J.P. Morgan Securities Inc.
Loop Capital Markets, LLC
Ramirez & Co., Inc.

BOOK ENTRY ONLY

$400,000,000
METROPOLITAN TRANSIT AUTHORITY OF HARRIS COUNTY, TEXAS
SALES AND USE TAX
COMMERCIAL PAPER NOTES
SERIES A-1, A-2, A-3, A-4

June 25, 2009

Commercial Paper Ratings
S&P "A-1+"
Moody's "P-1"

Offering

J.P. Morgan Securities Inc., Loop Capital Markets, LLC and Ramirez & Co., Inc. (collectively and each, respectively, the "Dealer") are offering for sale the captioned notes (the "Notes") issued by the Metropolitan Transit Authority of Harris County, Texas (the "Authority"). The Notes are authorized pursuant to a resolution adopted by the Board of Directors of the Authority on October 27, 2005, as amended (the "Resolution") and Chapter 1371, Texas Government Code, as amended, and Section 451.362, Texas Transportation Code, as amended (collectively, the "Authorizing Law"). Pursuant to the Authorizing Law, the Authority has pledged to the payment of the Notes seventy-five percent (75%) of the revenue collected and received by the Authority from its levy of a 1% sales and use tax (the "Sales and Use Tax"), plus any investment income earned on the Revenue Fund (defined below).

The Authority may issue and sell the "Metropolitan Transit Authority of Harris County, Texas, Sales and Use Tax Commercial Paper Notes, Series A-1" in an aggregate principal amount not to exceed $200,000,000 (the "Series A-1 Notes"), "Metropolitan Transit Authority of Harris County, Texas, Sales and Use Tax Commercial Paper Notes, Series A-2" in an aggregate principal amount not to exceed $100,000,000 (the "Series A-2 Notes"), "Metropolitan Transit Authority of Harris County, Texas, Sales and Use Tax Commercial Paper Notes, Series A-3" in an aggregate principal amount not to exceed $75,000,000 (the "Series A-3 Notes") and "Metropolitan Transit Authority of Harris County, Texas, Sales and Use Tax Commercial Paper Notes, Series A-4" in an aggregate principal amount not to exceed $25,000,000 (the "Series A-4 Notes" and together with the Series A-1 Notes, the Series A-2 Notes and the Series A-3 Notes, are collectively referred to herein as the "Notes"); provided that the aggregate principal amount of the Notes outstanding at any time shall not exceed $400,000,000.

The Sales and Use Tax is levied by the Authority pursuant to Chapter 451, Texas Transportation Code, as amended (the "Authority Act"), and an election held within the boundaries of the Authority on August 12, 1978. The rate of the Sales and Use Tax is equal to 1% of the receipts from the sale at retail or on the sales price or the lease or rental price on the storage, use or other consumption of all taxable items within the boundaries of the Authority. In the Resolution, the Authority has covenanted that, at all times while there are outstanding Notes, it will not reduce the rate at which the Sales and Use Tax is levied below its current rate of 1%.

In the opinion of Andrews Kurth LLP, Houston, Texas, as Note Counsel to the Authority with respect to the Notes ("Note Counsel"), as of the date of such opinion, assuming continuing compliance by the Authority with certain covenants described in the Resolution after the date of the opinion, interest on the Notes (i) is excludable from gross income for federal income tax purposes under existing law and (ii) is not subject to the alternative minimum tax on individuals or, except as provide herein, corporations, as further described under "Tax Exemption."

The Credit Agreements as hereinafter defined under "Liquidity Facilities," constitute a "credit agreement" within the meaning of Chapter 1371, Texas Government Code, and have been approved as to legality under Texas law by the Attorney General of the State of Texas. In the Resolution the Authority has covenanted that while any Notes remain outstanding the Authority shall maintain a Credit Agreement in full force and effect for such Notes.

Under certain circumstances described herein, each credit agreement may terminate immediately without notice to the holders of the notes. See "Liquidity Facilities", "Events of Default" and "Remedies" herein.

Purposes

The Resolution provides that the proceeds of the Notes may be issued to pay (1) the costs of a building, terminal, garage, shop or other structure, rolling stock, equipment or other facility for mass public transportation, (2) the costs of a vehicle parking area or facility necessary or convenient for the beneficial use and access of persons and vehicles to a station, terminal, yard, car or bus or for the protection or environmental enhancement of facilities for mass public transportation, (3) the costs of the acquisition, construction, repair, equipping, improvement or extension of the Authority's transit system, and (4) costs of issuance, and for any other purpose which hereafter may be authorized by law.

The Authority

The Authority is a metropolitan rapid transit authority which provides transit service for a 1,285 square mile area with a population of approximately 2.9 million, including the cities of Houston, Bellaire, Bunker Hill Village, El Lago, Hedwig Village, Hilshire Village, Humble, Hunters Creek, Katy, Missouri City, Piney Point, Southside Place, Spring Valley Village, Taylor Lake Village, West University Place, and significant portions of unincorporated Harris County. The Authority does not provide service to or collect sales and use taxes in certain portions of eastern Harris County, including the cities of Baytown, La Porte and Pasadena.

The Authority employs more than 3,600 people at 14 different locations throughout the Houston area in a broad range of technical specialties and services such as METROBus and METRORail operators and mechanics, police officers, construction engineers, safety inspectors, transportation planning professionals and customer information agents, among others.

For further information concerning the Authority see APPENDIX A, herein. Attached hereto as APPENDIX B are the Authority's audited basic financial statements for its fiscal year ended September 30, 2008.

Description of Notes

The Notes will mature in not more than 270 days from their respective dates of issue and will pay par plus interest at maturity. Interest will be calculated on an actual/365-day year basis. The interest rate on the Notes may not exceed the lesser of 12% per annum or the maximum rate allowable by law.

The Notes are exempt from registration under the Securities Act of 1933, as amended, pursuant to Section 3(a)(4) thereof.

The Notes will be issued and purchases will be recorded only through the book-entry system of The Depository Trust Company ("DTC") and may be issued in denominations of $100,000 or in integral multiple of $1,000 in excess of $100,000. Beneficial owners will not receive certificates representing their ownership interest in the Notes. The face amount of each Note, plus interest on the Note, will be paid upon maturity in immediately available funds to DTC. The Authority has been advised by DTC that upon receipt of such payment DTC will credit, on its book-entry records and transfer system, the accounts of DTC participants through whom Notes are directly or indirectly owned. Payments by DTC to its participants and by such participants to owners of the Notes or their representatives will be governed by customary practices and standing instructions and will be the sole responsibility of DTC, such DTC Participants or such representatives, respectively.

Deutsche Bank Trust Company Americas serves as Issuing & Paying Agent for the Notes.

Security for the Notes

As noted above under "Offering," the Authority has pledged to the payment of the Notes seventy-five percent (75%) of the revenue collected and received by the Authority from the levy of its Sales and Use Tax, plus any investment income earned on the Revenue Fund (defined herein). The rate of the Sales and Use Tax is equal to 1% of the receipts from the sale at retail or on the sale price or the lease or rental price on the storage, use or other consumption of all taxable items within the boundaries of the Authority. In the Resolution, the Authority has covenanted that, at all times while there are outstanding Notes, it will not reduce the rate at which the Sales and Use Tax is levied below its current rate of 1%.

Additional Obligations

The Authority currently has the following outstanding Sales and Use Tax debt secured on parity with the Notes:

1. $94,465,000 Sales and Use Tax Bonds, Series 2009A ("Series 2009A Bonds")

2. $42,780,000 Sales and Use Tax Contractual Obligations, Series 2009B ("Contractual Obligations")

3. $82,555,000 Sales and Use Tax Bonds, Series 2008B (Direct Subsidy Build America Bonds) ("Series 2009B Bonds" and together with the Series 2009A Bonds, the "Bonds")

Pursuant to a November 2003 election (the "Election') the Authority is authorized to issue up to $640 million in long-term sales and use tax bonds to fund projects for its transit system. The Authority currently has $462,980,000 in authorized but unissued bonds from the election.

The Authority currently has outstanding its $62,255,000 Lease Revenue Certificates of Participation, Series 2008A (the "Series 2008A COPs") and its $45,785,000 Lease Revenue Certificates of Participation, Series 2008B (the "Series 2008B COPs;" together with the 2008A COPs, the "COPs"). The COPs evidence proportionate interests of the owners thereof in lease payments to be made pursuant to a Master Lease Purchase Agreement by and between the Authority, as lessee and First Southwest Leasing Company, as lessor. Proceeds of the COPs are used to finance the acquisition of buses. Subject to its right of non-appropriation, the Authority's obligation to make lease payments under the Master Lease Purchase Agreement constitutes a current obligation payable exclusively from lawfully available funds of the Authority, including 75% of its Sales and Use Tax revenues, operating revenues, grants, investment income and other income. The lease payments are not secured by a pledge of the full faith and credit of the Authority or its Sales and Use Tax revenues, or any other funds or moneys of the Authority. Moody's Investors Service ("Moody's") and Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies, Inc. ("S&P") have assigned the Series 2008A COPs ratings of "Aa2" and "AAA," respectively, based upon the issuance of a financial guaranty insurance policy in support of the Series 2008A COPs. Moody's has assigned the Series 2008A COPs an underlying credit rating of "A2" and S&P has assigned the Series 2008A COPs an underlying credit rating of "AA-" based on the Authority's credit. Moody's has assigned the Series 2008B COPs a credit rating of "A2" and S&P has assigned the Series 2008B COPs a credit rating of "AA-" based on the Authority's credit. Pursuant to the Master Lease Purchase Agreement, the Authority is required to deposit lease payments with the trustee for the COPs, as shown on Table 7 herein.

Liquidity Facilities

In order to provide liquidity for the payment of principal on maturing Notes, the Authority has entered into the following agreements in respect to the various series thereof:

(1) a Revolving Credit and Term Loan Agreement for payment of principal on the Series A-1 Notes (the "Series A-1 Credit Agreement") with JPMorgan Chase Bank, National Association (the "Series A-1 Credit Provider"), dated as of June 15, 2009;

(2) a Standby Letter of Credit and Reimbursement Agreement for payment of principal on the Series A-2 Notes (the "Series A-2 Credit Agreement")(1) with Sumitomo Mitsui Banking Corporation, acting through its New York Branch (the "Series A-2 Credit Provider"), dated as of June 15, 2009;

(3) a Revolving Credit and Term Loan Agreement for the payment of principal on the Series A-3 Notes (the "Series A-3 Credit Agreement") with State Street Bank and Trust Company (the "Series A-3 Credit Provider"), dated as of June 15, 2009;

(4) a Revolving Credit and Term Loan Agreement for payment of principal on the Series A-4 Notes (the "Series A-4 Credit Agreement") with Compass Bank (the "Series A-4 Credit Provider"), dated as of June 15, 2009;

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(1) The Series A-2 Credit Agreement with Sumitomo Mitsui Banking Corporation ("Sumitomo") operates in a similar manner to the Series A-1, A-3 and A-4 Credit Agreements and the obligation of Sumitomo may be immediately terminated for certain credit events related to the Authority as described below under "Events of Default" herein.

