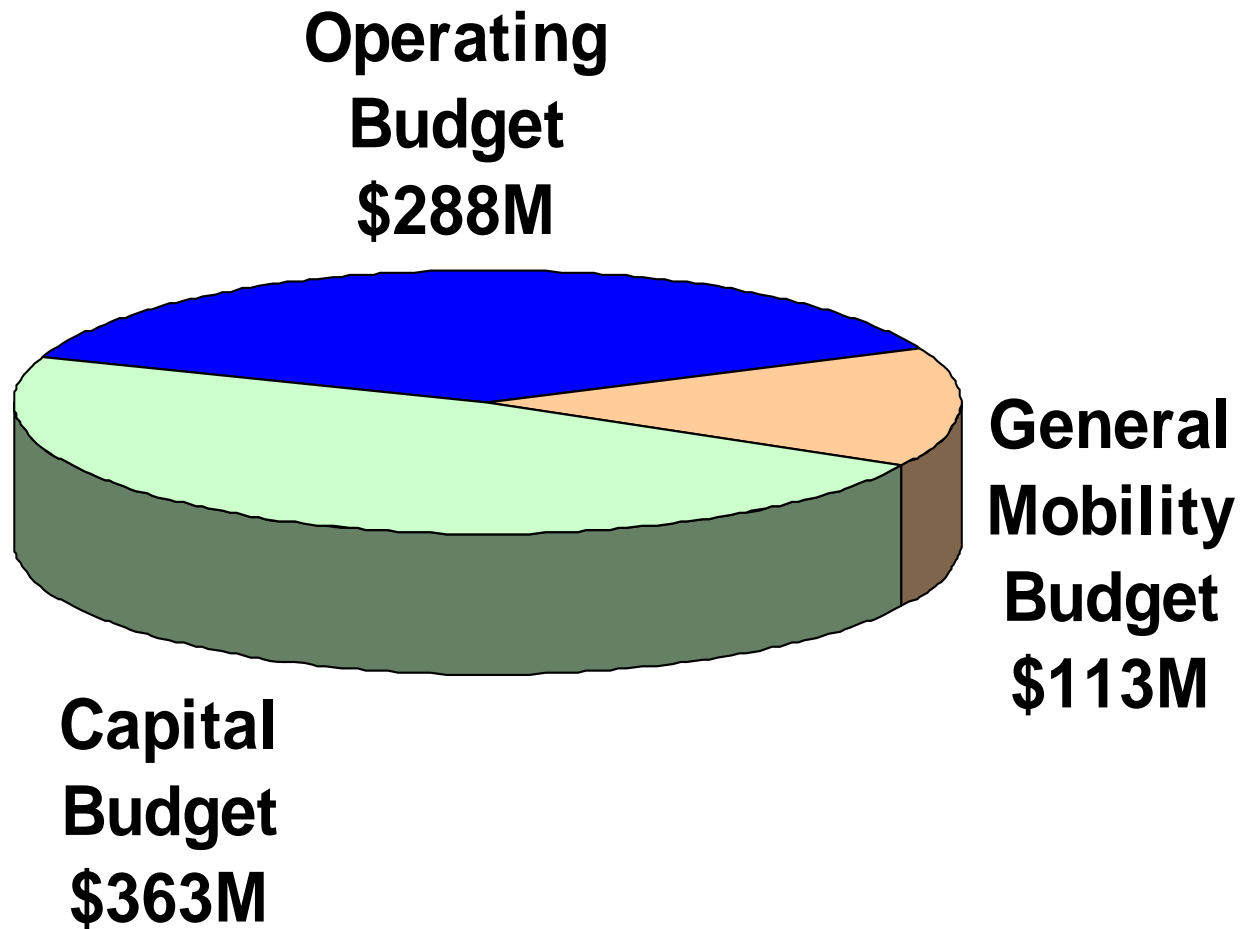
• KEY PROJECTS

- 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**

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- **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**

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FY2007 Expense Budget
(\$ in millions)



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Major Additions & Deletions

	<u>\$ millions</u>
Major Deletions	(6.695)
Major Additions	20.822
	<hr/>
Net Additions	14.127

Major Deletions

	<u>\$ millions</u>
• Bus Operator savings from increased use of part-timers and schedule optimization, plus reduction of extraboard	(4.300)
• Manpower savings from technology investments in yard supervisor and street supervisor functions	(0.993)
• Reduction of CNG non-revenue fleet by 106 vehicles	(0.360)
• Savings in Workers' Compensation associated with more aggressive investigation and increased focus on prevention resulting in fewer reported injuries	(0.522)
• Reduction of 8 net overhead positions	(0.520)
 TOTAL	 (6.695)

