Metropolitan Transit Authority of Harris County, Texas
Comprehensive Annual Financial Report
For the Years Ended
September 30, 2017 and 2016

(The Fiscal Year Begins on October 1 and Ends on September 30)

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Introductory Section

This section provides an overview of METRO's financial activities during the year and discusses management's responsibilities for quality financial reporting. This section is more useful when read in conjunction with the rest of the report.

Please visit METRO's Website where you can read more about METRO and its efforts towards improving regional mobility.

Mission Statement

"Provide safe, clean, reliable, accessible and friendly public transportation services to our region."

March 14, 2018

To the Board of Directors,
Metropolitan Transit Authority of Harris County, Texas (METRO)
and members of METRO's Service Area

I am pleased to present METRO's Comprehensive Annual Financial Report (CAFR) for the year ended September 30, 2017 (FY2017). This report represents the highest form of external financial reporting and has been developed by the Office of the Controller with support from other groups within METRO. METRO's management is responsible for the information presented in this report.

METRO was established under Texas law in 1977 to develop, maintain, and operate a public transportation system primarily in Harris County, Texas. The agency began operation in 1979. METRO's service area comprises 4.3 million potential customers and includes Houston, the nation's fourth largest city, as well as 14 smaller incorporated cities and parts of unincorporated Harris County.

METRO is the region's largest public transit provider offering safe, reliable, and affordable transportation services. Approximately 88.2 million boardings occurred during FY2017. In addition to operating 1,393 buses and 76 rail cars on METRO's New Bus Network, METRO provides other services, which include METRO STAR Vanpool, METROLift, High Occupancy Vehicle/High Occupancy Toll Lanes, Bikes-on-Bus/Train program, and, Park & Ride lots. METRO also provides funding for road improvement/congestion mitigation programs. METRO's revenue sources include a 1% local sales tax imposed across the service area, fares, and federal grants. During 2012, voters approved a referendum, which continues the General Mobility Program through 2025. Under this program, 25% of the annual sales tax proceeds, adjusted for certain limits established in FY2014, will be used to fund General Mobility projects of local governments. The limits established in FY2014 is projected to provide additional money for non-rail transit activities.

METRO continues to focus on providing cost-effective, efficient and safe transportation services to its customers. One of our methods is to work with governmental agencies, local leaders and our customers in developing integrated transportation and mobility programs that meet the needs of the region and our customers. This was another exciting year as some of the highlights include:

- Initiated the METRONext planning process which involves working directly with members of the Houston region in the design and implementation of improvements and modification to the expansion of our transit system. This process will help meet the future needs of our communities while capitalizing on METRO's bus and rail network.

- Expanded the rail safety program by including reflective paint, brighter colored wraps, evaluating a Bluetooth pedestrian alert system, and completing a comprehensive study of all light-rail traffic intersections.

- Opened the Grand Parkway Park & Ride lot which is a multi-level garage with 1,700 parking spaces and a quick and easy connection on METRO bus to the Downtown Transit Center.

- Completed the Harrisburg Overpass on the Green Rail Line, which provides quicker and easier connection to the Magnolia Park Transit Center.

- Opened the El Dorado Park & Ride lot which provides 1,227 parking spaces along with quick and easy connection on METRO's buses to the Downtown Transit Center.

Financial Transparency - A key to good governance

METRO's commitment to financial transparency goes beyond monthly financial reporting at Board/Committee meetings and is reflected in the type, quality and location of financial information, including awards, listed on METRO's Web page. Financial reporting awards include the certificate of achievement for excellence in financial reporting for METRO's comprehensive annual financial report for 25 consecutive years and five consecutive years for METRO's two defined benefit pension plans.

In addition, METRO has earned the highest grade available from the Texas Comptroller Leadership Circle program for financial transparency for the past six years.

Financial Information and Certificate of Achievement for Excellence in Financial Reporting

METRO's Department of Finance supports long-term strategic planning, investment and cash management, grant programs, Q Card administration, financial reporting, and ensures compliance with various federal and state laws, rules, and regulations.

One of our main goals at METRO is to enhance and maintain our status as a trusted community partner by establishing and adhering to financial policies that inspire public trust. The recognition by our independent peers helps us demonstrate to the public that we are committed to achieving this goal.

For the sixth consecutive year, the Department of Finance earned the Texas Comptroller's top award for financial transparency. METRO also continued to earn Certificate of Achievement for Excellence in Financial Reporting for METRO's FY2016 CAFR and the two-separate defined benefit pension plans' CAFRs.

METRO is not a component unit and the accompanying financial statements include all activities for which it is financially accountable as defined by Governmental Accounting Standard No. 14, *The Financial Reporting Entity* and Statement No. 61. *The Financial Reporting Entity: Omnibus-An Amendment of GASB Statement No 14 and No. 34*. METRO's principal operating and capital resources are derived from a 1% sales tax levied in its service area, customers fees for transit service, investment income, and federal capital/operating grants. METRO's expenditures relate primarily to transit operations, local infrastructure improvements, transit security, and various capital projects.

The responsibility for accuracy, reliability, and fairness of presentation of the financial information and related disclosures in the CAFR rests with METRO's management. All disclosures that are necessary to enable the reader to gain an understanding of METRO's financial activities have been included in this CAFR. METRO's management is also responsible for ensuring that an adequate internal control structure is in place for preparation of financial information, safeguarding of assets, effective and efficient use of resources, and compliance with applicable laws and regulations. The internal control structure has been designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived and (2) the valuation of cost and benefits requires estimates and judgment by management. In addition, METRO is required by state and federal laws to have independent certified public accountants perform audits and issue reports in accordance with generally accepted auditing standards, the Single Audit Act of 1996, and U.S. Office of Management and Budget Super Circular for Federal Awards. These reports are filed annually with the appropriate state and federal agency.

METRO uses a single fund to account for all financial activity, which includes transit operations, traffic management, infrastructure assistance (which includes General Mobility) capital programs, grant revenues, sales tax, and related activity.

METRO's cash and investment policy is designed to monitor and adjust, on a daily basis, its cash balance and investment portfolio while investing in only those securities that have been legally authorized by the Texas Public Fund Investment Act and approved by the Board of Directors as listed in Note 2 to the financial statements section. METRO is self-insured, except for property risk insurance, for which it pays an annual premium to a third-party insurance company.

Other Information

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to METRO for its CAFR for the year ended September 30, 2016. This is the 25th consecutive year METRO has received this prestigious award. To be awarded a Certificate of Achievement, METRO must publish an easily readable and efficiently organized CAFR. This report must also satisfy both generally accepted accounting principles and applicable legal requirements.


Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Metropolitan Transit Authority of Harris County, Texas

For its Comprehensive Annual Financial Report for the Fiscal Year Ended

September 30, 2016

Christopher P. Morrill

Executive Director/CEO

The Certificate of Achievement is valid for a period of one year. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Contact Information

If you have questions about this report or need additional financial information, contact the Chief Financial Officer, Department of Finance, Metropolitan Transit Authority of Harris County, Texas 1900 Main Street, Houston, TX 77208-1429.

METRO's financial statements have been audited by KPMG LLP.

Acknowledgments

METRO's management expresses its appreciation to the employees and the Board of Directors for their commitment in making this one of the best transit agencies in the nation. Additional information can be found in the Management's Discussion and Analysis section, which starts on page 10.

Arthur C. Smiley III
Senior Vice President &
Chief Financial Officer

METRO’s Board of Directors

The Board of Directors has nine members. 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 14 other member cities in METRO’s service area. Two directors are nominated by the Harris County Judge and confirmed by the County Commissioners.

Carrin F. Patman, Chair (C)

Jim Robinson, CFE First Vice-Chair (H)

Cindy Siegel Second Vice-Chair (M)

Troi Taylor, Secretary (C)

Lisa Gonzales Castañeda, P.E. (H)

Sanjay Ramabhadran (Ram), P.E. (C)

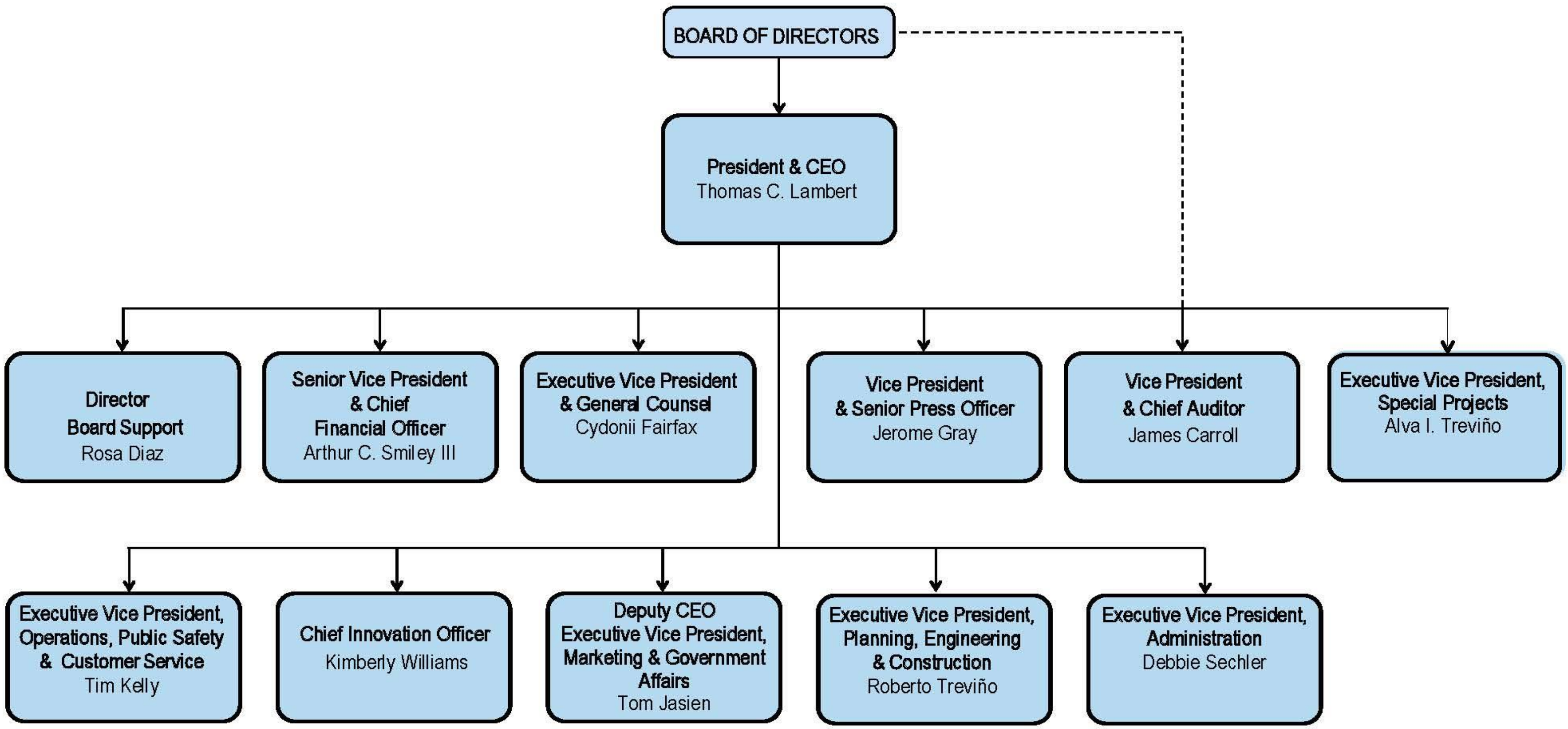
Christof Spieler, (C)

Don Elder Jr. (M)

Lex Frieden (C)

(C) Nominated by the Mayor of the City of Houston and Confirmed by Houston’s City Council
(H) Nominated by the Harris County Judge and Confirmed by Harris County Commissioners Court
(M) Appointed by the Mayors of the 14 member cities in METRO's service area

METROPOLITAN TRANSIT AUTHORITY OF HARRIS COUNTY, TEXAS
Executive Leadership Team
Organization Chart



Comprehensive Financial Section

The Governmental Accounting Standards Board (GASB) believes that every governmental entity should prepare and publish, as a matter of public record, a comprehensive annual financial report (CAFR). The CAFR is designed to provide financial information that is useful in evaluating METRO's financial condition, results of operations, cash flows, and compliance with finance-related laws, rules, and regulations that have a direct and material effect on the financial statements. The CAFR is prepared using generally accepted accounting principles and is posted on METRO's Website.

Some of the compliance reporting requirements are based on the following:

- *State law, which requires METRO to issue each year independently audited financial statements and file those statements with state oversight agencies as well as state and local governmental leaders.*
- *Federal regulations, which require the audited financial statements to be included with the annual filing of the independently audited Single Audit Report (grant expenditures), which is used to evaluate compliance with grant agreements and evaluate future eligibility for grant funds.*
- *METRO's existing debt agreements with creditors, which require audited financial statements to be prepared and posted on the Electronic Municipal Market Access Website to ensure compliance with continuing disclosure requirements.*

KPMG LLP
811 Main Street
Houston, TX 77002

Independent Auditors' Report

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

Report on the Financial Statements

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, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Metropolitan Transit Authority of Harris County, Texas as of September 30, 2017 and 2016, and the changes in financial position and cash flows thereof for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis and required supplemental information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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 introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 14, 2018 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, not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

KPMG LLP

Houston, Texas
March 14, 2018

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Management's Discussion and Analysis (MD&A)
(Unaudited)

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Government, requires externally issued financial reports that are prepared in accordance with generally accepted accounting principles to include an MD&A section. This section is to provide an objective and easily readable analysis of the government's financial activities based on currently known facts, decisions, or conditions. MD&A should discuss the current-year results in comparison with the prior year, with emphasis on the current year. This fact-based analysis should discuss the positive and the negative aspects of the comparison with the prior year. Governments are encouraged to use charts, graphics, and tables to enhance the understandability of the information presented.

This section of the CAFR presents a discussion and analysis of METRO's financial performance during the fiscal years ending September 30, 2017, 2016, and 2015. Please read it in conjunction with the introductory section of the report and METRO's financial statements, which immediately follow this section. Numbers presented in the Management's Discussion and Analysis tables are rounded and may differ slightly from the financial statements.

FINANCIAL HIGHLIGHTS

METRO's net position declined by $276.1 million or 14.2 percent during the last three years. This decline was expected as METRO was expanding and improving transportation services to the community and funding additional infrastructure assistance projects at the same time METRO was experiencing lower sales tax and transportation revenue due to falling oil prices. Additional financial information is provided on the following pages.

- *Total Resources* reported on schedule A-1 totaled $885.1 million for FY2017. This was an increase of $15.8 million or 1.8 percent from FY2016 and related to improvements in sales tax, investment income and Federal Transit Administration (FTA) grant collections. While total collections during the current year improved, they were still lower when compared to FY2015 by $12.8 million or 1.4 percent.

- *Total Operating Expenses* reported on schedule A-1 totaled $807.0 million for FY2017. This was an increase of $23.9 million or 3.1 percent from FY2016 and generally related to higher employees, maintenance, rental and planning cost reduced by lower diesel fuel prices. This increase was significantly lower than the increase in FY2016 which was $88.3 million or 12.7 percent. The FY2016 increase related to operating, for the first full year, the New Bus Network, three additional light-rail lines, expansion of HOT lanes, and providing more service to METROLift customers.

- *Total Nonoperating Expenses* reported on schedule A-1 totaled $212.6 million for FY2017 which is a decline of $49.1 million or 18.8 percent from FY2016. This decline was primarily due to reduced payments for local infrastructure assistance offset by a $13.6 million loss from Hurricane Harvey. While the current year declined, nonoperating expenses increased during the last three years by $43.4 million or 25.6 percent. This increase was generally from interest cost, previously capitalized, now being reported as nonoperating as eligible capital projects for interest cost capitalization were completed. This reporting change had no significant impact on total interest cost or related cash flows.

- *Total Assets and Deferred Outflows* as reported on schedule A-2 totaled $3,617 million for FY2017 which is a decline of $264.1 million or 6.8 percent since the end of FY2015. The decline totaled $137.6 million or 3.7 percent for FY2017 and $126.5 or 3.3 percent for FY2016. Changes over the last two fiscal years were anticipated as major capital expansion projects, completed in FY2015, started depreciating, deferred rental payments were amortizing, and diesel fuel swaps were settling. In addition, the value of investments declined due to lower sales tax and fare revenue collections.

- *Total Liabilities and Deferred Inflows,* as reported on schedule A-2, declined by $3.1 million or 0.2 percent from FY2016. This was related to declines in trade payables and defined benefit pension plan expenditures which was offset by increases in other liabilities, deferred inflows and other postemployment benefits. While the current year experienced a decline, total liabilities and deferred inflows increased by $45.9 million or 2.4 percent during the last two years. This increase was generally related to employee benefits programs such as defined benefit pension plans, postemployment health care coverage offset by declines in trade payables, capital leases and debt payables.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of this report consists of four parts: management's discussion and analysis, the basic financial statements, the notes to the financial statements, and the required supplementary information. METRO's financial statements are prepared in conformity with U.S. generally accepted accounting principles (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 Statements of Revenues, Expenses, and Changes in Net Position.

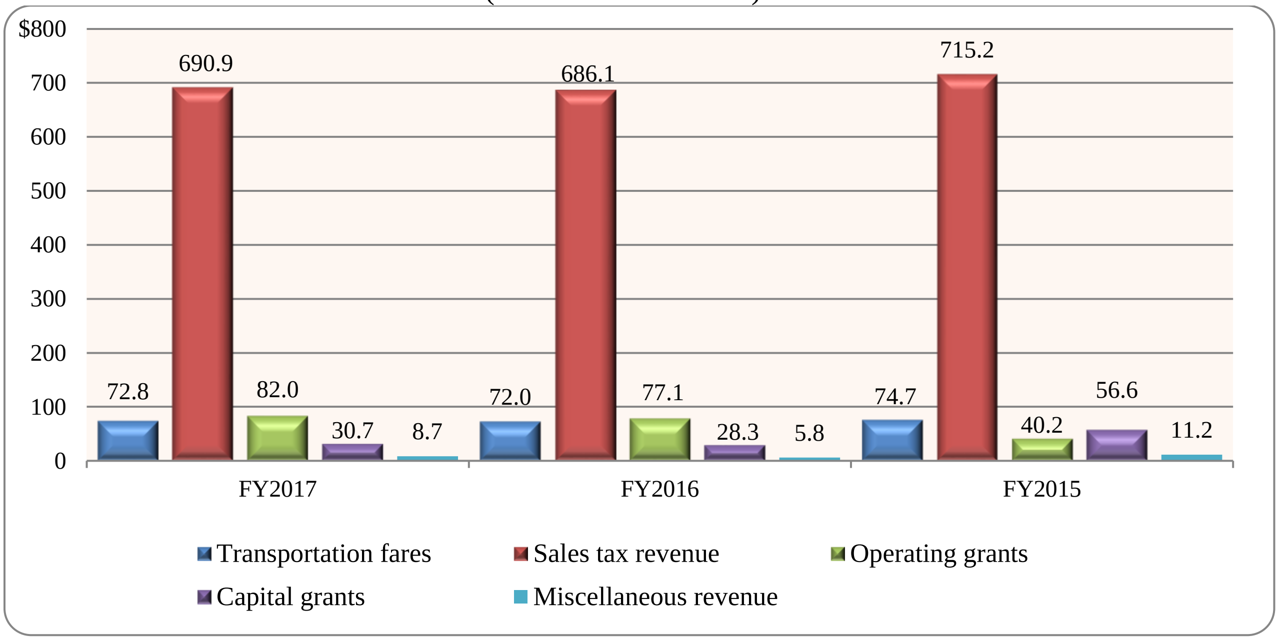
FINANCIAL ANALYSIS OF METRO

Summarized Changes in Net Position
(in Millions of Dollars)
A-1

	FY2017	FY2016	Change	% Change	FY2015
Resources					
Transportation fares	$ 72.8	$ 72.0	$ 0.8	1.1 %	$ 74.7
Sales tax	690.9	686.1	4.8	0.7 %	715.2
Investment income	3.6	1.2	2.4	200.0 %	0.6
Intergovernmental revenue	1.8	2.0	(0.2)	(10.0) %	1.8
Other income	3.3	2.6	0.7	26.9 %	8.8
Grant proceeds (includes capital grants used for maintaining assets)	82.0	77.1	4.9	6.4 %	40.2
Grant proceeds (capital)	30.7	28.3	2.4	8.5 %	56.6
Total resources	885.1	869.3	15.8	1.8 %	897.9
Expenses					
Operating					
Scheduled service	384.1	375.4	8.7	2.3 %	337.9
Nonscheduled service	74.9	70.0	4.9	7.0 %	66.3
Service support	85.2	76.9	8.3	10.8 %	71.5
Organizational support	56.0	48.5	7.5	15.5 %	45.6
Depreciation	206.8	212.3	(5.5)	(2.6) %	173.5
Total operating expenses	807.0	783.1	23.9	3.1 %	694.8
Nonoperating					
Noncapitalized interest cost	46.6	43.1	3.5	8.1 %	14.5
Loss on sale of assets/impairment	0.03	7.2	(7.2)	(99.5) %	3.1
Funds passed to subrecipients	2.6	1.9	0.7	36.8 %	2.1
Local infrastructure assistance	149.8	209.5	(59.7)	(28.5) %	149.5
Loss from Hurricane Harvey	13.6	–	13.6	100.0 %	–
Total nonoperating	212.6	261.7	(49.1)	(18.8) %	169.2
Total expenses	1,019.6	1,044.8	(25.2)	(2.4) %	864.0
Change in net position	(134.5)	(175.5)	41.0	23.4 %	33.9
Net position - beginning of year	1,807.6	1,983.1	(175.5)	(8.8) %	1,949.2
Net position - end of year	$1,673.1	$ 1,807.6	$ (134.5)	(7.4) %	$ 1,983.1

Increases to Net Position (Revenues) with Related Discussions

(In Millions of Dollars)



Transportation fares include revenue from transit customers, HOT lanes, and starting in FY2017, Van Pool revenue. The increase during FY2017, excluding $3.4 million in Van Pool revenue, was minimal and generally related to improvements in the local economy. While these changes increased total fare collections, it was still lower by $1.9 million or 2.5 percent when compared to FY2015.