The Series A-1 Credit Agreement, the Series A-2 Credit Agreement, the Series A-3 Credit Agreement and the Series A-4 Credit Agreement, shall be referred to herein individually as a "Credit Agreement" and collectively as the "Credit Agreements" and the Series A-1 Credit Provider, the Series A-2 Credit Provider, the Series A-3 Credit Provider and the Series A-4 Credit Provider, shall be referred to herein individually as a "Bank" and collectively as the "Banks". For information about the Series A-1 Credit Provider, see APPENDIX C-1 attached hereto. For information about the Series A-2 Credit Provider, see APPENDIX C-2 attached hereto. For information about the Series A-3 Credit Provider, see APPENDIX C-3 attached hereto. For information about the Series A-4 Credit Provider, see APPENDIX C-4 attached hereto. The Issuing and Paying Agent may only draw against the related Series Credit Agreement for payment of maturing principal of that Series and, for the avoidance of doubt, not against the Credit Agreement for any other Series.

Under certain circumstances described herein, each credit agreement may terminate immediately without notice to the holders of the notes. See "Liquidity Facilities", "Events of Default" and "Remedies" herein.

The Series A-1 Credit Agreement, Series A-3 Credit Agreement and the Series A-4 Credit Agreement have an initial expiration date of June 24, 2010 and the Series A-2 Credit Agreement has an initial expiration date of June 24, 2012 (each a "Commitment Expiration Date"). Upon the written request of the Authority to the Bank made not earlier than sixty (60) days prior to the Commitment Expiration Date, the Bank shall within thirty (30) days of such request notify the Authority and the Issuing and Paying Agent whether or not it will extend the scheduled Commitment Expiration Date for the time period requested. If the Bank notifies the Authority and the Issuing and Paying Agent that the scheduled Commitment Expiration Date shall be so extended, the Bank shall, within thirty (30) days of its notification to the Authority and the Issuing and Paying Agent, deliver to the Authority, the Issuing and Paying Agent and the Dealer a written acknowledgement of such extension. If the Bank fails to notify the Authority and the Issuing and Paying Agent of its decision within such thirty (30) day period, the Bank shall be deemed to have rejected such request. Any such determination by the Bank shall be in their sole and absolute discretion.

The amount available (each the "Commitment" under the applicable Credit Agreement) for making advances or draws (each, an "Advance") against the related Series of Notes is as follows: (1) under the Series A-1 Credit Agreement is $200,000,000 (representing the current authorized principal amount of the Series A-1 Notes); (2) under the Series A-2 Credit Agreement is $100,000,000 (representing the current authorized principal amount of the Series A-2 Notes); (3) under the Series A-3 Credit Agreement is $75,000,000 (representing the current authorized principal amount of the Series A-3 Notes); under the Series A-4 Credit Agreement is $25,000,000 (representing the current authorized principal amount of the Series A-4 Notes); provided that the aggregate principal amount of all series of Notes outstanding at any time shall not exceed $400,000,000. However, the Authority may, upon delivery of a certificate to the Bank, reduce the Commitment from time to time, provided that the Authority will not permit the sum of (i) the principal amount of all Notes Outstanding and (ii) the aggregate principal amount of all unpaid Advances and Term Loans Outstanding at any time to exceed the Available Commitment under the applicable Credit Agreement at such time.

Neither the Authority nor, except for participations, each Bank shall have the right to assign its rights under the applicable Credit Agreement or any interest therein without (i) the prior written consent of the other and (ii) written notice from Standard & Poor's, if the Notes are rated by Standard & Poor's, and Moody's, if the Notes are rated by Moody's, that such assignment will not result in a suspension, lowering or withdrawal of the rating on the Notes.

Events of Default

Each Credit Agreement provides that the following events constitute Events of Default thereunder:

(a) *Immediate Termination Events*. The following Events of Default each shall constitute an "Immediate Termination Event" under the applicable Credit Agreement:

(i) *Payments*. The Authority shall (A) fail to pay any amount of interest on any Note when the same shall become due and payable in accordance with its terms, or (B) fail to pay principal of, or interest on, the applicable Revolving Note, the applicable Term Note, any Advance or any Term Loan when the same shall become due and payable in accordance with its terms.

(ii) *Invalidity*. (A) Any provision of the Act, the applicable Credit Agreement, the applicable Revolving Note, the applicable Term Note, any Note, the Issuing and Paying Agency Agreement or the Resolution relating to (x) the ability or the obligation of the Authority to pay, when due, the principal of or interest on the Notes, the applicable Term Note, the applicable Revolving Note, any Advance or any Term Loan or (y) lien on or pledge of the Pledged Revenues, shall at any time, and for any reason, cease to be valid and binding on the Authority, or shall be declared to be null and void, invalid or unenforceable as the result of a final nonappealable judgment by any federal or state court or as a result of any legislative or administrative action by any Governmental Authority having jurisdiction over the Authority; or (B) an Authorized Representative of the Authority repudiates or otherwise denies in writing that it has any further liability or obligation under or with respect to any provision of the Act, the applicable Credit Agreement, the applicable Revolving Note, the applicable Term Note, any Note, the Issuing and Paying Agency Agreement or the Resolution relating to (x) the ability or the obligation of the Authority to pay, when due, the principal of or interest on the Notes, the applicable Term Note, the applicable Revolving Note, any Advance or any Term Loan or (y) lien on or pledge of the Pledged Revenues; or (C) the State or the Authority shall have taken or permitted to be taken any official action, or has duly enacted any statute, which would adversely affect the enforceability of any provision of relating to the Act, the applicable Credit Agreement, the applicable Revolving Note, the applicable Term Note, any Note, the Issuing and Paying Agency Agreement or the Resolution relating to (x) the ability or the obligation of the Authority to pay, when due, the principal of or interest on the Notes, the applicable Term Note, the applicable Revolving Note, any Advance or any Term Loan or (y) lien on or pledge of the Pledged Revenues; or (D) any Governmental Authority with jurisdiction to rule on the validity or enforceability of the Act, the applicable Credit Agreement, the applicable Revolving Note, the applicable Term Note, any Note, the Issuing and Paying Agency Agreement or the Resolution shall find or rule, in a judicial or administrative proceeding, that any provision of the Act, the applicable Credit Agreement, the applicable Revolving Note, the applicable Term Note, any Note, the Issuing and Paying Agency Agreement or the Resolution, as the case may be, relating to (x) the ability or the obligation of the Authority to pay, when due, the principal of or interest on the Notes, the applicable Term Note, the applicable Revolving Note, any Advance or any Term Loan or (y) lien on or pledge of the Pledged Revenues, is not valid or not binding on, or enforceable against, the Authority;

(iii) *Insolvency, Etc*. The Authority shall become insolvent or admit in writing its inability to pay its debts as they mature or shall declare a moratorium on the payment of its debts or apply for, consent to or acquiesce in the appointment of a trustee, custodian, liquidator or receiver for itself or any substantial part of its property, or shall take any action to authorize or effect any of the foregoing; or in the absence of any such application, consent or acquiescence, a trustee, custodian, liquidator or receiver shall be appointed for it or for a substantial part of its property or revenues and shall not be discharged within a period of sixty (60) days; or the State or any other governmental authority having jurisdiction over the Authority imposes a debt moratorium or comparable restriction on repayment when due and payable of the principal of or interest on Debt of the Authority; or all, or any substantial part, of the property of the Authority shall be condemned, seized, or otherwise appropriated, or any bankruptcy, reorganization, debt arrangement or other proceeding under any bankruptcy or insolvency law or any dissolution or liquidation proceeding shall be instituted by or against the Authority (or any action shall be taken to authorize or effect the institution by it of any of the foregoing) and if instituted against it, shall be consented to or acquiesced in by it, or shall not be dismissed within a period of sixty (60) days.

(iv) *Cross-Defaults*. The Authority shall fail to pay when due and payable any principal of or interest on any Parity Debt evidenced by bonds, debentures, notes or similar instruments or any obligation payable from Pledged Revenues evidenced by bonds, debentures, notes or similar instruments.

(v) *Unsatisfied Judgments*. A final, nonappealable, judgment or order for the payment of money in excess of $10,000,000 shall be rendered against the Authority and payable from Pledged Revenues and such judgment or order shall continue unsatisfied and unstayed for a period of sixty (60) days.

(vi) *Ratings*. The long-term unenhanced ratings by Moody's and Standard & Poor's on Parity Debt shall be withdrawn or suspended (but excluding withdrawals or suspensions if the Rating Agency stipulates in writing that the rating action is being taken for non-credit related reasons) or reduced below "Baa3" (or its equivalent) and "BBB-" (or its equivalent), respectively; provided, however, that any withdrawal, suspension or reduction described in the foregoing provisions of this clause (j) shall not be deemed an Immediate Termination Event under the applicable Credit Agreement if said withdrawal, suspension or reduction, as the case may be, shall be attributable to the withdrawal, suspension or reduction of the long-term ratings assigned to any bond insurance or other credit enhancement provided by a Person other than the Authority.

(b) *Representations Untrue*. Any representation, warranty, certification or statement made by the Authority in the applicable Credit Agreement or in any Basic Document or in any certificate, financial statement or other document delivered pursuant to the applicable Credit Agreement or any Basic Document shall (in any such case) have been incorrect or untrue in any materially adverse respect when made or deemed to have been made and such representation, warranty, certification or statement shall remain incorrect or continue for thirty (30) days after written notice thereof shall have been given to the Authority by Bank.

(c) *Certain Covenant Defaults*. The Authority shall default in the due performance or observance of any term, covenant or agreement contained in certain clauses of the applicable Credit Agreement and such default shall continue for thirty (30) days after written notice thereof shall have been given to the Authority by the Bank.

(d) *Other Covenant Defaults*. The Authority shall default in the due performance or observance of any term, covenant or agreement relating to compliance with other documents, use of proceeds of the Notes and negative covenants and such default, if capable of being remedied, shall remain unremedied for ninety (90) days after written notice thereof shall have been given to the Authority by the Bank.

(e) *Other Invalidity*. (i) The State or the Authority (A) makes a claim in a judicial or administrative proceeding that the Authority has no further liability or obligation under the applicable Credit Agreement, under the Act, the applicable Revolving Note, the applicable Term Note, any Note, the Issuing and Paying Agency Agreement or the Resolution to pay, when due, the principal of or interest on the Notes, the applicable Term Note, the applicable Revolving Note, any Advance or any Term Loan or (B) contests in a judicial or administrative proceeding the validity or enforceability of any provision of the Act, the applicable Credit Agreement, the applicable Revolving Note, the applicable Term Note, any Note, the Issuing and Paying Agency Agreement or the Resolution relating to or otherwise affecting (y) the Authority's ability or obligation to pay, when due, the principal of or interest on the Notes, the applicable Term Note, the applicable Revolving Note, any Advance or any Term Loan or (z) the Pledged Revenues; or (ii) a debt moratorium or comparable extraordinary restriction on repayment of debt shall have been declared or imposed (whether or not in writing) with respect to the Notes, the applicable Term Note, the applicable Revolving Note, any Advance or any Term Loan.

