Dear Conroe Citizens:

This is our fourth “State of the City Report”, and this message will highlight just a few of the many things that have happened or will be coming to fruition this year in Conroe.

ReedHycalog, will open its world headquarters in our Industrial Park employing over 500 workers. The new Del Lago is being completely renovated into a four star destination resort with 200,000 visitors coming to the area annually. The new Owen Theatre will open in Downtown Conroe and be home to The Crighton Players.

Over one million square feet of retail has just been added to Conroe or will be completed this year with the addition of the new Conroe Market Place and Teas Crossing. In the past four years developers have started 46 new subdivisions in the city limits. We are just
completing two new water wells to accommodate our growing population.

Unofficially Conroe is a city of over 50,000. If our growth continues at this rate when the 2010 census is completed we could be over 60,000. To take care of all this growth, we have been working on a new Comprehensive Plan that was just approved by Council. This will be our roadmap and guide for the future.

Even though the city grew by over 22% in population the last two years, crime has gone down drastically; robberies down 54%, assaults down 34%, larcenies down 19%, burglaries down 14% and seizures of crack cocaine jumped more than 1,000%. This is the result of our commitment to rid Conroe of the habitual criminal element.

Conroe has one of the lowest tax rates in the state at $.4250 per $100. The state average is over $.55 per $100. The city water system is rated superior and our citizens enjoy at least $20.00 per month savings compared to the state average. We have lowered our tax rate the past two years, and if revenues continue strong we will be lowering our rate this year.

In closing, all of the efforts and successes we have had are because our 450 dedicated employees are committed to serving you daily and “Exceeding Your Expectations”.

Mayor Tommy Metcalf
The Mayor and City Council make appointments to the Conroe Industrial Development Corporation (CIDC) Board which has oversight responsibility for expending 4B economic sales tax revenue approved by the voters in 1994. The Greater Conroe Economic Development Council (GCEDC) and professional staff were established by the CIDC as the marketing arm for the City. The major objective is to retain/attract quality manufacturing firms that are environmentally friendly and provide jobs and increase the tax base which in turn enhances the quality of life in Conroe.

In 1999, the CIDC purchased 470 acres located along FM 3083 in the northern part of Conroe. Since this property was acquired, there have been 16 businesses located in Conroe Park North. In 2006, an additional 200 acres adjacent to the Industrial Park was acquired by the City of Conroe. As an inducement to retain existing businesses, attract new industry and stay competitive in the economic development arena, a Foreign Trade Zone was approved in 2005. A Foreign Trade Zone allows certain inventories to remain tax exempt for a period of time while they are being processed prior to shipment outside the United States. In addition, a quadruple Freeport Exemption will be available effective in 2007. This exemption allows personal property to be tax exempt if shipped outside the state of Texas within 175 days.

Activity in the Business Park has been brisk during the last two years as reflected by the sale of 123 plus acres. A total of $456.0 million in taxable improvements has been added along with 1,483 direct primary jobs being established. An annual payroll in excess of $24.5 million has been created.

The City of Conroe is "on the move" not only with growth in manufacturing, but also residential and retail activity.

Tom Stinson, Executive Director, GCEDC
Our job is to increase capital investment and create new jobs, which makes a better quality of life for people in the city.

City Of Conroe 2007 Top Ten Taxpayers*

<table>
<thead>
<tr>
<th>Taxpayer</th>
<th>2007 Taxable Valuation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Conroe Regional Medical Center</td>
<td>$96,947,546</td>
</tr>
<tr>
<td>McKesson Corporation</td>
<td>51,017,953</td>
</tr>
<tr>
<td>Wal-Mart Stores/Sam’s Club</td>
<td>44,782,026</td>
</tr>
<tr>
<td>Tenaris</td>
<td>39,254,730</td>
</tr>
<tr>
<td>Consolidated Communications of TX Co.</td>
<td>35,924,050</td>
</tr>
<tr>
<td>Crown Beverage Packaging</td>
<td>26,182,650</td>
</tr>
<tr>
<td>Conroe Marketplace S C LP</td>
<td>24,821,190</td>
</tr>
<tr>
<td>Gulf States Utilities Entergy Co.</td>
<td>24,368,590</td>
</tr>
<tr>
<td>Ball Corporation</td>
<td>21,196,220</td>
</tr>
<tr>
<td>Siemens Water Technologies</td>
<td>20,682,872</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 385,177,827</strong></td>
</tr>
</tbody>
</table>