Sales tax revenue is 1% of taxable sales within METRO's service area which is collected by the Texas Comptroller Office and distributed monthly to METRO. Sales tax increased by $4.8 million or 0.7 percent when compared to FY2016 but was $24.3 million below FY2015 collections. Lower sales tax revenue collected during the last several years largely resulted from the impact of lower oil prices on the local economy.

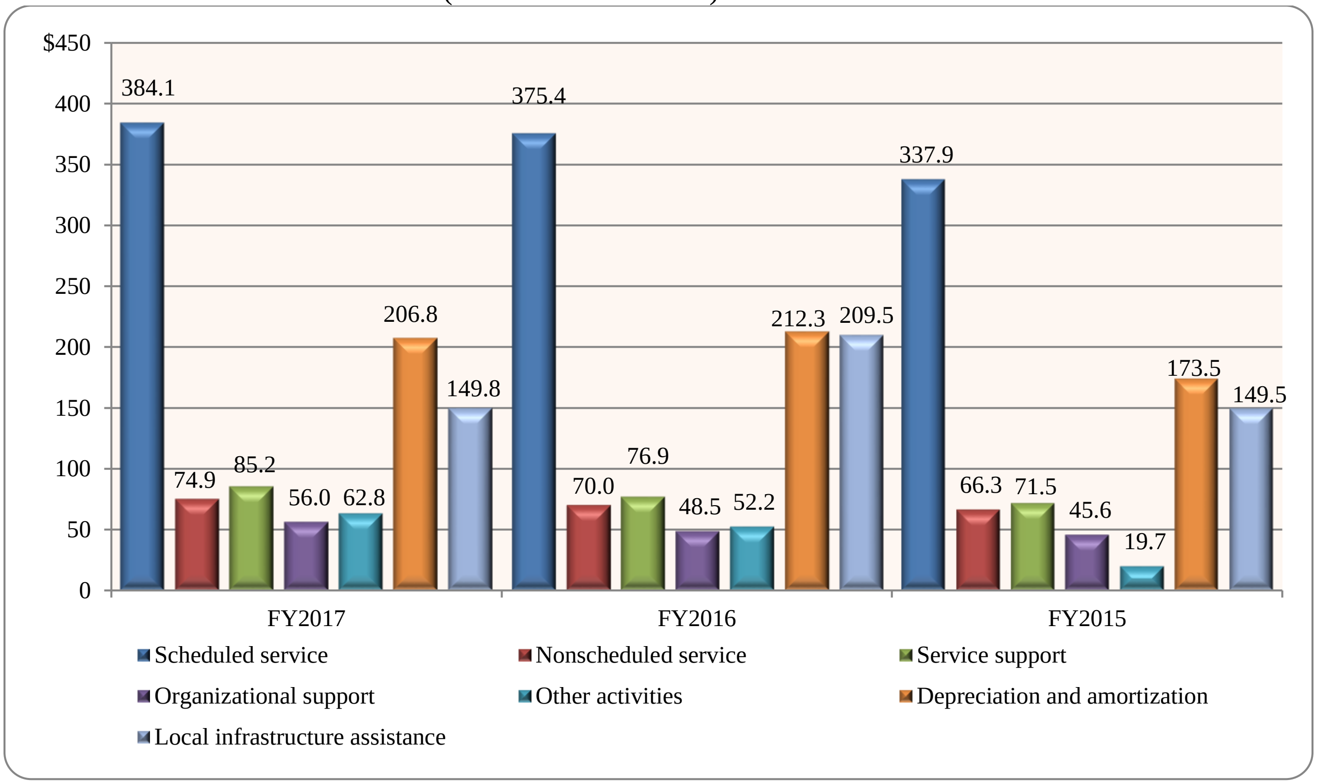
Operating grants (includes capital grants authorized by the FTA for use in maintaining capital assets) are provided by the FTA and used to offset the cost of maintaining the revenue fleet and operating specific transit programs such as METROLift and METRO STAR Vanpool. Grants funds are contingent on appropriations from the federal government and subsequent award of grant dollars by the FTA. The FTA is METRO's primary federal oversight agency. Collection of grant proceeds increased during FY2017 and FY2016 by $4.9 million and $36.9 million respectively.

Capital grants are provided by the FTA and are used to help fund the design, construction, purchase, and enhancement of capital assets. Grants funds are contingent on appropriations from the Federal government and subsequent award of grant dollars by the FTA. Collections increased during FY2017 by $2.4 million or 8.5 percent but was lower by $25.9 million when compared to FY2015. This decline was related to the progress made in completing several major capital programs that were receiving funds from the FTA.

Miscellaneous revenue consists of investment income, intergovernmental revenue, real estate, and other nonoperating activities. Revenue from investments and real estate activities gained the most during the last three years as METRO began including government-sponsored organizations in their investment portfolio, while real estate earnings grew as the local economy improved.

Decreases to Net Position (Expenses) and Related Discussions

(In Millions of Dollars)



Scheduled service consists of bus/light-rail services and includes vehicle operations, maintenance, safety, and training. Increases in costs during the last three years generally came from preventive maintenance, operation of three new light-rail lines, expanding/improving bus and light-rail service by designing and implementing METRO's New Bus Network and settling unfavorable fuel hedges.

Nonscheduled service includes METROLift, METRO STAR Vanpool, and HOT lanes. Increases in costs during the last three years were generally associated with expansion of METROLift services and operating additional HOT lanes.

Service support includes planning, marketing, transit security, insurance, fare collection, and facility maintenance. Increases in costs during the last three years were from developing and implementing METRO's New Bus Network, adding police officers, insurance cost for the three new light-rail lines, additional maintenance of the operating facilities due to their age, and planning for the next phase of METRO's expansion program called METRONext.

Organizational support includes business, community/governmental development, administrative, finance, personnel, information systems, purchasing, executive oversight, audit, and legal. Increases in costs during the last three years relate to major computer system enhancements, additional community/governmental outreach programs, and other activities necessary to support the expansion of the transportation and mobility network.

Other activities consist of noncapitalized interest expense, funds passed to grant subrecipients, loss on sale of assets/impairment and other activities. Increases in costs over the last two years, (excluding Hurricane Harvey related cost), primarily relate to interest cost that can no longer be capitalized since most major capital projects were completed during FY2015.

Depreciation and amortization decreased when compared to FY2016 but increased when compared to FY2015. Yearly changes occur as assets are placed into service, fully depreciated or retired with the increase over the last three years relating to the expansion of transportation programs, computer systems, and facilities upgrades.

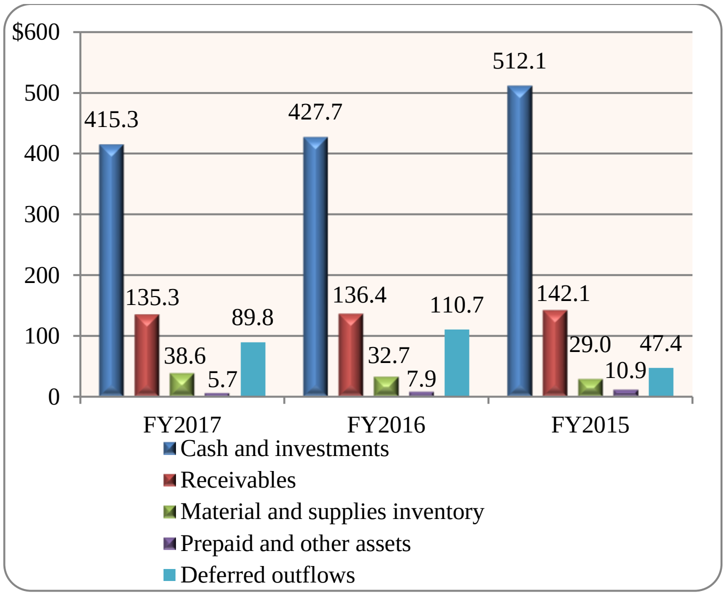
Local infrastructure assistance provides funding to local governments in METRO's service area for street, sidewalks, bridges, and congestion mitigation activities. This voter approved program established a cap of 25% of FY2014 sales tax revenues with any sales tax growth shared equally between METRO and such local governments. Expenses reported for this program will vary each year depending on reimbursement requests submitted by local governments. Additional information can be found in Note 7 to the financial statements.

Summarized Statement of Net Position
(in Millions of Dollars)
A-2

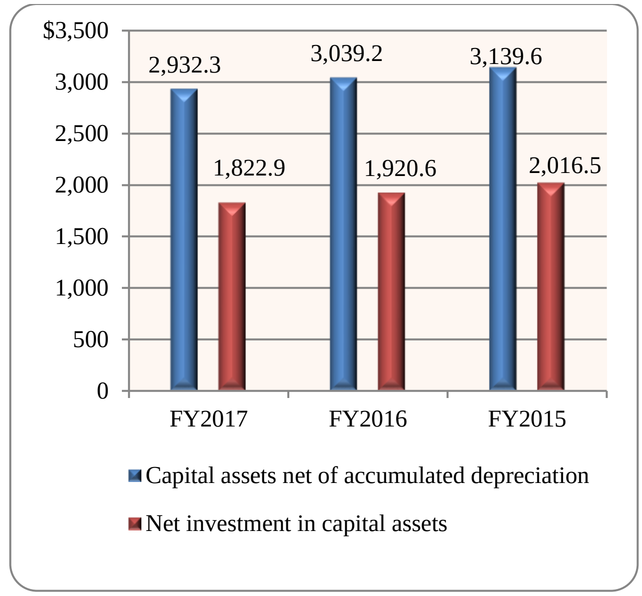
	FY2017	FY2016	Amount of Change	Percentage Change		FY2015
Assets and deferred outflows						
Cash and investments	$ 415.3	$ 427.7	$ (12.4)	(2.9)	%	$ 512.1
Receivables	135.3	136.4	(1.1)	(0.8)	%	142.1
Material and supplies inventory	38.6	32.7	5.9	18.0	%	29.0
Capital assets net of depreciation	2,932.3	3,039.2	(106.9)	(3.5)	%	3,139.6
Prepaid and other assets	5.7	7.9	(2.2)	(27.8)	%	10.9
Deferred outflows	89.8	110.7	(20.9)	(18.9)	%	47.4
Total assets and deferred outflows	3,617.0	3,754.6	(137.6)	(3.7)	%	3,881.1
Liabilities and deferred inflows						
Payables and other liabilities	136.0	173.2	(37.2)	(21.5)	%	194.5
Commercial paper	116.4	117.4	(1.0)	(0.9)	%	121.3
Capital leases and debt payables	1,139.1	1,141.5	(2.4)	(0.2)	%	1,174.0
Deferred inflows	17.5	2.1	15.4	733.3	%	_
Defined benefit pension plans	243.5	252.0	(8.5)	(3.4)	%	178.0
Other postemployment benefits	291.4	260.8	30.6	11.7	%	230.2
Total liabilities and deferred inflows	1,943.9	1,947.0	(3.1)	(0.2)	%	1,898.0
Net position:						
Net investment in capital assets	1,822.9	1,920.6	(111.2)	(5.8)	%	2,016.5
Restricted assets, debt payments	86.3	85.7	0.6	0.7	%	79.1
Unrestricted assets	(236.1)	(198.7)	(23.9)	(12.0)	%	(112.5)
Total net position	$ 1,673.1	$ 1,807.6	$ (134.5)	(7.4)	%	$ 1,983.1

Assets and Net Investments in Capital Assets

in Millions of Dollars



in Millions of Dollars



Cash and investments consist of demand deposits and investments. Changes during the last three years were primarily related to the timing of various activities which include: cash receipts from sales tax collections, issuance of new debt, grant reimbursements, less payments for operating, capital, and local infrastructure assistance. More information about cash and investments can be found in Note 2 to the financial statements.

Receivables include sales tax, grants, transportation fares, and miscellaneous activities. The slight decline during the last three years was related to lower FTA receivables and sales tax collections.

Material and supplies inventory consists of diesel fuel, bus, light-rail, and non-revenue vehicle parts used to operate and maintain the various fleets. Increases in costs during the last three years were primarily for parts used to maintain and effectively operate the transportation system

Prepaid and other assets consist of insurance, extended vehicle warranties and prepaid rent. The decline over the last several years primarily related to the amortization of these items.

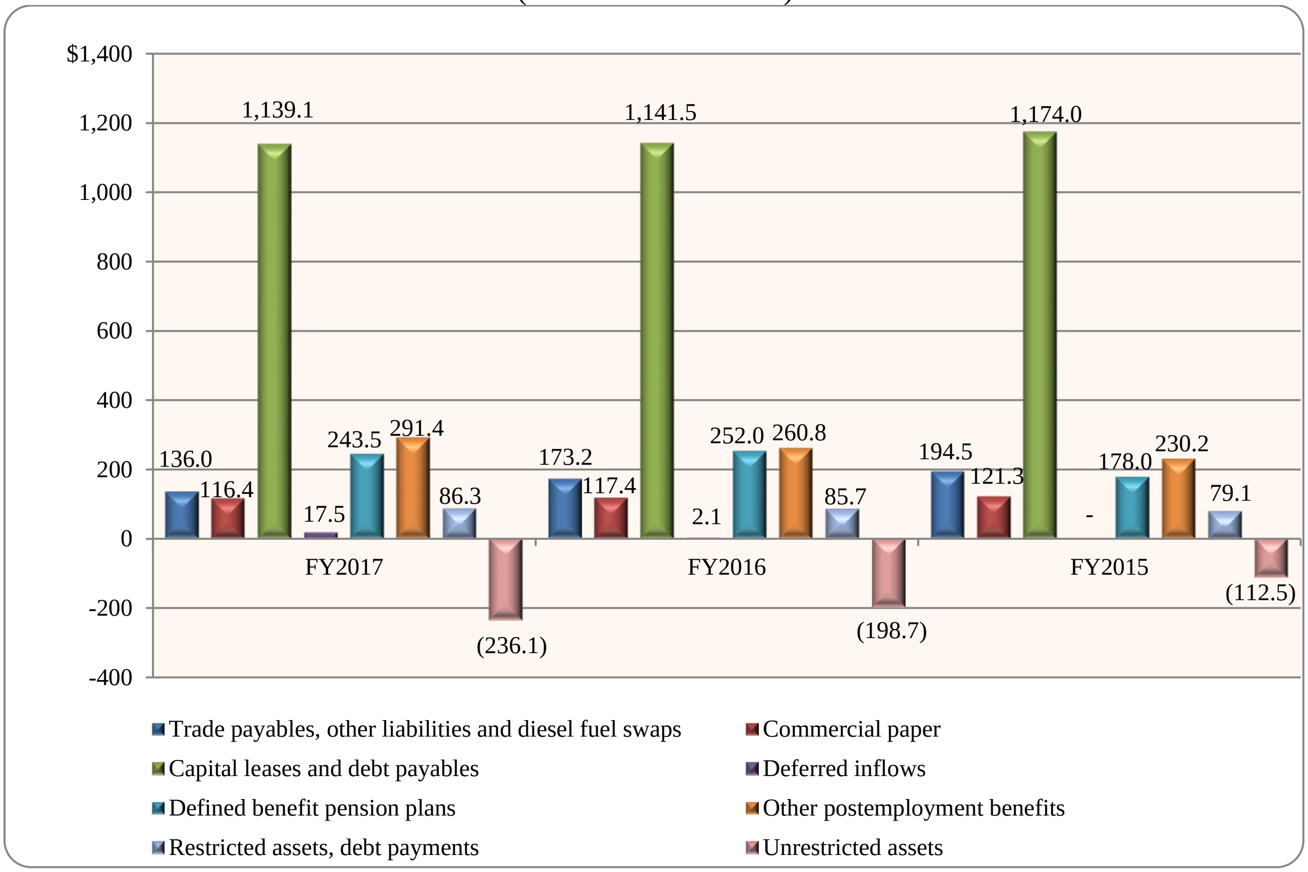
Deferred outflows include activity related to unfavorable diesel fuel swaps, defined benefit pension plans and debt refunding. The decline during the current year related to settling unfavorable diesel fuel hedges swaps and the amortization of cost related to the defined benefit pension plans and debt refunding. The increase in costs since 2015 of $42.4 million primarily relates to the defined benefit pension plans as several actuarial assumptions were updated and differences in projected and actual economic/demographic experience was recognized. Amortized amounts are reported as increases/decreases to either interest or pension expense in the statement of changes in net position.

Capital assets net of accumulated depreciation declined during the last two years mainly due to the depreciation of major capital projects completed in FY2015 offset by current year capital additions. Changes by asset category are reflected in Note 3 to the financial statements.

Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the related outstanding balance of bonds, contractual obligations, capital leases, and other borrowings that are attributable to the acquisition, construction, or improvement of those assets. The decline during the last two years was primarily related to the depreciation of major capital projects completed in FY2015 offset by current year capital additions and principal payments for outstanding debts.

Liabilities and Net Position for Restricted and Unrestricted Assets

(In Millions of Dollars)



Payables and other liabilities are amounts owed to vendors, accrued payroll, injuries and damages, deferred rental payments and deferred Q Card revenue. This balance declined by $37.2 million or 21.5 percent when compared to FY2016 due to settlement of fuel hedges, amortization of deferred rental and lower capital accruals as many projects were completed prior to the end of fiscal year.

Commercial paper was used to fund General Mobility payments due to local governments. Commercial paper outstanding declined by $1.0 million in FY2017 and $3.9 million in FY2016. Reductions were planned and funded using local dollars. Additional information on debt and the commercial paper program is reflected in Note 7 to the financial statements.

Capital leases and debt payables consist of capital leases, bonds, contractual obligations, accrued interest and related premiums/discounts that were used to fund light-rail expansion and bus replacements. The FY2017 balance totaled $1,139.1 million or a net decrease of $34.9 million or 3.0 percent since the end of FY2015. METRO has continued to make all principal and interest payment on time. METRO received a debt rating of Aa2 by Moody's Investors Service, Inc. and AA+ by Standard & Poor's Ratings Services on its last 2017 debt issue. Additional information on outstanding debt and related changes is reflected in Note 7 to the financial statements.

Deferred inflows include favorable diesel fuel swaps and defined benefit pension plans activity. The increase of $17.5 million since FY2015 related to favorable positions on diesel fuel swaps and better than anticipated performance on various actuarial assumptions used in the defined benefit pension plans. Additional information is reported in Note 4 and Note 7 to the financial statements.

Defined benefit pension plans liability totaled $243.5 million as of FY2017, a decline of $8.5 million or $3.4% when compared to FY2016. This decline was the result of improvements in investment returns and more favorable outcomes related to actuarial assumptions. The $74.0 million increase in FY2016 related to adopting the RP2014 Mortality Table and the updating of several actuarial assumptions based on the individual plan's experience study completed by the independent actuary. Both plans are closed to new members and additional information is reported in Note 1 and Note 4 to the financial statements.

Other postemployment benefits (OPEB) consist of two plans which provide medical, dental, and life insurance benefits for eligible retirees and are discussed in Note 4 to the financial statements. The plan covering postemployment benefits for nonunion employees was closed January 1, 2010 while the plan for employees covered by the collective bargaining agreement (union) remains open to new participants. During the last three years the OPEB liability increased by $61.2 million. The increase was related to increases of $5.9 million for the nonunion and $55.3 million for the union plan.