(f) *Other Cross-Defaults*. The Authority shall fail to pay when due and payable any principal of or interest on any other Debt in excess of $10,000,000 of the Authority and such failure shall continue beyond any applicable period of grace specified in any underlying indenture, contract or instrument providing for the creation thereof.

(g) *Basic Document Default*. The Authority shall default in the due performance or observance of any material term, covenant or agreement contained in any other Basic Document and the same shall not have been cured within any applicable cure period.

(h) *Other Payments*. The Authority shall fail to pay any amount payable under the applicable Credit Agreement within five (5) Business Days after the same shall be due and after written demand by the Bank in respect thereof, other than payments described in paragraphs (a)(i)(A), (a)(i)(B) or (a)(i)(C) above;

(i) *Taxability*. A ruling, assessment, notice of deficiency or technical advice by the Internal Revenue Service shall be rendered to the effect that interest on the Notes is includable in the gross income of the holder(s) or owner(s) of such Notes and either (i) the Authority, after it has been notified by the Internal Revenue Service, shall not challenge such ruling, assessment, notice or advice in a court of law during the period within which such challenge is permitted or (ii) the Authority shall challenge such ruling, assessment, notice or advice and a court of law shall make a determination, not subject to appeal or review by another court of law, that such ruling, assessment, notice or advice is correctly rendered.

(j) *Other Insolvency.* (i) There shall be commenced against the Authority any case, proceeding or other action of a nature referred to in paragraph (a)(iii) above which (A) results in an order for such relief or in the appointment of a receiver or similar official or (B) remains undismissed, undischarged or unbonded for a period of sixty (60) days; or (ii) there shall be commenced against the Authority, any case, proceeding or other action seeking issuance of a warrant of attachment, execution, distraint or similar process against all or any substantial part of its assets or for all or any portion of the Trust Estate, which results in the entry of an order for any such relief which shall not have been vacated, discharged, or stayed or bonded pending appeal within sixty (60) days from the entry thereof.

Remedies

Immediate Termination Events. In the case any Event of Default which is an Immediate Termination Event has occurred, (i) the Commitment shall immediately and automatically terminate, without notice from the Bank, and (ii) all amounts due under the applicable Credit Agreement and under the applicable Revolving Note and the applicable Term Note shall immediately become due and payable; provided that the Event of Default described in paragraph (a)(i)(B) above will not qualify as an "Immediate Termination Event" under the applicable Credit Agreement if the failure to pay the principal of, or interest on, the applicable Revolving Note, the applicable Term Note, any Advance or any Term Loan is due solely to an acceleration thereof by the Bank for any reason other than the failure to pay the principal of, or interest on, the applicable Revolving Note, the applicable Term Note, any Advance or any Term Loan.

Suspension Events. In the case of a Default described in paragraph (j) above (a "Suspension Event"), the Commitment shall be immediately suspended without notice or demand and, thereafter, the Bank shall be under no obligation to make Advances under the applicable Credit Agreement until the Available Commitment is reinstated as described below. Promptly upon the occurrence of any such Suspension Event, the Bank shall notify the Authority, the Issuing and Paying Agent and the Dealer of such suspension and the effective date of such suspension in writing by facsimile, promptly confirmed by regular mail; provided, that the Bank shall incur no liability of any kind by reason of its failure to give such notice and such failure shall in no way affect the suspension of the Available Commitment or its obligation to make Advances pursuant to the applicable Credit Agreement. The Authority shall promptly direct the Issuing and Paying Agent to notify all Holders of any suspension of the obligation of the applicable Bank to make Advances as a result of the occurrence of such Suspension Event. Upon the occurrence of a Suspension Event, the Commitment shall be immediately and automatically suspended and remain suspended until the case, proceeding or other action referred to therein is either dismissed, discharged or bonded within sixty (60) days from the commencement of such case, proceeding or action, or the date on which the Bank's obligations under the applicable Credit Agreement have terminated or expired in accordance with the terms hereof (the "Termination Date") occurs, whichever is first. In the event that said Suspension Event shall have been dismissed, discharged or bonded within the sixty (60) day period described therein and prior to the Termination Date, then the Available Commitment and the obligation of the applicable Bank to make Advances shall be reinstated and the terms of the applicable Credit Agreement shall continue in full force and effect as if there had been no such suspension (unless the Commitment Period shall otherwise have been terminated, suspended or expired as provided in the applicable Credit Agreement). In the event that said Suspension Event shall not have been dismissed, discharged or bonded within said sixty (60) day period when the Termination Date occurs, then the Available Commitment and the obligation of the applicable Bank to make Advances shall terminate on the Termination Date without notice or demand and, thereafter, the applicable Bank shall be under no obligation to make such Advances under the applicable Credit Agreement.

All Events of Default. In the case of any Event of Default, including any Immediate Termination Event that has occurred and is continuing, the Bank (i) may by written notice to the Authority declare all amounts due under the applicable Credit Agreement or under the applicable Revolving Note or the applicable Term Note to be immediately due and payable, whereupon the same shall immediately become due and payable, (ii) may by written notice to the Authority and the Issuing and Paying Agent (a "No-Issuance Notice") declare the Commitment to be reduced to the principal amount of Notes then outstanding and to be permanently reduced further on the maturity date of each such Note by an amount equal to the principal amount of such Note with the Commitment to be terminated upon the last maturity date applicable to all such Notes, (iii) may petition a court of competent jurisdiction to issue a mandamus order to the Authority to compel specific performance of the covenants of the Authority contained in the Resolution or in the applicable Credit Agreement and (iv) may pursue any other rights or remedies under the applicable Credit Agreement, the Resolution, any other Basic Document, applicable law or otherwise. Except as expressly provided in the preceding paragraphs, procurement, demand, protest and all other notices of every kind are expressly waived. Following receipt of a No-Issuance Notice, the Authority shall not issue any additional Notes.

The rights and remedies of the Bank under the applicable Credit Agreement shall be cumulative and not exclusive of any rights or remedies which it would otherwise have, and no failure or delay by the Bank, in exercising any right shall operate as a waiver of it, nor shall any single or partial exercise of any power or right preclude its other or further exercise or the exercise of any other power or right.

Substitution of Credit Agreement

In the Resolution, the Authority has reserved the right to substitute the Credit Agreement or any other credit agreement entered into pursuant to the Resolution with a credit agreement provided by one or more other credit providers, so long as:

(i) such substitution (or any assignment of all or any part of the Credit Agreement) either (A) does not cause any rating agency then rating the Notes to withdraw, lower or suspend its short term rating assigned to any Notes then outstanding, as evidenced by written notice to the Authority or (B) takes effect on the Business Day on which all then outstanding Notes are scheduled to mature;

(ii) the substitute credit agreement shall have a term of at least 270 days or until at least three Business Days after the last maturing Note then outstanding;

(iii) the substitute credit agreement shall not cause the Authority to violate its covenant to maintain a credit agreement in full force and effect providing essentially the same level of liquidity to the Authority as provided by the Credit Agreement then in effect, in a commitment amount sufficient to pay the Principal Amount of and interest to come due on all such Notes; and

(iv) the substitute Credit Agreement shall be approved by the Attorney General of Texas to the extent required by law.

The Authority will give the Issuing and Paying Agent at least fifteen (15) days written notice of any proposed substitution or replacement by the Authority of the Credit Agreement, and, if applicable, the identity of the provider of any substituted amount or replacement credit agreement. The Authority will cause the Issuing and Paying Agent, following its receipt of such notice, to promptly give a copy of such notice to DTC, and if the Issuing and Paying Agent is provided with the names and addresses of the beneficial owners of the Notes, such beneficial owners of the Notes.

RISK FACTORS

The following factors, along with the other information in this Offering Memorandum, should be considered by potential investors in evaluating a purchase of the Notes. However, they do not purport to be an exhaustive listing of risks and other considerations which may be relevant to an investment in the Notes. The order in which the following factors are presented is not intended to reflect the relative importance of any such risks.

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

Receipt of Grants is Not Assured

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

In addition, the Authority currently estimates the receipt of $57,938,412 of service-related grants during Fiscal Year 2008. The receipt of these service-related grants in the amounts and at the times estimated by the Authority is similarly not assured and is similarly subject to appropriations by the United States Congress and to the allocation and delivery procedures of the U. S. Department of Transportation and the Federal Transit Administration. While, under the Authorizing Law, the expenses of operating and maintaining the Authority's mass transit system are a first lien on and charge against revenue from operation or ownership of the system, and not a lien on or charge against sales and use tax revenue, to the extent the receipt of service-related grants is delayed, not approved, cancelled or otherwise not forthcoming, the Authority may find it necessary to increase its use of sales and use tax revenue above its current estimate in order to provide for the timely and full payment of the expenses of operating and maintaining the system. Such increase would, in turn, decrease the amount of sales and use tax revenue for other purposes and could adversely affect the ratings for the Notes.

Construction Costs Could Increase Substantially

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

Additional Debt Service Obligations Are Expected to be Incurred

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

Payment of Short-Term Parity Obligations May Depend on Market Access

The Authority is obligated to redeem the Notes within two years after expiration of the supporting line of credit, unless they are sooner refunded. The Authority may also issue parity Additional Obligations that are short-term obligations or subject to mandatory tender by the owners thereof and purchase or redemption by the Authority, with or without a supporting credit or liquidity facility.

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

Increased Internet Use May Reduce Sales and Use Tax Revenues

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

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

Environmental Legislation Could Increase Ridership and Expenses and Limit Revenue Increases

New legislative and regulatory initiatives are under consideration by the federal and state governments to address the causes of climate change, including initiatives to reduce emissions of greenhouse gases. In addition, the Houston Galveston Brazoria consolidated metropolitan statistical area has been designated by the United States Environmental Protection Agency as being in non-attainment with the national ambient air ozone standards, triggering an obligation on the part of the State of Texas to develop and implement a strategic plan to reduce ozone concentrations so that the area can ultimately comply with the federal standard. Although it is not possible at this time to predict how these initiatives would impact the Authority, any such future laws and regulations could impede the rate of growth of the area within the Authority (and its sales and use tax revenue), increase transit ridership (and therefore Authority operating and capital replacement expenses), and result in increased compliance costs, each of which could have a material adverse effect on the Authority's financial condition and prospects.

Adverse Legislation Could be Enacted

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

The State Comptroller May Offset Current Distributions for Overpayments

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

The Authority May Receive Payment of Sales and Use Tax Revenue Less Frequently

State law requires the Comptroller to remit sales and use tax revenue to the Authority as often as feasible and at least quarterly. As a matter of convenience and accommodation to local taxing entities, the Comptroller remits sales and use tax revenues to the Authority and other taxing entities on a monthly basis. While the Authority has no reason to believe that the Comptroller's current practice will be discontinued, there is no assurance that the Comptroller will continue to remit sales and use tax revenues to the Authority on a monthly basis. Thus, temporary cash flow irregularities could occur.