*Source: Montgomery Central Appraisal District

City Of Conroe 2007 Top Ten Manufacturing Companies*

<table>
<thead>
<tr>
<th></th>
<th>Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Oilwell Varco-Brandt/Texas Oil Tools</td>
<td>476</td>
</tr>
<tr>
<td>ReedHycalog</td>
<td>450</td>
</tr>
<tr>
<td>Tenaris</td>
<td>300</td>
</tr>
<tr>
<td>Borden Milk Products</td>
<td>228</td>
</tr>
<tr>
<td>Crown Beverage Packaging</td>
<td>149</td>
</tr>
<tr>
<td>Conservatek Industries</td>
<td>145</td>
</tr>
<tr>
<td>Ball Corporation</td>
<td>127</td>
</tr>
<tr>
<td>Hempel Coatings USA</td>
<td>86</td>
</tr>
<tr>
<td>Sawyer</td>
<td>80</td>
</tr>
<tr>
<td>Stericycle</td>
<td>80</td>
</tr>
</tbody>
</table>

*Source: Greater Conroe Economic Development Council

City Of Conroe 2007 Top Ten Employers*

<table>
<thead>
<tr>
<th></th>
<th>Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Conroe Independent School District</td>
<td>5550+</td>
</tr>
<tr>
<td>Conroe Regional Medical Center</td>
<td>1070</td>
</tr>
<tr>
<td>National Oilwell Varco-Brandt/Texas Oil Tools</td>
<td>476</td>
</tr>
<tr>
<td>ReedHycalog</td>
<td>450</td>
</tr>
<tr>
<td>Sadler Clinic</td>
<td>388</td>
</tr>
<tr>
<td>Tenaris</td>
<td>300</td>
</tr>
<tr>
<td>Borden Milk Products</td>
<td>228</td>
</tr>
<tr>
<td>Consolidated Communications of Tx. Co.</td>
<td>225</td>
</tr>
<tr>
<td>McKesson Corporation</td>
<td>160</td>
</tr>
<tr>
<td>Wing Aviation</td>
<td>150</td>
</tr>
</tbody>
</table>

*Source: Greater Conroe Economic Development Council
INDUSTRIAL AND RETAIL

Conroe Park North
A 600 Acre Planned Business Park

Texas Dept. of Transportation
Garde Company
Hempel Coating (USA)
Aerohush Images, Inc.
Atek Manufacturing
SGI Services
Conroe Machine
Stericycle, Inc.
Spikes Group, Inc.

THE HOME DEPOT
Texas Home Improvement Warehouse

Kohl's

Southwestern Furniture

ReedHycalog Aerial View
INDUSTRIAL AND RETAIL
Historic Downtown Conroe
A sense of place...A stronger sense of growth. Brand new facades on the historic buildings maintain the integrity and historical significance of Downtown Conroe.

Owen Theatre
The Owen Theatre at the historic Municipal Election Building has an exciting year ahead with its completed restoration bowing in at its Grand Opening in 2008.

Crighton Theatre
The crown jewel of Conroe, this historic 1930’s theatre presents shows year round from plays, musicals, concerts to competitions such as the Young Texas Artist Competition drawing professional musicians and singers from all over the nation.

Heritage Place
Our outdoor venue located downtown at 500 Collins is home to many events, celebrations and concerts. This public outdoor performing arts venue is available for public use.

