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2016 City of Houston Investor Conference

April 11-12, 2016





Houston's Combined Utility System (CUS) April 2016

Susan Bandy, CPA
Deputy Director

Houston Public Works and Engineering

Houston's Public Works & Engineering Department "People Working Everywhere"



Executive Summary

Area Growth and Water Needs Growth

- ◆ By 2060, Houston Area population expected to double
- ◆ City built 3 reservoirs/lakes decades ago - has secured significant surface water rights and built conveyance system. Enables City to be regional surface water supplier - compliance with State mandated ground water reduction plans

Financial Strength

- ◆ CUS has over 600 days of available operating cash
- ◆ Per Ordinance since 2004 – rates adjusted automatically each year
- ◆ CUS executed refunding in January for \$116.8 M PV savings (15.79%)
- ◆ System maintains strong long term ratings with stable outlook

Capital Program

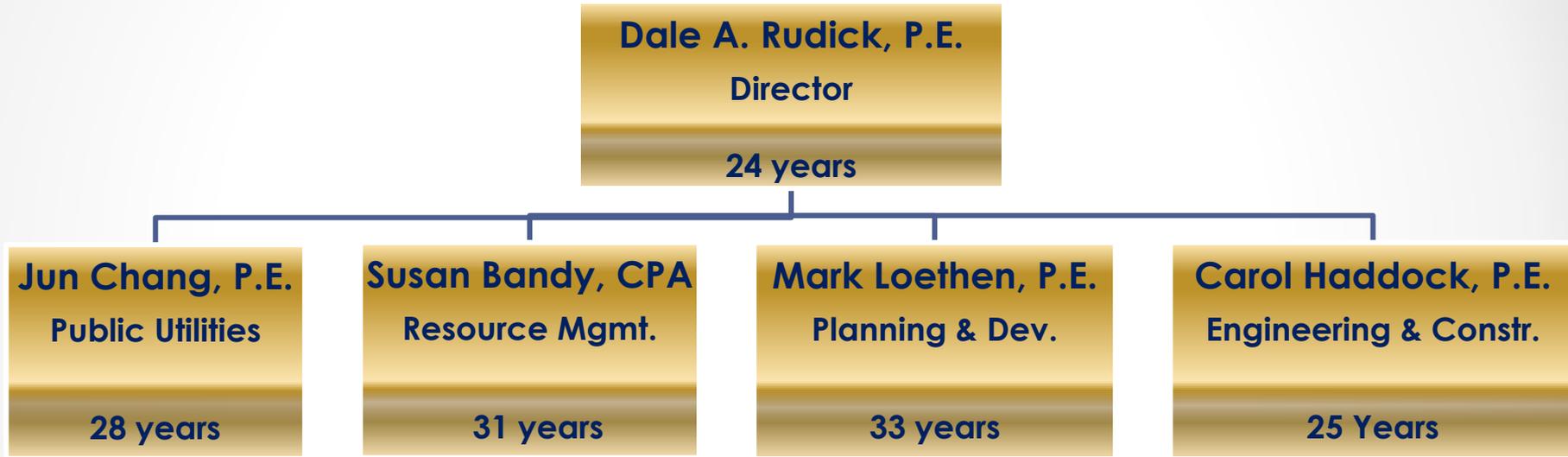
- ◆ Since 2010, CIP average of \$370 million annually
- ◆ Initialized pay-go funding: 13.5% in 2011, 17.6% in FY16, and 20% in 2020

Credit: CP and Variable Instruments

- ◆ \$900 million in variable rate debt plus \$700 M in commercial paper capacity



CUS Management Team



The CUS senior management team has an average of 28 years of related experience and is dedicated to serving Houston and the well-being of the CUS system.