The Authority May Experience Variations In Its Sales and Use Tax Revenues

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

Loss of Tax Exemption

As discussed under the heading "Tax Exemption" herein, the interest on the Notes could become includable in gross income for purposes of federal income taxation retroactive to the date of delivery of the Notes, as a result of acts or omissions of the Authority in violation of its covenants in the Resolution.

Noncompliance with Arbitrage Provisions; Occurrence of Taxability

The Resolution obligates the Authority to comply with requirements of federal law regarding rebate of certain investment proceeds to the federal government. If the Authority fails to comply with those requirements, the Notes would become "arbitrage bonds," and the interest portion of the Notes could become includable in gross income for federal income tax purposes retroactive to the date of delivery of the Notes.

Rights of Holders Are Limited

The Resolution does not establish specific events of default with respect to the Notes. Under State law there is no right to the acceleration of maturity of the Notes upon the failure of the Authority to observe any covenant under the Resolution. In addition, under State law the Authority is immune from a suit for damages from any default by the Authority on the Notes or under the Resolution. Even if a judgment against the Authority could be obtained, it could not be enforced by direct levy and execution against the Authority's property, which under state law is exempt from forced sale. A holder's only practical remedy, if a default occurs, is a mandamus or mandatory injunction proceeding to compel Authority officers to observe or perform any of their undisputed obligations under the Resolution. The enforcement of any such remedy may be difficult and time consuming, and a holder of the Obligation could be required to enforce such remedy on a periodic basis. The Resolution does not provide for the appointment of a trustee to represent the interests of the registered holders upon any failure of the Authority to perform in accordance with the terms of the Resolution, or upon any other condition. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Resolution and the Notes are qualified with respect to the customary rights of debtors relative to their creditors.

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

Notices and Consents

The Dealer Agreement provides that the Authority will immediately notify the Dealer by telephone (which shall be promptly confirmed in writing) of any substitution of credit or liquidity providers under the Credit Agreement or their failure to perform.

The Resolution provides that the Authority shall give to each credit rating agency that has issued a rating on the Notes notice of each proposed amendment to the Resolution, and each increase or decrease in the commitment under or other amendment to the Credit Agreement. The Authority has further agreed in the Resolution to provide any other notices to and obtain any consents from the Bank, Dealer, Issuing and Paying Agent or others to the extent required by the Credit Agreement, Dealer Agreement and Issuing and Paying Agency Agreement.

DTC's Book-Entry System

The information in this section describes the securities clearance procedures of The Depository Trust Company ("DTC"). The information in this section concerning DTC has been obtained from sources that the Authority believes to be reliable, but the Authority takes no responsibility for the accuracy of such information.

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Notes. The Notes will be issued as fully-registered securities in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of each series of the Notes, in the aggregate principal amount of such series, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the Notes on DTC's records. The ownership interest of each actual purchaser of each Note ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Notes are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Notes, except in the event that use of the book-entry system for the Notes is discontinued.

To facilitate subsequent transfers, all Notes deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Notes with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Notes within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

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

Redemption proceeds, distributions, and dividend payments on the Notes will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with Notes held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Paying Agent/Registrar, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or Paying Agent/Registrar; disbursement of such payments to Direct Participants will be the responsibility of DTC; and reimbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

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

Tax Exemption

In the opinion of Andrews Kurth LLP, Houston, Texas, as Note Counsel to the Authority with respect to the Notes ("Note Counsel"), interest on the Notes (1) is excludable from the gross income of the owners thereof for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code") , and (ii) is not includable in the federal alternative minimum taxable income on individuals and corporations. The foregoing opinions of Note Counsel are based on the Code and regulations, rulings and court decisions thereunder in existence on the date of original issue of the Notes. Such authorities are subject to change and any such change could prospectively or retroactively result in the inclusion of the interest on the Notes in gross income of the owners thereof or change the treatment of such interest for purposes of computing alternative minimum taxable income.

In rendering its opinions, Note Counsel has assumed continuing compliance by the Authority with certain covenants of the Resolution and has relied on representations by the Authority, with respect to matters solely within the knowledge of the Authority, which Note Counsel has not independently verified. The covenants and representations relate to, among other things, the use of Note proceeds and the facilities financed therewith, the source of repayment of the Notes, the investment of Note proceeds and certain other amounts prior to expenditures, and requirements that excess arbitrage earned on the investment of Note proceeds and certain other amounts be paid periodically to the United States and that the Authority file an information report with Internal Revenue Service (the "Service"). If the Authority should fail to comply with the covenants in the Resolution, or if their representations relating to the Notes that are contained in the Resolution should be determined to be inaccurate or incomplete, interest on the Notes could become taxable from the date of delivery of the Notes, regardless of the date on which the event causing such taxability occurs.

Except stated above, Note Counsel will express no opinion as to any federal, state or local tax consequences resulting from the ownership of, receipt or accrual of interest on or acquisition or disposition of the Notes.

Note Counsel's opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the Authority described above. No ruling has been sought from the Service with respect to the matters addressed in the opinion of Note Counsel, and Note Counsel's opinion is not binding on the Service. The Service has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the Notes is commenced, under current procedures the Service is likely to treat the Authority as the "taxpayer," and the owners of the Notes may have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Notes, the Authority may have different or conflicting interest from the owners of the Notes. Public awareness of any future audit of the Notes could adversely affect the value and liquidity of the Notes during the pendency of the audit, regardless of its ultimate outcome.

Under the Code, taxpayers are required to provide information on their returns regarding the amount of tax-exempt interest, such as interest on the Notes, received or accrued.

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

Note Counsel's opinions are based on existing law, which is subject to change. Such opinions are further based on Note Counsel's knowledge of facts as of the date thereof. Note Counsel assumes no duty to update or supplement its opinion to reflect any facts or circumstances that may thereafter come to Note Counsel's attention or to reflect any changes in law that may thereafter occur or become effective.

Forward-Looking Statements

This Offering Memorandum, which includes all Appendices hereto, contains forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended. Such forward-looking statements involve risks and uncertainties. Any statements that express, or involve discussions as to expectations, beliefs, plans, objective, assumptions, future events or performance (often, but not always, through the use of words or phrases such as "will result", "expects to", "will continue", "anticipates, "plans", "intends", "estimated", "projects" and "outlook") are not historical and may be forward-looking. Forward-looking statements are subject to known and unknown risks, uncertainties and other factors, including, but not limited to, the risks described under the heading "RISK FACTORS" which may cause actual results to be materially different from those expressed or implied by such forward-looking statements. Although the Authority believes that the expectations reflected in the forward-looking statements are reasonable, the Authority cannot guarantee future results, levels of activity, performance or achievements. Moreover, neither the Authority nor any other person assumes responsibility for the accuracy or completeness of these statements. Accordingly, investors should not rely on forward-looking statements in this Offering Memorandum. The Authority undertakes no obligation to publicly update or revise forward-looking statements in this Offering Memorandum, whether as a result of new information, future events or otherwise.

Independent Auditors

The basic financial statements of the Authority as of and for the year ended September 30, 2008, included in this Offering Memorandum in APPENDIX B have been audited by Deloitte & Touche LLP, independent auditors, as stated in their report appearing herein. *KPMG LLP has not been engaged to perform and has not performed, since the date of its report appearing in Appendix B hereto, any procedures on the financial statements addressed in that report. KPMG LLP also has not performed any procedures relating to this Official Statement.*

Ratings

S&P has assigned a rating of "A-1+" to the Notes and an issuer credit rating of "AA" to the Authority; and Moody's Investors Service, Inc. has assigned a rating of "P-1" to the Notes and an issuer credit rating of "Aa3" to the Authority. The ratings reflect only the views of the rating agencies, from whom an explanation of the significance of such ratings may be obtained. There is no assurance that the ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely if, in the judgment of the respective rating agency, circumstances so warrant. Any such downward revision or withdrawal could have an adverse effect on the market price of the Notes. The Authority will undertake no responsibility to notify the owners of the Notes of any such revisions or withdrawals of any ratings.

Continuing Disclosure

The Authority has entered into undertakings (the "Undertakings") for the benefit of the owners of the COPs, the Bonds and the Contractual Obligations to provide certain financial information and operating data to certain information repositories annually and to provide notice to the Municipal Securities Rulemaking Board (the "MSRB") or to SEC-sanctioned information dissemination services and/or certain information repositories of certain events, pursuant to the requirements of section (b)(5)(i) of Rule 15c2-12 under the Securities Exchange Act of 1934. Prior to July 1, 2009, the information will be available to holders of the COPs, the Bonds and the Contractual Obligations only if the holders comply with the procedures and pay charges established by such information vendors or obtain the information through securities broker who do. Effective July 1, 2009, all such information must be filed with the MSRB rather than current nationally recognized municipal securities information repositories ("NRMSIR"). The MSRB intends to make the information available to the public without charge through an internet portal as part of its Electronic Municipal Market Access ("EMMA") system. Investors will be able to access continuing disclosure information filed with the MSRB at www.emma.msrb.org.

The Authority prepares periodic public reports related to the financial condition of the Authority and the balances, revenues, and disbursements of the various funds of the Authority. Copies of the Authority's annual audited financial statements may be obtained by submitting a written request to the Authority, Attention: Chief Financial Officer, 1900 Main Street, Houston, Texas 77002.

Miscellaneous

This Offering Memorandum is not intended or written to be used, and cannot be used, for the purpose of avoiding U.S. federal, state, or local tax penalties. This Offering Memorandum was written in connection with the promotion or marketing by J.P. Morgan Securities Inc., Loop Capital Markets, LLC, Ramirez & Co., Inc., and the Authority of the Notes described herein. Each taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

NO DEALER, BROKER, SALESMAN, OR OTHER PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATION OTHER THAN AS CONTAINED IN THE COMMERCIAL PAPER MEMORANDUM IN CONNECTION WITH THE OFFERING DESCRIBED HEREIN AND IF GIVEN OR MADE, SUCH OTHER INFORMATION OR REPRESENTATIN MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED. THIS COMMERCIAL PAPER MEMORANDUM DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY ANY SECURITIES OTHER THAN THE NOTES OFFERED HEREBY, NOR SHALL THERE BE ANY OFFER OR SOLICITATION OF SUCH OFFER OR SALE OF NOTES IN ANY JURISDICTION IN WHICH IT IS UNLAWFUL FOR SUCH PERSON TO MAKE SUCH OFFER, SOLICITATION, OR SALE. NEITHER THE DELIVERY OF THIS COMMERCIAL PAPER MEMORANDUM NOR THE SALE OF ANY OF THE NOTES IMPLIES THAT THE INFORMATION HEREIN IS CORRECT AS OF ANY TIME SUBSEQUENT TO THE DATE HEREOF. THE INFORMATION CONTAINED HEREIN AS BEEN OBTAINED FROM THE AUTHORITY, PUBLISHED SOURCES, AND OTHER DATA FURNISHED BY THE AUTHORITY. THE DEALER MAKES NO REPRESENTATION AS TO EITHER THE ACCURACY OR COMPLETENESS OF THE INFORMATION HEREIN. ADDITIONAL COPES OF THIS COMMERCIAL PAPER MEMORANDUM MAY BE REQUESTED FROM THE DEALER AS PROVIDED BELOW.