Restricted assets - debt payments consist of funds held by the Trustee, Wells Fargo Bank, N.A., as part of METRO's debt agreements. These funds are used to make principal and interest payments and to protect lenders after a default. METRO requires the Trustee to invest these funds in local government investment pools authorized under the Texas Public Funds Investment Act. Increases in these account balances during the last three years were due to additional sinking fund accounts that were created because of new debt issues and the related timing of cash receipts and subsequent disbursements.

Unrestricted assets are calculated by adding total assets, plus deferred outflows; reduced by total liabilities, total deferred inflows, investments in capital assets-net of related debt, and restricted assets-debt payments. Amounts reported as unrestricted must be reviewed in conjunction with estimated future cash flows to determine what funds are available to expand or implement new programs. The decline during the last two years was expected as METRO was expanding and improving transportation services to the community and funding additional infrastructure assistance projects. At the same time, METRO experienced lower sales tax and transportation revenue collections due to falling oil prices.

OUTSTANDING COMMITMENTS

METRO has various contracts and purchase orders, some of which extend over several fiscal years. During the last three years, they totaled $228 million for FY2017, $596 million for FY2016, and $402 million in FY2015. The changes between fiscal years generally represent contracts that were expiring or will be replaced.

The following excerpt was taken from the *Outlook for METRO's Sales Tax Revenues: 2017-2021*

Dated June 2017 and prepared by Dr. Robert W. (Bill) Gilmer,
C.T. Bauer College of Business/Institute of Regional Forecasting.

Houston's economy is inextricably tied to oil markets, and the price of oil remains an important ingredient of its business cycle. But forecasting crude oil prices is difficult – probably impossible. As the current drilling collapse has slogged on through two long years, it has delivered repeated lessons in humility for forecasters of all stripes. The initial 2014 price decline was almost completely unanticipated, for example, and then a tentative recovery in 2015 was unexpectedly aborted by the return of Iran's oil to market.

Now we find ourselves at yet another turning point. In November 2016, a wave of welcome optimism entered oil markets, largely based on an OPEC agreement to restrict production. Several official forecasts by U.S. and international agencies indicated that the rebalancing of oil markets was well underway or had happened already, and it generated strong positive sentiment in the futures market. The classic green shoots of an oil market recovery blossomed as the rig count rose rapidly, and the apparent recovery even extended to Houston's job market. The OPEC agreement was simply meant to accelerate a rebalancing process already well under way.

The following table shows the current forecast for METRO sales tax revenues. High, medium, and low forecasts are provided, as well as a probability-weighted forecast that assumes a purely subjective 25 percent chance that a high forecast occurs, and a 60 and 15 percent chance for a medium and low, respectively. The forecast is more optimistic about the near-term future than other recent forecasts, particularly in 2017 and 2018.

METRO's Sales Tax Revenue to FY2021
By Fiscal Year, Current $

Year	High	Medium	Low	25/60/15
2015	719,102,630	719,102,630	719,102,630	719,102,630
%y/y	4.30%	4.30%	4.30%	4.30%
%q4/q4	-1.30%	-1.30%	-1.30%	-1.30%
2016	689,463,466	689,463,466	689,463,466	689,463,466
%y/y	-4.10%	-4.10%	-4.10%	-4.10%
%q4/q4	-3.20%	3.20%	-3.20%	-3.20%
2017	708,198,634	706,649,086	705,531,041	707,157,101
%y/y	2.70%	2.50%	2.30%	2.60%
%q4/q4	6.10%	5.30%	4.70%	5.50%
2018	761,640,082	746,615,616	733,866,994	751,350,540
%y/y	7.50%	5.70%	4.00%	6.20%
%q4/q4	7.80%	5.90%	3.90%	6.50%
2019	820,131,086	793,282,205	766,985,189	801,392,056
%y/y	7.70%	6.30%	4.50%	6.70%
%q4/q4	7.60%	6.20%	4.90%	6.70%
2020	873,821,676	840,019,066	805,382,451	850,076,448
%y/y	6.50%	5.90%	5.00%	6.10%
%q4/q4	6.00%	5.80%	4.90%	5.80%
2021	926,202,682	886,984,634	847,545,943	898,727,984
%y/y	6.00%	5.60%	5.20%	5.70%
%q4/q4	6.00%	5.60%	5.40%	5.80%

It Is Still About Oil Prices

What happened to oil prices this time? After falling as low as $26 per barrel in February 2016, oil prices had moved back to $53 per barrel through the first two months of this year, and it was expected that they would continue to move higher. The recovery came in two steps: (1) an initial bounce back to $45 last spring after a deep collapse in drilling, and (2) following a late- 2016 possibility of oil markets rebalancing in the near future. Price jumped to more than $50 per barrel last November, as OPEC cut production to speed rebalancing. In anticipation of sustained price increases in the spring, speculators piled into record levels of bullish long positions in the crude oil futures markets. But impatience mounted after oil price gains stalled in the spring, and a brief build in oil inventories and a few negative comments from the Saudi oil minister pushed prices back under $50.

The entire report is available upon request from METRO's Finance Department.

Basic Financial Statements

Generally Accepted Accounting Principles

Generally accepted accounting principles (GAAP) are uniform minimum standards of and guidelines to financial accounting and reporting. Adherence to GAAP assures that financial reports of all state and local governments regardless of jurisdictional legal provisions and customs contain the same types of financial statements and disclosures, for the same categories and types of funds and activities, based on the appropriate measurement and classification criteria.

Adherence to GAAP is essential to assuring a reasonable degree of comparability among the financial reports of state and local governmental units. Governmental accounting systems thus must provide data that permit reporting on the financial status and operations of a government in conformity with GAAP.

GAAP establishes standards for preparing a comprehensive annual financial report, which includes Management's Discussion and Analysis (MD&A), basic financial statements, notes to the financial statements, and required supplementary and statistical information.

Metropolitan Transit Authority of Harris County, Texas
Statements of Net Position
September 30, 2017 and 2016

	2017	2016
Assets		
Current assets		
Cash	$ 5,741,909	$ 6,290,165
Investments	313,417,478	321,815,619
Investments – restricted	57,582,105	57,233,949
Receivables		
Sales tax	113,506,648	114,167,276
Federal government - Federal Transit Administration	7,916,108	11,844,152
Bus passes and other receivables	13,886,887	10,408,552
Total receivables	135,309,643	136,419,980
Material and supplies inventory	34,802,548	32,775,189
Derivative instrument – diesel fuel swaps	3,805,801	–
Total current assets	550,659,484	554,534,902
Noncurrent assets		
Investments – restricted	38,563,709	42,358,586
Capital assets, net of depreciation	2,932,274,940	3,039,197,023
Other noncurrent assets	3,481,911	3,450,057
Prepaid rental payments	2,213,152	4,426,306
Total noncurrent assets	2,976,533,712	3,089,431,972
Total assets	3,527,193,196	3,643,966,874
Deferred outflow of resources		
Diesel fuel	–	1,394,262
Pensions	77,554,921	92,324,541
Debt refunding	12,279,043	16,991,634
Total deferred outflows of resources	89,833,964	110,710,437
Liabilities		
Current liabilities		
Trade payables	71,830,312	114,035,870
Accrued compensation and benefits	34,964,584	29,491,550
Liabilities for injuries and damages	6,060,315	4,800,475
Other current liabilities	11,766,741	10,574,928
Capital lease obligations	–	77,311
Debts payable	54,570,000	44,155,000
Debt interest payable	19,883,931	19,579,295
Derivative instrument-diesel fuel swaps	–	1,394,262
Total current liabilities	199,075,883	224,108,691
Noncurrent liabilities		
Liabilities for injuries and damages	9,194,897	8,466,099
Commercial paper	116,400,000	117,400,000
Deferred rental payments	2,213,152	4,426,306
Debts payable	1,064,656,499	1,077,655,925
Other postemployment benefits	291,375,150	260,783,392
Defined benefit pension plans	243,492,528	252,037,793
Total noncurrent liabilities	1,727,332,226	1,720,769,515
Total liabilities	1,926,408,109	1,944,878,206
Deferred inflow of resources pension	13,681,779	2,168,916
Deferred inflow of resources diesel fuel	3,805,801	–
Total deferred inflows	17,487,580	2,168,916
Net position		
Net investment in capital assets	1,822,890,974	1,920,547,528
Restricted assets – debt payments	86,303,282	85,736,440
Unrestricted assets	(236,062,785)	(198,653,779)
Total net position	$ 1,673,131,471	$ 1,807,630,189

The accompanying notes are an integral part of the financial statements

Metropolitan Transit Authority of Harris County, Texas
Statements of Revenues, Expenses, and Changes in Net Position
for the Years Ended September 30, 2017 and 2016

	2017	2016
Operating revenues		
Transportation fares	$ 72,817,352	$ 72,052,304
Operating expenses		
Scheduled services - fixed route		
Bus and rail operations – direct	224,741,506	222,625,961
Contract service	45,623,522	47,355,960
Material distribution	7,389,679	7,042,407
Preventative maintenance	75,330,114	69,716,267
Central shop and maintenance support	26,416,417	24,284,783
Safety and training	4,627,538	4,433,619
Subtotal scheduled services - fixed route	384,128,776	375,458,997
Nonscheduled services –special		
METROLift	56,512,060	55,892,156
METRO STAR Vanpool	9,274,464	5,947,081
HOT lanes and special events	9,130,525	8,200,762
Subtotal non-scheduled services – special	74,917,049	70,039,999
Service support		
Service planning and evaluation	8,153,583	4,376,730
Marketing	11,444,811	10,383,266
Transit security and traffic management	25,737,412	22,149,262
Insurance and claims	5,796,480	5,614,731
Ticket and fare collection	4,218,988	4,208,388
Facility maintenance	29,826,031	30,168,111
Subtotal service support	85,177,305	76,900,488
Organizational support		
Business, community, and governmental development	4,384,576	3,343,274
Administrative, financial, and personnel	17,902,790	16,352,030
Information systems	21,260,567	18,228,842
Purchasing	4,051,118	3,697,391
Oversight, audit, and legal	8,441,512	6,850,065
Subtotal organizational support	56,040,563	48,471,602
Depreciation and amortization	206,753,917	212,338,159
Total operating expenses	807,017,610	783,209,245
Operating loss	(734,200,258)	(711,156,941)
Nonoperating revenues (expenses)		
Sales tax	690,929,011	686,101,655
Investment income	3,551,729	1,220,156
Intergovernmental revenue	1,849,413	1,956,596
Noncapitalized interest expense	(46,539,847)	(43,109,587)
Other income	3,349,776	2,585,147
Grant proceeds	82,009,861	77,117,133
Local infrastructure assistance	(149,838,694)	(209,464,879)
Funds passed to subrecipients	(2,605,361)	(1,887,750)
Gain (loss) on sale or disposal of assets	(34,041)	(7,155,654)
Loss from Hurricane Harvey	(13,634,631)	–
Total nonoperating revenues (expenses)	569,037,216	507,362,817
Net decrease before capital grants	(165,163,042)	(203,794,124)
Capital grant proceeds	30,664,324	28,330,693
Changes in net position	(134,498,718)	(175,463,431)
Net position beginning of year	1,807,630,189	1,983,093,620
Net position end of year	$ 1,673,131,471	$ 1,807,630,189

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

Metropolitan Transit Authority of Harris County, Texas
Statements of Cash Flows
for the Years Ended September 30, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Receipts from transportation fares	$ 71,201,072	$ 74,808,023
Payments to employees	(330,775,809)	(328,107,019)
Payments to suppliers for goods and services	(241,501,730)	(206,691,365)
Net cash used in operating activities	(501,076,467)	(459,990,361)
Cash flows from noncapital financing activities:		
Sales tax	691,709,215	689,499,508
Proceeds from grants	79,404,500	75,229,383
Receipts from miscellaneous income	3,342,131	2,321,739
Payments for local infrastructure assistance	(153,748,680)	(232,726,509)
Payments for Hurricane Harvey	(1,400,521)	–
Net cash provided by noncapital financing activities	619,306,645	534,324,121
Cash flows from capital and related financing activities:		
Proceeds from grants	33,179,725	25,438,090
Proceeds from sale of sales tax bonds	51,966,636	246,962,941
Principal payments related to commercial papers	(1,000,000)	(3,900,000)
Principal payments related to debts	(44,155,000)	(291,958,018)
Interest payments related to debts	(51,821,552)	(49,715,590)
Purchase of investments for debt services	(147,293,870)	(87,477,494)
Sale of investments for debt services	150,740,591	83,319,060
Interest rebates from Build America Bonds	1,849,413	2,777,099
Proceeds from sale of assets	1,300,508	12,368,747
Capital purchases	(124,582,541)	(100,898,533)
Net cash flows used in capital and related financing activities	(129,816,090)	(163,083,698)
Cash flows from investing activities:		
Proceeds from sale and maturities of investments	704,568,993	770,437,846
Purchase of investments	(696,510,843)	(681,200,484)
Interest income	2,979,506	376,694
Net cash flows from investing activities	11,037,656	89,614,056
Net change in cash	(548,256)	864,118
Cash at beginning of year	6,290,165	5,426,047
Cash at end of year	$ 5,741,909	$ 6,290,165
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	$ (734,200,258)	$ (711,156,941)
Depreciation and amortization	206,753,917	212,338,159
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable	(1,445,564)	1,714,028
(Increase) in inventory and other assets	(3,283,003)	(4,228,946)
Increase (decrease) in pension plan benefits	(8,545,265)	74,075,974
(Increase) decrease in deferred outflows – pension plans	14,769,620	(59,940,270)
Increase in deferred inflows – pension plans	11,512,863	2,168,916
(Decrease) increase in accrued compensation and benefits	5,685,361	(648,639)
Increase in other postemployment benefits	30,591,758	30,548,445
(Decrease) increase in liabilities for injuries and damages	1,817,057	(990,117)
(Decrease) in trade payables and other liabilities	(24,732,953)	(3,870,970)
Cash used in operating activities	$ (501,076,467)	$ (459,990,361)
Noncash investing activities:		
Net (increase) decrease in fair value of investments	$ 339,992	$ (590,649)
Inflows from reissuance of commercial paper	509,250,000	645,600,000
Outflows from reissuance of commercial paper	(509,250,000)	(645,600,000)

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

1. Summary of Significant Accounting Policies

The Metropolitan Transit Authority of Harris County, Texas (METRO) 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

METRO is a stand-alone governmental entity as defined by GASB Statement No. 14, *The Financial Reporting Entity*, amended by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units* and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus-An Amendment of GASB Statement No. 14 and No. 34.*

METRO is a political subdivision of the state of Texas established in 1977. METRO 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 directors are nominated by the Mayor of the City of Houston and confirmed by the City Council. Two directors are nominated by the Harris County Judge and confirmed by the Harris County Commissioners Court, and two directors are elected by the Mayors of the 14 cities other than Houston within METRO's service area.

Related Organizations

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

Nature of Operating and Nonoperating Activities

Operating

METRO uses the flow of economic resources measurement focus and accrual basis of accounting when preparing financial statements. Under this approach, revenues are recognized when earned and expenses are recognized when incurred.

Operating revenue includes transit fares and HOT lanes usage fees while operating expenses consist of transit operations, traffic management, and organizational support.

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

Organizational support provides METRO with oversight, direct assistance, and community/business development opportunities.

Nonoperating

Nonoperating revenue and expenses include the 1% sales tax levied in METRO's service area, investment income, intergovernmental revenue, non-transit related lease arrangements, operating grants, local infrastructure assistance, interest expense, storm damage, and loss on sale or disposal of assets. Interest expense includes interest, amortization of premium/discount and current year debt issuance cost.

Cash and Investments Activities Including Compliance with the Texas Public Fund Investment Act (TPFIA)

Cash consists of amounts maintained in demand deposit and petty cash accounts.

METRO's deposit and investment activities comply with policies established by the Board of Directors and the TPFIA. The TPFIA requires, as part of the annual financial statement audit, that the independent auditor perform certain compliance reviews some of which include: METRO's Board of Directors adopt a written investment policy and strategies that comply with TPFIA; they review this policy and investment strategies at least annually; adequately trained investment officers have been designated; and that investment activity is reported, reviewed, and accepted by the Board of Directors at least quarterly. The investment policy must also include a listing of authorized investments, which can include: Obligations of the United States of America, its agencies, and instrumentalities, money market mutual funds, commercial paper, fully collateralized repurchase agreements, local government investment pools, certificates of deposit, and other investments authorized by the TPFIA. The Board of Directors may also place additional limits on investment options.

All investments are reported at fair value with investments from borrowing reflected as restricted investments in the Statements of Net Position. Restricted assets reflected as current will be used to pay amounts reported as current liabilities.

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 primarily of diesel fuel, repair parts, and other supplies that are used to maintain buses, light-rail cars, facilities and related equipment.

Capital Assets

METRO's overall capitalization policy requires expenditures to be capitalized when they exceed $5,000 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 - 50 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 reported as part of nonoperating revenues (expenses) on the Statements of Revenues, Expenses, and Changes in Net Position. Liabilities relating to capital leases are reflected separately in the Statements of Net Position. METRO has no donated assets.

Compensated Absences

Compensated absences are earned by full-time and part-time employees with part-time employees earning benefits at a reduced rate based on hours worked.

Employees covered by the collective bargaining agreement 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 or paid to the employees upon their termination. These employees also accumulate 8 sick hours per month up to a maximum of 240 hours based on date of hire and years of service. Accumulated sick pay in excess of 64 hours may be sold each September 30 back to METRO at various rates based on attendance. Vacation and sick pay for these employees are expensed when earned, with unpaid balances being reported as part of accrued compensation and benefits (a liability) on the Statements of Net Position.

Full-time employees not covered by the collective bargaining agreement can earn up to 16.67 vacation hours each month and can accumulate up to 600 hours based on years of service and hire date. Vacation expense is recorded when earned, with the unused balance being reported as part of accrued compensation and benefits (a liability) in the Statements of Net Position. Employees are paid for their unused vacation time upon termination. In addition, these employees receive 80 hours of sick leave per year at the beginning of each calendar year. Unused sick leave cannot be carried forward to subsequent years and there is no payment at the end of a calendar year or when the employee terminates. Sick leave for Non-Union employees is expensed when incurred.

Pension Plans

METRO has two defined benefit pension plans and one defined contribution plan. Accounting and financial reporting standards for defined benefit pensions plans require including the net pension liability, deferred outflows/inflows of resources, pension expense, and information about the Plans' fiduciary net position in METRO's financial statements. The amounts reported were determined on the same basis as reported by the individual pension plans. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms and investments are reported at fair value. Comprehensive Annual Financial Reports (CAFR) for the defined benefit pension plans are located on METRO's Website with certain information taken from these CAFRs located in Note 4.

Commercial Paper

Obligations for the issuance of tax-exempt commercial paper are reported as a current liability unless they are supported by a non-cancellable, revolving credit, and term loan agreement that exceeds one year as of the date of the Statements of Net Position. In addition, the agreement must be issued by an organization with the financial capacity to support their commitment. Obligations that meet these requirements have been reported as a noncurrent liability in the Statements of Net Position.

Sales Tax

Revenue from the 1% sales tax is recognized when taxable sale transactions occur within METRO's service area. The Comptroller of the State of Texas collects and distributes these amounts to the appropriate governmental organizations with funding normally occurring within 60 days from date of the sale. The amount reported is net of a 2% collection and distribution service fee withheld by the State.

Use of Estimates

The preparation of financial statements in conformity with U. S. 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.

Comparative Financial Information

Certain amounts in prior financial statements have been reclassified to conform to the current financial statement presentation. These changes did not impact total operating expenses, assets, liabilities or fund balances.

New Accounting and Reporting Standards

New GASB statements that are being evaluated	Effective
Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*	FY2018
Statement No. 81 *Irrevocable Split-Interest Agreements*	FY2018

New GASB statements adopted during FY2017	
Statement No. 77, *Tax Abatement Disclosures*	*Disclosure - Note 7*
Statement No. 79, *Certain External Investment Pools and Pool Participants*	*No changes required*
Statement No. 80, *Blending Requirements for Certain Component Units*	*No changes required*
Statement No. 82 *Pension issues (an amendment of GASB 67 Statement No. 67, No. 68, and No. 73)*	*Disclosure - Note 4*

The new standards adopted during FY2017 primarily related to disclosure requirements and did not change METRO's method of reporting revenues, expenses, assets or liabilities.

2. Deposits and Investment Securities:

Deposits and Investments Including Compliance with the Texas Public Fund Investment Act (TPFIA)

METRO's deposit and investment activity complies with the TPFIA or policies (if more restrictive) established by the Board of Directors. Some items required by the TPFIA include written investment policies, designation of adequately trained investment officers, submissions (at least quarterly) of investment reports to the Board of Directors, and compliance reviews performed annually by the external auditors as part of the financial statement audit. In addition, the investment policy must be approved by the Board of Directors annually, which includes a list of authorized broker/dealers and investments, which are limited to obligations of the United States of America, its agencies; instrumentalities; money market mutual funds; commercial paper; fully collateralized repurchase agreements; local government investment pools; certificates of deposit; and other investments authorized by the TPFIA.