Houston's Public Works & Engineering Department "People Working Everywhere"

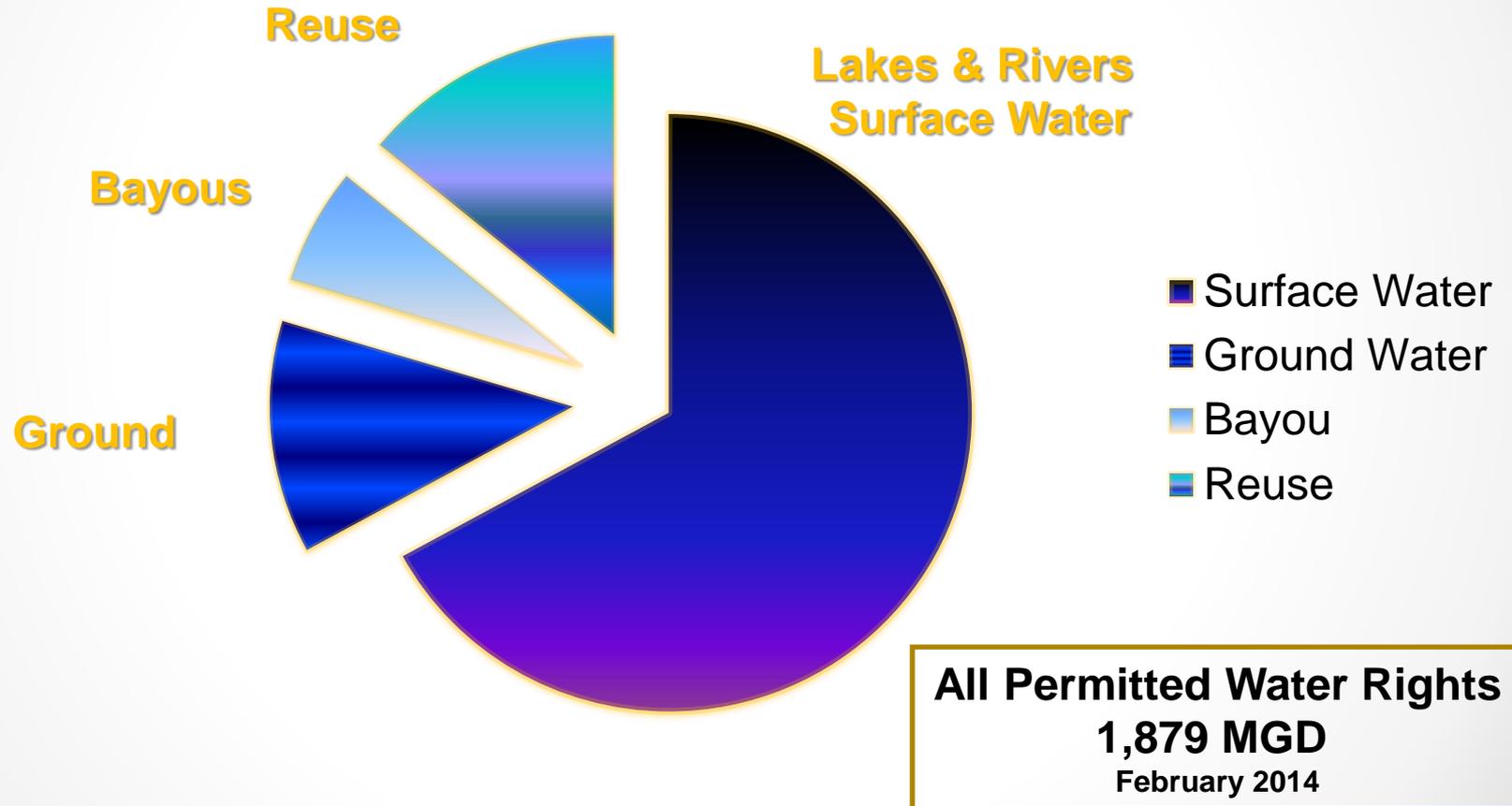
Houston CUS – One of Largest Water & Sewer Systems in U.S.

- Houston is 670 square miles
- 7,200 miles of water lines
- 6,950 miles of wastewater lines
- Budget average of 450 MGD of potable water (844 max)
 - Available potable water (MGD): 625 MGD treatment plants + 235 MGD ground water permitted
 - Highest day on record – **672 MGD treated in Sept. 2011**
- Untreated water Sales ~205 MGD
- Wastewater Treatment ~230 MGD (564 MGD permitted)
- Maintain ~460,000 active accounts and related measuring systems and technologies