Main Street Team
As a Main Street City, led by Downtown Manager, Larry Calhoun and the team of Main Street Committees, this initiative strives to build economic development and marketing to Downtown Conroe. Events and shows adorn downtown almost every weekend.
Kathleen Richey,
Accounting Manager

I've worked for the city for 22 years in the Finance Department - It's like my 2nd family. I have been fortunate to be a part of a city that's been growing stronger everyday.

Fiscal Year 2007 - 2008

General Fund Sales Tax Revenues - Millions $

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales Tax Revenues - Millions $</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td>11.7 $11,715,770</td>
</tr>
<tr>
<td>2000</td>
<td>13.0 $12,997,107</td>
</tr>
<tr>
<td>2001</td>
<td>13.2 $13,248,199</td>
</tr>
<tr>
<td>2002</td>
<td>15.1 $15,104,647</td>
</tr>
<tr>
<td>2003</td>
<td>15.2 $15,220,333</td>
</tr>
<tr>
<td>2004</td>
<td>16.4 $16,373,073</td>
</tr>
<tr>
<td>2005</td>
<td>17.4 $17,433,421</td>
</tr>
<tr>
<td>2006</td>
<td>20.3 $20,334,745</td>
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<tr>
<td>2007</td>
<td>20.4 $20,369,571</td>
</tr>
<tr>
<td>2008</td>
<td>20.6 $20,573,267</td>
</tr>
</tbody>
</table>

Tax Revenues All Sources - Millions $

<table>
<thead>
<tr>
<th>Year</th>
<th>Property Tax</th>
<th>Gross Receipts</th>
<th>Sales Tax</th>
<th>Other Taxes</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td>2.0</td>
<td>1.8</td>
<td>11.7</td>
<td>0.5</td>
<td>16.0</td>
</tr>
<tr>
<td>2000</td>
<td>2.1</td>
<td>2.0</td>
<td>13.0</td>
<td>0.6</td>
<td>17.7</td>
</tr>
<tr>
<td>2001</td>
<td>2.3</td>
<td>2.2</td>
<td>13.2</td>
<td>2.3</td>
<td>20.2</td>
</tr>
<tr>
<td>2002</td>
<td>2.9</td>
<td>2.2</td>
<td>15.1</td>
<td>0.9</td>
<td>21.0</td>
</tr>
<tr>
<td>2003</td>
<td>3.3</td>
<td>2.1</td>
<td>15.2</td>
<td>0.5</td>
<td>21.1</td>
</tr>
<tr>
<td>2004</td>
<td>3.7</td>
<td>2.3</td>
<td>16.4</td>
<td>0.6</td>
<td>22.9</td>
</tr>
<tr>
<td>2005</td>
<td>4.6</td>
<td>2.2</td>
<td>17.4</td>
<td>0.6</td>
<td>24.8</td>
</tr>
<tr>
<td>2006</td>
<td>5.4</td>
<td>2.3</td>
<td>20.3</td>
<td>0.7</td>
<td>29.4</td>
</tr>
<tr>
<td>2007</td>
<td>5.9</td>
<td>2.9</td>
<td>20.4</td>
<td>1.3</td>
<td>30.4</td>
</tr>
<tr>
<td>2008</td>
<td>6.9</td>
<td>2.8</td>
<td>20.6</td>
<td>1.1</td>
<td>31.5</td>
</tr>
</tbody>
</table>
I consider it an honor to work and be a part of the Finance Department overseeing public funds. It is important at any time for a citizen to view the operating budget, capital budget, monthly financial report and quarterly investment report to see how their funds are being utilized.

Collin Boothe,
Finance Manager
You don’t have to look far around town to observe that Conroe is experiencing a period of unprecedented growth in both residential and commercial development. Community Development is proactively emphasizing better planning, and is streamlining and improving the quality of our development, building permitting, and inspection processes.

In 2007 we completed the City’s first Comprehensive Plan since 1991. The Plan is a tool that will be used to guide future growth in an appropriate and desired manner, thus improving the quality of life of our residents. We also hired Conroe’s initial City Planner to help implement the Plan and to keep it updated as we continue our efforts to improve the quality of future development.