Interest Rate and Credit Risk

METRO'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 mutual funds, instrumentalities, agencies, and obligations of the United States with maturities generally less than two years. Investments not issued by a government or sponsored agency must be rated not less than AAAm, A-1, P-1, F-1, or equivalent by a nationally recognized rating organization.

Custodial Credit Risk

METRO's investment policy requires bank deposits to be insured by Federal Deposit Insurance Corporation or collateralized at least 102 percent of value with the collateral held by a nonaffiliated, federally insured financial institution. Investment securities are registered in METRO's name and held by an independent custodian.

Concentration of Credit Risk

METRO's investment policy requires a diversified portfolio that minimizes the risk of loss resulting from overconcentration of assets in specific maturity, issuer, or class of securities while placing limits on the allocation of funds between investment types.

Investments issued or explicitly guaranteed by the U.S. government, investments in mutual funds, external investment pools, and other pooled investments are not subject to concentration of credit risk disclosure and represented $213,293,574 or 52.1 percent of total investments for FY2017 and $237,167,695 or 56.3 percent for FY2016.

Investments in a single issuer that were not explicitly guaranteed by the U.S government and exceeded 5% of the investment portfolio as of September 30, 2017 and 2016 included:

	Fiscal 2017		Fiscal 2016	
Investments in Government Sponsored Enterprises	Amount	Percentage of Investment Portfolio	Amount	Percentage of Investment Portfolio
Federal Home Loan Banks	$52,274,440	12.80%	$79,803,908	18.90%
Federal Farm Credit Banks Funding Corporation	43,904,940	10.70%		
Federal Home Loan Mortgage Corporation	49,930,200	12.20%	40,278,550	9.60%
Federal National Mortgage Association	25,143,338	6.10%	30,160,292	7.10%
Total	$171,252,918		$150,242,750	

Deposits

METRO's checking accounts and book balances for cash as of September 30, 2017 and 2016 were:

	Fiscal 2017	Fiscal 2016
Unrestricted		
Bank balances	$ 5,724,429	$ 5,786,977
Book balances	5,741,909	6,290,165

Investments

Fair Value Measurement

METRO categorizes its fair value measurements within the fair value hierarchy established by U.S. generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. METRO uses information provided by Wells Fargo Bank, N.A., the asset custodian, when reporting the fair value of its investments. Fair value of METRO's investments for FY2017 and FY2016 were:

	FY2017 Fair Value Measurement Based on Reporting Hierarchy			
Investments	Fair Value as of September 30, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Debt securities				
U.S. treasury notes	$ 10,015,300	$ 10,015,300	$ –	$ –
U.S. agencies	176,269,718	–	176,269,718	–
Certificate of deposits	20,000,000	–	20,000,000	–
Total debt securities	$ 206,285,018	$ 10,015,300	$ 196,269,718	$ –
Investments measured at the net asset value - Local government investment pool	203,278,274			
Total investments measured at fair value	$ 409,563,292			

	FY2016 Fair Value Measurement Based on Reporting Hierarchy			
Investments	Fair Value as of September 30, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Debt securities				
U.S. treasury notes	$ 30,134,550	$ 30,134,550	$ –	$ –
U.S. agencies	164,240,460	–	164,240,460	–
Certificate of deposits	20,000,000	–	20,000,000	–
Total debt securities	$ 214,375,010	$ 30,134,550	$ 184,240,460	$ –
Investments measured at the net asset value - Local government investment pool	207,033,144			
Total investments measured at fair value	$ 421,408,154			

The fair value of METRO's investments held at September 30, 2017 and 2016 are indicative of the type of investments made by METRO during each fiscal year and consist of the following:

	Fiscal 2017 Fair Value	Fiscal 2016 Fair Value	Fiscal 2017 Credit Ratings
Unrestricted investments			
U.S. treasury notes	$ 10,015,300	$ 30,134,550	
U.S. agencies	176,269,718	164,240,460	Aaa/AA+
Local government investment pool	107,132,460	107,440,609	AAAm
Certificate of deposit	20,000,000	20,000,000	Collateral =Aaa
Restricted investments			
Local government investment pool	96,145,814	99,592,535	AAAm
Total Investments	$ 409,563,292	$ 421,408,154	

Investment by type and weighted average maturity as of September 30, 2017 consisted of the following:

Investment securities:	Fiscal 2017 Fair Value	Less Than 1 Year	More Than 1 Year	Average Maturity
U.S. treasury notes	$ 10,015,300	$ 10,015,300	$ –	99 days
U.S. agencies	176,269,718	116,106,068	60,163,650	299 days
Local government investment pool	203,278,274	203,278,274	–	32 days
Certificate of deposits	20,000,000	–	20,000,000	474 days
Total Investments	$ 409,563,292	$ 329,399,642	$ 80,163,650	

Investment by type and weighted average maturity as of September 30, 2016 consisted of the following:

Investment securities:	Fiscal 2016 Fair Value	Less Than 1 Year	More Than 1 Year	Average Maturity
U.S. treasury notes	$ 30,134,550	$ 19,999,200	$ 10,135,350	407 days
U.S. agencies	164,240,460	119,844,958	44,395,502	336 days
Local government investment pool	207,033,144	207,033,144	–	43 days
Certificate of deposits	20,000,000	20,000,000	–	273 days
Total Investments	$ 421,408,154	$ 366,877,302	$ 54,530,852	

Investments measured at the net asset value (NAV) consist of funds on deposit with Texas Short Term Asset Reserve Program (“*TexSTAR”) Cash Reserve Fund.* This is a local government investment pool organized under the authority of the Interlocal Cooperation Act, Chapter 791, Texas Government Code, and the Public Funds Investment Act, Chapter 2256, Texas Government Code.

TexSTAR participants have daily access to their funds with no penalties. Interest is accrued daily and paid monthly. There is no minimum balance required and no limit on the number of individual accounts. Participants can initiate wire transactions until 4:00 p.m. Central Time for same day settlement and ACH transactions until 4:00 p.m. Central Time for next date settlement. The fund is rated AAAm by Standard and Poor’s and maintains a maturity of 60 days or less, with a maximum maturity of 13 months for any individual security.

Funds placed with TexSTAR will generally be used to pay principal and interest payments on outstanding debt and General Mobility Program payments.

3. Capital Assets

Changes in capital assets for fiscal year 2017 were as follows:

	October 1, 2016	Additions	Reductions and Retirements	Transfers and Completed Projects	September 30, 2017
Capital assets not depreciated:					
Land	$ 269,777,171	$ –	$ –	$ 69,665	$ 269,846,836
Construction in progress	107,163,262	101,377,092	–	(156,661,394)	51,878,960
Total capital assets not depreciated	376,940,433	101,377,092	–	(156,591,729)	321,725,796
Capital assets depreciated:					
Administration and operating facilities	444,284,725	–	–	4,434,334	448,719,059
Park & Ride lots and transit centers	295,253,570	–	–	15,830,439	311,084,009
Buses and equipment	848,985,106	–	(34,054,487)	72,307,226	887,237,845
Rail cars	277,693,364	–	(46,016)	820,194	278,467,542
Rail infrastructure	1,954,599,425	–	–	40,670,050	1,995,269,475
Transitways/HOT lanes	579,613,975	–	–	1,912,113	581,526,088
Other property and equipment	50,936,670	–	(817,445)	20,617,373	70,736,598
Total capital assets depreciated	4,451,366,835	–	(34,917,948)	156,591,729	4,573,040,616
Less accumulated depreciation and amortization:					
Administration and operating facilities	(285,871,079)	(14,815,768)	–	–	(300,686,847)
Park & Ride lots and transit centers	(205,568,997)	(8,689,171)	–	–	(214,258,168)
Buses and equipment	(588,817,401)	(71,778,946)	32,510,700	–	(628,085,647)
Rail cars	(86,662,474)	(27,363,578)	46,016	–	(113,980,036)
Rail infrastructure	(197,413,369)	(56,272,150)	–	–	(253,685,519)
Transitways/HOT lanes	(392,604,794)	(20,225,517)	–	–	(412,830,311)
Other property and equipment	(32,172,131)	(7,608,787)	815,974	–	(38,964,944)
Total accumulated depreciation and amortization	(1,789,110,245)	(206,753,917)	33,372,690	–	(1,962,491,472)
Total capital assets being depreciated, net	2,662,256,590	(206,753,917)	(1,545,258)	156,591,729	2,610,549,144
Total capital assets, net	$ 3,039,197,023	$ (105,376,825)	$ (1,545,258)	$ –	$ 2,932,274,940

Total interest cost incurred, including the amortization of the premium and discount, for the current and previous two fiscal years was $46,539,847, $45,949,405, and $45,849,975. Amounts capitalized during these periods were none for FY2017, $2,839,818 for FY2016, and $31,348,602 for FY2015. The significant decline in interest capitalization was due to the completion of several major rail construction programs near the end of FY2015.

Changes in capital assets for fiscal year 2016 were as follows:

	October 1, 2015	Additions	Reductions and Retirements	Transfers and Completed Projects	September 30, 2016
Capital assets not depreciated:					
Land	$ 280,190,888	$ –	$ (15,118,679)	$ 4,704,962	$ 269,777,171
Construction in progress	59,804,208	131,968,141	(355)	(84,608,732)	107,163,262
Total capital assets not depreciated	339,995,096	131,968,141	(15,119,034)	(79,903,770)	376,940,433
Capital assets depreciated:					
Administration and operating facilities	441,586,428	–	–	2,698,297	444,284,725
Park & Ride lots and transit centers	297,091,183	–	–	(1,837,613)	295,253,570
Buses and equipment	839,276,489	–	(43,559,732)	53,268,349	848,985,106
Rail cars	257,833,514	–	–	19,859,850	277,693,364
Rail infrastructure	1,957,208,345	–	–	(2,608,920)	1,954,599,425
Transitways/HOT lanes	578,916,708	–	–	697,267	579,613,975
Other property and equipment	54,362,491	–	(11,252,361)	7,826,540	50,936,670
Total capital assets depreciated	4,426,275,158	–	(54,812,093)	79,903,770	4,451,366,835
Less accumulated depreciation and amortization:					
Administration and operating facilities	(268,253,543)	(17,617,536)	–	–	(285,871,079)
Park & Ride lots and transit centers	(196,632,860)	(8,936,137)	–	–	(205,568,997)
Buses and equipment	(555,034,286)	(72,435,552)	38,652,437	–	(588,817,401)
Rail cars	(58,449,572)	(28,212,902)	–	–	(86,662,474)
Rail infrastructure	(140,471,407)	(56,941,962)	–	–	(197,413,369)
Transitways/HOT lanes	(371,356,704)	(21,248,090)	–	–	(392,604,794)
Other property and equipment	(36,475,251)	(6,945,980)	11,249,100		(32,172,131)
Total accumulated depreciation and amortization	(1,626,673,623)	(212,338,159)	49,901,537	–	(1,789,110,245)
Total capital assets being depreciated, net	2,799,601,535	(212,338,159)	(4,910,556)	79,903,770	2,662,256,590
Total capital assets, net	$ 3,139,596,631	$ (80,370,018)	$ (20,029,590)	$ –	$ 3,039,197,023

4. Retirement Plans

METRO has three pension plans and two postemployment healthcare plans. Two of the pension plans are noncontributory, single-employer, defined-benefit plans and one is a defined contribution plan. The postemployment healthcare plans are single-employer, defined benefit plans that are available to eligible retirees.

Pension and postemployment healthcare contributions are authorized by METRO's Board of Directors during the annual budgeting process. METRO's funding policy, for both pension plans, is to contribute each year the annual, actuarially determined contribution in equal payments over a 12-month period.

The monthly pension contributions are placed into separate trust accounts and will be used to fund pension payments as they become due. Other postemployment benefits are funded on a pay-as-you-go basis. Independently audited financial statements are available for both defined-benefit pension plans on METRO's Website. METRO has no access to pension plan assets as they are kept in separate trust accounts and managed by two separate administrative committees. The Defined Benefit Pension Plans (Plans) asset custodian and disbursing agent is State Street Bank, which is responsible for executing/recording all investment transactions authorized by the plans, paying operating expenses, and issuing monthly checks to retirees.

Calculating amounts used in financial reporting and management of the Transport Workers Union Pension Plan, Local 260, AFL-CIO (TWUPP) and the Non-Union Pension Plan (NUPP), the two defined benefit retirement plans, requires the use of actuarial assumptions. These assumptions reflect a long-term perspective in determining liabilities and expenses. Each year these assumptions are reviewed with the plans' actuary and adjusted based on actual performance. The amount ultimately paid may vary significantly from the amounts currently reported since retirement liabilities are based on long-term estimates and actuarial projections.

Changes in actuarial assumptions made during FY2017 for the TWUPP and the NUPP consisted of:

TWUPP	NUPP
The mortality table was updated using the Mortality Improvement Scale MP-2016	The mortality table was updated using the Mortality Improvement Scale MP-2016
The earnings progression assumption, was increased from 2.50% to 2.75.	The earnings progression assumption was increased from 2.50% to 2.75%
Lump sum election is not available under this plan	The lump sum election was decreased from 85% to 50%

Changes in assumptions, listed above, along with other economic and demographic gains reduced the TWUPP net pension liability by $15,925,303 while similar changes increased the net pension liability of the NUPP by $12,298,654 during FY2017. The related changes in deferred inflows/outflows will be amortized, using the straight-line method, and reported as part of pension expense in the current and over the next four years.

Change in actuarial assumption made during FY2016 for the TWUPP and the NUPP consisted of:

TWUPP	NUPP
The mortality table was updated to the RP2014 Mortality Table adjusted backwards to 2006 with MP-2014 and projected forward (fully generational) with MP-2015	The mortality table was updated to the RP2014 Mortality Table adjusted backwards to 2006 with MP-2014 and projected forward (fully generational) with MP-2015

Updating the mortality table, listed above, along with other economic and demographic losses (based on an experience study dated June 22, 2016) increased the net pension liability for the TWUPP by $22,899,218 and by $18,953,325 for the NUPP during FY2016. The related increase in deferred outflows will be amortized, using the straight-line method, and reported as part of pension expense in the current and over the next four years.

The net pension liability, as of September 30, 2017, for both defined benefit pension plans was measured as of December 31, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation dated January 1, 2016. The actuarial valuation was based on the discount rate and actuarial assumptions listed on the next page and projected forward to the measurement date, September 30, 2017, in accordance with GASB Statement No. 68.

The discount rate used to determine the total pension liability for both defined benefit pension plans was 6.75% which is the same as the long-term expected investment rate of return. The use of the same rate is only appropriate when the depletion analysis, which covers the life of the individual plan, has projected cash inflows from contributions and investment earnings which will equal or exceed the projected outflows for expenses and benefit payments.

The projected long-term expected rate of return on pension plan investments was determined using a building-block method in which the best-estimate ranges of expected future real rates of returns (expected returns, net of pension plan investment expense and inflation) were developed for each major asset class. These ranges are combined to produce the projected long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The best estimates of the projected arithmetic, real rates of return for each major asset class included in the Plan's target asset allocation as of January 1, 2016 are reflected on page 38 and 41 of this report.

Changes in the combined net pension liability for both defined benefit pension plans as of September 30, 2017 and September 30, 2016 was:

Net Pension Liability	TWUPP	NUPP	Total
Ending September 30, 2016	$ 159,208,177	$ 92,829,616	$ 252,037,793
Current year changes	(19,990,903)	11,445,638	(8,545,265)
Ending September 30, 2017	$ 139,217,274	$104,275,254	$ 243,492,528

Net Pension Liability	TWUPP	NUPP	Total
Ending September 30, 2015	$ 116,911,315	$ 61,050,504	$ 177,961,819
Current year changes	42,296,862	31,779,112	74,075,974
Ending September 30, 2016	$ 159,208,177	$ 92,829,616	$ 252,037,793

The ending net pension liabilities is measured each December 31 and reported nine months later in METRO's Statement of Net Position dated September 30 of each fiscal year. METRO's contributions for the period January 1 through September 30 of each year are reported as part of the deferred outflows as listed on the following schedule.

The deferred outflows and inflows for both defined benefit pension plans as of September 30, 2017 and September 30, 2016 were:

Deferred outflows for FY2017	TWUPP	NUPP	Total
Contributions between January 1, 2017 through September 30, 2017	$ 11,560,367	$ 8,480,456	$ 20,040,823
Difference between expected and actual economic/demographic experience	–	10,222,838	10,222,838
Change of assumption	14,382,035	7,629,662	22,011,697
Net difference between projected and actual earnings on pension investments	14,193,139	11,086,424	25,279,563
Total deferred outflows September 30, 2017	$ 40,135,541	$ 37,419,380	$ 77,554,921

Deferred outflows for FY2016	TWUPP	NUPP	Total
Contributions between January 1, 2016 through September 30, 2016	$ 12,423,960	$ 8,385,852	$ 20,809,812
Difference between expected and actual economic/demographic experience	–	4,955,728	4,955,728
Change of assumption	20,030,910	9,020,358	29,051,268
Net difference between projected and actual earnings on pension investments	22,066,007	15,441,726	37,507,733
Total deferred outflows September 30, 2016	$ 54,520,877	$ 37,803,664	$ 92,324,541

Deferred inflows for FY2017	TWUPP	NUPP	Total
Difference between expected and actual economic/demographic experience	$ 9,593,939	$ –	$ 9,593,939
Change of assumption	4,087,840	–	4,087,840
Total deferred inflows September 30, 2017	$ 13,681,779	$ –	$ 13,681,779

Deferred inflows for FY2016	TWUPP	NUPP	Total
Difference between expected and actual economic/demographic experience	$ 2,168,916	$ –	$ 2,168,916

Significant actuarial assumptions used in calculating the net pension liability and related pension expense for the defined benefit pension plans are listed below:

	TWUPP	NUPP
Valuation timing	January 1 of each year	January 1 of each year
Cost method	Entry age normal	Entry age normal
Inflation rate	2.3% per year IRS salary limit	2.3% per year IRS salary limit
Investment rate of return	6.75% per annum	6.75% per annum
Funding policy	Contributing annually the actuarially determined contribution requirement	Contributing annually the actuarially determined contribution requirement
Cost-of-living adjustments	None	None
Projected salary increases	2.75% per annum	2.75% per annum
Assumed annual retirement rate	Varying percentage ranging from 5% to 100% for ages 60 through 70	Varying percentage ranging from 20% to 100% for ages 55 through 70
Mortality and disabled mortality	RP-2014 Mortality adjusted backwards to 2006 with MP-2014 and projected forward (fully generational) with MP-2016	RP-2014 Mortality adjusted backwards to 2006 with MP-2014 and projected forward (fully generational) with MP-2016
Amortization of gains/losses:		
Method	Level dollars/reestablished annually	Level dollars/reestablished annually
Period	27 years closed	27 years closed
Open to new members	No (as of October 1, 2012)	No (as of October 1, 2007)

TWUPP Defined Benefit Pension Plan

The TWUPP was established by METRO for the purpose of accumulating funds to pay retirement benefits and certain related administrative costs. The Plan, which closed to new members on October 1, 2012, is a single employer, noncontributory defined benefit pension plan which is for employees covered by the collective bargaining agreement. Retirement benefits are established during periodic negotiations with the Transport Workers Union of America, AFL-CIO and Local 260 of the Transport Workers Union of America, AFL-CIO (Union). Postemployment health care costs are not included in the TWUPP.

TWUPP provides for monthly normal retirement benefits based on the participant's years of service, but not less than $500 each month. The calculation for the monthly normal retirement benefit is based on the designated dollar amount times the number of credited years of service. The designated dollar amount used to determine the monthly normal retirement benefit is based on date of retirement and as allowed by the Union labor agreement. The most current monthly amounts paid for recent retirees are as follows:

August 1, 2002 through July 31, 2003	$ 50
August 1, 2003 through July 31, 2004	51
August 1, 2004 through July 31, 2005	52
August 1, 2005 through July 31, 2006	52
August 1, 2006 through July 31, 2007	53
August 1, 2007 through January 31, 2009	54
February 1, 2009 through present	60

Participants can only receive monthly distributions unless their balance is $5,000 or less, then the participant can elect to receive a lump-sum payment. TWUPP participants are 100% vested after five years of credited service. Participants become eligible to receive benefits at the earlier of 28 years of credited services or at age 60 with five years of credited service. The requirements for early retirement with reduced benefits are that an employee reaches age 55 with 25 years of credited service. In addition, TWUPP provides for disability retirement benefits with the requirement of having five years of credited service. Additional requirements include five years of vesting service for vested deferred retirement benefits and for preretirement spousal benefits.

