FY2007
Quarterly Financial & Management Report
Fiscal Year Ending September 30, 2007

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12-Dec-07
Highlights

New Park & Ride Facility Opened
In early September, METRO opened a brand new facility – Cypress Park & Ride - to serve the US 290 Northwest Corridor. This Park & Ride replaces a temporary facility that was put into place earlier in the year at a former Hewlett Packard location at Highway 290 and Skinner Road to start the 217 HP/Cypress Park & Ride service. Even from the temporary location, the service was so successful that METRO added extra bus trips prior to the normal May 2007 service change to accommodate unanticipated passenger loads. The new facility is the first Park & Ride built as an enclosed garage.

Since opening the permanent location, demand has been so great that METRO added additional service during the first month of operation. This brand new facility is a four-level parking garage with 1,500 parking spaces, an exclusive bus service road, a bus platform and loading area and is part of a bigger public-private joint development project. In the second phase of development, METRO's joint development partner will build a commercial/retail center and a 300-unit apartment complex. Phase 2 of the project is expected to be completed in late 2008.

The Cypress Park & Ride garage has a new feature in that parking is provided free for METRO patrons with a valid Q Card and for a fee for others who wish to use the parking garage. Attendants are stationed at the Park & Ride and all patrons wishing to park with the intent of using METRO services may provide a valid Q Card for scanning. A valid Q Card entitles the customer to free parking.

Park & Ride Service Extended to Baytown
METRO inaugurated a new service to benefit Baytown commuters by extending the 236 Maxey Road Park & Ride route to the San Jacinto Mall parking lot. The preparatory work done in the 4th quarter enabled the start of this service on October 1, 2007, operating at 25 minute intervals from 6:00 am to 7:20 am and 4:00 pm to 5:40 pm. Buses will make a stop at the Maxey Road Park & Ride lot between San Jacinto Mall and Downtown. With this addition, METRO is expanding its service beyond its taxing area, but the cost is covered by funds from the Federal Transit Administration as well as fares paid by commuters. Under the agreement reached with Harris County, the County provides the parking facility while METRO provides bus service. This agreement is the first of several in METRO's effort to provide regional transportation service for the greater Houston region. It serves as a model for how METRO can successfully create a seamless transportation system for the region, even when it extends outside the METRO service area.

New Employee Health Plan Focuses on Wellness
METRO broadened its coverage of the salaried employee medical and dental plans while maintaining employee medical plan contribution rates at the FY2007 levels and a small increase in employee dental plan contribution rates. This is a major accomplishment in a climate of rising healthcare costs. By full participation in the prescribed wellness incentives, employees can get a 5% discount on their premium payments. The Wellness Plan is expected to lower METRO’s health care costs in the long run.
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The Preferred Provider Organization (PPO) plan, now run as a self-insured program, beginning in October 2007 (FY2008) and has some new features such as coverage for acupuncture, nutrition counseling, compounded drugs, full body scans, and no co-pays for generic and brand name drugs used to treat common diseases such as hypertension and diabetes. The dental plan also has some enhanced features such as an increased annual benefit limit from $1,200 to $1,500, and the elimination of deductibles for diagnostic and preventive services.

Bus Marshall Program will Enhance Safety
Beginning in September 2007, METRO introduced a new policing initiative, the Bus Marshall Program, that assigns plainclothes officers to ride buses, trains and to monitor criminal activity at METRO transit locations. This deployment of additional resources is geared to enhance passenger safety by nabbing persons committing crimes on the METRO system that elude uniformed police personnel – crimes like operator assaults, robberies, thefts, purse snatchings and narcotics violations. The program is expected to not only deter transit crime but also to deter criminals and effectively communicate to the public that plainclothes officers are aboard buses and trains to make the transit system safe and secure.

During the month of September 2007, Bus Marshals were responsible for 57 misdemeanor arrests, 11 felony arrests and 277 finable citations. Overall crime in the 4th quarter decreased from the 3rd quarter, attributable in large part to the Bus Marshals and the existing Bus and Rail Coordination (BARC) programs.

In addition, The System Safety Division conducted six Safety meetings during the 4th quarter and awarded safety awards to Bus and Train Operators and Mechanics for safe driving and work habits. The awards were given for 30, 25, 20, and 15 years of safe service with the Agency. There were 79 awards given to Bus Operators, 6 to Train Operators, and 93 to Maintenance Employees.

Bike Racks Installed on All Local Buses
In tune with the ever growing global focus on a cleaner and safer environment, METRO is pitching in its share in several areas. As part of this effort, METRO’s Bikes-on-Buses Program has been completed, beating a December 2007 goal to install bike racks on all of its local route buses. The project was completed on September 27, 2007 with racks installed on 762 buses. Park & Ride commuters can store their bicycles in the designated luggage bays of the buses and bikes are allowed on METRORail during non-peak hours. Usage of the bike racks has steadily increased from 122 in September to 471 in October and 717 in November.

METRO planned to spend about $1.3 million on the program, with $1.2 million coming from Congestion Mitigation and Air Quality (CMAQ) funding and the balance coming from local funds. In the procurement phase of the project, METRO staff was able to obtain substantially lower pricing, bringing the total cost down 54% to approximately $600,000, a savings of $700,000.
Highlights

**New Buses Augment Fleet**
Twenty-five suburban 45-foot Park & Ride MCI diesel buses were received from the manufacturer and put into service in December of Fiscal Year 2007. The buses were used to accommodate new Park & Ride service and to allow the retirement of older buses. The new buses improve reliability and reduce operating costs.

Also in March through June of FY2007, METRO took delivery of 40 new 40-foot transit low-floor hybrid-electric (HEV) buses. The 40 buses join four HEV buses already placed in service under a pilot program to test the HEV technology in operation. The buses have a diesel fuel engine combined with an electric motor powered by batteries. This combination results in buses which are more fuel efficient and have significantly lower exhaust emissions (nitrogen oxide and carbon dioxide) than buses with standard propulsion systems. Buses with an HEV drive are also more reliable to operate than buses with standard propulsion systems. In addition to the benefits to the environment, the buses, which replace older buses already retired, have been redesigned with a sleek, modern look both inside and out. The redesigned exterior is similar to European-style buses. The interior features stainless steel seats and new flooring material. The HEV buses are also quieter and will run more smoothly than buses with standard propulsion systems. Of the 40 buses, 10 are being outfitted for METRO’s Signature Bus Service.

In addition, the METRO Board of Directors has approved the purchase of 100 more hybrid-electric buses. These buses – 52 MCI suburban and 48 Orion transit buses – will advance METRO’s commitment to reduce emissions and fuel costs. Within the next decade, METRO plans to convert its entire fleet of 1,200 buses to hybrid-diesels. These new buses are part of an overall replacement program that allows METRO to retire older buses, reducing the average age of the fleet and providing a nicer and more reliable ride for our customers. The local buses will begin arriving in spring 2008 and the Park & Ride buses in summer 2008.

**New Revenue Division Formed**
Towards the end of the fiscal year, METRO restructured its revenue functions by consolidating them into a new Revenue Division within the Finance Department. With the added emphasis on development and control of revenue generation, the new Division will promote accountability for all revenue related functions within METRO and create a more effective chain of command. This initiative will also result in improved customer service for passengers utilizing METRO’s new fare collection equipment systems, and produce cost efficiencies for us. An important function of the Division is to manage the new Q Card fare collection system after its implementation. Future revenue streams for the organization such as parking fees and advertising will also be reviewed in order to maximize revenue.
Highlights

Access to Information for Customers Enhanced
METRO completed the installation of InfoPanels on nine bus routes, bringing the total number of routes with the panels to ten and building on the success of InfoPanels already installed along the 85 Antoine route. Market research and ridership analyses indicate both qualitative (customer satisfaction) and quantitative (increased ridership) success. Routes where InfoPanels had been installed saw an estimated increase of over 100,000 boardings. InfoPanels will be installed on ten more bus routes (250 shelters) during FY2008. Posted on the sides of bus shelters, InfoPanels contain maps of the bus route and connecting routes, as well as scheduled times for the nearest time point.