For Information – Please Contact:

J.P. Morgan Securities Inc. – Kyle Pulling, (212) 834-7224
Loop Capital Markets, LLC – Rita Ho, (312) 913-4928
Ramirez & Co., Inc. – Linda Martin, (212) 248-3877

APPENDIX A
Certain Information Concerning the Authority

Board of Directors

The Authority is governed by a nine-member Board of Directors (the “Board”), each of whom serve two-year terms. Five directors are nominated by the Mayor of Houston and confirmed by the Houston City Council, two directors are appointed by the mayors of the Authority’s 14 other member cities (the “Multi-Cities”) and two directors are appointed by the Harris County Commissioners Court.

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

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

Management

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

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

Debt Policy

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

Transit System

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

Bus System

During Fiscal Year 2008, the Authority provided bus service within its service area with a vehicle fleet of approximately 1,200 buses plus passenger facilities, including approximately 11,000 bus stops, 1,800 passenger shelters, 19 transit centers and 28 park and ride lots with more than 32,200 parking spaces. METRO buses ran 56 million revenue miles over a route system of 1,285 square miles with approximately 101 million boardings in Fiscal Year 2008. See "TABLE 1 – Selected Ridership Statistics for the Last Five Fiscal Years."

HOV Lane System

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

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

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

Light Rail System

The Authority's first light rail line began operation on January 1, 2004. This 7.5-mile facility originates in the northern part of Houston's central business district and continues south through the central business district, Midtown, the Museum District, the Texas Medical Center, and the Reliant Park Complex (formerly the Astrodomain Complex) to the South Fannin Park and Ride Lot. There are 16 stations along the route. The Authority currently plans to expand the light rail system significantly. See "Long-Range Transportation Plan - METROSolutions."

Paratransit Service

The Authority's paratransit service serves 18,366 registrants with 117 paratransit vans as of Fiscal Year 2008.

Commuter Vanpool Service

The Authority's commuter vanpool service serves 8,270 registrants with 766 vans as of Fiscal Year 2008.

Ridership Information

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

TABLE 1 – Selected Ridership Statistics for the Last Five Fiscal Years

Fiscal Year	Transit Boarding	Revenue Vehicle Miles[(1)]	Passenger Miles—Transit	HOV Ridership Cars, Vans & Non-Metro Buses	Passenger Miles Carpool/Vanpool Non-Metro Buses on Transitway	Total Actual Passenger Car Revenue Miles	HOV Lanes Miles in Length	Service Area (sq. mile)
2008	100,348,037	54,018,635	646,762,573	24,732,107	254,988,018	884,171	106.4	1,285
2007	101,310,353	53,905,535	638,818,780	24,875,224	257,093,716	877,433	105.3	1,285
2006	102,827,629	53,984,414	633,249,121	22,382,441	230,762,976	859,867	105.3	1,285
2005	94,959,198	54,428,597	582,363,102	21,254,941	219,723,408	805,568	103.8	1,285
2004	96,428,515	57,809,095	618,237,026	23,128,816	238,458,131	473,368	103.8	1,285

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

Bus Replacement Policy

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

Long-Range Transportation Plan - METROSolutions

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

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

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

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

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

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

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

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

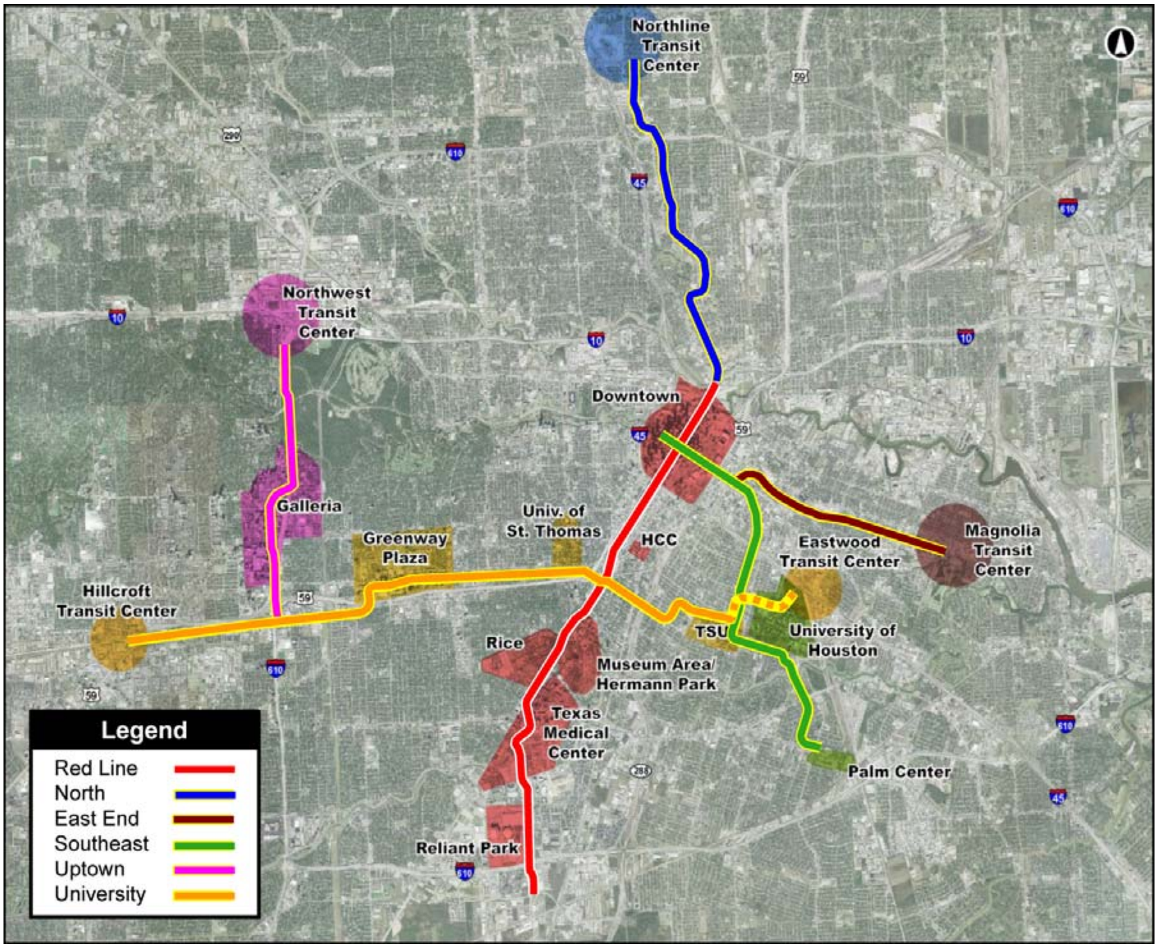
University Corridor – The University Corridor extends approximately 11.3 miles from the Hillcroft Transit Center on the west end to the Eastwood Transit Center on the east end. Nineteen stations are planned. Higher educational destinations along the alignment include the University of Houston Main Campus,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

- 28 Miles of Commuter Rail Transit ("CRT") – The CRT facilities are designed to provide regional service (a) along U.S. 290 from the Cypress Park & Ride facility to Intermodal Facilities at the northern terminus of the Uptown Corridor and at the junction of the Main Street line and the North Corridor and (b) along U.S. 90A from Missouri City in Fort Bend County to the southwest to the Fannin South Park & Ride/Rail Station near the southern terminus of the Main Street line. The CRT facilities are in the preliminary planning phase. The Authority's preliminary cost estimate for the U.S. 90A line is $300-$400 million. The Authority plans to apply for federal assistance for the CRT facilities in the next year.

- 40 Miles of Signature Bus Service/Suburban Bus Rapid Transit – This extended bus service will offer fast crosstown service using specially designated stops/"stations"; queue jumpers; and designated buses that provide a cohesive, recognizable route serving activity centers and defined destinations. One such line along Bellaire Boulevard, which will connect to the Main Street line, is nearing completion. Another along Gessner Road will involve an estimated $10 million capital cost and will connect with the University Corridor light rail line.

- HOV/HOT Conversion – The project will convert existing one-way, reversible High Occupancy Vehicle ("HOV") lanes to two-way High Occupancy Toll ("HOT") lanes. The Authority has been awarded federal stimulus funds to cover much of the estimated $50 million capital cost of the HOT conversion.

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



Design/Building and Vehicle Contract. The Authority has executed a Development Agreement with Parsons Transportation Group for the design and construction of and provision of 103 railcars for the East End, North, Southeast and Uptown Corridor light rail lines. The design and construction obligations under the Development Agreement (the "Design-Build Contract") have been assigned by Parsons Transportation Group to a joint venture consisting of Parsons Transportation Group, Granite Construction, Kiewit Texas Construction and Stacy and Witbeck. The vehicle supply obligations under the Development Agreement will be assigned by Parsons Transportation Group to CAF USA.

The Design-Build Contract fixes the price of only a portion of the work, with other portions being estimated only and even fixed portions being subject to escalation with increases in general price indices. In addition, even the fixed price could increase as a result of site conditions, Authority-directed design changes, force majeure events, and any delays caused by the Authority, among other reasons. The Design-Build Contract may be terminated as to any corridor if a notice to proceed is not issued for the corridor within 18 months after the East End Corridor notice to proceed, and financial close for funding of the work is a condition to the notice to proceed. Since the Obligations and CP Notes will not provide for full funding of the East End Corridor work, the Authority is negotiating for a waiver of this condition for the East Corridor. The Design-Build Contract provides for completion by agreed times after notices to proceed, and includes incentives and disincentives for earlier or later completion. Required completion dates may be extended for a variety of factors. Contractor damages for breach of the Design-Build Contract and the vehicles contract are limited to 15% of the contract price.

Capital Funding. The Authority has submitted an application to the Federal Transit Administration ("FTA") for Section 5309 funding for major transit investments under the New Starts Program for the North and Southeast Corridors. The FTA has issued a Letter of No Prejudice for rail vehicle procurement, utility relocation work, design advancement and early materials procurement in the North and Southeast Corridors. The Letter of No Prejudice permits the Authority to apply FTA grants, if made, to a contract entered into before the grant is made, but does not assure that a federal grant will be made. Payments made with local funds to a contractor before the issuance of a Letter of No Prejudice, or before a FTA grant has been awarded, are ineligible for reimbursement. The Authority expects its existing applications to be ruled upon after completing final design in late 2009. It also plans to submit an application for New Starts assistance for the University Corridor line after completing preliminary engineering. The alignment of the University Corridor line has been challenged in a lawsuit. A dismissal order in favor of the Authority is currently on appeal. All FTA grants, if made, would be subject to Congressional appropriation.