Changes in plan participants between January 1, 2016 and January 1, 2015 were:

Participants	2016	2015	Change
Active	1,994	2,108	(114)
Terminated and vested	530	560	(30)
Retired	1,050	986	64
Disabled	198	209	(11)
Beneficiaries	295	247	48
Total for all participants	4,067	4,110	(43)

Changes in the Net Pension Liability for the TWUPP is based on a measurement date of December 31 with the amounts reported on METRO's September 30 financial statements. Activities for the last two years consisted of:

	For the Years Ending September 30, (Reporting Dates)	
	2017	2016
Total pension liability		
Changes for the year:		
Service cost	$ 5,328,754	$ 5,549,985
Interest on total pension liability	24,589,485	24,786,145
Changes of benefit terms	–	–
Difference between expected and actual experience	(10,556,008)	(2,780,567)
Changes of assumption	(5,369,295)	25,679,785
Benefit payments	(17,656,524)	(16,567,409)
Net change in total pension liability	(3,663,588)	36,667,939
Total pension liability beginning	383,569,323	346,901,384
Total pension liability ending	379,905,735	383,569,323
Plan fiduciary net position:		
Contributions from the employer	16,565,280	19,062,423
Net investment income	17,696,392	(7,809,891)
Benefit payments	(17,656,524)	(16,567,409)
Administrative expenses	(277,833)	(314,046)
Net change in plan fiduciary net position	16,327,315	(5,628,923)
Plan fiduciary net position - beginning	224,361,146	229,990,069
Plan fiduciary net position - ending	240,688,461	224,361,146
METRO's net pension liability	$ 139,217,274	$ 159,208,177

Sensitivity Analysis Schedule, provided below, is used to evaluate the effect on the total pension liability and related net pension liability for a 1% change in the discount rate as of September 30, 2017.

	1% Decrease to 5.75%	Current Discount Rate 6.75%	1% Increase to 7.75%
Net pension liability	$ 181,897,283	$ 139,217,274	$ 103,104,922

The best estimates of the projected arithmetic, real rates of return for each major asset class included in TWUPP target asset allocation as of January 1, 2016 are listed below:

Asset Class	Index	Target Allocation	Long-term Expected Real Rate of Return
Cash	Citigroup 90-Day T-Bills	4.31%	0.50%
Core Fixed Income	Barclays Aggregate	31.48%	1.68%
Large Cap U.S. Equities	S&P 500	14.89%	3.70%
Mid Cap U.S. Equities	Russell Mid Cap	13.44%	3.85%
Small Cap U.S. Equities	Russell 2000	13.69%	4.20%
Developed Foreign Equities	MSCI EAFE	22.20%	4.50%
Assumed Inflation – Mean			2.30%
Assumed Standard Deviation			1.85%
Portfolio Arithmetic Mean Return			6.48%
Portfolio Standard Deviation			11.18%
Long-Term Expected Rate of Return			6.75%

Pension Plan Expense and Deferred Outflows and Inflows

Pension expense for FY2017 and FY2016 totaled $21,608,983 and $25,885,559, respectively, and was reported on the Statement of Changes in Net Position for each fiscal year. The decline in pension expense for FY2017 primarily relates to the amortization of deferred inflows.

A deferred outflow of $40,135,541 and a deferred inflow of $13,681,779 was reported on the statement of net position as of September 30, 2017. Included in the deferred outflow are contributions, by METRO, totaling $11,560,367 for the period January 1, 2017 through September 30, 2017. These contributions will be reflected in next year's actuarial report when determining financial information including pension expense. The deferred outflows, and inflows, excluding the contributions previously discussed, will be amortized using the straight-line method over the next four years and reported as a part of pension expense as follows:

Fiscal Year	Amount
2018	$ 6,511,836
2019	6,511,835
2020	3,111,366
2021	(1,241,642)
Total	$ 14,893,395

NUPP Defined Benefit Pension Plan

METRO established the NUPP during December 1975 for the purpose of accumulating funds to pay retirement benefits and certain related administrative costs. The Plan, closed to new participants on October 1, 2007, is a single employer, noncontributory (since March 1, 1984) defined benefit pension plan which covers full-time police officers and administrative staff. Retirement benefits are established and can be amended by METRO's Board of Directors. Postemployment healthcare costs are not included in the Plan.

The Plan participants are 100% vested after five years and can retire at age 65 (normal retirement age) or with reduced benefits after age 55 with 15 years of credited service. Monthly benefits are calculated using three factors, which include employee's average earnings for the last three years, number of service years, and the retirement factor. The minimum monthly normal retirement benefit is $300 for those who retire at or after age 65 and with five years of credited service. The NUPP offers several annuity options and a discounted lump-sum payment.

To receive a lump sum payment, vested employees must withdraw their funds by the end of the year following their termination. After this time, they must select one of the annuity options upon their eligible retirement date. Employees who are totally disabled will continue to earn service years until their normal retirement age with their compensation, as of their disability date, used to calculate their benefits.

Changes in plan participants between January 1, 2016 and January 1, 2015 were:

Participants	2016	2015	Change
Active	585	621	(36)
Terminated and vested	87	87	–
Retired	225	210	15
Disabled	–	–	–
Beneficiaries	43	44	(1)
Total participants	940	962	(22)

Pension Plan Expense and Deferred Outflows and Inflows

Pension expense for FY2017 and FY2016 totaled $23,105,662 and $17,309,213 and was reported on the statement of changes in net position for each fiscal year. The increase in pension expense for FY2017 primarily relates to the amortization of deferred outflows and interest on the total pension liability.

A deferred outflow of $37,419,380 and a deferred inflow of $0 were reported on the statement of net position as of September 30, 2017. Included in the deferred outflow are contributions by METRO totaling $8,480,456 for the period January 1, 2017 through September 30, 2017. These contributions will be reflected in next year's actuarial report when determining financial information including pension expense. The deferred contributions, excluding those contributions previously discussed, will be amortized using the straight-line method over the next four years and reported as a part of pension expense as follows

Fiscal Year	Amount
2018	$ 12,447,957
2019	11,492,328
2020	5,064,556
2021	(65,917)
Total	$ 28,938,924

Changes in the Net Pension Liability for the NUPP is based on a measurement date of December 31 with amounts reported on METRO's September 30 financial statements. Activities for the last two years consisted of:

	For the Years Ended September 30, (Reporting Dates)	
	2017	2016
Total pension liability		
Changes for the year		
Service cost	$ 3,465,270	$ 2,782,533
Interest on total pension liability	16,607,887	15,165,652
Changes of benefit terms	–	–
Difference between expected and actual experience	9,768,147	6,720,589
Changes of assumption	2,530,507	12,232,736
Benefit payments	(10,374,582)	(8,777,750)
Net change in total pension liability	21,997,229	28,123,760
Total pension liability beginning	235,381,436	207,257,676
Total pension liability ending	257,378,665	235,381,436
Plan fiduciary net position		
Contributions from the employer	11,181,136	11,248,671
Net investment income	9,971,104	(5,890,916)
Benefit payments	(10,374,582)	(8,777,750)
Administrative expenses	(226,067)	(235,357)
Net change in plan fiduciary net position	10,551,591	(3,655,352)
Plan fiduciary net position – beginning	142,551,820	146,207,172
Plan fiduciary net position – ending	153,103,411	142,551,820
METRO's net pension liability ending	$ 104,275,254	$ 92,829,616

Sensitivity Analysis Schedule, provided below, is used to evaluate the effect on the total pension liability and related net pension liability for a 1% change in the discount rate as of September 30, 2017.

	1% Decrease to 5.75%	Current Discount Rate of 6.75%	1% Increase to 7.75%
Net pension liability	$ 128,352,282	$ 104,275,254	$ 83,795,584

The best estimates of the projected arithmetic, real rates of return for each major asset class included in the Plan's target asset allocation as of January 1, 2016, are listed below.

Asset Class	Index	Target Allocation	Long-term Expected Real Rate of Return
Cash	Citigroup 90-Day T-Bills	4.38%	0.50%
Core Fixed Income	Barclays Aggregate	33.56%	1.68%
Large Cap U.S. Equities	S&P 500	23.01%	3.70%
Mid Cap U.S. Equities	Russell Mid Cap	3.80%	3.85%
Small Cap U.S. Equities	Russell 2000	12.72%	4.20%
Developed Foreign Equities	MSCI EAFE	22.53%	4.50%
Assumed Inflation – Mean			2.30%
Assumed Standard Deviation			1.85%
Portfolio Arithmetic Mean Return			6.36%
Portfolio Standard Deviation			10.61%
Long-Term Expected Rate of return			6.75%

Defined Contribution Pension Plan (DCPP)

The NUPP was closed October 1, 2007 and the TWUPP was closed October 1, 2012 to new employees. Individuals hired after those dates are placed into a DCPP. As part of DCPP, METRO will contribute 2% of the employee's annual salary and will match up to an additional 4% of their contributions. All contributions are placed into a third-party trust account. Employee's vesting rates are 40% after the second year and 20% annually thereafter. Contributions by METRO for the current and previous two fiscal years were $4,925,937, $4,113,297, and $2,954,478, with employees contributing $4,150,144, $3,356,028, and $2,406,028, respectively.

Other Postemployment Benefits Other Than Pension

METRO sponsors two single-employer, defined benefit Other Postemployment Healthcare Plans, which include 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 a retiree's contribution being based on years of service for the Non-Union Plan. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and 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. METRO is on a pay-as-you-go funding basis for these benefits.

The Trust is a separate legal entity that is managed by four Trustees who are responsible for managing resources and establishing benefits. Payments to the Trust are irrevocable with METRO's responsibility limited to monthly payments that are based on the number of eligible participants times a standard amount that is established during contract negotiations. To qualify for this retirement benefit, an employee must be 60 years old with 5 years of credited service, any age with 28 years of credited services, or 55 years old with 25 years of credited service or meet disability qualifications. Actual contributions made to the Trust for retirees for the current and previous two fiscal years were $11,541,786, $10,748,776, and $9,194,420 respectively.

The Non-Union Plan is administered by METRO and covers full-time employees with payments made as services are provided. To qualify for this benefit, an employee must be 55 years or older with 5 years of credited services. Employees hired after December 31, 2009 are not eligible for postretirement medical and dental benefits but remain eligible for life insurance with a maximum benefit of $14,000. Effective October 1, 2012, METRO moved post-65 retirees and spouses to Extend Health. This plan is capped at $2,801 per person annually and includes medical, dental, vision, and pharmacy. Actual contributions for the current and previous two fiscal years were $2,871,264, $3,101,140, and $3,078,282, respectively.

Significant actuarial assumptions used in METRO's Other Postemployment Plans valuations are listed the following page.

	Trust	Non-Union
Valuation date	Biennially on January 1st	Biennially on January 1st
Cost method	Projected unit credit	Projected unit credit
Healthcare cost trend rate	3%	Varying from 5.3% declining to 4.4% after 2071
Investment rate of return without prefunding	3.75% per annum	3.75% per annum
Funding policy	Pay-as-you-go	Pay-as-you-go
Assumed annual retirement rate	Varying percentage ranging from 5% to 100% for age 55 through 70	Varying percentage ranging from 10% to 100% for ages 55 through 70
Inflation assumption	2.5% per annum, compound annually	2.3% per annum, compound annually
Mortality basis after normal retirement	The RP-2014 Mortality adjusted backwards to 2006 with MP-2014 projected forward (fully generational) with MP2015. Separate tables were used for male and female disabled lives (sex distinct)	The RP-2014 Mortality adjusted backwards to 2006 with MP-2014 projected forward (fully generational) with MP2016. Separate tables were used for male and female disabled lives (sex distinct)
Amortization of gains and loss		
Method	Level dollars/reestablished annually	Level dollars/reestablished annually
Period	30 years closed starting January 1, 2013	30 years closed starting January 1, 2013
Open to new members	Yes	No (as of January 1, 2010)

The following calculations for Other Postemployment Benefit (OPEB) Cost, Net OPEB Obligation, and Funded Status of the plans are based on independent actuarial reports. The Trust's report was dated January 1, 2016 while the Non-Union report was dated January 1, 2017.

	Fiscal Year 2017		Fiscal Year 2016	
	Trust	Non-Union	Trust	Non-Union
Annual required contributions	$ 42,192,802	$ 7,518,756	$ 42,192,802	$ 6,609,938
Interest on prior year net post-employment benefit obligation	6,425,278	2,302,692	6,425,278	2,254,416
Adjustment to annual required Contributions	(9,831,809)	(3,602,911)	(9,831,809)	(3,252,264)
Other postemployment cost	38,786,271	6,218,537	38,786,271	5,612,090
Contribution	11,541,786	2,871,264	10,748,776	3,101,140
Change in net postemployment benefit obligation	27,244,485	3,347,273	28,037,495	2,510,950
Beginning net postemployment benefit obligation	199,378,240	61,405,152	171,340,745	58,894,202
Ending net postemployment benefit obligation	$226,622,725	$ 64,752,425	$199,378,240	$ 61,405,152
Percentage of postemployment benefit cost contributed	29.76%	46.17%	27.71%	55.26%

OPEB cost and Net OPEB obligations for the last three years are:

	Annual OPEB Cost	Percentage of OPEB Funded	Year-End Net OPEB Obligation
Trust			
2015	34,849,747	26.38%	171,340,745
2016	38,786,271	27.71%	199,378,240
2017	38,786,271	29.76%	226,622,725
Non-Union			
2015	5,612,090	54.85%	58,894,202
2016	5,612,090	55.26%	61,405,152
2017	6,218,538	46.17%	64,752,425

No assets have been accumulated for the OPEB liability since METRO funds on a pay-as-you-go basis. The schedule of funding progress as calculated by an independent actuary (in thousands) was:

Actuarial Valuation Date	OPEB Plan	Actuarial Value of Assets	Actuarial Accrued Liabilities	Unfunded Actuarial Accrued Liabilities (UAAL)	Funded Ratio Percentage
October 1, 2016	Trust	–	$ 446,704	$ 446,704	–
October 1, 2016	Non-Union	–	82,237	82,237	–

5. Self-Insurance

The Risk Management Department is responsible for developing and implementing safety/training programs, purchasing insurance policies, and establishing a self-insured liability for workers' compensation and third-party property and bodily injury claims. This self-insured liability is adjusted annually based on an independent actuarial study. Prior to the next actuarial update, the Risk Management Department will make monthly adjustments to the self-insured liability balance for cash payments, new claims, and estimated amounts for incurred but not yet reported claims. The increase in claims and changes in estimates, since September 30, 2014, relates to the new light-rail lines, METRO's New Bus Network and the method used to establish the estimated dollar amount of future claims.

The purchased insurance policies cover property risk, some of which include premises, fiduciary, commercial crime, windstorm, national flood insurance (at certain locations), railroad, and pollution. Settlements for these activities have not exceeded METRO's insurance coverage for any of the past three fiscal years with exception of Hurricane Harvey, which occurred in FY2017. METRO is working with its insurance provider and the Federal Emergency Management Agency to identify financial assistance that is available. Liabilities related to Hurricane Harvey are not included in the self-insurance liability.

METRO is protected by governmental immunity, except as provided by the Texas Tort Claims Act (TTCA). Under the TTCA, METRO's liability is capped at $100,000 per person and $300,000 per accident for property damage, personal injury, and death proximately caused by wrongful act or omission or the negligence of an employee acting within his scope of employment.

Balance and related changes for the self-insured liability for FY2017 and FY2016 were:

	Balance at the Beginning of the Fiscal Year	Claims and Changes in Estimates	Claim Payments	Balance at the End of the Fiscal Year
October 1, 2016 - September 30, 2017	$ 13,266,574	$ 7,951,114	$ (5,962,476)	$ 15,255,212
October 1, 2015 - September 30, 2016	$ 14,256,691	$ 3,810,358	$ (4,800,475)	$ 13,266,574

METRO's ultimate liability for claims could be higher or lower than the amount accrued; however, management believes the differences will not materially affect its financial position.

6. Public/Private Development and Partnership

Development

During FY2006, METRO leased 11.5 acres of land for 99 years to A-S 90 HWY 290-Skinner, L.P. (lessee), the right (a ground lease) to develop, construct, operate, and maintain a mixed-use residential and commercial facility. METRO maintains a continuing financial interest in the property and must grant prior approval for certain activities, sales, assignments, transfers, and subleasing by the lessee.

As part of the development program, METRO paid $16,630,466 to the lessee for the construction of a multilevel parking garage. The garage provides parking for tenants and Park & Ride patrons and is maintained by METRO with up to 20% of certain expenses billed to the lessee. The lessee is responsible for maintaining the grounds and may bill METRO up to 33.89% of the cost to maintain the drainage facilities/detention pond and certain common areas. The remaining cost associated with the property and improvement (excluding the garage) is paid by the lessee with most payments being included when calculating METRO's 25% share of cash flow participation rent.

METRO receives $50,000 annually in base rent, paid monthly, and cash flow participation rent calculated as 25% of the net cash flows of the leases less most expenses, reasonable reserves, and the base rent. Upon certain payment events, METRO will receive participation payments calculated as 25% of the net proceeds. These payment events include sale, casualty, condemnation action, or permanent financing of the project. All cash flow participation rent will cease if the lessee sells its interest to a third party. No cash flow participation rents or payment events have been received by METRO through FY2017.

Partnership

METRO entered into a taxable limited partnership (Wellington Fisher, Ltd.) during FY2005 for the acquisition and development of certain land for transit-related projects. METRO was the limited partner with Wellington Fisher One LLC acting as the general partner. During FY2017 final negotiations were completed and the partnership was terminated during October 2017.

7. Commitments and Contingencies

In addition to the retirement plans discussed in Note 4, METRO has various commitments and contingencies as listed below:

Outstanding Value of Contracts

METRO has various contracts for materials, services, and construction activities, some of which cover multiple fiscal years. The outstanding value of contracts as of September 30, 2017 was approximately $228 million. Payments to vendors will be made from sales tax collections, transit fares, debt proceeds, and grants.

Agreements to Fund Local Infrastructure Improvements and Mobility Programs through September 30, 2014 (Extended by Voters in the November 2012 Referendum to December 31, 2025)

METRO makes payments to or on behalf of Harris County, the City of Houston, and the 14 cities (Multi-cities) within METRO's service area for infrastructure improvement and mobility programs. These payments were reauthorized during a special election held during FY2004, which designated 25% of METRO's sales tax through September 30, 2014. Unspent funds remain with the program until used or reallocated by the Board. On November 6, 2012, the voters approved continuing the program through December 31, 2025 with modifications to the allocation method. The program established a cap using the FY2014 sales tax 25% allocated amount with any growth shared equally between METRO and the program. Final distribution of funds to the local governments with in METRO's service area will be based on interlocal agreements as approved by the Board of Directors. Funds held and not yet disbursed at the end of FY2017 totaled $75,647,859.

Expenses related to these agreements are reported as local infrastructure assistance in the Statements of Revenues, Expenses, and Changes in Net Position as funding requests are received and accepted by METRO.

Baybrook Municipal Utility District No. 1 (MUD) Congestion Mitigation/Traffic Management Agreement

METRO entered into an agreement on January 1, 2001 where one half of all METRO's sales and use tax collected within the MUD's service area would be remitted monthly and used by the MUD for the construction, acquisition, improvements and financing of transportation projects. This agreement is for a term of 30 years or until the MUD is annexed by the City of Houston for full purpose as provided in the Strategic Partnership Agreement. Amounts remitted during FY2017 and FY2016 totaled $1,438,385 and $1,404,929, respectfully.

Houston Sports Authority Sales and Use Tax Revenue Contribution Agreement

METRO entered into an agreement on November 30, 2000 where METRO's sales and use tax revenue collected at Reliant Park would be remitted quarterly to the Harris County – Houston Sports Authority for use in supporting infrastructure improvements and payment of certain outstanding debt. This agreement remains in place until the related debt is paid but for no more than 40 years. Amounts remitted during FY2017 and FY2016 totaled $1,486,533 and $1,276,389.

Lease/Sublease Agreements for Operating Facilities and Buses

During FY2016 the transit buses lease expired with the fareboxes/radios lease set to expire during FY2018.

	Lease Expiration Date	Amortization Period (Years)
Fareboxes/radios	Jan 1, 2018	16

	September 30, 2016 Unamortized Balance	Current Year Amortization	September 30, 2017 Unamortized Balance
Fareboxes/radios	$ 4,426,306	$ 2,213,154	$ 2,213,152

	September 30, 2015 Unamortized Balance	Current Year Amortization	September 30, 2016 Unamortized Balance
Transit buses	$ 607,395	$ 607,395	$ –
Fareboxes/radios	6,639,460	2,213,154	4,426,306
Total	$ 7,246,855	$ 2,820,549	$ 4,426,306

Debt

Debt consists of commercial paper, capital leases, bonds, and contractual obligations, which are supported by sales and use tax revenues. Commercial paper is reported as current or long-term depending on credit support arrangements, which allows for financing on a long-term basis if needed.