Also, earlier in the year, METRO affixed decals on the back of all buses to prominently display METRO’s customer service number (713-635-4000) and website address (www.ridemetro.org). These decals provide contact information on obtaining bus and schedule information. In addition, METRO customers now have the ability to download METRO bus schedules from METRO’s website to their iPods.

Service Enhancements Take Effect
Throughout FY2007, METRO has modified service with the customer in mind by adjusting trips to eliminate overcrowding, adding time to schedules to make service more reliable and implementing new routes to serve new markets.

In May, METRO implemented a number of route and schedule modifications to provide more efficient service for our customers. The 8 South Main/Yale, previously an extremely long route, was split into two shorter routes – 8 South Main and 66 Yale – a section of which was also integrated with the much more frequent METRORail service. Running time was added to the 33 Post Oak, 65 Bissonnet and 163 Fondren Express to improve route performance, and an additional early morning trip was added to the 88 Hobby. The 2 Bellaire was extended to Highway 6 on weekends to be consistent with the weekday service and peak hour trips were added to the heavily traveled 82 Westheimer. Two north and southbound trips were added to the 1 Hospital between the VA Hospital and downtown. Two additional trips – one inbound and one outbound were added to the 217 Cypress Park & Ride, and adjustments were made to the morning trip times.

More recent improvements to benefit customers include new service added beginning Sunday August 26, 2007 in METRO’s annual start-of-school service change. Nearly 10,000 annualized hours of new bus service were added to the schedule to augment service frequency, increase destinations served, improve service reliability and accommodate increasing passenger loads. Included in the additional hours of service is a new route (Route 38 Manchester Docks), which serves Southeast Houston, connecting Manchester Docks to the Magnolia Transit Center.
Highlights

Transit Blog Opens Dialogue with the Public
METRO put in place a new communication tool, a “Transit Blog”, to give a snapshot of what’s going on at the Authority and in the transportation industry. From inception in January, there were well over 100,000 views and over 2,000 comments posted on the blog. The goal was to open a dialogue with the public, put a human voice to the agency and be more accessible and transparent to riders. From the comments that have been received, it is evident that METRO has started lively discussions from both critics and supporters. Blog topics have ranged from the serious to the humorous, including the Q Card, new Cypress Park & Ride lot, HOV lanes, hybrid buses, cell phone use on buses, and rubber sidewalks. Three of the most popular postings measured by views and/or comments were:

- Bus Etiquette: After You, Ma'am
- METRO Officials Do Ride the Train
- Cypress P&R Garage to Open Next Week

New Emergency Preparedness Website
METRO has established a new website (www.metroresponds.org) for area-wide emergency information. By visiting the website (also available at www.ridemetro.org) METRO’s employees, customers and the general public can obtain useful disaster specific information. Information provided include guidelines for disaster preparation and planning, evacuation procedures and routes, emergency numbers, METRO services and a host of related helpful links.

METRORail Ridership Climbs to New Heights
On Thursday, March 15, 2007, METRORail set a new single-day ridership record of 64,448 passenger boardings. The ridership on this date surpassed the previous single-day record of 61,005 boardings on Sunday, February 1, 2004 when Houston hosted Super Bowl XXXVIII.

METRORail also set a weekly ridership record with 322,571 boardings between Monday, March 5 and Sunday, March 11, 2007.

A third record was set when Rail ridership for the Month of March, 2007 achieved the highest monthly ridership in METRORail history. The 1,267,375 passenger boardings in this month were 12.4% higher than March 2006, the previous record-breaking month.

In addition, another record was set during the 2007 Houston Livestock Show & Rodeo. Rodeo-related Rail ridership from February 22 – March 18, 2007 recorded 334,124 passenger boardings, a 30.8% increase from the previous record for the Rodeo last year. In fact, the large number of passengers attending the Houston Livestock Show and Rodeo contributed to the achievement of daily, weekly and monthly ridership records as well.

For the year, METRORail ridership of 11.7 million passenger boardings is 8.3% above target.
Highlights

**Surplus Real Estate Nets $4.8 million**
Approximately 47 acres of surplus land on South Main near Hiram Clarke was sold, realizing $4.8 million to be used for other projects. The property was declared surplus in 1988, but remained in inventory until real estate market conditions improved. In 2006, when it was determined that this parcel of land would not be useful toward any future transit purpose, the property was put up for public sale.

**Bus and Rail Rodeo – Best of the Best Compete**
On Saturday, March 24, 2007 approximately 1,500 METRO employees, their family and friends gathered to watch the best of the best compete in METRO’s annual Bus and Rail Rodeo competition. Bus operators, METROlink operators and cleaners navigated an obstacle course, mechanics diagnosed and repaired intentionally defective buses, and rail operators and mechanics competed in various events. To make the day more of a family occasion, the event had a variety of activities including a rock wall, mechanical bull, a giant slide, a basketball competition and bingo. Teams competed in Barbeque Brisket and Chili Cook-offs and a miniature train ran throughout the grounds. In addition to the adult competitions, Small Fry and Electric Cart competitions were available to children from 6 to 16 years of age.

Bus operator Darrel Willis and the bus maintenance team of David Tat, Van Ho and Khanh Nguyen won their competitions and along with runner up Frank Gonzales represented METRO in May at the International Bus Roadeo in Nashville, Tennessee. Willis placed 6th, and Gonzales placed 7th in that competition. Light Rail train operators Ron Williams and Rodolfo Mercado and a rail maintenance team made up of Carlos Santa Cruz, Kim Do and Michael Collins were the winners that went in June to the APTA International Rail Rodeo held in Toronto where the operator team placed 5th and the maintenance team placed 8th.

**Finalists Selected for METRO Solutions Public Art Program**
Building on the success of the art installations on the Main Street Light Rail Line, METRO has developed a Public Art Program for METRO Solutions Phase 2. The goal of this program is to foster community participation, preserve the character of the different neighborhoods of the METRO Solutions corridors, and encourage local artists to participate in the art installations of the stations. The “Open Call to Artists” was issued in late October 2006 soliciting artists to collaborate during the design and construction of METRO Solutions Phase 2. Out of 262 artists that submitted their works by the November 30 deadline (108 were local artists), 40 were selected as finalists. The finalists were selected based on artistic merit, professional qualifications, successful completion of public art projects, experience as part of a design team and availability and willingness to meet and work collaboratively with members of a design-build team. These finalists have been invited to submit formal proposals. Sixteen artists and artist teams, of which thirteen are local to Houston, were selected over a period from February through October 2007. An additional 9-14 will be selected, bringing the total to 25-30.
Highlights

METROLift Unveils an Automated Call System
In January 2007, the METROLift Automated Call System (MACS) became fully functional. This interactive voice response system enables METROLift patrons to access the METROLift scheduling computer by telephone, without the need to speak to an operator. The new system allows patrons to better manage their trips and benefits METRO by automating functions that previously required staff hours. MACS allows patrons to confirm or cancel trips, schedule trips based on recent trip history, and obtain the estimated arrival time of the METROLift vehicle. Another feature of MACS allows drivers to automatically place a call and have MACS alert the patron that their vehicle is approaching their location. This is expected to increase productivity and service efficiency by reducing the driver waiting time.

Enforcement Initiative on Rail Corridor
Beginning in November 2007, METRO Police conducted an enforcement initiative along the entire Main Street Rail Corridor. The effort was in response to theft, panhandling, and vagrant activity, as well as to look for any seasonal crimes through the holidays. Over 200 enforcement activities were accomplished over this period. Arrests were made for narcotic offenses, thefts, public lewdness, alcohol violations and numerous other City of Houston ordinance violations. Twelve felony warrants and 69 misdemeanor warrants were also cleared as a result of this initiative. The regular fare checks conducted by police officers both on platforms and rail cars continued throughout the year.