Utilizing the “Conroe Lean” process improvement methodology and team approach, Community Development has thoroughly examined our platting, plan review, and permitting processes. The resulting improvements have allowed developers and builders to significantly reduce the time required to complete their projects. At the same time, we have provided contractors access to our BluePrince™ Community Development Permit Software, allowing them to request permits and schedule inspections online. Over 100 contractors are currently utilizing this feature. The addition of two building inspectors has also allowed us to keep up with the demand for inspections which have doubled in the past four years from approximately 13,000 to 26,000 per year. We have also added a second engineering inspector to make sure that the underlying infrastructure is being constructed according to City standards.
The Capital Projects Department was established in 1998 to design and construct major improvements to the city’s infrastructure. Specifically, the department efforts have led to increased capacity in the water and sewer systems and better management of storm water run-off. The improvements are designed “in house” and constructed either by a division of the Public Works Department or by private contractors. The Capital Projects staff designs and oversees that the construction is done to the specifications. The city administrator estimates that the Capital Projects Department saves the city hundreds of thousands of dollars each year by designing these projects in-house versus hiring consulting engineers.

In an effort to accommodate the City’s current population and projected growth, good progress is being made toward the construction of two 1,500 gallon per minute water wells, one 1,000,000 gallon elevated storage tank, and one 1,000,000 gallon ground storage tank to increase the city’s existing water supply. We have completed the construction of Downtown Improvements Phases 6 and 7, and the construction of Ed Kharbat Drive Phase I (formerly known as S. 7th Street Phase I) a road connecting Crighton Road and South Loop 336. Ed Kharbat Drive Phase II (S. Loop 336 to Foster Drive) along with other projects are in the process of securing bids and completing the design for future construction such as Gladstell widening, Longmire Road Phase 3, League Line Road Phase 2, and other road projects.

The Public Works Department is all about working for the citizens for future improvements. 2007 brought many improvements to the City. Work continues every day for the citizens - improving a better quality of life with improved streets, new water wells and a wastewater treatment plant. A special filtration unit is utilized determining which water system provides the best treatment for Conroe’s water supply.

Director Dean Towery says “What we do depends on the growth of the city and everyday living for improvements in streets, water and wastewater treatment.”

Daniel Schultz, Survey Chief

“Through supervising and assisting field crews I have seen and experienced the city growing stronger and better every day.”

Ken Viniarski, Construction Supervisor

“I am proud to work for the city of Conroe because of the caliber of employees that take care of whatever is necessary to get the job done.”
Safety and the lives of people come first with the **Conroe Police Department**. In 2007 the big initiative included training, coordinating the Citizens Assistance Academy and working to drive out drugs in Conroe. A new addition in the fight against drugs is Cassidy, the new dog that assists in searching for drugs.

Local neighborhood marches in the fight against drugs build awareness in the youth of Conroe. The Conroe Police Department will continue to protect and serve the citizens of Conroe.

The **Firearms Training Facility** reports the following statistics for the time frame of Oct. 2006 to present.

- 2 adult and 1 youth Citizens Police Academy sessions with 75 participants.
- This was a total of 34 classes.

In addition, the Range staff has conducted continuing education training for CPD Officers and other agencies. The totals for those directly instructed or assisted by CPD are:

- 114 classes taught
- 453 Conroe Officers attending
- 671 other outside agencies attending
- 1701 actual class hours
- 17,595 actual contact hours with students

The Conroe Fire Department continues to grow with the main goal in mind to protect and serve the citizens of Conroe every day. Thirteen employees are a new addition to the Fire Department along with the new Fire Station #5 and a new fire engine providing much needed services to our growing community. Construction began on the new Fire Station in 2007 that has 9,000 sq. feet and will service the northwest quadrant of the city.

Chief Ken Kreger says, “The commitment from the city to support our growing fire department will build greater efficiency and dedicated service to the citizens of Conroe long into the future.”