Commercial Paper

METRO is authorized to issue up to $400 million in Sales and Use Tax Revenue Commercial Paper Notes (CP). These notes are supported by pledging 75% of METRO's Sales and Use Tax Revenue and interest earned on related investments. To support the CP program in case of a remarketing failure, METRO established two revolving credit and term loan agreements totaling $165 million. A-1 is for $140 million with JPMorgan Chase Bank, National Association and expires on June 30, 2021. A-3 is for $25 million with State Street Bank and Trust Company and expires on June 30, 2021. Both commercial paper obligations are reported as a long-term liability on the Statements of Net Position since the related revolving credit and term loan agreements expire more than one year after September 30, 2017.

In addition to the interest cost discussed below, METRO is required to pay an annual commitment fee for unused funds which ranges from 0.34% to 4.05% depending on the lowest credit rating issued by Moody or Standards and Poor's.

Period	Bank Rate
Day 1 through Day 14	Initial Base Rate
Day 15 through Day 90	Base Rate
Day 91 through Day 180	Base Rate plus 2.00% per annum
Day 181 through the day the amount	Term Out Rate

Where the *"Initial Base Rate"* means for any day the higher of (a) the Banks' (as discussed above) 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 Bank at its principal New York office) and (b) the sum of 1.00% per annum plus the Federal Funds Rate for such day (it being understood that each change in such Initial Base Rate is to be effective for purposes of this agreement on the day on which such change is effective for the Bank's purposes). Each determination of the Initial Base Rate by the Bank will be conclusive and binding on METRO and the Bank, absent manifest error: *"Base Rate"* means for any day the higher of (a) the Bank'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 Bank 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 in such Base Rate is to be effective for purposes of this Agreement on the day on which such change is effective for the Bank's purposes), and (c) 9.00% per annum. Each determination of the Base Rate by the Bank will be conclusive and binding on METRO and the Bank, absent manifest error; where "*Term Out Rate*" shall never exceed the *"Maximum Interest Rate"* meaning the lesser of (a) maximum non-usurious interest rate that may, under applicable federal law and applicable state law (including specifically Chapter 1204, *Texas Government Code*), be contracted for, charged, or received under such laws and (b) 25% per annum.

Proceeds from CP were used to make payments for General Mobility Program expenditures, or eliminating outstanding notes of the same series. Changes and outstanding CP by series as of September 30, 2017 were as follows:

Series	October 1, 2016	Proceeds	Repayments	September 30, 2017
A-1	$ 94,400,000	$ 408,250,000	$ (408,250,000)	$ 94,400,000
A-3	23,000,000	101,000,000	(102,000,000)	22,000,000
Total	$ 117,400,000	$ 509,250,000	$ (510,250,000)	$ 116,400,000

Series	Amount Issued	Maturity Date	Remaining Days Outstanding	Nominal Rate %
A-1	$ 29,400,000	10/04/2017	4	1.00
A-1	30,650,000	10/10/2017	10	0.97
A-1	7,900,000	11/14/2017	45	0.91
A-1	26,450,000	01/30/2018	122	1.00
	94,400,000			
A-3	13,000,000	10/10/2017	10	0.97
A-3	9,000,000	11/14/2017	45	0.90
	22,000,000			
Total	$ 116,400,000			

Changes for CP by series for FY 2016 were as follows:

Series	October 1, 2015	Proceeds	Repayments	September 30, 2016
A-1	$ 98,300,000	$ 507,600,000	$ (511,500,000)	$ 94,400,000
A-3	23,000,000	138,000,000	(138,000,000)	23,000,000
Total	$ 121,300,000	$ 645,600,000	$ (649,500,000)	$ 117,400,000

Capital Leases, Bonds, and Contractual Obligations

Total future payments for capital leases, bonds, and contractual obligations are as follows:

Capital Leases

Changes during the last two years for capital lease obligations are as follows:

	Balance of Capital Leases October 1, 2016	Current Year Amortization	Balance of Capital Leases September 30, 2017
Park & Ride land improvements	$ 77,311	$ (77,311)	–

	Balance of Capital Leases October 1, 2015	Principal Payments Including Refunding Amounts to Retire Leases	Current Year Amortization Including Refunding	Balance of Capital Leases September 30, 2016
MLPFP:				
Series A	$ 35,155,000	$ (35,155,000)	$ –	$ –
Premium	463,839	–	463,839	–
Series B	30,155,000	(30,155,000)	–	–
Premium	637,974	–	637,974	–
Park & Ride land improvements	154,092	(76,781)	–	77,311
Total	$ 66,565,905	($65,386,781)	$ 1,101,813	$ 77,311

During FY2016 METRO issued the Sales and Use Tax Bonds Series 2016C with proceeds, net of issuance cost, placed into an irrevocable trust. These proceeds were used to purchase governmental securities whose cash flows will be adequate to make all principal and interest payment relating to the Series 2008A and 2008B debts as they become due. The refunding of these debts, issued under the Master Lease Purchase Finance Program (MLPFP), has resulted in an in-substance defeasance of debt for financial reporting.

Bonds and Contractual Obligations

Interest and principal payments for bonds and contractual obligations are guaranteed from sales tax receipts that are deposited directly by the bank each month into a third-party trust account. Funds deposited in the third-party trust account or debt proceeds not yet disbursed are reported as Investments – restricted in the Statements of Net Position.

Scheduled payments over the remaining life of the bonds and contractual obligations are:

Sales and Use Tax Bonds and Contractual Obligations

	Bonds Series 2009A (Rail Construction)		Contractual Obligations Series 2009B (Rail Vehicles)		Build America Bonds Series 2009C (Rail Construction)	
Fiscal Year	Principal	Interest	Principal	Interest	Principal	Interest
2018	$ 3,990,000	$ 761,750	$ 1,385,000	$ 214,300	$ –	$ 5,675,656
2019	4,195,000	557,125	1,440,000	157,800	–	5,675,656
2020	4,410,000	342,000	1,500,000	99,000	–	5,675,656
2021	4,635,000	115,875	–	69,000	–	5,675,656
2022	–	–	–	69,000	–	5,675,656
2023-2027	–	–	1,725,000	34,500	–	28,378,281
2028-2032	–	–	–	–	15,590,000	27,318,500
2033-2037	–	–	–	–	45,650,000	15,453,969
2038-2042	–	–	–	–	21,315,000	1,481,734
	$ 17,230,000	$ 1,776,750	$ 6,050,000	$ 643,600	$ 82,555,000	$ 101,010,764

Sales and Use Tax Bonds and Contractual Obligations

	Contractual Obligations Series 2009D (Buses)		Contractual Obligations Series 2010A (Buses)		Bonds Series 2011A (Rail Construction)	
Fiscal Year	Principal	Interest	Principal	Interest	Principal	Interest
2018	$ 3,030,000	$ 684,275	$ 3,350,000	$ 1,014,000	$ 8,465,000	$ 17,954,375
2019	3,160,000	558,500	3,525,000	859,750	8,895,000	17,520,375
2020	3,290,000	423,413	3,660,000	697,750	9,355,000	17,064,125
2021	3,445,000	267,375	3,845,000	510,125	9,835,000	16,584,375
2022	3,625,000	90,625	4,040,000	313,000	10,340,000	16,080,000
2023-2027	–	–	4,240,000	106,000	22,295,000	74,662,375
2028-2032	–	–	–	–	31,290,000	71,996,500
2033-2037	–	–	–	–	99,285,000	53,796,125
2038-2042	–	–	–	–	163,560,000	22,945,250
	$ 16,550,000	$ 2,024,188	$ 22,660,000	$ 3,500,625	$ 363,320,000	$ 308,603,500

Sales and Use Tax Bonds and Contractual Obligations

	Contractual Obligations Series 2011B (Buses)		Contractual Obligations Series 2014 (Rail Vehicles)		Sales and Use Tax Series 2015A (Refunding of Paper)	
Fiscal Year	Principal	Interest	Principal	Interest	Principal	Interest
2018	$ 3,985,000	$ 1,287,500	$ 6,625,000	$ 5,749,875	$ 8,755,000	$ 2,628,750
2019	4,150,000	1,124,800	6,965,000	5,410,125	17,525,000	2,191,000
2020	4,320,000	955,400	7,320,000	5,053,000	26,295,000	1,314,750
2021	4,495,000	779,100	7,700,000	4,677,500	–	–
2022	4,680,000	595,600	8,090,000	4,282,750	–	–
2023-2027	10,040,000	508,250	47,125,000	14,747,375	–	–
2028-2032	–	–	34,485,000	2,643,875	–	–
	$ 31,670,000	$ 5,250,650	$118,310,000	$ 42,564,500	$ 52,575,000	$ 6,134,500

Sales and Use Tax Bonds and Contractual Obligations

Fiscal Year	Contractual Obligations Series 2015B (Buses) Principal	Contractual Obligations Series 2015B (Buses) Interest	Sales and Use Tax Refunding Bonds Series 2016A Principal	Sales and Use Tax Refunding Bonds Series 2016A Interest	Sales and Use Tax Refunding Contractual Obligations Series 2016B Principal	Sales and Use Tax Refunding Contractual Obligations Series 2016B Interest
2018	$ 4,095,000	$ 2,826,125	$ –	$ 6,312,250	$ –	$ 1,247,925
2019	4,305,000	2,616,125	–	6,312,250	–	1,247,925
2020	4,525,000	2,395,375	–	6,312,250	–	1,247,925
2021	4,760,000	2,163,250	–	6,312,250	1,390,000	1,213,175
2022	5,000,000	1,919,250	4,390,000	6,202,500	1,460,000	1,141,925
2023-2027	29,135,000	5,474,875	61,465,000	24,763,125	6,915,000	4,857,250
2028-2032	6,750,000	168,750	60,390,000	4,629,753	10,795,000	2,548,988
2033-2037	–	–	–	–	5,075,000	256,875
	$ 58,570,000	$ 17,563,750	$ 126,245,000	$ 60,844,378	$ 25,635,000	$ 13,761,988

Sales and Use Tax Bonds and Contractual Obligations

	Sales and Use Tax Bonds Series 2016C (Refunding) Principal	Sales and Use Tax Bonds Series 2016C (Refunding) Interest	Sales and Use Tax Bonds Series 2016D (Buses) Principal	Sales and Use Tax Bonds Series 2016D (Buses) Interest	Total Sales and Use Tax Bonds and Contractual Obligations Principal	Total Sales and Use Tax Bonds and Contractual Obligations Interest	Total Sales and Use Tax Bonds and Contractual Obligations Total
2018	$ 10,890,000	$ 696,819	$ –	$ 2,222,250	$ 54,570,000	$ 49,275,850	$ 103,845,850
2019	11,030,000	557,426	–	2,222,250	65,190,000	47,011,107	112,201,107
2020	11,195,000	391,976	4,445,000	2,111,125	80,315,000	44,083,745	124,398,745
2021	11,390,000	205,020	4,445,000	1,888,875	55,940,000	40,461,576	96,401,576
2022	–	–	4,445,000	1,666,625	46,070,000	38,036,931	84,106,931
2023-2027	–	–	22,225,000	4,999,375	205,165,000	158,531,406	363,696,406
2028-2032	–	–	8,885,000	444,125	168,185,000	109,750,491	277,935,491
2033-2037	–	–	–	–	150,010,000	69,506,969	219,516,969
2038-2042	–	–	–	–	184,875,000	24,426,984	209,301,984
	$ 44,505,000	$ 1,851,241	$ 44,445,000	$ 15,554,625	1,010,320,000	$ 581,085,059	$ 1,591,405,059
Unamortized Net Premium					108,906,499		
Total					$ 1,119,226,499		

The Build America Bonds Series 2009C receives a special interest rebate each year from the federal government, which was reduced starting in FY2014 as part of the sequestration. The amount to be received will range from $1.8 million in FY2015 to $130 thousand in FY2039. The rebate is reported as Intergovernmental revenue in the Statements of Revenues, Expenses, and Changes in Net Position. Interest cost reported in this schedule has not been reduced for this rebate.

Changes for FY2017 and FY2016 are reflected below:

	Changes in Bonds and Contractual Obligations			Changes in Premium or Discount		
Series	October 1, 2016 Principal	Additions	Principal Payments	October 1, 2016 Unamortized Premium or (Discount)	Current Year Addition and Amortization of (Premium) and Discount	Combined Balance September 30, 2017
2009A	$ 21,025,000	$ –	$ (3,795,000)	$ 1,015,350	$ (253,837)	$ 17,991,513
2009B	7,380,000	–	(1,330,000)	119,992	(19,998)	6,149,994
2009C	82,555,000	–	–	(822,339)	37,379	81,770,040
2009D	19,465,000	–	(2,915,000)	1,392,156	(198,880)	17,743,276
2010A	25,855,000	–	(3,195,000)	1,807,636	(361,527)	24,106,109
2011A	371,370,000	–	(8,050,000)	32,079,044	(1,688,371)	393,710,673
2011B	35,500,000	–	(3,830,000)	3,797,764	(542,538)	34,925,226
2014	124,610,000	–	(6,300,000)	18,101,081	(1,508,424)	134,902,657
2015A	52,575,000	–	–	6,212,282	(1,553,070)	57,234,212
2015B	62,485,000	–	(3,915,000)	9,738,126	(885,284)	67,422,842
2016A	126,245,000	–	–	32,467,139	(2,497,473)	156,214,666
2016B	25,635,000	–	–	5,872,695	(345,453)	31,162,242
2016C	55,330,000	–	(10,825,000)	–	–	44,505,000
2016D	–	44,445,000	–	–	6,943,049	51,388,049
Total	$ 1,010,030,000	$ 44,445,000	$ (44,155,000)	$ 111,780,926	$ (2,874,427)	$ 1,119,226,499

	Changes in Bonds and Contractual Obligations				Changes in Premium or Discount			
Series	October 1, 2015 Principal	Additions	Principal Payments * Including Refunding to Retire Bonds		October 1, 2015 Unamortized Premium or Discount	Current Year Amortization *Including Related (Premium) or Discount of Refunded Debt		Combined Balance September 30, 2016
2009A	$ 78,635,000	$ –	$ (57,610,000)	*	$ 4,528,937	$ (3,513,587)	*	$ 22,040,350
2009B	37,020,000	–	(29,640,000)	*	678,052	(558,060)	*	7,499,992
2009C	82,555,000	–	–		(859,718)	37,379		81,732,661
2009D	22,280,000	–	(2,815,000)		1,591,035	(198,879)		20,857,156
2010A	28,975,000	–	(3,120,000)		2,169,163	(361,527)		27,662,636
2011A	461,010,000	–	(89,640,000)	*	41,221,578	(9,142,534)	*	403,449,044
2011B	39,180,000	–	(3,680,000)		4,340,301	(542,537)		39,297,764
2014	130,605,000	–	(5,995,000)		19,609,504	(1,508,423)		142,711,081
2015A	52,575,000	–	–		7,765,353	(1,553,071)		58,787,282
2015B	62,485,000	–	–		10,623,410	(885,284)		72,223,126
2016A	–	126,245,000	–		33,707,249	(1,240,110)		158,712,139
2016B	–	25,635,000	–		6,045,692	(172,998)		31,507,694
2016C	–	55,330,000	–		–	–		55,330,000
Total	$ 995,320,000	$ 207,210,000	$ (192,500,000)		$131,420,555	$ (19,639,631)		$ 1,121,810,925

During FY2016 METRO issued three new debt obligations totaling (including premium) $233,133,786. Proceeds from these debts, net of issuance cost, were used to complete the in-substance defeasance of certain outstanding debts by placing the funds into an irrevocable trust which purchased governmental securities. The cash flows from these governmental securities will be adequate to make all interest and principal payments as they become due. The following table reflects the FY2016 debt issuance and related refunding activity.

	Sales and Use Tax Refunding Bonds Series 2016A	Sales and Use Tax Refunding Contractual Obligations Series 2016B	Sales and Use Tax Bonds Series 2016C	Total Amounts for In-substance Defeased Debt
In-substance defeased debt				
Sales and Use Tax Bonds, Series 2009A	$ 54,000,000	$ –	$ –	$ 54,000,000
Premium	3,259,749	–	–	3,259,749
Sales and Use Tax Bonds, Series 2011A	81,980,000	–	–	81,980,000
Premium	7,454,163	–	–	7,454,163
Contractual Obligations Series 2009B	–	28,365,000	–	28,365,000
Premium	–	538,061	–	538,061
Master Lease Purchase Finance Program Series 2008A	–	–	29,910,000	29,910,000
Premium	–	–	463,839	463,839
Master Lease Purchase Finance Program Series 2008B	–	–	26,525,000	26,525,000
Premium	–	–	637,974	637,974
Total amount of defeased debt	146,693,912	28,903,061	57,536,813	233,133,786
Other related activity				
Issuance cost	953,975	301,642	195,000	1,450,617
Proceeds of debt service funds	(3,390,589)	(1,315,460)	(4,709,643)	(9,415,692)
Total other related activity	(2,436,614)	(1,013,818)	(4,514,643)	(7,965,075)
Total amount of defeased debt and other related activity	144,257,298	27,889,243	53,022,170	225,168,711
Replacement debt				
Par value	126,245,000	25,635,000	55,330,000	207,210,000
Premium	33,707,249	6,045,692	–	39,752,941
Total replacement debt and premium	159,952,249	31,680,692	55,330,000	246,962,941
Deferred outflows from in-substance debt refunding	15,694,951	3,791,449	2,307,830	21,794,231
Less current year amortization	3,124,404	805,371	872,821	4,802,596
Ending balance of deferred outflows as of September 30, 2016	$ 12,570,547	$ 2,986,078	$ 1,435,009	$ 16,991,634
Net present value savings	$ 12,418,539	$ 2,896,102	$ 2,354,606	$ 17,669,247
Interest rate used in the net present value calculation	1.98%	1.98%	1.60%	

Operating Lease

METRO leases land, office space, transit centers, and software under various operating leases. Actual rental expenses for FY2017 and FY2016 were $7,211,579 and $5,899,452 respectively. Future payments for operating leases assume a 2% annual increase from the current year expense and consist of the following:

Fiscal Year Ending	Total Minimum Operating Leases Payments
2018	$ 7,355,811
2019	7,502,927
2020	7,652,985
2021	7,806,045
2022	7,962,166
Total	$ 38,279,934

Fuel Hedge Policy

The Board adopted a fuel hedge policy. As part of this policy, METRO can develop and implement a plan through physical forward contracts and/or financial contracts, which will provide fuel price certainty for up to 24 months of expected consumption. The tactics to achieve this goal may 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. Fuel purchases and related swap agreements cover the same time period and use the same index, which is the Platts U.S. Gulf Coast Ultra Low Sulfur Diesel. No up-front cash is received or paid by METRO when entering into any of these transactions. Diesel fuel swaps are considered effective with the positive or negative fair value being reflected in the Statements of Net Position as either a deferred inflow or outflow with a related current asset or current liability. No derivatives were reclassified during the previous two years from a hedging derivative to an investment derivative. METRO has adequate on-site diesel fuel storage facilities and expects to purchase all related hedged diesel fuel.

Outstanding Diesel Fuel Swaps

METRO had 25 diesel fuel swaps totaling 15,708,000 gallons outstanding as of September 30, 2017 of which 19 swaps totaling 9,282,000 gallons will settle in FY2018 and 6 swaps totaling 6,426,000 gallons will settle in FY2019.

METRO had 49 diesel fuel swaps totaling 19,950,000 gallons outstanding as of September 30, 2016 of which 31 swaps totaling 9,996,000 gallons settled in FY2017, 17 swaps totaling 9,282,000 gallons will settle in FY2018, and one swap totaling 672,000 gallons which will settle in FY2019. The outstanding swaps for FY2017 and FY2018 represent a significant amount of the anticipated diesel fuel requirements for those years.

Market values of the outstanding swaps are calculated by the counterparty, Bank of America Merrill Lynch which is a nationally recognized commodity trader. Outstanding hedges for last two years had a positive value of $3,805,801 for FY2017 and a negative value of $1,394,262 for FY2016. These amounts are reported on the Statements of Net Position as a deferred inflow or outflow of resources-diesel fuel swaps with an instrument – diesel fuel swaps asset or liability. Swaps which settled during the last two fiscal years increased diesel fuel cost by 3,337,433.40 for FY2017 and $14,970,268 for FY2016. These amounts were included as part of current operating cost in the Statements of Revenues, Expenses, and Changes in Net Position.

Compensated Absences (vacation and sick) are earned, as discussed in Note 1, based on employee classification. The ending balance is payable next fiscal year and has been reported in the current liability section of the Statements of Net Position as part of accrued compensation and benefits.