New Electric Power Contract in Place
With the completion of deregulation in the electric power market, METRO opted to retain an energy consultant to take advantage of favorable markets. The consultant, procured through the State Procurement System, already had an exclusive contract with the State of Texas for comprehensive energy management services, including energy procurement, for all state agencies. This consultant was able to help METRO shop the market and quickly secure the most advantageous pricing. METRO was able to enter into a new three year contract that saved over $850,000 in FY2007 compared to the rate assumed in the budget.

Diesel Fuel Hedge Saves Money
METRO’s fuel hedging program is proving to be an excellent tool for fuel price risk management. At the start of the fiscal year, fixed price future delivery contracts based on New York Mercantile Exchange (NYMEX) quotes were executed for October – June deliveries and stored fuel bought earlier when prices were low was utilized for July – September. This action generated a $6.4 million savings from budget. In addition, in January two financial hedges for diesel fuel were executed to cover all twelve months of FY2008. A total of 13.5 million gallons, or 96% of the required diesel for FY2008, has been hedged. In the past two months alone (October and November) the financial hedge has saved METRO $1.45 million compared to the market prices.
Important Step in the HOT Lane Project
An important step was taken in February in advancing the conversion of the High Occupancy Vehicle (HOV) Lanes to High Occupancy Toll (HOT) Lanes by approving Carter and Burgess, an engineering company, to provide strategic planning and development expertise, assistance in interagency coordination, and construction and operations acceptance oversight. A Request for Qualifications to determine qualified bidders for a Toll System Provider was circulated in January and three responders were qualified to respond to a Request for Proposals that was issued in November 2007. Presently, the first HOT lane is planned to be operational in the US290 corridor. The remaining four are planned to become operational incrementally over a seven month period thereafter.

The concept of HOT Lanes is based on efficiency. METRO wants to move more people and vehicles in the managed lanes in order to maximize their use. Although some HOV Lanes are currently congested at the peak of rush hour, the lanes are underutilized the rest of the day. A HOT Lane is a designated lane for high occupancy vehicles as well as for toll-paying vehicles that do not meet the required high occupancy requirements. At peak hours, the toll would be based on the level of congestion. At the height of the peak hour, this "dynamic toll" would gradually discourage paying vehicles from entering the lane and encourage commuters to travel by bus or higher occupancy vehicles, ensuring the HOT lane keeps flowing even when main lanes are congested.

In-Pavement Lights Improve Traffic Safety
METRO completed construction of in-pavement lights at 13 intersections along the Main Street METRORail Red Line Corridor in FY2007. Construction was phase over the year with the last intersection construction completion in September 2007. The Texas Transportation Institute (TTI) prepared two semi-annual reports to document effectiveness of the installations. Quantitative benefits identified included the perceived positive effect on drivers who are unfamiliar with the area, a slight reduction in red-light running and over 50% reduction on right turn on reds. This has been recognized as a positive trend towards accident reduction and increased safety along the Main Street Corridor. In another pilot program geared toward the enhanced visibility of traffic signals, LED outlined backplates have been installed at the intersection of Main Street and Gray Street on the Gray Street approach to the intersection. TTI's preliminary assessment of the LED backplates at this intersection shows a significant reduction in red light running violations of more than 60%. Assessment of additional intersections will be conducted in FY2008.
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New Federal Grant will Boost Security Training
Over 2,000 of METRO’s front-line employees and mid-level managers will receive training in
preventing terrorist attacks and responding to major disasters thanks to a $1.5 million grant
from the Transportation Security Administration. This training will cover security awareness,
behavior recognition, immediate emergency response and local emergency procedures. For
the past several years METRO has worked closely with representatives in Washington and the
Transit Security Administration to get the funding needed to protect Houston’s transit system
from home-grown and foreign threats. METRO has been a key partner in developing our
nation’s transit security posture and was instrumental in the development of this national
training program. Training will begin in February 2008 and be completed within 6 months.

Emergency Preparedness Drill
More than 200 METRO personnel and emergency responders from the City of Houston, Harris
County and the Federal Bureau of Investigation (FBI) participated in an emergency response
exercise on September 27, 2007. The four hour exercise simulated a multi-agency joint
response to a terrorist explosion of a bomb on board a METRO bus at the Downtown Transit
Center and the resulting partial evacuation of METRO’s adjacent Administration Building.
METRO’s Special Operations Response Team and K-9 unit searched for explosives while
METRO’s Emergency Operations Committee Management Team coordinated with FBI,
City/County emergency management, and hospital personnel. METRO’s Customer Service
and Communications departments responded to simulated inquiries from passengers, news
media, and METRO employee family members. Under the federal Homeland Security
Exercise Evaluation Program, the “lessons learned” from the exercise will now be incorporated

Partnerships Promote Service
METRO joined several local entities during the year to sponsor events around Houston. In the
summer and fall of FY2007, METRORail service was highlighted as an easy and convenient
way to get to events. Customers were able to use METRORail to reach Miller Outdoor Theater
for festivities surrounding El Festival de Independencia (El Grito, a festival in September
celebrating Mexico’s independence), summer performances of theater and the symphony in
June – August and to reach Reliant Park for the World Series Dog Show held at the end of
July. In perhaps the most visible exhibition of the year at the Museum of Natural Science
beginning August 31, METRO is highlighting service to see Lucy, the original fossilized
remains of a 3.2 million-year-old adult human ancestor. To celebrate her arrival, METRO
posted her image on a light-rail car.

First Place for METRO Commercial
At an annual conference held in New Orleans on September 23-25, 2007, the South West
Transit Association (SWTA) awarded METRO first place honors for a cinema trailer promoting
Park & Ride service. Formed in 1979 to represent transit agencies and others interested in
public transit issues, SWTA is a regional transit association representing Arizona, Arkansas,
Kansas, Louisiana, New Mexico, Oklahoma and Texas.
Highlights

METRO won in the “Hit the Spot – New Media” category, which honors outstanding work for single and/or new transit marketing projects. The winning entry was a 45-second spot developed specifically for cinematic release. The high-definition, mini-drama follows an unsuspecting commuter who encounters an earthquake, catches a garden gnome that falls from the sky and then finds an 18-ton surprise (a METRO bus) in his yard. This off-the-wall commercial is METRO’s latest effort to promote the convenience and accessibility of its Park & Ride routes.

Entries were judged by a panel of industry peers for their impact or success relative to cost, overall presentation, appeal, execution, message, quality and effectiveness. SWTA described METRO’s spot as “a beautiful, sexy piece that really captures your attention right at the beginning. It’s a piece that is so different from what you’d imagine a transit ad would look like.”

Annual Financial Report Wins Award
For the 15th consecutive year, METRO received the esteemed Certificate of Achievement for Excellence in Financial Reporting for the year ended September 30, 2005. This award, presented by the Government Finance Officers Association, is awarded to those institutions that present their Comprehensive Annual Financial Report in a clear and concise manner. METRO’s presentation of this report continues to display unparalleled professionalism and commitment to excellence in the area of financial reporting, while meeting the established guidelines of Generally Accepted Accounting Principles and applicable legal requirements. The certificate is the highest form of recognition in governmental accounting and financial reporting.

Emergency Preparedness Workshop Attracts Regional Attendance
METRO hosted a two-day public transportation emergency preparedness workshop on March 26-27, 2007, at the Fallbrook facility. The program, which was free to all attendees, was sponsored by the National Transit Institute, in collaboration with the Federal Transportation Authority and the Office of Grants and Training of the US Department of Homeland Security. The ultimate goal of the workshop was to improve coordination and response among all agencies and resources during an incident. Participants worked in small groups to tackle the challenges posed by fictional, yet very real, emergency scenarios that were presented during the session by workshop facilitators.