Mike Tindall, Sergeant - CPD

“I love my job. I have worked for the city for over 20 years and it’s still fun to come to work. It’s a great department to work for and I plan on being here for several more years.”

Patrolman Clyde Vogel and Cassidy the Drug Dog

Duane Henry, Assistant Fire Chief

“I have always enjoyed my job with the city of Conroe. It has never been just about a paycheck. All these years have been a great experience and I can’t think of any other place I would have rather worked.”

New Animal Shelter

Police Officers Memorial Day 2007

Conroe Fire Dept. Station #4
Conroe Parks and Recreation Department Receives Trails Grant

The Conroe Parks and Recreation Department, in collaboration with the Greater Houston Off-Road Bicycle Association, recently received a National Recreational Trails Grant from the Texas Parks and Wildlife Department. The Texas Parks and Wildlife Department administers the National Recreational Trails Fund in Texas under the approval of the Federal Highway Administration. This program receives its funding from a portion of federal gas taxes paid on fuel used in non-highway recreational vehicles.

The $45,000 grant will allow the off-road multi-purpose trail at Carl Barton Jr. Park to be renovated and expanded to five miles. “We are very fortunate to have received funding as competition for funding was intense. “We are excited that the trail will be renovated and expanded as this will provide another quality of life amenity to the citizens of Conroe in which all ages will benefit,” said Mike Riggens, Director of Parks and Recreation.

Carl Barton Jr. Park is located at 2500 S. Loop 336. Other amenities at the park include baseball fields, soccer fields, playground, pavilion, and pond.

Arturo Roman, Parks Laborer

“I am proud to work for the City of Conroe and have worked for 20 years in a job I find very rewarding”
“Conroe Lean” program implemented to generate savings
Right Turn lane North Loop 336
Del Lago Renovation
City/County Parking Agreement
Re-adaptive Use of Election Central Bldg.
Geographic Information Systems Coordinator hired
City Planner hired
Comprehensive Plan adopted
Bond Rating Upgrade
Dangerous Dog Ordinance passed
Fire Station, Animal Shelter under construction
Completion of Siemens’s Study to generate savings and increase efficiency
Completion of Longmire Road
Welcome to Conroe Sign approved
Ed Khabat Dr. extension under construction
Vehicle Locator system – Conroe Police Department
2006 Joint Election between City and County to create cost savings
Texas Municipal Utility Assc. Outstanding Utility Award
Longmire Water Line completed
Carter Moore Dr. Waterline completed
Stewart’s Forest Turn Lane
Neighborhood Walks – Anti-Drug Campaign
MLK Park Trail Project completed
Reeves Elementary Park completed
Bison Water & Sewer Extension completed
Data Sharing with Sheriff’s Office to improve operations
9.7 Million Bond Issue Authorized to fund projects
1,050 Permits – New Homes
Crighton Woods Water Agreement

800 mhz Radio Study undertaken to evaluate public safety radio systems
White Oak Sewer completed
Sewer Treatment Plant Lagoon completed
Bond Refunding completed
New Internal Auditor hired
Long-Term Water Study undertaken
Veterans Administration Clinic located in Conroe
New Water Wells (2) authorized
Government Finance Officers Assc. Budget Award and Audit Award received
New City Website completed
Exceeding Expectations Wall and “Wall of Honor” completed
Bus Tour – Council Staff undertaken
Downtown Phase 6 & 7 Improvements completed
New Retail Complex completed at Interstate 45 and F.M. 3088
Abby’s Place National Recreation and Parks Award
“State of the City” – Annual Report completed
City Council Close Up Progress Report initiated
Citizen Police Academy held
Fleet Management Software purchased
Annexation Water/Sewer Extension – 10 projects completed
Finance Software purchased
TX Commission on Environmental Quality Sanitary Sewer Overflow Agreement
Defensive Driving Course completed by employees
Candy Cane Trail Park Lighting completed
Sound System – Council Chamber upgraded completed
Wellness Program approved for City employees
ASE Blue Seal of Excellence
FASTER Hero Award
100 Best Fleets in North America
Hwy. 105 Turn Lanes at Interstate 45 service roads completed
Team effort between City and Conroe Industrial Development Corp. regarding CIDC absorbing park debt.