Changes during the last two years were:

	Beginning Balance	Expensed	Additions	Ending Balance
October 1, 2016 - September 30, 2017	$ 15,609,348	$ (17,761,082)	$ 16,978,469	$ 14,826,735
October 1, 2015 - September 30, 2016	$ 15,797,201	$ (16,626,612)	$ 16,438,759	$ 15,609,348

Contingencies

In April 2009, METRO executed a design-build-operate-maintain contract with Houston Rapid Transit ("HRT") for the METRO Solutions Phase II Project (the "Project"), which entailed the construction of three new rail lines. The rail lines went into service during FY2014 and FY2015. Since then, METRO has been in discussion with HRT regarding the fulfillment by HRT of certain of its performance obligations under the contract. The parties are currently in early discussion regarding an alternative dispute resolution process for several disputes under the contract, including claims by METRO against HRT as a result of such performance-related issues and a claim by HRT against METRO for $14.0 million in alleged costs associated with a change in the tracking system required by the Project for light rail vehicles. METRO believes that HRT's claim is without merit based on the terms on the contract.

In November 2011, METRO executed a contract with Construcciones Auxlliar de Ferrocarriles, S.A. ("CAF") to purchase rail vehicles for the Project. METRO and CAF are continuing their ongoing discussions regarding final closeout issues under the contract, which include the amount of liquidated damages owed to METRO as a result of CAF's delayed performance and CAF's fulfillment of certain other contractual obligations.

No liabilities are reported in the financial statements for the above matters because the contractors are required to complete their performance obligations under their respective contracts prior to payment for such services becoming due and/or METRO believes any required payments have already been made.

In addition to the items discussed above, METRO 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 that 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, that 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 METRO's financial position.

Federal and State Grants

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

The rail expansion program which is funded by the FTA and local dollars consists of Phase One and Phase Two. METRO has calculated a preliminary true-up which compared eligible grant cost to related reimbursements received from the FTA. Based on this analysis, METRO would owe approximately $30.6 million to the FTA if no additional eligible grant related cost was incurred during the reminder of the project. The final amount, if any, reimbursable to the FTA will be determined during the final grant close-out which is expected to occur during FY2021.

Other Interlocal Agreements

These agreements are designed to reduce operating and capital cost while improving mobility throughout the service area. Some of these agreements include coordinating procurement and major construction activities, paying for maintenance/coordination of traffic lights along the light-rail lines and possible future construction modifications to the Westpark Toll Road. These agreements are in addition to the local infrastructure improvements and mobility programs agreements discussed on page 45.

8. Loss from Hurricane Harvey

METRO is working with the Federal Emergency Management Assistance (FEMA) and METRO's private insurance company to determine what money, if any, can be recovered from the approximate $13.6 million in damages incurred when Hurricane Harvey impacted the local area in August of 2017. Any related recovery will be recorded in the year received.

9. Subsequent Events

The following disclosures consist of management's evaluation of subsequent events through March 10, 2017, the date the financial statements were available to be issued.

The Wellington Fisher, LTD partnership was terminated during October 2017.

During November 2017 METRO issued two sales and use tax refunding debt obligations, totaling $156,180,774 of which $130,945,000 relates to the par value and $25,235,774 to the premium. The combined proceeds will be used to refund (in-substance defeasance) $88,824,888 of outstanding debt, $69,198,000 to acquire personal properties including, but not limited to, clean diesel and compressed natural gas transit and commuter buses with the remainder of $1,147,121 used to pay issuance cost. Additional information on the individual debt issues are discussed below.

The Sales and Use Tax Refunding Bonds Series 2017A totaled $35,369,775 of which $29,995,000 related to the par value and $5,374,775 to the premium. Proceeds from this debt, less issuance cost, were placed into an irrevocable escrow account and used to purchase certain qualifying investment securities that will be sufficient to make all interest and principal payments on certain outstanding debts as they become due. This has resulted in an in-substance defeasance for the previous related outstanding debt.

The Sales and Use Tax Refunding Contractual Obligations Series 2017B totaled $120,810,998 of which $100,950,000 related to the par value and $19,860,998 to the premium. Funds relating to the 2017 were separated with $69,198,000 available to acquire personal properties including, but not limited to, clean diesel and compressed natural gas transit and commuter buses. The remaining funds, less issuance cost, totaled $53,785,270 and was placed into an irrevocable escrow account and used to purchase certain qualifying investment securities that will be sufficient to make all interest and principal payments on certain outstanding debts as they become due. This has resulted in an in-substance defeasance of the previous related outstanding debt.

During December 2017 METRO issued Private Placement Refunding Bonds Series 2017C with the proceeds totaling $25,200,000. These funds, less issuance cost, were placed into an irrevocable escrow account and used to purchase certain qualifying investment securities that will be sufficient to make all interest and principal payments on certain outstanding debts as they become due. This has resulted in an in-substance defeasance of the previous related outstanding debt.

Required Supplemental Information

Schedule of Changes in the Net Pension Liability
For the Transport Workers Union Pension Plan, Local 260, AFL-CIO (TWUPP)
(Unaudited)

	For the Years Ended September 30, (Reporting Dates) *		
	2017	2016	2015
Total pension liability			
Changes for the year			
Service cost	$ 5,328,754	$ 5,549,985	$ 5,435,165
Interest on total pension liability	24,589,485	24,786,145	22,446,888
Changes of benefit terms	–	–	–
Difference between expected and actual experience	(10,556,008)	(2,780,567)	–
Changes of assumption	(5,369,295)	25,679,785	–
Benefit payments	(17,656,524)	(16,567,409)	(15,923,974)
Net change in total pension liability	(3,663,588)	36,667,939	11,958,079
Total pension liability - beginning	383,569,323	346,901,384	334,943,305
Total pension liability - ending	379,905,735	383,569,323	346,901,384
Plan fiduciary net position			
Contributions from the employer	16,565,280	19,062,423	13,477,182
Net investment income	17,696,392	(7,809,891)	8,434,984
Benefit payments	(17,656,524)	(16,567,409)	(15,923,974)
Administrative expenses	(277,833)	(314,046)	(319,754)
Net change in plan fiduciary net position	16,327,315	(5,628,923)	5,668,438
Plan fiduciary net position – beginning	224,361,146	229,990,069	224,321,631
Plan fiduciary net position – ending	240,688,461	224,361,146	229,990,069
METRO’s ending net pension liability	$ 139,217,274	$ 159,208,177	$ 116,911,315
Plan fiduciary net position as a percentage of the total pension liability	63.35%	58.49%	66.30%
Covered-employee payroll	$ 91,024,000	$ 93,228,000	$ 92,277,000
METRO’s net pension liability as a percentage of covered-employee payroll	152.95%	170.77%	126.70%

* The ending net pension liabilities is measured each December 31 and reported nine months later on METRO’s September 30, Statement of Net Position. METRO’s contributions for the period January 1 through September 30, of each year, are reported as part of the deferred outflows.

GASB Statement No. 68 allows governments to report the required 10 years of historical information prospectively. This standard was implemented during FY2015.

Required Supplemental Information

Schedule of Employer Contributions
For the Last 10 Calendar Years
For the Transport Workers Union Pension Plan, Local 260, AFL-CIO (TWUPP)
(Unaudited)

For the Twelve Months Ended December 31,	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll (000)	Contribution as a % of Covered Payroll
2016	$ 16,565,280	$ 16,565,280	$ –	91,024,000	18.20%
2015	15,410,109	19,062,423	(3,652,314)	93,228,000	20.45%
2014	13,477,182	13,477,182	–	92,277,000	14.61%
2013	14,335,058	14,335,058	–	91,830,000	15.61%
2012	14,444,476	14,444,476	–	94,043,000	15.36%
2011	13,493,650	13,493,650	–	93,675,000	14.40%
2010	12,416,838	12,416,849	(11)	88,184,000	14.08%
2009	12,185,737	12,185,737	–	85,317,000	14.28%
2008	8,826,606	8,826,606	–	84,414,000	10.46%
2007	8,527,492	16,527,492	(8,000,000)	81,287,000	20.33%

Note to the Schedule

The independent actuary used the cost method and assumptions, listed below, when calculating the most recent actuarially determined contribution reflected in the previous table. The cost method and actuarial assumptions used in early calculation may be different due to updating based on actual experience.

Valuation timing	The valuation is performed each January 1 and the actuarial determined contribution is calculated for next twelve months ending December 31
Actuarial Cost method	Entry age normal (level percent of pay) starting for December 31, 2015 measurement and beyond
Amortization method	Level dollars, with closed amortization period starting for January 1, 2013 measurement and beyond
Remaining amortization period	27 years
Asset valuation method	Smoothing over 5 years with a corridor of 80% - 120% of market value
Inflation	2.3%
Salary increase	2.75%
Investment rate of return	6.75%
Cost of living adjustments	None
Assumed annual retirement rate	Varying percentage ranging from 5% to 100% for ages 60 through 70
Turnover	Varying percentage ranging from 8.79% to 3.02% for ages 25 through 64
Mortality and disabled mortality	RP-2014 Mortality adjusted backwards to 2006 with MP-2014 and projected forward (fully generational) with MP-2016

Required Supplemental Information

Schedule of Changes in the Net Pension Liability
For the Non-Union Pension Plan
(Unaudited)

	For the Years Ended September 30, (Reporting Date) *		
	2017	2016	2015
Total pension liability			
Changes for the year			
Service cost	$ 3,465,270	$ 2,782,533	$ 2,753,593
Interest on total pension liability	16,607,887	15,165,652	13,384,981
Changes of benefit terms	–	–	–
Difference between expected and actual experience	9,768,147	6,720,589	–
Changes of assumption	2,530,507	12,232,736	–
Benefit payments	(10,374,582)	(8,777,750)	(8,704,519)
Net change in total pension liability	21,997,229	28,123,760	7,434,055
Total pension liability - beginning	235,381,436	207,257,676	199,823,621
Total pension liability - ending	257,378,665	235,381,436	207,257,676
Plan fiduciary net position			
Contributions from the employers	11,181,136	11,248,671	9,006,301
Net investment income	9,971,104	(5,890,916)	4,217,106
Benefit payments	(10,374,582)	(8,777,750)	(8,704,519)
Administrative expenses	(226,067)	(235,357)	(224,559)
Net change in plan fiduciary net position	10,551,591	(3,655,352)	4,294,329
Plan fiduciary net position – beginning	142,551,820	146,207,172	141,912,843
Plan fiduciary net position – ending	153,103,411	142,551,820	146,207,172
METRO’s ending net pension liability	$ 104,275,254	$ 92,829,616	$ 61,050,504
Plan fiduciary net position as a percentage of the total pension liability	59.49%	60.56%	70.54%
Covered-employee payroll	$ 46,853,004	$ 44,837,816	$ 45,601,509
METRO’s net pension liability as a percentage of covered employee payroll	222.56%	207.03%	133.88%

* The ending net pension liabilities is measured each December 31 and reported nine months later on METRO’s September 30, Statement of Net Position. METRO’s contributions for the period January 1 through September 30, of each year, are reported as part of the deferred outflows.

GASB Statement No. 68 allows governments to report the required 10 years of historical information prospectively. This standard was implemented during FY2015.

Required Supplemental Information

Schedule of Employer Contributions
For the Last 10 Calendar Years for the Non-Union Pension Plan
(Unaudited)

For the Twelve Months Ended December 31	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contribution as a % of Covered Payroll
2016	$ 11,181,136	$ 11,181,136	$ –	$ 46,853,004	23.86%
2015	8,911,253	11,248,671	(2,337,418)	44,837,816	25.09%
2014	9,006,301	9,006,301	–	45,601,509	19.75%
2013	8,847,436	8,847,436	–	44,388,906	19.93%
2012	8,215,493	8,215,493	–	47,184,896	17.41%
2011	10,689,258	10,689,264	(6)	57,702,434	18.52%
2010	10,833,143	11,143,438	(310,295)	56,962,295	19.56%
2009	12,652,758	12,652,758	–	63,625,252	19.89%
2008	8,948,287	8,948,287	–	62,929,627	14.22%
2007	9,503,253	13,503,253	(4,000,000)	64,349,486	20.98%

Notes to Schedule

The independent actuary used the cost method and assumptions, listed below, when calculating the most recent actuarially determined contribution reflected in the previous table. The cost method and actuarial assumptions used in early calculation may be different due to updating based on actual experience.

Valuation timing	The valuation is performed each January 1 and the actuarial determined contribution is calculated for the next twelve months ending December 31
Actuarial Cost method	Entry age normal (level percent of pay) starting for January 1, 2015 measurement and beyond
Amortization method	Level dollars, with closed amortization period starting for January 1, 2013 measurement and beyond
Remaining amortization period	27 years
Asset valuation method	Smoothing over 5 years with a corridor of 80% - 120% of market value
Inflation	2.3%
Salary increase	2.75%
Investment rate of return	6.75%
Cost of living adjustments	None
Assumed annual retirement rate	Varying percentage ranging from 20% to 100% for ages 55 through 70
Turnover	Varying percentage ranging from 15.00% to 5.52% for ages 25 through 54
Mortality and disabled mortality	RP-2014 Mortality adjusted backwards to 2006 with MP-2014 and projected forward (fully generational) with MP-2016

Required Supplemental Information

Metropolitan Transit Authority
of Harris County, Texas
Schedule of Funding Progress for Pension Plans and Other Postemployment Benefit Plans
For Non-Union and Transport Workers Union
(Amounts in Thousands)
(Unaudited)

	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Unit credit (b)	Unfunded Actuarial Accrued Liability (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, 2016	$ 152,638	$ 243,803	$ 91,165	62.6%	$ 46,853	194.6%
	Jan 1, 2015	142,619	213,250	70,631	66.9%	44,838	157.5%
	Jan 1, 2014	129,399	161,398	31,999	80.2%	45,602	70.2%
Other Postemployment	Oct 1, 2016	–	82,237	82,237	–	47,098	174.6%
	Oct 1, 2014	–	70,198	70,198	–	57,702	121.7%
	Oct 1, 2012	–	108,827	108,827	–	63,625	171.0%
Transport Workers Union							
Pension Plan	Jan 1, 2016	238,718	382,158	143,440	62.5%	91,024	157.6%
	Jan 1, 2015	223,969	351,607	127,638	63.7%	93,228	136.9%
	Jan 1, 2014	206,052	279,959	73,907	73.6%	92,277	69.5%
Other Postemployment Benefits	Oct 1, 2016	–	446,704	446,704	–	93,228	479.2%
	Oct 1, 2014	–	409,644	409,644	–	91,830	446.1%
	Oct 1, 2012	–	338,260	338,260	–	94,043	359.7%

Other Postemployment Benefits actuarial studies are updated biennially and covered payroll is estimated.

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The Unaudited Statistical Section

Provides Multiyear Financial and Operating Information

The objectives of statistical section information are to provide financial statement reader with additional historical perspective, context, and detail to assist in using the information in the financial statements, notes to financial statements, and required supplementary information to understand and assess a government's economic condition.

Statistical section information should be presented in five categories; financial trends information, revenue capacity information, debt capacity information, demographic and economic information, and operating information.

a. *Financial trends information is intended to assist readers in understanding and assessing how a government's financial position has changed over time.*

b. *Revenue capacity information is intended to assist readers in understanding and assessing the factors affecting a government's ability to generate its own-source revenues.*

c. *Demographic and economic information is intended (1) to assist readers in understanding the socioeconomic environment within which a government operates and (2) to provide information that facilitated comparisons of financial statement information over time and among governments.*

d. *Operating information is intended to provide contextual information about a government's operations and resources to assist readers in using financial statement information to understand and assess a government's economic condition.*

e. *Debt capacity information is intended to assist readers in understanding and assessing a government's debt burden and its ability to issue additional debt.*

Analysis for the last three years is provided in the Management's Discussion and Analysis section of this report.

Metropolitan Transit Authority of Harris County, Texas
Statements of Net Position September 30, 2017 and the Last Nine Years (Unaudited)

	2017	2016	2015	2014
Assets				
Cash	$ 5,741,909	$ 6,290,165	$ 5,426,047	$ 3,671,108
Investments	313,417,478	321,815,619	410,462,331	316,174,054
Investments - restricted	57,582,105	57,233,949	45,240,619	31,839,343
Receivables				
Sales tax	113,506,648	114,167,276	117,212,671	119,462,662
Federal government - Federal Transit Administration	7,916,108	11,844,152	12,041,883	25,218,342
Bus passes and other receivables	13,886,887	10,408,552	12,855,952	10.798,847
Total receivables	135,309,643	136,419,980	142,110,506	155,479,851
Material and supplies inventory	34,802,548	32,775,189	28,996,881	24,749,710
Derivative instrument – diesel fuel swaps	3,805,801	–	–	–
Total current assets	550,659,484	554,534,902	632,236,384	531,914,066
Noncurrent assets				
Investments - restricted	38,563,709	42,358,586	50,949,645	67,007,168
Capital assets, net of depreciation	2,932,274,940	3,039,197,023	3,139,596,631	3,081,386,561
Prepaid pension	–	–	–	26,091,075
Other noncurrent assets	3,481,911	3,450,057	3,645,852	3,518,211
Prepaid rental payments	2,213,152	4,426,306	7,246,855	10,067,401
Total noncurrent assets	2,976,533,712	3,089,431,972	3,201,438,983	3,188,070,416
Total assets	3,527,193,196	3,643,966,874	3,833,675,367	3,719,984,482
Deferred outflow of resources				
Diesel fuel	–	1,394,262	15,041,432	1,899,588
Pensions	77,554,921	92,324,541	32,384,271	–
Debt refunding	12,279,043	16,991,634	–	–
Total deferred outflows of resources	89,833,964	110,710,437	47,425,703	1,899,588
Liabilities				
Current liabilities				
Trade payables	71,830,312	114,035,870	114,457,190	83,276,299
Accrued compensation and benefits	34,964,584	29,491,550	30,140,189	26,922,386
Liabilities for injuries and damages	6,060,315	4,800,475	4,866,124	4,657,529
Commercial paper	–	–	–	–
Other current liabilities	11,766,741	10,574,928	13,385,191	8,687,095
Capital lease obligations	–	77,311	8,951,781	8,543,263
Debt payable	54,570,000	44,155,000	28,155,000	13,920,000
Debt interest payable	19,883,931	19,579,295	20,429,616	20,515,002
Derivative instrument – diesel fuel swaps	–	1,394,262	15,041,432	1,899,588
Total current liabilities	199,075,883	224,108,691	235,426,523	168,421,162
Noncurrent liabilities				
Liabilities for injuries and damages	9,194,897	8,466,099	9,390,567	6,196,311
Commercial paper	116,400,000	117,400,000	121,300,000	183,400,000
Deferred rental payments	2,213,152	4,426,306	7,246,855	10,067,401
Capital lease obligation	–	–	57,614,124	66,723,307
Debt payable	1,064,656,499	1,077,655,925	1,058,832,615	958,059,450
Other postemployment benefits	291,375,150	260,783,392	230,234,947	202,045,812
Defined benefit pension plan	243,492,528	252,037,793	177,961,819	–
Other noncurrent liabilities	–	–	–	–
Total noncurrent liabilities	1,727,332,226	1,720,769,515	1,662,580,927	1,426,492,281
Total liabilities	1,926,408,109	1,944,878,206	1,898,007,450	1,594,913,443
Deferred inflow of resources diesel fuel	3,805,801	–	–	–
Deferred inflow of resources pension	13,681,779	2,168,916	–	–
Net position				
Net Investment in capital assets	1,822,890,974	1,920,547,528	2,016,537,016	2,027,406,944
Restricted assets – debt payments	86,303,282	85,736,440	79,101,851	65,681,932
Unrestricted assets	(236,062,785)	(198,653,779)	(112,545,247)	33,881,751
Total net position	$ 1,673,131,471	$ 1,807,630,189	$ 1,983,093,620	$ 2,126,970,627