More than 40 people participated, representing not only a cross-section of METRO, but also such regional organizations as TranStar, FBI, the Galveston Fire Marshal’s Office, Greyhound Lines, Houston Galveston Area Council, Burlington Northern Santa Fe Railroad Police, US Department of Transportation, Harris County Office of Homeland Security and Emergency Management, Houston Fire Department, and the Fort Bend County Public Transportation Authority.
Passenger Safety High on METRO Agenda
In FY2007, METRO took several steps to ensure passenger safety across its system. Earlier in the year, in January, METRO Police Department launched a new task force to provide greater interaction between police officers and passengers. Each day uniformed officers assigned to various transit centers throughout the city perform security checks and subsequently board the buses and METRORail. The officers are available to answer passenger’s questions, promote safety and prevent criminal activity. Officer visibility in the transit centers is having a large impact on reducing crime.

Other programs that METRO Police operates to promote safety on the system include a Special Operations Response Team, a canine unit and plainclothes officers. In addition, the police monitor both local and national security situations and respond to heightened security alerts issued by Federal authorities by increasing visibility in the transit system, especially along the rail line.

Pepper Gel to Enhance Bus Operator Safety
After a thorough review of available alternate defense weapons and techniques for bus operators, METRO has put in place a program to equip bus operators with “Pepper Gel” spray as a self-defense alternative.

Pepper Gel is an effective water-based product that is designed to work well in an enclosed environment such as a bus. It is effective up to 18 feet, its effects can last up to 30 minutes, and it is easy to clean up with soap and water.

Training is provided by METRO Police Officers and consists of an 8-hour class on operator defense tactics, continuum of force, defense procedures, post use documentation and technical use of the product. The program is voluntary and to date, 20 Bus Operators have been trained. Training for additional Bus Operators continues.

METRONet Completed On Time On Budget
In September 2007, METRO completed a key phase in the implementation of a program to enhance Park & Ride security using remote controlled cameras and peripheral equipment monitored by METRO Police. METRONet, as the system is known, has been phased in beginning with implementation in September 2006 at the Kuykendahl Park & Ride and includes: cameras, remote gate operators, emergency assistance stations and remote public address system. Communications have been established with Houston TranStar where the system is monitored from the Watch Command Officer’s console. Currently, 26 Park & Ride and Transit Center locations have been outfitted with the security surveillance equipment.
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METRO Solutions – Moving Ahead
FY2007 was a challenging year for the METRO Solutions program with significant accomplishments that included a partnership with the Washington Group Transit Management Company (WGTMC) and numerous tasks that led to adoption of the light rail route alignments, adoption of light rail on all five corridors and work on the build out of corridor store front offices.

During FY2007, submittal of the second set of Preliminary Engineering drawings to the City of Houston for the North, Southeast, East End, and Uptown corridors occurred, a Record of Decision from the FTA was received in record time for the North and Southeast Corridors, and a detailed Environmental Analysis (that would later be included in the Draft Environmental Impact Study) was completed for the University Corridor.

Towards the later part of the year, negotiations for Phase One Development of METRO Solutions with WGTMC were completed and a Work Contract was approved - the METRO Board approved an eight month, $77.3 million contract with the WGTMC. WGTMC became the Facility provider for the North, Southeast, East End, Uptown, and Intermodal Terminal. The contract includes the involvement of 167 local firms, 137 of which are small and disadvantaged business enterprises (these firms are projected to receive $26.8 million through their participation). Another significant event was the selection of the North and Southeast Corridors for FTA’s Public Private Partnership Pilot Program (5-P), one of only three projects selected.

To wrap-up the Fiscal Year, negotiations began between METRO and WGTMC on the Design-Build-Operate-Maintain (DBOM) Contract and associated subcontracts. 50% of Advanced Preliminary Engineering was completed for the North, Southeast, East End, and Uptown corridors, and conceptual design was initiated for the Downtown Southeast / East End connection. Real Estate activity continued as twelve (12) Master Cooperative Agreements with Private Utilities were executed. The issue of vehicle selection was addressed as METRO expedited the procurement process, established an evaluation committee, held a Light Rail Vehicle industry forum, issued a Request for Proposals, and conducted a pre-proposal conference.

Commercial Paper Program Continues
The $400 million Commercial Paper Program that the Board of Directors instituted in 2005 continued in FY2007 with the issuance of an additional $54 million, bringing the total program to $143 million. The bulk of the Commercial Paper issued so far, $122 million, has funded the General Mobility Program and the rest, $21 million, has gone for land acquisition in connection with METRO Solutions. Interest rates have been very good with the weighted average rate being 3.7392% as of September 2007.
Fiscal Year 2007 Closes on a High Note
METRO ended FY2007 on a high note, surpassing all System Quality Performance Goals. Mean Distance Between Mechanical Failures (MDBF) for the bus system was 6,550 miles, 31% better than goal. In relative terms, the average METRO bus can make two round trips between Houston and Los Angeles and travel back to California before it would experience a mechanical failure. Both Bus and Rail accidents indicate how safe the METRO system is. For FY2007, there were 534 bus accidents and 37 rail accidents. This represents 0.83 bus accidents per 100,000 vehicle miles and 4 rail accidents per 100,000 vehicle miles. Putting this into perspective, a METRO bus would travel 120,000 miles or almost 25 round trips between New York and Los Angeles before being involved in an accident. Major Security Incidents ended the year over 25% below goal, another indication of a safe system. Also, customer complaints were 68% below acceptable levels. Financially, based on a preliminary close, METRO ended the year with a record operating savings of $14 million or 5% under budget.
Ridership Trends

Total system ridership for FY2007 including fixed route bus and METRORail, METROLift, Special Events, METROVan, and HOV Vanpools/Carpools is 126.2 million boardings, up 0.7% from last year on a calendar adjusted basis. Ridership changes are more fully discussed in the next three pages.

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<tbody>
<tr>
<td>Fixed Route Bus Service</td>
<td>87,332,072</td>
<td>85,092,396</td>
<td>-2.6%</td>
</tr>
<tr>
<td>METRORail Service</td>
<td>11,333,079</td>
<td>11,708,959</td>
<td>3.3%</td>
</tr>
<tr>
<td><strong>Subtotal Fixed Route Service</strong></td>
<td><strong>98,665,151</strong></td>
<td><strong>96,801,355</strong></td>
<td><strong>-1.9%</strong></td>
</tr>
<tr>
<td>Special Bus Service</td>
<td>4,309,758</td>
<td>4,508,998</td>
<td>4.6%</td>
</tr>
<tr>
<td><strong>Subtotal Bus &amp; Rail Services</strong></td>
<td><strong>102,974,909</strong></td>
<td><strong>101,310,353</strong></td>
<td><strong>-1.6%</strong></td>
</tr>
<tr>
<td>HOV Carpools, Vanpools &amp;</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-METRO Buses</td>
<td>22,385,106</td>
<td>24,875,224</td>
<td>11.1%</td>
</tr>
<tr>
<td><strong>TOTAL RIDERSHIP</strong></td>
<td><strong>125,360,015</strong></td>
<td><strong>126,185,577</strong></td>
<td><strong>0.7%</strong></td>
</tr>
</tbody>
</table>
Fixed Route Service

Fixed-route ridership for Fiscal Year 2007, comprised of METRORail, Local and Express Bus, and Park & Ride services, is 96.8 million, down 1.9% from FY2006 ridership of 98.7 million.

METRORail ridership for the year is up 3.3% to 11.7 million.
Local and Express Bus service is 76.6 million, down from 78.8 million in FY2006, a decrease of 2.8%.
Park & Ride service ridership is down 0.8% from FY2006, to 8.5 million.