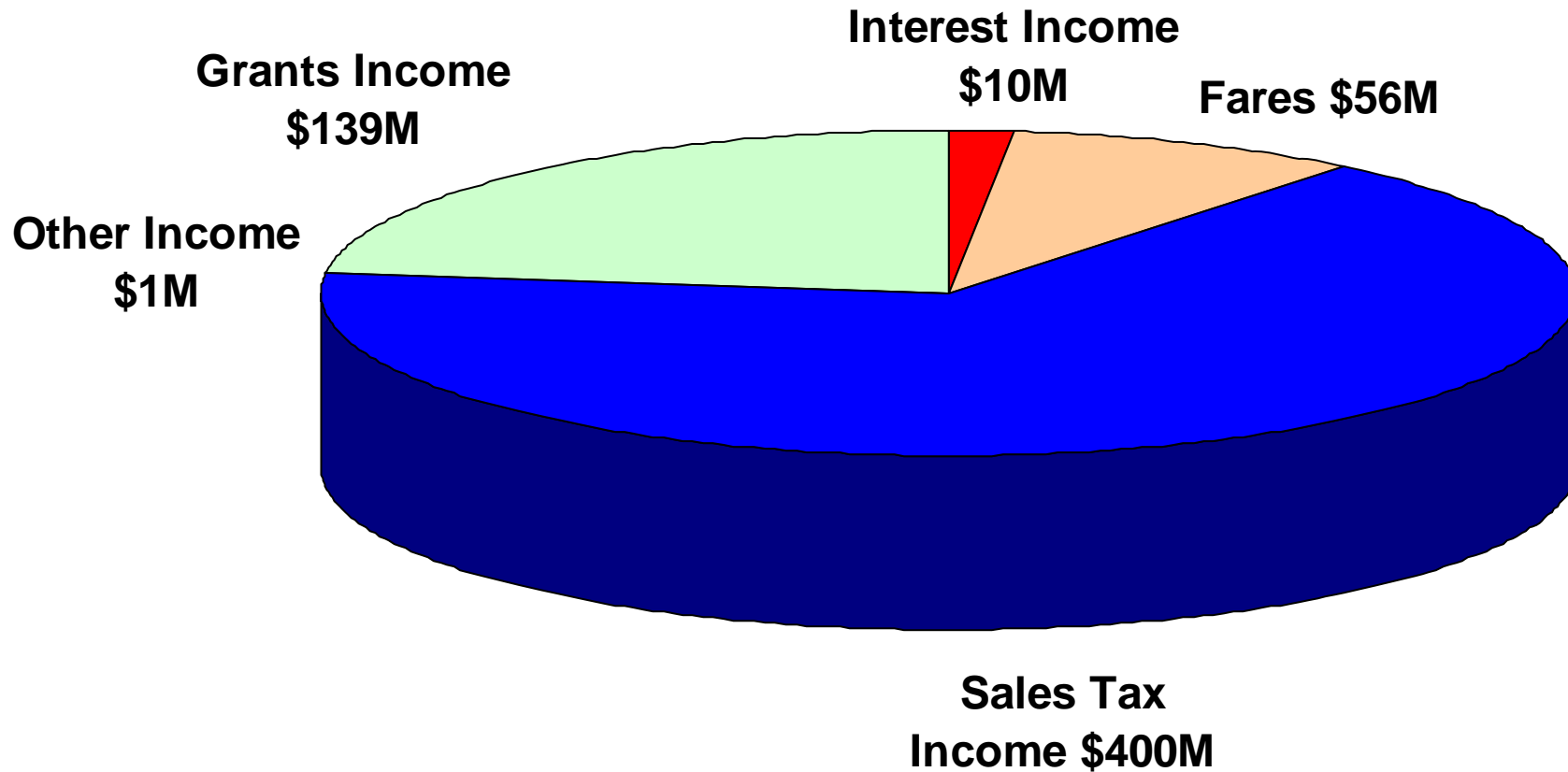
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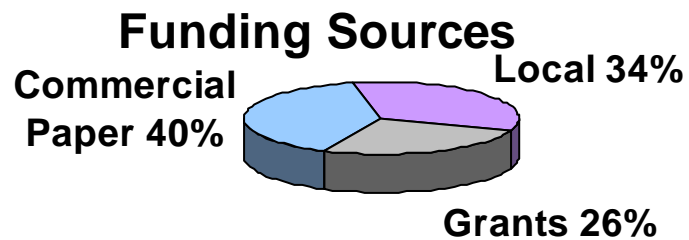
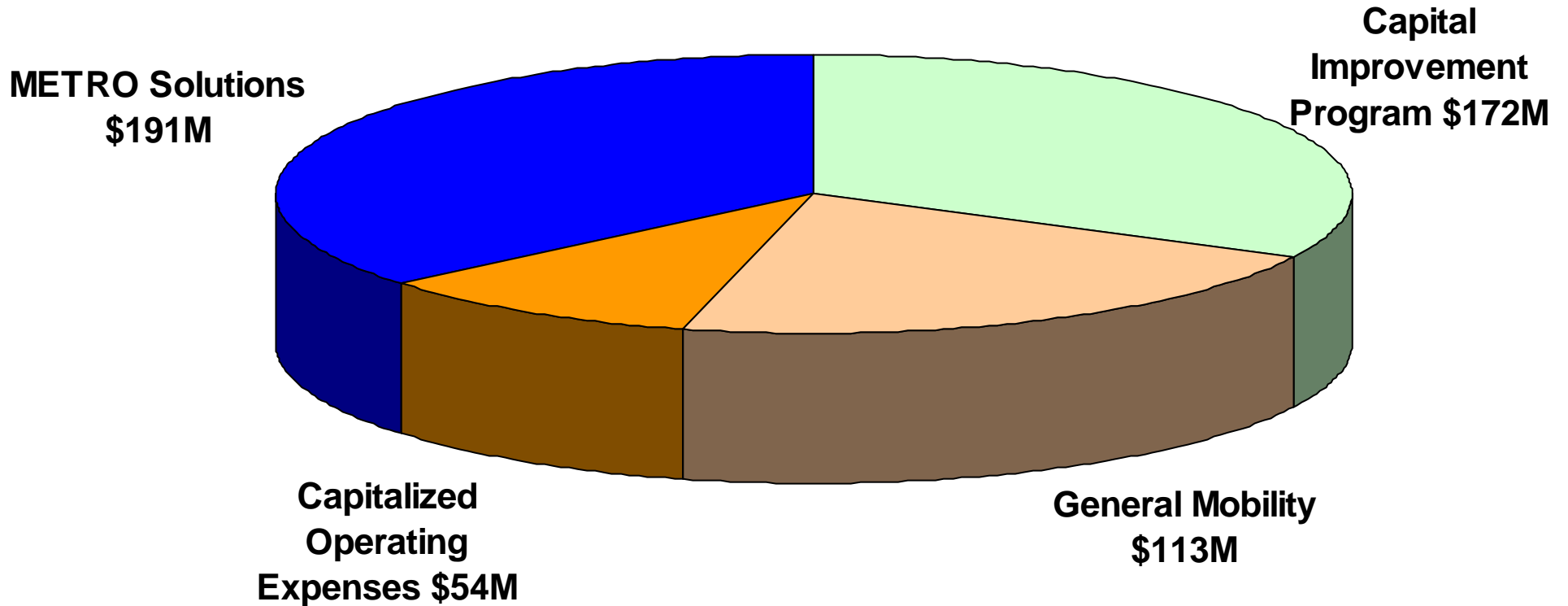
Major Additions & Deletions