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

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

The following table summarizes estimated METRORail funding requirements:

METRORAIL CAPITAL BUDGET

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

(1) Represents total project cost, including significant design and utility costs previously funded and including costs to be funded by the Obligations and contemporaneous offering. Exclusive of right of way costs estimated at $18.3 million for the East End, Southeast, North and Uptown lines and $90 million for the University line.

(2) Includes 100% of budgeted costs, including 50% to be funded by federal New Start grants, if received. There can be no assurance that the Authority will be awarded federal New Start grants.

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

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

Sources of Revenues

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

TABLE 2 - Combined Sources of Revenue

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

(a) Represents 100% of sales and use tax revenue collected by the Authority. Only 75% of the sales and use tax revenue is included in Pledged Revenues. See "Sources of Revenues – Sales and Use Tax."

(b) Represents farebox receipts, special events fares and route guarantees for specific transit service. Only net operating revenues, if any, remaining after the payment of the Authority's operating and maintenance expenses are available to pay the debt service on the Obligations. No net operating revenue is expected. See "Sources of Revenues – Operating Revenue" and "Expenditures."

(c) Represents revenue received under recurring federal capital grant programs. Other FTA capital programs are non-recurring, are specific to individual projects and are awarded through competitive selection process. Non-recurring federal capital grants received by the Authority in Fiscal Years 2001 through 2008 are excluded from the table and ranged from $5,703,823 to $72,686,407.

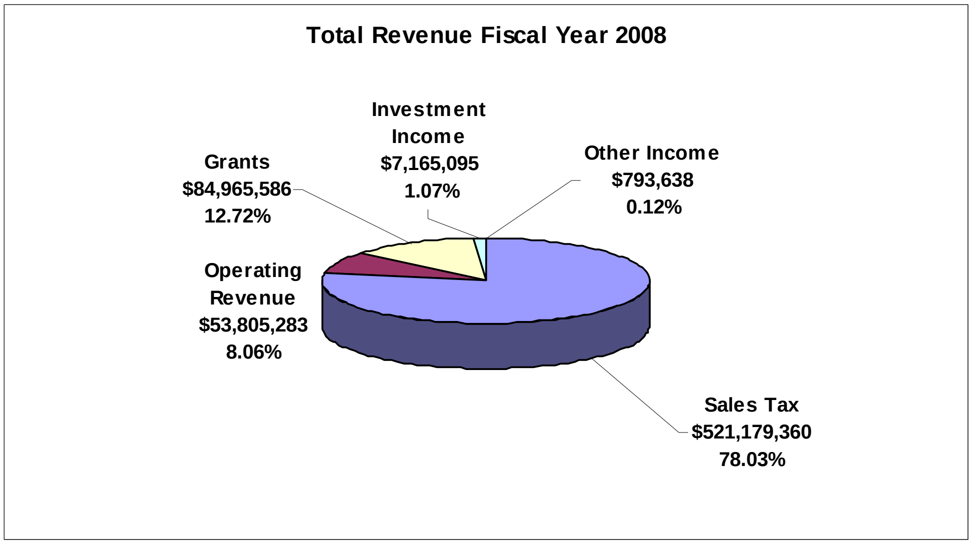
(d) Represents revenue under federal operating assistance programs for bus and rail capitalized preventive maintenance, the regional vanpool program, new bus service and alternative fuel/clean air programs. Other FTA programs, the Federal Highway Administration and state programs are non-recurring, are specific to individual projects and are awarded through competitive selection process. FEMA funds are received based on reimbursement of actual eligible expenditures associated with a natural disaster. Non-recurring federal grants for non-capital uses received by the Authority in Fiscal Years 2001 through 2008 are excluded from the table and ranged from $1,135,000 to $14,683,658.

(e) Investment income declined substantially after fiscal year 2001, largely due to the expenditure of accumulated sales and use tax revenues to build the first METRORail line. See "TABLE 5 – INVESTMENTS" for information relating to the Authority's investments.

(f) Other income consists of miscellaneous revenues such as parking revenue, concession sales, leased property revenue and rebates on procurement cards.

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

TABLE 3 – Total Revenue by Category



Sales and Use Tax Authority

Imposition of Sales and Use Tax

State law authorizes the Authority to impose a sales tax on the sale within the Authority's boundaries of all items subject to state sales tax and a use tax on the use, storage, or consumption within the Authority's boundaries of any such taxable items purchased, leased, or rented from a retailer, at a rate established by the Board in accordance with the Authority Act. The Board has established the rate at 1%, as authorized by public vote when the Authority was confirmed in 1978. The sales tax and use tax is referred to herein as the "sales tax."collects a one- percent1% Sales and Use Tax in its 1,285 square mile service area, as approved by public vote when the Authority was confirmed in 1978. Pursuant to an election held within the Authority in November 2003, 25% of Sales and Use Tax revenue collected by the Authority through September 30, 2014, is dedicated for street improvements and mobility projects. The remaining 75% of the Sales and Use Tax revenue is available for the payment of the Authority's other obligations, including repayment of bonds, notes, commercial paper and lease payment obligations. See "TABLE 2 — Combined Sources of Revenues."

Sales tax revenues for sales made in FY2008 were $521 million or 8.19% higher than FY2007. Although sales tax revenues were better than expected, the Authority took a conservative approach due to the slowing of the national economy and budgeted sales tax revenues for FY2009 at the FY2007 level of $481 million. However, sales tax revenues for the first five months of FY2009 have been 8.28% higher than the same period for FY2008. A major reason for the increase is from the extra repair and rebuilding work that is being done in the region to cleanup the damage and devastation caused by Hurricane Ike.

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

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

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

Collection Procedures. With certain exceptions, sales taxes in the State are collected at the point of sale and are remitted to the Comptroller by, generally speaking, the business that collects the tax resulting from a taxable transaction. The Comptroller collects sales taxes based upon the amount of taxes reported by the seller or purchaser. Taxpayers who collect $500 or more in state sales tax in a month must remit the taxes on or before the 20th day of the month following the month in which the taxes were collected. Taxpayers who collect less than $500 state sales tax per month (or less than $1,500 per calendar quarter) may file quarterly or annually depending on the amount collected. Under State law, a collecting taxpayer may deduct 1/2 percent of the amount of taxes due as reimbursement for the cost of collecting the taxes. In addition, taxpayers who file monthly or quarterly may prepay the taxes due and deduct 1¼ percent of the amount of the prepayment in addition to the 1/2 percent for the cost of collecting the sales tax.

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

Seasonality and Recent Collections. The Authority's sales and use tax collections are seasonal, with the greatest monthly collections typically received in the months of February and August, reflecting taxes on retail sales in the holiday and back-to-school seasons. In the last three fiscal years, collections in the lowest revenue months were 61%, 65%, and 66%, respectively, of collections in the highest revenue months. During the first eight months of Fiscal Year 2009, sales and use tax collections were higher in comparison to the first eight months of Fiscal Year 2008 with increases ranging from 0.71% in October to 15% in December. In April 2009, sales and use tax revenues decreased 1.1% in comparison to sales and use tax revenues in April 2008. The Authority is projecting a minor decline in sales and use tax revenues for the next two fiscal years.

Collection and Allocation of Delinquent Taxes. Although sales and use taxes are imposed on purchasers, retail sellers are responsible for collecting the taxes and are the only source from which the taxes can practically be collected. Accordingly, collections are dependent on the solvency and continued operation of retail sellers.

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

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

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

Operating Revenue

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

TABLE 4 – Current Fares Fiscal Year 2009

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

Groups eligible for the discount are:

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

The Authority is required by the Authority Act to impose reasonable and nondiscriminatory fares, tolls, charges, rents, and other compensation for the use of its mass transit system sufficient to produce revenue in an amount that, together with tax revenue received by the Authority, is adequate to pay all expenses necessary to operate and maintain the system, to pay principal of and interest on obligations of the Authority, to make required sinking fund and reserve fund deposits for the obligations, and to fulfill the terms of agreements with holders of obligations.

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

Grants

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

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

Investments

The Authority invests surplus revenues in accordance with its Investment Policy. Certain features of the Authority's Investment Policy are summarized in Note 2 to the Authority's financial statements for the Fiscal Year ended September 20, 2008, 'which are attached hereto as Appendix B. As of March 231, 2009 (based on unaudited financial information, the Authority had investments totaling approximately $119,166,709, summarized in Table 5 below. Investments are reported at fair value based on quoted market prices.

TABLE 5 – Investments (March 30, 2009)

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

Other Taxing Authority

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

Expenditures

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

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

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

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

- **Transit**: This category refers to the full cost of operating, maintaining and providing security for the bus and rail systems (*i.e.*, local, express, Park & Ride, METROLift, METROVan and rail), less any service cost allocated to Capital.

- **Traffic Management:** The full cost of congestion management activities, including the operation and enforcement of the HOV System, major activity center traffic management and the authority's share of the operational expenses incurred to operate the TranStar facility, a regional traffic control, emergency management and freeway incident management center.

- **Expensed Small Capital Purchases**: The Authority recognizes capital purchases less than $1000 in this category. The purpose of this category is to reduce the cost associated with tracking and accounting for small value capital purchases.

- **Capital:** The Authority allocates individual capital purchases that have a cost of $1000 or greater to the Capital Program category, where such capital purchases are recorded as assets and appropriately depreciated over the expected useful life.

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

OPERATING BUDGET BY COST CATEGORY

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

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

SUMMARY OF BUDGETS

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

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

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

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

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

TABLE 6 - OPERATING AND CAPITAL EXPENDITURES

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

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

Debt and Other Obligations

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

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

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

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

Annual Debt Service Requirements. Following is a table of the Authority's annual debt service requirements on Senior Lien Obligations, as well as other long-term debt of the Authority, all computed on the noted assumptions.