Many factors, as discussed on the following page, contributed to the above changes in ridership.
Fixed Route Service (continued)

Factors that affected ridership changes from FY2006 to FY2007:

• Especially bad weather conditions in January, April, August and September 2007 contributed to a sizeable reduction of close to a million boardings in local fixed route bus service. Because FY2007 exhibited the worst weather in several years, we should expect a reversal of this impact in FY2008 if similar weather conditions do not occur.

• A two week delay in the opening of schools in August 2007 resulted in a loss of almost 400,000 passenger boardings in the local bus category of ridership.

• Street Closings & Construction primarily in the University of Houston and Texas Southern University areas resulted in a loss of close to 350,000 passenger boardings.

• Increased use of METRORail mostly by attendees of events at Reliant Park such as the Rodeo in February and March 2007 as compared to 2006 and from the “unhooking” of Routes 24 Northline / 25 Richmond in August of 2006 and of Routes 8 South Main / 66 Yale in May 2007 added approximately 375,000 boardings on METRORail.

• Within the Express and Park & Ride segments of the market, ridership increases of approximately 167,000 passenger boardings are attributable to growth in the 217 Cypress Park & Ride, growth in ridership on the TMC Park & Ride routes, and growth in the 108 Veterans Memorial route.

• As a result of the projected implementation of fare restructuring, METRO experienced some ridership loss attributable to different fare payment options. In FY2007, there were over 900,000 fewer passengers paying their fare with tokens. This loss in ridership was somewhat offset by increased boardings by passengers using 7-Day passes and Stored Value cards, yielding a net ridership loss of approximately 570,000 passenger boardings.
Special Bus Services

Special Bus Services have three components: METROLift (service on-demand), METROVan (special bus service utilizing non-METRO operated vans), and Special Events bus service including Charter service. These services do not have fixed routes or a set schedule.

The total ridership for Special Bus Services for FY2007 is 4.509 million, an increase of 4.6% from last year.

METROLift ridership (1.429 million boardings in FY2007) has decreased, down 3.9% from last year, the result of lower demand. METROVan services (2.358 million boardings in FY2007) experienced increased demand, up 20.2% from FY2006. This increase was due to the addition of the miniPOOL program in May of 2006.

Special Event Bus Service, including charters, although down 16.1%, forms only a very small percentage of METRO’s total boardings (less than 1%) and varies from year to year depending on the ridership of events such as the Houston Livestock Show & Rodeo, Shell Houston Open and Wings Over Houston Airshow.
Fiscal Year Ending September 30, 2007

Financial Performance

METRO Revenues FY2007 YTD

<table>
<thead>
<tr>
<th></th>
<th>Budget ($millions)</th>
<th>Actual ($millions)</th>
<th>Differences ($millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fares</td>
<td>56.038</td>
<td>49.020</td>
<td>-7.018 -12.5%</td>
</tr>
<tr>
<td>Sales Tax (Cash Basis)</td>
<td>400.000</td>
<td>477.991</td>
<td>77.991 19.5%</td>
</tr>
<tr>
<td>Interest &amp; Miscellaneous</td>
<td>10.984</td>
<td>14.876</td>
<td>3.892 35.4%</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>467.022</td>
<td>541.887</td>
<td>74.865 16.0%</td>
</tr>
<tr>
<td>Grants</td>
<td>85.063</td>
<td>43.427</td>
<td>-41.636 -48.9%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>552.085</td>
<td>585.314</td>
<td>33.229 6.0%</td>
</tr>
</tbody>
</table>

Fares

Compared to the FY2007 budget, actual fares are $7.0 million or 12.5% below budget. However, the FY2007 Budget included approximately $7.6 million of increased fare revenue for the last 9 months of the year (Q Card implementation had been scheduled for January), from fare restructuring which has not yet occurred. When adjusted for this, fare revenue would be in fact approximately $0.6 million or 1.0% above budget.

Compared to FY2006, fares are down $1.5 million or 3.0%. This decrease is primarily the result of lower fixed route ridership. Fixed route ridership was down by 1.9% and METROLift ridership (also a component of the Fares reported above) was down by 3.9%.
FY2007 Quarterly Financial & Management Report
Fiscal Year Ending September 30, 2007

Sales Tax Revenue

Sales tax revenue (cash basis) for FY2007 is $478.0 million: $78.0 million or 19.5% above budget. When compared to FY2006, sales tax revenue is $21.4 million or 4.7% higher.
The Houston economy continues to be fueled by the strength in the upstream energy sector creating employment and population growth. As a result, METRO has experienced real growth in Sales Tax Revenue.

Grant Revenue

Grant revenue for FY2007 is $43.4 million compared to $85.1 million budgeted, 48.9% below projection. Under FTA policy, METRO receives grant funds only once the expenditures are incurred. As a result, when the project expenditures are running under budget as a result of schedule revisions, grant revenue is also under budget. Projects such as METRORail enhancements, Smart Card and HOT Lanes have been under budget. Additionally, grant funding has lagged due to less New Starts grant appropriations than anticipated.

Interest and Miscellaneous

Despite a decrease in interest rates in September 2007, revenues in this category were $3.9 million, or 35.4% over projection mainly due to a larger portfolio size (lower capital expenditures than budgeted, etc.).
## FY2007 Quarterly Financial & Management Report
### Fiscal Year Ending September 30, 2007
#### Operating Budget

### FY2007 OPERATING BUDGET, EXPENSES, AND VARIANCE

<table>
<thead>
<tr>
<th>Expense Category</th>
<th>Year-to-Date Budget</th>
<th>Year-to-Date Expenses</th>
<th>$ Variance</th>
<th>% Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wages</td>
<td>90,019,816</td>
<td>90,740,082</td>
<td>720,266</td>
<td>0.80%</td>
</tr>
<tr>
<td>Fringe Benefits Union</td>
<td>44,543,412</td>
<td>42,568,470</td>
<td>-1,974,942</td>
<td>-4.43%</td>
</tr>
<tr>
<td>Total Union Labor</td>
<td>134,563,228</td>
<td>133,308,552</td>
<td>-1,254,676</td>
<td>-0.93%</td>
</tr>
<tr>
<td>Salaries and NonUnion Wages</td>
<td>66,949,201</td>
<td>64,479,662</td>
<td>-2,469,539</td>
<td>-3.69%</td>
</tr>
<tr>
<td>Fringe Benefits Non-Union</td>
<td>29,538,563</td>
<td>29,303,202</td>
<td>-235,361</td>
<td>-0.80%</td>
</tr>
<tr>
<td>Total Non-Union Labor</td>
<td>96,487,764</td>
<td>93,782,864</td>
<td>-2,704,900</td>
<td>-2.80%</td>
</tr>
<tr>
<td>Total Labor and Fringe Benefits</td>
<td>231,050,992</td>
<td>227,091,416</td>
<td>-3,959,576</td>
<td>-1.71%</td>
</tr>
<tr>
<td>Services</td>
<td>15,031,508</td>
<td>11,540,047</td>
<td>-3,491,461</td>
<td>-23.23%</td>
</tr>
<tr>
<td>Materials and Supplies</td>
<td>17,102,019</td>
<td>18,995,076</td>
<td>1,893,057</td>
<td>11.07%</td>
</tr>
<tr>
<td>Fuel &amp; Utilities</td>
<td>49,617,680</td>
<td>41,798,971</td>
<td>-7,818,709</td>
<td>-15.76%</td>
</tr>
<tr>
<td>Casualty and Liability</td>
<td>3,568,487</td>
<td>3,187,304</td>
<td>-381,183</td>
<td>-10.68%</td>
</tr>
<tr>
<td>Purchased Transportation</td>
<td>69,169,027</td>
<td>67,490,088</td>
<td>-1,678,939</td>
<td>-2.43%</td>
</tr>
<tr>
<td>Leases, Rentals and Miscellaneous</td>
<td>2,417,090</td>
<td>2,089,810</td>
<td>-327,280</td>
<td>-13.54%</td>
</tr>
<tr>
<td>Total Non-Labor</td>
<td>156,905,811</td>
<td>145,101,296</td>
<td>-11,804,515</td>
<td>-7.52%</td>
</tr>
<tr>
<td>Total Labor and Non Labor</td>
<td>387,956,803</td>
<td>372,192,712</td>
<td>-15,764,091</td>
<td>-4.06%</td>
</tr>
<tr>
<td>Cost Recovery</td>
<td>(10,419,732)</td>
<td>(8,973,231)</td>
<td>1,446,501</td>
<td>-13.88%</td>
</tr>
<tr>
<td>Allowance for Management Development</td>
<td>1,000,000</td>
<td>144,000</td>
<td>(856,000)</td>
<td>-85.60%</td>
</tr>
<tr>
<td>Total Operating Expenses</td>
<td>378,537,071</td>
<td>363,363,481</td>
<td>-15,173,590</td>
<td>-4.01%</td>
</tr>
<tr>
<td>Capitalized Operating Expenses</td>
<td>(53,811,950)</td>
<td>(53,811,952)</td>
<td>(2)</td>
<td>0.00%</td>
</tr>
<tr>
<td>Allocation to Capital &amp; GMP</td>
<td>(36,608,121)</td>
<td>(35,568,300)</td>
<td>1,039,821</td>
<td>-2.84%</td>
</tr>
<tr>
<td>Total Allocation to Capital</td>
<td>(90,420,071)</td>
<td>(89,380,252)</td>
<td>1,039,819</td>
<td>-1.15%</td>
</tr>
</tbody>
</table>