Under the leadership of City Administrator Jerry S. McGuire, the employees of the city are:
Working together...Building Efficiency in every aspect of their work for the City of Conroe.

Lean thinking is a continuous improvement process where all employees adopt a philosophy to find better, faster, more cost-effective and efficient methods to perform various functions that the city performs every day.

“Our Mayor and Council have endorsed this concept and we are challenging the status quo to ensure that we are a cost efficient organization.”

Jerry McGuire
City Administrator
<table>
<thead>
<tr>
<th>Event</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Martin Luther King</td>
<td>January 21, 2008</td>
</tr>
<tr>
<td>Valentine’s Day</td>
<td>February 14, 2008</td>
</tr>
<tr>
<td>Daylight Savings Time</td>
<td>March 9, 2008</td>
</tr>
<tr>
<td>Montgomery County Fair</td>
<td>March 28 - April 6, 2008</td>
</tr>
<tr>
<td>First Thursday Free Concert</td>
<td>April 18-19, 2008</td>
</tr>
<tr>
<td>Easter</td>
<td>March 23, 2008</td>
</tr>
<tr>
<td>Cinco De Mayo</td>
<td>May 5, 2008</td>
</tr>
<tr>
<td>Memorial Day</td>
<td>May 26, 2008</td>
</tr>
<tr>
<td>Celebrating America’s Heritage</td>
<td>July 4, 2008</td>
</tr>
<tr>
<td>Labor Day</td>
<td>September 3, 2008</td>
</tr>
<tr>
<td>Conroe Cajun Catfish Festival</td>
<td>October 10, 11, and 12, 2008</td>
</tr>
<tr>
<td>Veterans’ Day</td>
<td>November 11, 2008</td>
</tr>
<tr>
<td>Thanksgiving</td>
<td>November 27, 2008</td>
</tr>
<tr>
<td>Christmas Day</td>
<td>December 25, 2008</td>
</tr>
<tr>
<td>New Year’s Eve</td>
<td>December 31, 2008</td>
</tr>
<tr>
<td>Thanksgiving</td>
<td>November 27, 2008</td>
</tr>
</tbody>
</table>
CITY PROFILE

POPULATION .. Unofficially Approx. Over 50,000

COUNTY.......................... Montgomery County

FORM OF GOVERNMENT
.................................. Council - Administrator

FOUNDED............................................ 1830's

INCORPORATED ......................... 1904

ASSESSED PROPERTY VALUES
...........................................$ 2,976,151,501

MUNICIPAL BUDGET .............. $ 66,563,734

CITY TAX RATE .... $ 0.4250 / $ 100 valuation

PARKLAND ......................... 345.7 Acres

AVERAGE HOME TAXABLE VALUE
.................................................. $ 116,244

AVERAGE HOME SALE PRICE ......$ 159,294

AVERAGE DAILY TEMPERATURE ....... 67.1°
State of the City Team

Tommy Metcalf, Mayor
Jerry S. McGuire, City Administrator
Paul Virgadamo, Jr., Asst. City Administrator
Janna Patrick, Arts & Communications Coordinator
Guy Andrews, Director of Community Development
Steve Williams, Director of Finance

Collin Boothe, Asst. Financial Analyst
Les McKay, GIS Coordinator
Tom Stinson, Executive Director, GCEDC
Barry Carpenter, Associate Director, GCEDC
Angela Hawkins - Administrative Asst., GCEDC
Jennifer Matthews - Research Specialist

Photography

City of Conroe
Lake Conroe Convention & Visitors Bureau
Debbie Pietsch - Photographer
Jerry Baker - Photographer

Art Direction & Design

Stacy Bammel - Impact Printing