Table 7 - Annual Debt Service Requirements

Fiscal Year (September 30,)	Series 2009A & 2009C Bonds(1)(2)	Series 2009B Contractual Obligations(2)	Total Parity Debt Service(2)(3)	Total Lease Payments for Series 2008A and Series 2008B COPs	Total Debt Service(3)
2009				$ 2,183,665	$ 2,183,665
2010	$ 7,315,312	$ 1,681,933	$ 8,997,246	10,153,910	19,151,156
2011	11,140,402	2,960,900	14,101,302	11,932,619	26,033,921
2012	11,140,402	2,957,900	14,098,302	11,930,044	26,028,346
2013	11,137,702	2,958,925	14,096,627	11,930,078	26,026,705
2014	11,139,052	2,958,900	14,097,952	11,929,488	26,027,440
2015	11,136,677	2,956,625	14,093,302	11,933,113	26,026,415
2016	11,140,677	2,956,625	14,097,302	11,930,713	26,028,015
2017	11,140,552	2,959,525	14,100,077	11,928,728	26,028,805
2018	11,140,927	2,960,225	14,101,152	11,929,494	26,030,646
2019	11,141,302	2,958,725	14,100,027	11,929,791	26,029,818
2020	11,141,177	2,959,925	14,101,102	11,929,441	26,030,543
2021	11,140,052	2,960,675	14,100,727	11,931,797	26,032,524
2022	11,137,427	2,960,175	14,097,602	5,196,350	19,293,952
2023	11,137,677	2,959,425	14,097,102		14,097,102
2024	11,140,052	2,959,025	14,099,077		14,099,077
2025	11,138,927	2,958,388	14,097,315		14,097,315
2026	11,138,677	2,957,213	14,095,890		14,095,890
2027	11,138,552	2,959,650	14,098,202		14,098,202
2028	11,137,802	2,960,263	14,098,065		14,098,065
2029	11,140,552	2,960,750	14,101,302		14,101,302
2030	11,140,927	2,960,375	14,101,302		14,101,302
2031	11,138,917	2,959,125	14,098,042		14,098,042
2032	11,140,578	2,956,750	14,097,328		14,097,328
2033	11,136,375	2,957,875	14,094,250		14,094,250
2034	11,140,526	2,957,125	14,097,651		14,097,651
2035	11,137,248		11,137,248		11,137,248
2036	11,140,761		11,140,761		11,140,761
2037	11,140,170		11,140,170		11,140,170
2038	11,139,692		11,139,692		11,139,692
2039	11,138,435		11,138,435		11,138,435
	$ 330,357,521	$ 72,697,021	$ 403,054,552	$ 148,769,231	$ 551,823,773

(1) Interest netted for interest subsidy to be received on the Series 2009C BABs.
(2) The Authority has capitalized interest on the Bonds and Contractual Obligations.
(3) Excludes debt service on the parity CP Notes, $400 million of which have been authorized and are expected to be issued and outstanding.

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

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

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

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

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

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

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

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

Retirement Plans

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

Other Post Employment Benefits

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

Claims and Litigation

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

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

Selected Information Regarding Harris County, Texas

Harris County is a southeast Texas county and a major component of the Houston Primary Metropolitan Statistical Area. The economy is based on petrochemicals, tourism, shipping, refining, chemicals, space exploration, manufacturing, and education. The County is ranked as the 6th largest manufacturing county in the country. The County seat is Houston, Texas. The chart below presents selected demographic statistics for years 1998 to 2007.

Demographic Statistics
(1998 – 2007)

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

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

APPENDIX B
Audited Basic Financial Statements of the Authority

Financials

Statistical

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Independent Auditors' Report

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

We have audited the accompanying financial statements of the Metropolitan Transit Authority of Harris County, Texas (the Authority), as of and for the years ended September 30, 2008 and 2007, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Authority's retirement plans in 2008 or 2007. The financial information related to the Employee Plans is included in footnote 4 of the notes to the financial statements.

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

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

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

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

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

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

KPMG LLP

February 6, 2009

Management's Discussion and Analysis for the Metropolitan Transit Authority of Harris County, Texas

Years Ended September 30, 2008, 2007, and 2006

Financial Highlights

Fiscal Year 2008 vs. 2007

- FY2008 Sales Tax revenues were $521.2 million (Table A-3), 8.2% higher than in FY2007 (Table A-3). Fares in FY2008 were $53.8 million, 0.9% more than in FY2007 (Table A-1). There was no fare increase in FY2008. The increase in fare revenue was due to increased fixed route ridership of 0.6% and the effects of fare restructuring (see Operating Revenue section). Sales Tax improvement resulted from the economic improvement in Houston, and the accompanying job growth.

- FY2008 total operating expenses (including depreciation) were $496.4 million, an increase of 8.0% over FY2007 (Table A-1). This increase was primarily due to new GASB rules which require governments to account for their "other post employment benefits" (OPEB) obligations and higher depreciation cost.

- The balance sheet shows net assets as of September 30, 2008 were $1,771.4 million, a decrease of 0.5% over September 30, 2007 (Table A-4).

- Total capital assets (net of depreciation) were $1,847.9 million as of September 30, 2008, an increase of 13.1% over September 30, 2007 (Table A-5). This increase is primarily the result of work performed on METRO Solutions projects and implementation of Smart Card fare collection system. METRO Solutions began construction of the East End Corridor the first of five LRT corridors and continued the purchase of land in three of the five corridors (East End, North, and Southeast).

Fiscal Year 2007 vs. 2006

- FY2007 Sales Tax revenues were $481.7 million (Table A-3), 3.0% higher than in FY2006 (Table A-3). Fares in FY2007 were $53.3 million, 1.7% less than in FY2006 (Table A-1). There was no fare increase in FY2007. The decrease in fare revenue was due to lower fixed route ridership of 1.9%. Sales Tax improvement resulted from the economic improvement in Houston, and the accompanying job growth.

- FY2007 total operating expenses (including depreciation) were $459.6 million, an increase of 5.5% over FY2006 (Table A-1). This increase was primarily due to higher depreciation cost, caused by purchase of new buses and property improvements.

- The balance sheet shows net assets as of September 30, 2007 were $1,780.9 million, an increase of 4.8% over September 30, 2006 (Table A-4).

- Total capital assets (net of depreciation) were $1,634.2 million as of September 30, 2007, an increase of 8.5% over September 30, 2006 (Table A-5). This increase is primarily the result of land purchases for Intermodal Terminal project and the purchase of new buses.

Overview of the Financial Statements

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

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

Financial Analysis of METRO

Net Assets

Fiscal Year 2008 vs. 2007

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

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

Fiscal Year 2007 vs. 2006

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

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

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

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

Operating Revenue

Fiscal Year 2008 vs. 2007

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

Fiscal Year 2007 vs. 2006

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

Operating Expense

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

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

Expense Factors

Fiscal Year 2008 vs. 2007

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

Fiscal Year 2007 vs. 2006

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

Depreciation and Amortization

Fiscal Year 2008 vs. 2007

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

Fiscal Year 2007 vs. 2006

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

Non-Operating Income Discussion

Table A-3

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

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

Sales Tax

Fiscal Year 2008 vs. 2007

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

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

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

Fiscal Year 2007 vs. 2006

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

Capital Contributions (Grants)

Fiscal Year 2008 vs. 2007

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

Fiscal Year 2007 vs. 2006

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

Investment Income

Fiscal Year 2008 vs. 2007

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

Fiscal Year 2007 vs. 2006

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

Local Infrastructure Assistance

Fiscal Year 2008 vs. 2007

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

Fiscal Year 2007 vs. 2006

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

Loss on Sale of Assets

Fiscal Year 2008 vs. 2007

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

Fiscal Year 2007 vs. 2006

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

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

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

Capital Assets

Fiscal Year 2008 vs. 2007

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

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

Fiscal Year 2007 vs. 2006

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

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

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

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

Outstanding Commitments

Fiscal Year 2008 vs. 2007

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

Economic Outlook FY2009

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1. Summary of Significant Accounting Policies

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

Reporting Entity

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

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

Related Organizations

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

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

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

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

Nature of Operating and Nonoperating Activities

Operating

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

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

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

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

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

Nonoperating

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

Cash and Investments

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

Receivables

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

Inventories of Materials and Supplies

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

Capital Assets

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

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

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

Compensated Absences

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

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

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

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

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

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

2. Deposits and Investment Securities

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

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

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

Concentration of Credit Risk

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

Deposits

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

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

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

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

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

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

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

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

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

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

3. Capital Assets

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

Changes in capital assets for fiscal 2008 were:

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

Changes in capital assets for fiscal 2007 were:

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

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

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

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

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

4. Retirement Plans

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

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

Defined Benefits Plans

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

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

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

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

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

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

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

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

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

Defined Contribution Plan

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

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

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

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

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

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

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

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

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

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

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

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

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

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

5. Self Insurance

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

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

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

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

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

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

6. Commitments and Contingencies

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

Commercial paper

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

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

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

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

Outstanding value of contracts and purchase orders

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Operating lease

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

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

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

Financial Hedges for Diesel Fuel

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

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

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

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

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

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

Litigation

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

Federal and State Grants

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

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

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

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

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

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

Listed below are the areas covered in the statistical section:

Financial Trends

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

Revenue Capacity

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

Debt Capacity

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

Demographic and Economic Information

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

Operating Information

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

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

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

Source: METRO's Comprehensive Annual Financial Report

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

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

Source: METRO's Comprehensive Annual Financial Report

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

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

Please refer to MD&A for additional information

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

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

Please refer to MD&A for additional information

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

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

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

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

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

** Based on calendar year*

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

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

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

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

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

Source: Metropolitan Transit Authority Office of Management and Budget

BOF = Bus Operating Facility *TC = Transit Centers* *P&R = Park & Ride Lots* ** includes METROLift*

APPENDIX C
Certain Information Concerning the Bank

JPMORGAN CHASE BANK, NATIONAL ASSOCIATION

JPMorgan Chase Bank, National Association ("the Bank") is a wholly owned bank subsidiary of JPMorgan Chase & Co., a Delaware corporation whose principal office is located in New York, New York. The Bank offers a wide range of banking services to its customers, both domestically and internationally. It is chartered and its business is subject to examination and regulation by the Office of the Comptroller of the Currency.

As of March 32, 2009, JPMorgan Chase Bank, National Association, had total assets of $1,688.2 billion, total net loans of $595.9 billion, total deposits of $978.8 billion, and total stockholder's equity of $131.6 billion. These figures are extracted from the Bank's unaudited Consolidated Reports of Condition and Income (the "Call Report") as at March 31, 2009, prepared in accordance with regulatory instructions that do not in all cases follow U.S. generally accepted accounting principles, which are filed with the Federal Deposit Insurance Corporation. The Call Report, including any update to the above quarterly figures, can be found at www.fdic.gov.

Additional information, including the most recent annual report on Form 10-K for the year ended December 31, 2008, of JPMorgan Chase & Co., the 2008 Annual Report of JPMorgan Chase & Co., and additional annual, quarterly and current reports filed with or furnished to the Securities and Exchange Commission (the "SEC") by JPMorgan Chase & Co., as they become available, may be obtained without charge by each person to whom this Offering Memorandum is delivered upon the written request of any such person to the Office of the Secretary, JPMorgan Chase & Co., 270 Park Avenue, New York, New York 10017 or at the SEC's website at www.sec.gov.

The information contained in this Appendix relates to and has been obtained from the Bank. The delivery of the Offering Memorandum shall not create any implication that there has been no change in the affairs of the Bank since the date hereof, or that the information contained or referred to in this Appendix is correct as of any time subsequent to its date.

SUMITOMO MITSUI BANKING CORPORATION

Sumitomo Mitsui Banking Corporation (Kabushiki Kaisha Mitsui Sumitomo Ginko) ("SMBC") is a joint stock corporation with limited liability (Kabushiki Kaisha) under the laws of Japan. The registered head office of SMBC is located at 1-2, Yurakucho 1-chome, Chiyodaku, Tokyo, Japan.