| OPERATING BUDGET                        | 288,117,000         | 273,983,229            | (14,133,771)| -4.91%     |
Operating Expenses

Operating expenses for FY2007 are $273.983 million compared to $288.117 million budgeted, $14.134 million or 4.9% below budget. Operating budget variances are explained below:

**Wages** are over budget by $720,000 or 0.8%. Bus operator wages are over budget by $1.54 million primarily due to more overtime incurred than planned and some unbudgeted training expenses. This is partially offset by an underrun of $180,000 for new service that was not implemented, and underruns in Bus Maintenance of $334,000 and in Facilities Maintenance of $412,000 due to vacancies in mechanics and cleaners.

**Union fringe benefits** are $1.975 million or 4.4% under budget due to reduced Benefit Trust expenses of $1.0 million, an underrun in Union Pension, and other fringe benefit underruns resulting from the mechanic and cleaner vacancies and new service not implemented. The underrun in Benefit Trust expense is due to vacancies and lower participation than estimated in the union health plan. Union Pension is under budget by $634,000 primarily the result of a one-time downward adjustment made in July to recognize the FY2007 actuarial valuation of the Union pension plan. (The actuarial calculation adjusted the FY2007 required contribution to recognize the additional lump sum contribution of approximately $8 million made in December 2006.)

**Salaries and non-union wages** are under budget by $2.470 million or 3.7% mainly due to vacancies throughout the Authority. As of September, 60 salaried positions were vacant (not including 14 employees on short term disability – METRO does not hire against those on short term disability).

**Non-Union fringe benefit** expenses are under budget by $235,000 or 0.8%, the result of vacancies. The savings would have been greater if not for a one-time additional expense adjustment to Non-Union pension of $227,500 to meet the additional contribution put into effect in the month of July following an actuarial valuation of the plan.
Services expenses ended the year $3.491 million or 23.2% under budget. Significant underruns include:

- Advertising and promotion expenses were under budget $1.4 million primarily the result of curtailed marketing of METRO services.
- Reduced facility maintenance work associated with a lower volume of unplanned repairs and lower than expected cost for some planned repairs represents $466,000.
- A Communications Tracking Survey, a Fixed Route Customer Satisfaction Survey, a Route Intercept Survey and System Awareness Tracking Surveys were not performed in FY2007, saving approximately $300,000. Fewer than planned System Awareness Tracking surveys were initiated because of curtailed marketing. The Fixed Route Customer Satisfaction Survey was postponed until after the launch of Q Card and other surveys were not performed as the scope of the surveys was still under review. Much of this work will be performed in FY2008.
- Lower use of contractual services such as job placement and employment search services, and the substitution of on-line, rather than classroom, training for computer skill instruction produced savings of approximately $184,000.
- Savings of $171,000 in Support Vehicle services is due to fewer accident repairs and a lower volume of general vehicle repairs.
- Less work sent to outside counsel and a lower level of legislative coordination - the Texas legislature did not hold a special session following the close of the regular session - represent a $159,000 savings.
- Lower than budgeted banking-related transaction fees make up approximately $150,000 in savings.
- A reduction in the amount of outside printing represents savings of $109,000 and reflects fewer Public Guides printed.
- Some maintenance of the radio system and storage system was deferred in anticipation of upgrades of these systems. This produced approximately a $105,000 savings.

Materials and supplies are over budget by $1.893 million or 11.1%. In Operations, Bus Parts cost is $2.617 million over budget, partially offset by an underrun in Rail of $471,000 and an underrun of $79,000 in bus parts associated with new service not implemented. The bus parts overrun is the result of higher parts usage than budgeted. Rail parts savings result primarily from unplanned warranty recovery and reduced accident costs. Throughout the authority, Office Supplies expenses are $234,000 below budget.
Fuel & utilities are under budget by $7.819 million or 15.8%. Diesel fuel is under budget by $6.388 million, due to savings from the fuel hedge program, better fuel economy than budgeted (First Transit – NW BOF), and an unspent fuel allowance for new service not implemented. An underrun of $1.006 million in electric power is due to lower costs than anticipated as a result of the new power contract that became effective in January 2007, a one-time reimbursement from Reliant Energy resulting from lower usage in the previous contract, and lower than estimated Transmission and Distribution charges associated with the current contract. Gasoline savings of $230,000 primarily result from lower prices than budgeted. Natural Gas cost is $148,000 below budget, a combination of a lower unit price than budgeted, partially offset by increased usage. Transmission fluid is under budget by $125,000, primarily resulting from sample product provided from a vendor for certification.

Casualty and liability expenses are $381,000 or 10.7% under budget and result from higher than anticipated subrogation recoveries, and a credit resulting from an evaluation of pending and settled claims.

Purchased transportation expense is $1.679 million or 2.4% under budget. Vanpool program expenses are $1.095 million below budget and primarily reflect lower overall contract costs for the completed miniPool contract and lower than anticipated expenses for the current vanpool management contract. Lower Special Events Purchased Transportation cost of almost $400,000 is driven by a more cost effective plan for scheduling and providing service for the Houston Livestock Show & Rodeo. METROLift expenses are $195,000 under budget and are primarily the result of lower paratransit ridership.

Leases, rentals & miscellaneous expenses are $327,000 or 13.5% under budget, reflecting savings in discretionary items such as travel, subscriptions, and membership dues throughout the authority.

Cost recoveries are $1.447 million or 13.9% less than budget. This is primarily due to reduced cost recovery of vanpool expense of $1.472 million. Vanpool cost recovery represents the money that METRO recovers from H-GAC to partially offset the cost of the program. In addition to the reduced vanpool Purchased Transportation cost that will not be recovered, there are underruns in labor and non-labor items associated with METRO’s management of the vanpool program before it was contracted. It is the combination of the Purchased Transportation and the internal cost underruns that translate to the underrun in cost recovery.

In Allowance for Management Development, only $144,000 was spent as the program was still under review, resulting in a savings of $856,000.

Capitalized operating expenses ended the year on budget.

The Allocation to Capital and GMP is $1.040 million or 2.8% lower than projected, primarily driven by underspending in Planning Engineering & Construction of $1.4 million, partially offset by higher levels of capitalization in Information Technology.
FY2007 Quarterly Financial & Management Report  
Fiscal Year Ending September 30, 2007

General Mobility Expenditures

FY2007 General Mobility Program expenditures are $106.8 million compared to $112.5 million budgeted, $5.7 million or 5.0% lower than projected.