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

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FY2007 Revenues
(\$ in millions)



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FY2007 Capital Budget
(\$ in millions)



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Risk Drivers

Fuel	<ul style="list-style-type: none">- Market prices highly volatile- Large swings in prices over short time periods- Half of year not hedged
Power	<ul style="list-style-type: none">- Current contract expires 1/1/07- Replacement contract to be bid
Northwest BOF Contract	<ul style="list-style-type: none">- Current contract expires January 2007- Will be extended to June 2007- Replacement contract to be bid
Workers Compensation/ Vehicle Liability/ Subrogation	<ul style="list-style-type: none">- Not controllable by METRO- Subject to random events

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Risk Drivers (cont'd)

No Salaried Merit	<ul style="list-style-type: none">- 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	<ul style="list-style-type: none">- 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	<ul style="list-style-type: none">- Costing and billing under Board Policy has been challenged by partners
No Contingency	<ul style="list-style-type: none">- 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

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Tools for Managing Risks

Fuel Hedge	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
\$1.0 Million Allowance for Management Development	When plans developed during FY2007, implementation can be deferred
\$1.968 Mi. New Service	When plans formalized during FY2007, implementation can be deferred
Control Filling of Position Vacancies	During Normal course of business people leave METRO, vacancies can be held open for some time
FY07 Earned Merit	Implementation of FY2007 merit program requires that it be earned and that unidentified savings be produced to fund the program