2013	2012	2011	2010	2009	2008
$ 3,499,304	$ 1,769,157	$ 1,860,652	$ 1,564,969	$ 829,893	$ 121,392
313,657,041	358,828,979	91,458,100	119,209,517	145,924,381	151,027,287
28,942,440	37,265,000	64,489,262	27,175,720	45,304,780	–
110,821,904	103,035,680	97,394,471	83,314,283	77,761,055	83,275,323
73,106,988	26,811,825	17,050,424	62,448,555	29,699,429	7,508,972
10,277,726	13,570,522	12,754,087	21,626,869	8,501,733	8,762,761
194,206,618	143,418,027	127,198,982	167,389,707	115,962,217	99,547,056
20,407,175	17,532,502	21,648,175	22,400,422	20,605,560	32,086,923
1,348,147	3,691,843	–	4,967,134	–	–
562,060,725	562,505,508	306,655,171	342,707,469	328,626,831	282,782,658
27,851,305	129,308,971	415,681,262	66,206,184	165,461,944	5,760
2,978,791,191	2,579,580,094	2,292,560,426	2,031,910,494	1,969,813,283	1,847,947,918
26,346,959	26,678,091	26,781,617	27,849,894	28,597,532	29,655,466
6,325,672	3,449,420	3,900,541	9,301,614	4,792,418	6,047,336
52,168,306	64,374,346	191,360,541	213,018,249	234,675,957	256,333,665
3,091,483,433	2,803,390,922	2,930,284,387	2,348,286,435	2,403,341,134	2,139,990,145
3,653,544,158	3,365,896,430	3,236,939,558	2,690,993,904	2,731,967,965	2,422,772,803
–	–	3,151,246	–	8,849,233	–
–	–	–	–	–	–
–	–	–	–	–	–
–	–	3,151,246	–	8,849,233	–
149,021,462	125,067,467	150,161,474	124,829,224	115,799,760	104,155,476
27,430,216	23,759,406	25,055,498	24,703,772	27,094,159	21,531,490
3,679,238	3,385,061	3,723,095	5,317,508	4,691,532	6,632,936
187,000,000	26,600,000	–	190,000,000	143,000,000	143,000,000
8,824,195	9,005,559	7,295,986	15,000,793	7,403,357	7,823,172
8,129,906	7,899,879	7,707,103	7,222,767	4,256,609	2,406,683
13,365,000	12,895,000	12,297,176	6,435,000	–	–
17,976,710	18,287,887	8,323,783	8,155,478	6,756,159	–
–	–	3,151,246	–	8,849,233	–
415,426,727	226,900,259	217,715,361	381,664,542	317,850,809	285,549,757
7,014,731	5,715,969	13,581,122	10,985,722	15,630,560	16,865,137
–	162,400,000	190,000,000	–	–	–
52,168,306	64,374,346	191,360,541	213,018,249	234,675,957	256,333,665
75,423,971	83,711,279	91,611,157	99,475,662	106,859,364	61,039,473
823,268,698	839,645,874	852,540,873	301,233,434	226,057,724	–
169,059,735	143,594,021	116,266,986	86,263,172	58,196,633	31,603,807
–	–	–	–	–	–
–	–	–	4,802,679	5,774,679	–
1,126,935,441	1,299,441,489	1,455,360,679	715,778,918	647,194,917	365,842,082
1,542,362,168	1,526,341,748	1,673,076,040	1,097,443,460	965,045,726	651,391,839
1,348,147	3,691,843	–	4,967,134	–	–
–	–	–	–	–	–
1,948,427,986	1,729,440,810	1,641,082,035	1,663,152,543	1,822,809,038	1,763,904,490
56,793,745	71,335,683	74,504,866	20,307,480	23,410,852	–
104,612,112	35,086,346	(148,572,137)	(94,876,713)	(70,448,418)	7,476,474
$ 2,109,833,843	$1,835,862,839	$1,567,014,764	$1,588,583,310	$1,775,771,472	$1,771,380,964

Metropolitan Transit Authority of Harris County, Texas
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended September 30, 2017 and the Last Nine Years
(Unaudited)

	2017	2016	2015	2014
Operating revenues:				
Transportation fares	$ 72,817,352	$ 72,052,304	$ 74,651,045	$ 76,282,549
Operating expenses:				
Scheduled services - fixed route				
Bus and rail operations – direct	224,741,506	222,625,961	194,117,455	177,124,243
Contract service	45,623,522	47,355,960	49,839,742	49,298,303
Material distribution	7,389,679	7,042,407	6,244,556	6,086,883
Preventative maintenance	75,330,114	69,716,267	63,007,513	58,752,039
Central shop and maintenance support	26,416,417	24,284,783	21,073,250	20,208,555
Safety and training	4,627,538	4,433,619	3,612,522	1,135,164
Subtotal scheduled services - fixed route	384,128,776	375,458,997	337,895,038	312,605,187
Non-scheduled services-special				
METROLift	56,512,060	55,892,156	52,171,593	49,503,466
METRO Star Vanpool	9,274,464	5,947,081	5,475,396	5,193,777
HOT lanes and special events	9,130,525	8,200,762	8,610,185	7,669,836
Subtotal non-scheduled services – special	74,917,049	70,039,999	66,257,174	62,367,079
Service support				
Service planning and evaluation	8,153,583	4,376,730	4,947,792	3,545,587
Marketing	11,444,811	10,383,266	9,728,386	7,001,452
Transit security and traffic management	25,737,412	22,149,262	21,118,036	19,326,396
Insurance and claims	5,796,480	5,614,731	5,754,471	7,036,234
Ticket and fare collection	4,218,988	4,208,388	3,562,149	3,955,040
Facility maintenance	29,826,031	30,168,111	26,414,559	23,928,168
Subtotal service support	85,177,305	76,900,488	71,525,393	64,792,877
Organizational support				
Business, community, and governmental development	4,384,576	3,343,274	2,894,550	3,551,653
Administrative, financial, and personnel	17,902,790	16,352,030	14,334,333	13,646,454
Information systems	21,260,567	18,228,842	17,684,558	16,371,349
Purchasing	4,051,118	3,697,391	3,217,201	3,249,771
Oversight, audit, and legal	8,441,512	6,850,065	7,490,093	5,170,576
Subtotal organizational support	56,040,563	48,471,602	45,620,735	41,989,803
Depreciation and amortization	206,753,917	212,338,159	173,469,603	160,049,291
Total operating expenses	807,017,610	783,209,245	694,767,943	641,804,237
Operating loss	(734,200,258)	(711,156,941)	(620,116,898)	(565,521,688)
Nonoperating revenues (expenses):				
Sales tax	690,929,011	686,101,655	715,160,213	685,167,303
Investment income	3,551,729	1,220,156	597,015	328,666
Inter-government revenue	1,849,413	1,956,596	1,841,467	1,843,453
Noncapitalized interest expense	(46,539,847)	(43,109,587)	(14,501,373)	(10,723,830)
Other income	3,349,776	2,585,147	8,841,043	2,643,857
Grant proceeds	82,009,861	77,117,133	40,230,897	64,927,095
Local infrastructure assistance	(149,838,694)	(209,464,879)	(149,505,814)	(161,502,564)
Loss for asset impairments	–	–	–	(105,756,522)
Funds passed to subrecipients	(2,605,361)	(1,887,750)	(2,097,344)	(3,368,756)
Gain (loss) on sale or disposal of assets	(34,041)	(7,155,654)	(3,130,847)	755,594
Loss from Hurricane Harvey	(13,634,631)	–	–	–
Total nonoperating revenues (expenses)	569,037,216	507,362,817	597,435,257	474,314,296
Net increase (decrease) before capital grants	(165,163,042)	(203,794,124)	(22,681,641)	(91,207,382)
Capital grant proceeds	30,664,324	28,330,693	56,584,181	108,344,176
Changes in net position	(134,498,718)	(175,463,431)	33,902,540	17,136,784
Net position - beginning of the year * 2015 restated	1,807,630,189	1,983,093,620	1,949,191,080	2,109,833,843
Net position - end of the year	$ 1,673,131,471	$ 1,807,630,189	$ 1,983,093,620	$ 2,126,970,627

2013	2012	2011	2010	2009	2008
$ 72,782,991	$ 66,887,319	$ 68,740,526	$ 64,538,736	$ 67,083,141	$ 53,805,283
166,613,768	161,362,353	161,889,901	157,815,470	180,932,928	144,475,177
46,620,525	47,431,837	44,688,976	44,365,552	45,638,064	39,517,766
5,540,367	5,966,531	5,975,735	5,994,776	5,662,705	5,804,008
55,367,208	53,439,550	53,134,997	53,659,425	51,172,781	51,074,840
18,961,766	18,103,288	15,220,267	13,796,093	13,192,409	13,086,172
973,447	816,598	891,844	858,722	925,202	795,904
294,077,081	287,120,157	281,801,720	276,490,038	297,524,089	254,753,867
45,181,913	40,204,841	39,696,105	35,915,851	35,556,663	34,237,245
4,967,172	5,250,084	4,979,360	4,327,517	6,075,378	4,079,490
5,582,712	2,346,041	676,109	808,861	793,180	624,013
55,731,797	47,800,966	45,351,574	41,052,229	42,425,221	38,940,748
3,521,365	3,130,879	4,205,657	822,792	247,023	586,792
7,306,538	6,910,999	7,450,088	6,933,097	5,324,367	5,708,560
18,587,581	20,199,670	22,797,711	22,870,899	22,330,278	25,847,353
5,927,146	5,673,304	5,616,894	5,144,081	4,484,705	4,476,482
3,751,006	3,369,283	3,867,527	2,029,498	1,682,347	1,786,021
21,660,854	20,020,810	16,613,097	19,193,318	22,752,511	20,863,515
60,754,490	59,304,945	60,550,974	56,993,685	56,821,231	59,268,723
4,228,909	5,043,321	4,592,198	4,111,359	1,373,563	910,623
14,612,492	15,357,730	18,119,682	18,921,682	11,639,038	10,656,994
13,948,037	14,276,491	12,360,853	10,835,724	3,808,872	2,401,196
2,994,284	2,502,794	2,894,124	2,837,551	1,646,574	1,400,093
8,875,645	5,000,056	6,536,177	7,333,120	7,620,394	3,268,706
44,659,367	42,180,392	44,503,034	44,039,436	26,088,441	18,637,612
136,642,238	137,094,956	138,295,447	143,977,419	140,847,103	124,856,131
591,864,973	573,501,416	570,502,749	562,552,807	563,706,085	496,457,081
(519,081,982)	(506,614,097)	(501,762,223)	(498,014,071)	(496,622,671)	(442,651,798)
642,515,462	593,732,843	536,572,595	489,972,748	517,972,851	521,179,360
768,527	625,042	327,467	2,103,533	4,307,902	7,165,095
1,986,480	1,986,480	1,986,480	1,986,614	599,650	–
(9,888,885)	(13,461,589)	(16,660,720)	(8,083,163)	–	–
1,845,296	3,030,912	643,766	848,968	1,115,401	793,638
71,766,635	56,460,316	59,588,924	63,988,363	59,345,052	57,965,428
(170,373,931)	(222,054,292)	(188,467,654)	(150,091,349)	(116,744,258)	(179,845,280)
–	–	–	(180,308,408)	–	–
(2,016,422)	(1,528,115)	(2,538,648)	(393,193)	(352,228)	–
(470,021)	(316,485)	(2,723,630)	(1,095,753)	(6,258,755)	(1,169,107)
–	–	–	–	–	–
536,133,141	418,475,112	388,728,580	218,928,360	459,985,615	406,089,134
17,051,159	(88,138,985)	(113,033,643)	(279,085,711)	(36,637,056)	(36,562,664)
256,919,845	356,987,060	91,465,097	91,897,549	41,027,564	27,000,158
273,971,004	268,848,075	(21,568,546)	(187,188,162)	4,390,508	(9,562,506)
1,835,862,839	1,567,014,764	1,588,583,310	1,775,771,472	1,771,380,964	1,780,943,470
$2,109,833,843	$1,835,862,839	$1,567,014,764	$1,588,583,310	$1,775,771,472	$1,771,380,964

Metropolitan Transit Authority
of Harris County, Texas
Current Fares
(Unaudited)

	Full Fare		Discounted Fare		
	Previous*	Since November 2008	Previous*		Since November 2008
			Student, Senior, Disabled	Youth Age 5 to 11	Student, Senior, Disabled
Local/METRO Rail	$1.00	$1.25	$0.40	$0.25	$0.60
Park & Ride Zone 1	$1.50	$2.00	$0.60	$0.35	$1.00
Park & Ride Zone 2	$2.50	$3.25	$1.10	$0.65	$1.60
Park & Ride Zone 3	$3.00	$3.75	$1.25	$0.75	$1.85
Park & Ride Zone 4	$3.50	$4.50	$1.45	$0.85	$2.25
Day Pass (Local & METRO Rail) **	$2.00	$3.00			$1.50

* The previous Local fare was implemented in October 1994.
* The previous Park & Ride fares were implemented in September 1996.

** The Day Pass was eliminated in February 2008 and reactivated in October 2013.

Metropolitan Transit Authority of Harris County, Texas
Demographic Statistics
For the Last Ten Years
(Unaudited)

Year	Population PMSA* (000)	Per Capita Personal Income*	METRO's Sales & Use Tax**	Houston-The Woodlands-Sugar Land MSA Unemployment Rate (%)***
2017	6,601.2	$ 56,949	$ 690,929,011	4.1
2016	6,502.2	54,759	686,101,655	5.2
2015	6,403.7	54,346	715,160,213	4.6
2014	6,305.7	53,660	685,167,303	4.9
2013	6,207.4	50,910	642,515,462	6.0
2012	6,110.6	51,633	593,732,843	6.6
2011	6,014.8	47,498	536,572,595	7.8
2010	5,920.4	44,498	489,972,748	8.3
2009	5,826.1	43,502	517,972,851	7.6
2008	5,676.4	47,752	521,179,360	4.7

* Prior year published numbers may have changed due to revised information.

** Name changed to reflect inclusion of use tax.

*** Annual except 2017, which is through October

Source:
Population and Per Capita Personal Income–University of Houston C.T Bauer College of Business Institute for Regional Forecasting

Total Retail Sales Tax–METRO's Comprehensive Annual Financial Report
Unemployment Rate–Texas Workforce Commission

Metropolitan Transit Authority
of Harris County, Texas
Principal Corporate Employers
(Amounts in thousands)
(Unaudited)

	2016			2007		
Employer	Employees	Rank	Percentage of Total County Employme nt	Employees	Rank	Percentage of Total County Employment
Memorial Hermann Health System	24,000	1	0.78%	13,700	4	0.54%
The University of Texas MD Anderson Cancer Center	20,000	2	0.65%			
United Airlines	15,000	3	0.48%	–	–	–
Houston Methodist	14,985	4	0.48%	–	–	–
Exxon Mobil Corporation	13,000	5	0.42%	14800	3	0.59
UTMB Health	12,448	6	0.40%			
Kroger Company	12,000	7	0.39%	–	–	–
Shell Oil Company	11,892	8	0.38%	12,000	5	0.48%
National Oilwell Varco	11,563	9	0.37%	–	–	–
Schlumberger	10,000	10	0.32%	–	–	–
Administaff Inc.	–	–	–	20,800	1	0.82%
Walmart Stores Inc.	–	–	–	16,500	2	0.65%
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%

* Based on calendar year.
Source: Houston Business Journal, Business First Survey/Greater Houston Partnership/HBJ

Metropolitan Transit Authority of Harris County, Texas
Principal Payments (Including Debt Refunding) for Outstanding Debts
Last Ten Fiscal Years
(Unaudited)

Fiscal Year		Commercial Paper	Capital Lease	Sales and Use Tax Bonds	Total
2017		$ 1,000,000	$ 77,311	$44,155,000	$45,232,311
2016	(1)	3,900,000	65,386,781	192,500,000	261,787,591
2015	(2)	62,100,000	8,543,263	13,920,000	84,463,263
2014		3,600,000	8,129,906	13,365,000	25,094,906
2013		2,000,000	7,899,879	12,895,000	22,794,879
2012		1,000,000	7,549,701	9,285,000	17,834,701
2011		–	7,222,767	6,435,000	13,657,767
2010		–	4,256,610	–	4,256,610
2009		–	160,766	–	160,766
2008		–	73,279	–	73,279

Metropolitan Transit Authority of Harris County, Texas
Outstanding Debts by Type
Last Ten Fiscal Years
(Unaudited)

Fiscal Year		Commercial Paper	Sales and Use Tax Bond	Capital Lease	Total Outstanding Obligations
2017		$116,400,000	$1,119,226,499	$ –	$1,235,626,499
2016	(1)	117,400,000	1,121,810,925	77,311	1,239,288,236
2015	(2)	121,300,000	1,086,987,615	66,565,905	1,274,853,520
2014		183,400,000	971,979,450	75,266,570	1,230,646,020
2013		187,000,000	836,633,698	83,553,877	1,107,187,575
2012		189,000,000	852,540,874	91,611,158	1,133,152,032
2011		190,000,000	864,838,049	99,318,260	1,154,156,309
2010		190,000,000	307,668,434	106,698,429	604,366,863
2009		143,000,000	226,057,724	111,115,973	480,173,697
2008		143,000,000	–	63,446,156	206,446,156

(1) During FY2016 METRO completed an in-substance debt refunding for two capital leases, a partial refunding of two Sales and Use Tax Bonds and one Sales and Use Tax Contractual Obligation. No additional debt was issued during FY2016.

(2) During FY2015 METRO issued Sales & Use Tax Series 2015A long-term debt to reduce $60 million of the outstanding commercial paper debt.

Additional details regarding outstanding debt and the FY2016 refunding activity can be found in Note 7 to the financial statements.

Metropolitan Transit Authority
of Harris County, Texas
Debt-Revenue Coverage
Sales and Use Tax Bonds and Contractual Obligations
For the Last Nine Years
(Unaudited)

						Payments for Sales and Use Tax Bonds and Contractual Obligations				
Fiscal Year	Net Sales Tax Revenue	Operating Revenues	Operating Grants	Less Operating Expenses Net of Depreciation	Net Available Revenue	Principal	Interest Payments	Less IRS Interest Subsidy	Total	Coverage Ratio
2017	$ 519,026,128	$ 72,817,352	$ 82,009,861	$600,263,693	$ 73,589,648	$ 44,155,000	$ 44,905,658	$ 1,849,413	$ 87,211,245	0.84
2016	514,576,241	72,052,304	77,117,133	$570,871,086	92,874,592	28,155,000	44,806,347	1,956,596	71,004,751	1.31
2015	536,370,159	74,651,045	40,230,897	521,298,340	129,953,761	22,463,263	44,611,552	1,841,467	65,233,348	1.99
2014	513,875,477	76,282,549	64,927,095	481,754,946	173,330,175	13,365,000	39,148,956	1,843,453	50,670,503	3.42
2013	481,886,596	72,782,991	71,766,635	455,222,735	171,213,487	12,895,000	39,623,581	1,986,480	50,532,101	3.39
2012	445,299,632	66,887,319	56,460,316	436,406,460	132,240,807	9,285,000	29,746,383	1,986,480	37,044,903	3.57
2011	402,429,446	68,740,526	59,588,924	432,207,302	98,551,594	6,435,000	14,897,376	1,986,480	19,345,896	5.09
2010	367,479,561	64,538,736	63,988,363	418,575,388	77,431,272	–	10,763,005	1,986,480	8,776,525	8.82
2009	388,479,638	67,083,414	59,345,052	417,704,339	97,203,765	–	–	–	–	–

No bonds were outstanding prior to fiscal year 2008. Additional information regarding outstanding debt can be found in the Note 7 to the financial statements.
Net Sales Tax Revenue is gross sales tax receipt reduced by the amount assigned to the General Mobility Program and Sales Tax Rebate Program.

Metropolitan Transit Authority
of Harris County, Texas
Operating Statistics Last Ten Fiscal Years
(Unaudited)

Fiscal Year	HOV Ridership Cars, Vans And Non-METRO Buses	Transit Boarding *	Revenue Vehicle Miles *	Passenger Miles Transit *	Passenger-Miles Carpool/METRO STAR Vanpool Non-METRO Buses on Transitways	Number of: Emp.	Number of: Buses*	Number of: Rail Cars	Number of: BOF	Number of: TC	Number of: P&R	Directional Route Miles: Rail	Directional Route Miles: HOV Lanes	Service Area (sq. miles)	Total Actual Rail Passenger Car Revenue Miles
2017	25,972,856	89,940,735	72,077,152	602,436,140	267,316,195	3,956	1,393	76	6	21	27	45.4	182.3	1,303	3,330,168
2016	25,829,582	89,970,895	72,975,913	584,215,802	266,302,990	3,916	1,394	54	6	21	26	43.4	139.1	1,303	3,415,024
2015	26,723,748	86,089,171	71,162,933	573,489,760	275,521,842	3,777	1,373	37	6	21	26	43.4	139.1	1,285	2,350,774
2014	25,386,535	85,389,587	69,134,726	605,100,948	261,735,176	3,560	1,432	37	6	20	28	25.4	139.1	1,285	1,577,592
2013	25,371,590	84,266,386	68,324,181	574,724,199	261,581,093	3,500	1,317	22	6	20	29	14.8	140.8	1,285	989,373
2012	24,936,852	81,022,576	68,310,468	534,137,148	257,098,944	3,391	1,393	18	6	20	29	14.8	140.8	1,285	905,795
2011	24,706,519	81,032,075	57,119,898	537,017,914	254,724,211	3,487	1,370	18	6	20	29	14.8	134.7	1,285	901,194
2010	23,761,231	81,158,905	55,670,178	551,914,756	244,978,292	3,453	1,403	18	6	21	29	14.8	128.6	1,285	900,517
2009	24,112,235	88,517,657	55,142,910	610,865,178	254,105,685	3,512	1,374	18	6	21	29	14.8	128.6	1,285	903,668
2008	24,732,107	100,348,037	54,018,635	646,762,573	254,988,018	3,528	1,342	18	6	21	28	14.8	116.9	1,285	884,171

Source: Metropolitan Transit Authority Office of Management and Budgets

BOF = Bus Operating Facility
TC = Transit Centers
P&R = Park & Ride Lots
* Includes METROLIFT

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