<table>
<thead>
<tr>
<th></th>
<th>FY2007 Budget ($millions)</th>
<th>FY2007 Actual ($millions)</th>
<th>Variance ($millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>City of Houston</td>
<td>65.241</td>
<td>76.988</td>
<td>11.747</td>
</tr>
<tr>
<td>Harris County</td>
<td>21.326</td>
<td>0.000</td>
<td>-21.326</td>
</tr>
<tr>
<td>Multi-Cities</td>
<td>20.168</td>
<td>24.019</td>
<td>3.851</td>
</tr>
<tr>
<td>Area-wide</td>
<td>5.772</td>
<td>5.828</td>
<td>0.056</td>
</tr>
<tr>
<td>Total General Mobility Program</td>
<td>112.507</td>
<td>106.835</td>
<td>-5.672</td>
</tr>
</tbody>
</table>

Expenditures for City of Houston projects are $11.747 million or 18% more than budgeted for the year due to carry over for projects planned prior to FY2007 but billed in FY2007.

In FY2007 there are no expenditures for Harris County projects. This is due to slow progress on Future Designated Projects handled by the County. However, a large portion of this amount will be paid in early FY2008 as METRO received invoices for three major street improvement projects in northwest Harris County after the close of FY2007.

Expenditures for Multi-Cities projects are $3.851 million or 19% more than budget in FY2007 due to the acceleration of funding for the Future Designated Projects. Expenditures on Area-Wide Programs are within 1% of budget.
Capital Expenditures

Capital expenditures for FY2007 are $262.8 million compared to $363.3 million budgeted - $100.5 million, or 27.7% lower than projected. Major variances in the Capital Budget are identified below.

<table>
<thead>
<tr>
<th>METRO Solutions</th>
<th>FY2007 YTD Budget ($millions)</th>
<th>FY2007 YTD Actuals ($millions)</th>
<th>Variance ($millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>METRO Solutions</td>
<td>190.961</td>
<td>131.574</td>
<td>-59.387</td>
</tr>
<tr>
<td>Capital Improvement Program</td>
<td>172.369</td>
<td>131.228</td>
<td>-41.141</td>
</tr>
<tr>
<td>Total Capital Budget</td>
<td>363.330</td>
<td>262.802</td>
<td>-100.528</td>
</tr>
</tbody>
</table>

**METRO SOLUTIONS - Variance Due to Schedule Slippage:**

Through the first 3 quarters of FY2007 property acquisitions for the Guided Rapid Transit (GRT) corridors were delayed due to slower than anticipated federal approvals. The complexity of the Intermodal Facility design delayed commencement of the advanced conceptual engineering and property acquisition at the Intermodal Terminal site. Finally, protracted negotiations and delayed award of full contract authority to the selected Facility Provider had affected the performance of continued engineering. In the 4th quarter however, METRO Solutions has gained momentum and has begun to accelerate. This is primarily due to the Facility Provider activities being fully engaged in Phase 1 Development/Design. Property Acquisitions for the GRT corridors have also been progressing and environmental assessments are scheduled to be completed by the end of the 1st quarter FY2008. The accelerated acquisition of real estate in the 4th quarter has resulted in expenditures being more than budgeted in that quarter. Expenditures for the year though are below budget.
CAPITAL IMPROVEMENT PROGRAM

Variance Due to Schedule Slippage:

Implement Bus Smart Card Technology  
-$16.3 million  
The implementation date and schedule for the launch of Q Card has been modified to allow time for "stress testing" the new hardware and software. A new Revenue Division has been established and will take over the management of the smart card technology that is now expected to be operational in early 2008.

Information Technology  
-$9.6 million  
There was a delay in the ARCS System Radio Replacement project until a pilot project was implemented and completed. The pilot project has now been expanded to replace the entire communication platform and includes installation of cameras on some of the buses to test their effectiveness. Implementation is scheduled to be completed in FY2008. The decision was also made to postpone deployment of METRONet to the Transit Centers until the system has been operational for a year in the Park & Rides and Hillcroft Transit Center.

Transitway & Related Facilities  
-$3.1 million  
Execution of the Fixed Guideway Modernization (FGM) projects have been slower than planned due to the need to coordinate with the HOT Lane program. Design work for sign standardization will be completed under the FGM program, while construction will be done under the HOT Lane project. The T-Ramp Control Signal project is complete and under budget.

Operating Facilities & Upgrades  
-$18.5 million  
The 12 Mainstreet Corridor Enhancement projects which include Bar Signal Overrun System, Cable Support System, IH-610 Frontage Road High Load Detection, and Rail System Upgrades (primarily Traction Power Boxes) are behind schedule due to revised implementation plan (scope and project definition), and are now scheduled for completion in FY2008. Execution of Phase 2 Emergency Preparedness is delayed. An electrical systems check has been completed and project completion is now awaiting generator delivery which is scheduled for mid-November 2007. The purchase of bulk diesel storage tanks did not occur and is delayed until FY2008. Facility Rehabilitation projects were completed as scheduled and were also under budget due to construction savings accomplished through contract negotiations.

Total Schedule Slippage – Other Projects  
-$47.5 million
Variance Due to Other Issues:

**Bus and Support Facilities**
The FY2007 capital budget of $4 million allowed for the capital lease of 25 MCI buses and 40 New Flyer Hybrid buses; however, the decision was made to purchase the buses for $35 million in lieu of the capital lease. The budget overrun caused by the cash purchase of the buses was offset by postponement of the System Support for Yard Supervisory project, non-revenue vehicles purchases and the purchase of fewer capital tools and equipment than planned. Transmission and engine replacements came in above budget as projected savings did not occur.

**Other Miscellaneous Variances**
Other projects contributing to the underrun are as follows: Transit Mobility projects, which include Bus Stop/Passenger Shelter Upgrades, Bus Pad/Bus Lane Program and Curb Cut/Intersection Improvements, were not fully expended. Homeland security projects were delayed for further evaluation and are now moving forward. Development fund projects such as Advanced Land Acquisition - Development Studies, Engineering Studies, System Planning/New Initiatives and Technology Program Support were not fully utilized.

**Remaining Contingency Allowance**

**Total Schedule Variance Due to Other Issues**

**GRAND TOTAL CAPITAL BUDGET & METRO SOLUTIONS**
The Operating Ratio for FY2007 is 17.9%, 5.8% below the FY2007 annual goal of 19.0%. It is important to note that a key assumption for setting the goal at 19% was increased fare revenue collected after the implementation of fare restructuring, but that did not occur. If the fare restructuring had occurred, the effect of an estimated additional $7.6 million of fare revenue would have produced an annual operating ratio of 20.2%, 6.3% better than goal.
Mean Distance Between Failures (MDBF)

Throughout the year, the bus fleet continued to perform above the performance standard set for FY2007. Actual performance was 25 percent better in July, 16 percent better in August and 28 percent better in September.

METRO continues implementing new procedures to improve the reliability of the bus fleet. For example, staff is targeting the Heating, Ventilation, Air Conditioning (HVAC) maintenance procedures, and believes that improved training and workmanship, as well as a revised preventive maintenance program will reduce breakdowns. Also, monthly service interruptions related to the HVAC system are being closely scrutinized to identify trends and to determine where resources should be focused to prevent similar occurrences in the future.

In FY2008, MDBF goals will be established for systems that cause major service interruptions to further sharpen the identification of problems.
The accident rate for the year was held better than goal through safety blitzes at the facilities, on the bus routes and on the rail alignment. Over 400 observation rides of Bus and Train Operators, 29 hazard route analyses, and safety meetings per quarter were performed. Bus accidents in FY2007 exceeded the FY2006 levels by 24%. This is attributed to the fact that there were many new bus operators in the population. The continuous effort to reduce accidents with safety contacts being made in the field and promoting safety awareness at the Bus and Rail Operating Facilities is bringing a total safety culture change to METRO.
COMPLAINTS
In FY2007, METRO received 24,352 complaint calls from customers. This is 68.3 percent below the maximum number of complaints set for the year.