SMBC is one of the world's leading commercial banks, with ¥ 108,637,791 million in consolidated total assets as of March 31, 2008. SMBC provides an extensive range of banking services to its customers in Japan and overseas. In Japan, SMBC accepts deposits, makes loans and extends guarantees to corporations, individuals, governments and governmental entities. It also offers financing solutions such as syndicated lending, structured finance and project finance. SMBC also underwrites and deals in bonds issued by or under the guarantee of the Japanese government and local government authorities, and acts in various administrative and advisory capacities for certain types of corporate and government bonds. Internationally, SMBC operates through a network of branches, representative offices, subsidiaries and affiliates to provide many financing products including syndicated lending and project finance.

The New York Branch of SMBC is licensed by the State of New York Banking Department to conduct branch banking business at 277 Park Avenue, New York, New York, and is subject to examination by the State of New York Banking Department and the Federal Reserve Bank of New York.

Formation of the SMBC Group and the SMFG Group

SMBC was established in April 2001 through the merger of two leading banks, The Sakura Bank, Limited and The Sumitomo Bank, Limited. In December 2002, Sumitomo Mitsui Financial Group, Inc. (the "Parent") was established through a stock transfer as a holding company, under which SMBC became a wholly owned subsidiary.

Financial and Other Information

Audited consolidated financial statements fro the Parent, financial statements for SMBC and its consolidated subsidiaries for the fiscal years ended March 31, 2008 and earlier, certain unaudited financial information for the fiscal quarters ended through March 31, 2008, as well as other corporate data, financial information and analyses are available in English on the website of the Parent at www.smfg.co.jp/english.

The information herein has been obtained from SMBC, which is solely responsible for its content. The delivery of the Offering Memorandum shall not create any implication that there has been no change in the affairs of the Bank since the date hereof, or that the information contained or referred to in this Appendix is correct as of any time subsequent to its date.

STATE STREET BANK

State Street Bank and Trust Company (the "Bank") is a wholly-owned subsidiary of State Street Corporation (the "Corporation"). The Corporation (NYSE: STT) is a leading specialist in providing institutional investors with investment servicing, investment management and investment research and trading. With $12.04 trillion in assets under custody and $1.44 trillion in assets under management, the Corporation operates in 27 countries and more than 100 markets worldwide. The assets of the Bank at December 31, 2008 accounted for approximately 97% of the consolidated assets of the Corporation. At December 31, 2008, the Corporation had total assets of $173.63 billion, total deposits (including deposits in foreign offices) of $112.23 billion, total loans and lease finance assets net of unearned income, allowance and reserve for possible credit losses of approximately $9.13 billion and total equity capital of $12.77 billion.

The Bank's Consolidated Reports of Condition for Insured Commercial and State Chartered Savings Banks FFIEC 031 for December 31, 2008, as submitted to the Federal Reserve Bank of Boston, are incorporated by reference in this Appendix and shall be deemed to be a part hereof.

In addition, all reports filed by the Bank pursuant to 12 U.S.C. §324 after the date of this Offering Memorandum shall be deemed to be incorporated herein by reference and shall be deemed to be a part hereof from the date of filing of any such report.

Additional information, including financial information relating to the Corporation and the Bank is set forth in the Corporation's Annual Report or Form 10-K for the year ended December 31, 2008. The annual report can be found on the Corporation's web site, ***www.statestreet.com***. Such report and all reports filed by the Corporation pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, after the date of this Offering Memorandum are incorporated herein by reference and shall be deemed a part hereof from the date of filing of any such report. The Bank Agreement is an obligation of the Bank and not of the Corporation.

Any statement contained in any document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Offering Memorandum to the extent that a statement contained herein or in any subsequently filed document that also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Offering Memorandum.

The Bank hereby undertakes to provide, without charge to each person to whom a copy of this Offering Memorandum has been delivered, on the written request of any such person, a copy of any or all of the documents referred to above which have been or may be incorporated in this Offering Memorandum by reference, other than exhibits to such documents. Written requests for such copies should be directed to Investor Relations, State Street Corporation, One Lincoln Street, Boston, Massachusetts 02111, telephone number 617-786-3000.

Neither the Bank nor its affiliates make any representation as to the contents of this Offering Memorandum (except as to this Appendix to the extent it relates to the Bank), the suitability of the Bonds for any investor, the feasibility or performance of any project or compliance with any securities or tax laws or regulations.

COMPASS BANK

Compass Bank, the issuer of the Letter of Credit, is a Sunbelt-based commercial banking corporation offering a wide range of banking services to its customers. Currently, Compass Bank operates 578 full-service banking centers, including 306 in Texas, 92 in Alabama, 77 in Arizona, 45 in Florida, 36 in Colorado and 22 in New Mexico. As of March 31, 2009, Compass Bank ranked among the top 25 largest banks in the U.S. based on deposit market share and ranks among the largest banks in Texas (4^{th}) and Alabama (3^{rd}). Compass Bank is organized under the laws of the State of Alabama and its business is subject to examination and regulation by certain state and federal bank regulatory authorities, and most particularly the Alabama State Banking Department and the Federal Reserve Board.

Compass Bank submits quarterly to the Federal Deposit Insurance Corporation (the "FDIC") on behalf of its primary federal regulator certain reports regarding its financial condition and results of operations (each, a "Call Report" and collectively, the "Call Reports"). Each Call Report consists of a balance sheet, income statement, changes in equity capital and other supporting schedules as of the end of the period to which such Call Report relates. The Call Reports are prepared in accordance with regulatory instructions issued by the Federal Financial Institutions Examination Council (the "FFIEC"). Because of the special supervisory, regulatory and economic policy needs served by the Call Reports, such regulatory instructions do not in all cases follow generally accepted accounting principles. While the Call Reports are supervisory and regulatory documents, not primarily accounting documents, and do not provide a complete range of financial disclosure about Compass Bank, the Call Reports nevertheless provide important information concerning the financial condition of Compass Bank. The Call Reports are on file with, and publicly available at, the FDIC, 250 E Street, S.W., Washington, D.C. 20219. All such Call Reports may be obtained by calling the FDIC at (800) 945-2186. The FDIC also maintains an Internet website (http://www.fdic.gov) that contains call reports and certain other reports and information regarding depository institutions, including Compass Bank, that file reports with the FDIC.

As of March 31, 2009, Compass Bank and its subsidiaries had total assets of approximately $61.5 billion, total loans of approximately $38.4 billion, total deposits of approximately $37.7 billion and total stockholder's equity of approximately $13.3 billion. The figures in the immediately preceding sentence were extracted from Compass Bank's Call Report as of March 31, 2009.

Moody's has previously rated the long-term deposits of Compass Bank A2 and the Short-Term/Commercial Paper of the Bank P-1. Standard & Poor's has previously given Compass Bank Short-Term/Commercial Paper and Issuer Credit ratings of A-1 (short-term) and A+ (long-term). Fitch Ratings has previously given Compass Bank Short-Term/Commercial Paper and Issuer Credit ratings of F1 (short-term) and A+ (long-term). Such credit ratings reflect only the views of such credit rating agencies, and an explanation of the significance of such credit ratings may be obtained from such credit rating agencies. There is no assurance that such credit ratings will continue for any given period of time or that they will not be revised or withdrawn entirely by such credit rating agencies, if in its judgment, circumstances so warrant. A revision or withdrawal of such credit rating may have an adverse effect on the market price of the Notes.

Compass Bank is a direct, wholly-owned subsidiary of Compass Bancshares, Inc., a Delaware corporation (formerly known as BBVA USA Bancshares of Delaware, Inc.) ("Compass Bancshares"), and an indirect, wholly-owned subsidiary of Banco Bilbao Vizcaya Argentaria, S.A. (NYSE: BBV)[(MAD: BBVA), a banking organization organized under the laws of the Kingdom of Spain ("BBVA"). BBVA is a global financial services company with operations in more than 30 countries. As of March 31, 2009, BBVA had more than $750 billion in total assets, 48 million clients, 8,000 branches, and approximately 109,000 employees. Compass Bancshares is not subject to the periodic reporting requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and is not required to file annual, quarterly or other periodic reports with the Securities and Exchange Commission (the "Commission"). BBVA currently is subject to the periodic reporting requirements under the Exchange Act applicable to foreign private issuers. BBVA is not required to file financial statements prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"). For further information regarding BBVA, you may inspect and copy the materials BBVA files with the Commission at the public reference room maintained by the Commission at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the Commission at 1-800-SEC-0330 for further information regarding the public reference room. You may also obtain copies of all or part of the material BBVA files with the Commission by mail from the Public Reference Section of the Commission, 100 F Street, N.E., Washington, D.C. 20549, at prescribed rates. The Commission maintains an Internet website where you may access reports, proxy and information statements and other information regarding registrants that file electronically with the Commission, including BBVA. The address of such Internet website is http://www.sec.gov. While BBVA will be subject to periodic reporting requirements of the Exchange Act and Compass Bank's results will be consolidated with the results of BBVA, BBVA has other significant operations and thus the information reported by BBVA with respect to the operations, results of operations and financial condition of Compass Bank may be limited.

NEITHER BBVA NOR COMPASS BANCSHARES HAS ANY OBLIGATION WITH RESPECT TO THE PAYMENT OF THE PRINCIPAL OF OR THE INTEREST OR PREMIUM ON THE NOTES, OR WITH RESPECT TO THE LETTER OF CREDIT, AND INVESTORS AND PROSPECTIVE INVESTORS SHOULD NOT RELY ON FINANCIAL INFORMATION RELATING TO BBVA OR COMPASS BANCSHARES IN MAKING A DECISION TO PURCHASE THE NOTES.

The information contained in this Appendix relates to and has been obtained from Compass Bank. Neither the Issuer, the Underwriter nor their counsel or Note Counsel have independently verified any financial information furnished by Compass Bank, nor have they made an independent determination of the financial position of the Compass Bank or ascertained the correctness, accuracy or completeness of such information. No determination has been made as to whether Compass Bank is or will be financially capable of fulfilling its obligations under the Letter of Credit.

The delivery of this Offering Memorandum shall not create any implication that there has been no change in the affairs of Compass Bank since the date hereof, or that the information contained in or referred to in this Appendix is correct as of any time subsequent to its date. Compass Bank makes no representation as to the contents of this Offering Memorandum (except as expressly provided herein), the suitability of the Notes for any investor, the feasibility of performance of any project or compliance with any securities, tax or other laws or regulations.

IN THE EVENT OF A DEFAULT BY COMPASS BANK UNDER THE LETTER OF CREDIT, NO INSURANCE PROCEEDS FROM THE FEDERAL DEPOSIT INSURANCE CORPORATION OR ANY OTHER GOVERNMENTAL AGENCY, INSTRUMENTALITY OR AUTHORITY WOULD BE AVAILABLE TO PAY THE NOTES.