The key Departments that play a role in reducing complaints have formed a working group to jointly analyze customer complaints. The goal is to reduce the number of complaints by identifying the major factors which cause complaints and identifying and the implementing proactive steps to address these root issues.

A recommendation of the joint group has been the addition of a single point of contact to investigate and respond to operator behavior complaints. This person will focus solely on complaints stemming from operator behavior in a more effective and timely manner. Additionally, the single point of contact will help identify trends that when addressed should change behavior and lower complaints.

FY2006 and FY2007 complaints are measured by the number of complaint calls received.
Major incidents are those categories that are listed in the FBI Part I Crimes used in national crime reporting. FY 2007 year-end Part 1 Crimes averaged 41 incidents per month, a 25% reduction from our targeted goal of 55 incidents per month. The fourth quarter 2007 total of 113 incidents represents an average of 38 per month, which is a 15% decrease this quarter compared to the third quarter total of 133.

There was a very significant decrease in Park and Ride crimes during this reporting period. Third quarter reported incidents were 35 whereas the fourth quarter reported incidents were 12, a 66% decrease. This decrease is attributed to several felony arrests made as a result of information monitored on METROnet video. The arrests include three local gang members who were responsible for the crime wave of reported cases during the third quarter.
A new Bus Marshall Program was implemented during the fourth quarter. Plainclothes overtime officers were added to monitor criminal activity on most affected routes and also on the rail. During the month of September bus marshals were responsible for 57 misdemeanor arrests, 11 felony arrests and 277 finable citations. Although difficult to quantify, we believe we can attribute a large portion of the overall reduction in Part 1 Crimes this quarter to both the high visibility enforcement initiative implemented earlier this year, and the plainclothes Bus Marshall Program implemented in September.

From June to October 2007, three additional gang members were also charged with organized crime violations by undercover officers working with local businesses that supplied them with fictitious license plates and inspection stickers. Further investigation and working with the HPD task force led to the clearance of 16 burglary of motor vehicles (BMV) and auto theft cases by METRO Police and 12 additional cases by HPD.
The Customer Information Center (CIC) continued to meet the wait time objective for the 4th Quarter with an average answer delay of 1:00 while agents were presented with a record 556,243 calls, up 43% over the same period in FY2006. The percentage of calls answered increased from 80% in 4th Quarter of FY2006 to 89% in 4th Quarter of FY2007, with 58% more calls answered (492,600 vs. 310,868). Automated calls (schedule inquiries processed through the Interactive Voice Response system) increased 33% over the same period of FY2006 to 552,388 in 4th Quarter of FY2007. The average customer wait time before answer was 48 seconds in July, 1 minute 20 seconds in August (peak call month) and 51 seconds in September. The increased call handling results were due in part to increasing productivity and schedule efficiency attributable to the part-time temporary staff brought in to assist with Q Card roll out and efforts of the new Call Center Systems Coordinator. For October, November and August, average wait time was higher than the goal.

Average agent productivity has continued to increase with greater average time on the job for the Q Card staff and the average number of additional agents trained for this purpose increased slightly in 4th Quarter. The use of part-time agents and contributions by the new Call Center Systems Coordinator position have continued to enhance schedule efficiency. The Coordinator is now able to actively manage daily schedules to match staff to forecasted demand and make intraday adjustments to match actual call volumes.
<table>
<thead>
<tr>
<th>FY2007 YTD</th>
<th>Budget</th>
<th>Actual</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Gross Income</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fares</td>
<td>56,038</td>
<td>49,020</td>
<td>(7,018)</td>
</tr>
<tr>
<td>Sales tax income</td>
<td>400,000</td>
<td>482,576</td>
<td>82,576</td>
</tr>
<tr>
<td>Interest Income</td>
<td>10,864</td>
<td>14,226</td>
<td>3,362</td>
</tr>
<tr>
<td>Other operating income</td>
<td>120</td>
<td>650</td>
<td>530</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>467,022</td>
<td>546,471</td>
<td>79,449</td>
</tr>
<tr>
<td><strong>Operating Expenses</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transit: department &amp; support expenditures</td>
<td>281,309</td>
<td>263,367</td>
<td>(17,941)</td>
</tr>
<tr>
<td>Traffic Management: department &amp; support expenditures</td>
<td>6,708</td>
<td>10,496</td>
<td>3,787</td>
</tr>
<tr>
<td>Expensed Small Capital Purchases</td>
<td>100</td>
<td>120</td>
<td>20</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>288,117</td>
<td>273,983</td>
<td>(14,134)</td>
</tr>
<tr>
<td>Gross Income Less Total Operating Expenses</td>
<td>178,905</td>
<td>272,488</td>
<td>93,583</td>
</tr>
<tr>
<td>+ Federal/State Capital Grants Collected</td>
<td>85,063</td>
<td>43,427</td>
<td>(41,636)</td>
</tr>
<tr>
<td>Current Year Cashflow Available for Capital Expenditures</td>
<td>263,968</td>
<td>315,915</td>
<td>51,947</td>
</tr>
<tr>
<td>- Capital expenditures made</td>
<td>475,837</td>
<td>369,637</td>
<td>(106,200)</td>
</tr>
<tr>
<td>Current Year Cashflow for Future Capital Expenditures Including Replacements and Operating Expenses</td>
<td>(211,869)</td>
<td>(53,723)</td>
<td>158,146</td>
</tr>
</tbody>
</table>

All data in year-of-expenditure dollars.

Sales Tax is reported on an accrual basis.
# FY2007 Quarterly Financial & Management Report

## Fiscal Year Ending September 30, 2007

### BALANCE SHEET

<table>
<thead>
<tr>
<th>September 2006</th>
<th>September 2007</th>
<th>Change ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>5,657,135</td>
<td>1,861,803</td>
</tr>
<tr>
<td>Receivables</td>
<td>105,826,541</td>
<td>100,164,584</td>
</tr>
<tr>
<td>Inventory</td>
<td>29,758,196</td>
<td>22,901,955</td>
</tr>
<tr>
<td>Investments</td>
<td>249,597,529</td>
<td>271,790,176</td>
</tr>
<tr>
<td>Other Current Assets</td>
<td>15,434,325</td>
<td>22,840,202</td>
</tr>
<tr>
<td>Property Net of Depreciation</td>
<td>1,208,309,967</td>
<td>1,337,585,413</td>
</tr>
<tr>
<td>Land &amp; Improvements</td>
<td>297,734,693</td>
<td>305,781,595</td>
</tr>
<tr>
<td><strong>Total Assets and Other</strong></td>
<td>1,912,318,386</td>
<td>2,062,925,728</td>
</tr>
<tr>
<td>Liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade Payables</td>
<td>82,133,081</td>
<td>90,388,090</td>
</tr>
<tr>
<td>Accrued Payroll</td>
<td>18,655,986</td>
<td>17,711,062</td>
</tr>
<tr>
<td>Short-term Debt</td>
<td>89,000,000</td>
<td>143,000,000</td>
</tr>
<tr>
<td>Other Current Liabilities</td>
<td>22,692,408</td>
<td>25,403,957</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td>212,481,475</td>
<td>276,503,109</td>
</tr>
<tr>
<td><strong>Net Assets - Retained (1)</strong></td>
<td>1,699,836,911</td>
<td>1,786,422,619</td>
</tr>
<tr>
<td><strong>Total Liabilities and Net Assets</strong></td>
<td>1,912,318,386</td>
<td>2,062,925,728</td>
</tr>
</tbody>
</table>

(1) On a year to year basis, net assets increased by 5.1% or $86.6 million.