COH Water Supply

Water Supply 1,879 Million Gallons per Day



Revenues & Expenses Highlights

Cash Basis

CAFR FY 2015 CUS \$M

CAFR FY 2014 CUS \$M

Revenues	\$943
Expenses O&M	<u>(424)</u>
Net Revenues	\$519

Revenues	\$ 993
Expenses O&M	<u>(406)</u>
Net Revenues	\$ 587

Annual Bond Debt Service
Coverage:
1.35

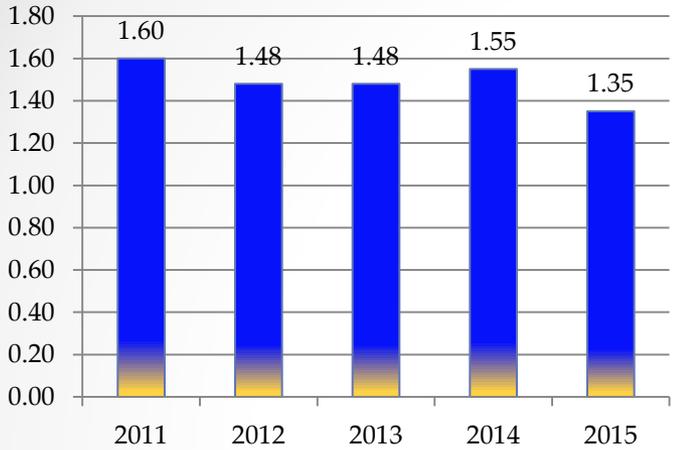
Annual Bond Debt Service
Coverage:
1.55

**CUS long term ratings:
S&P AA, Moody's Aa2 & Fitch AA**

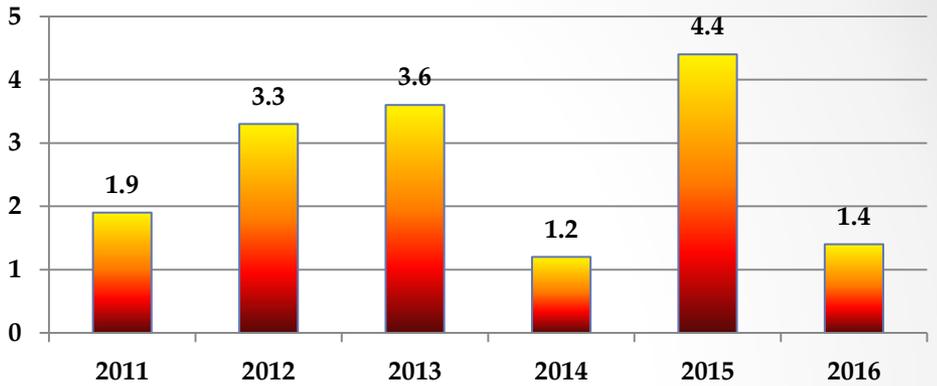


Recent Trends

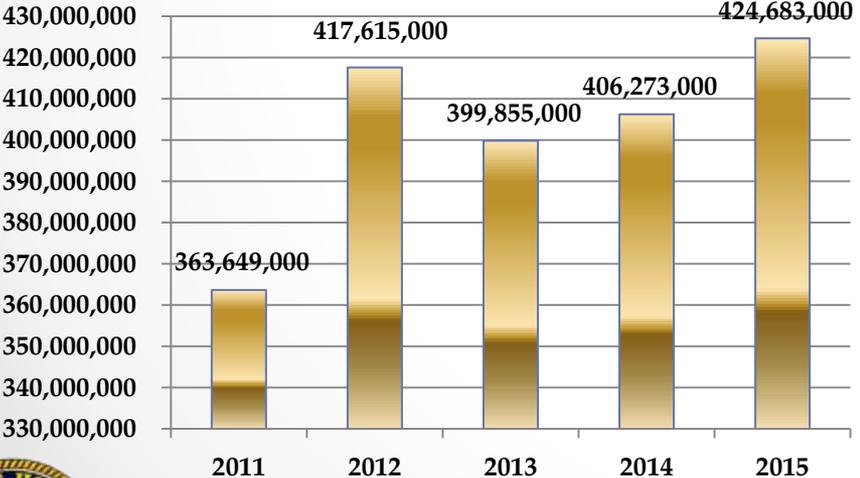
Debt Service Coverage



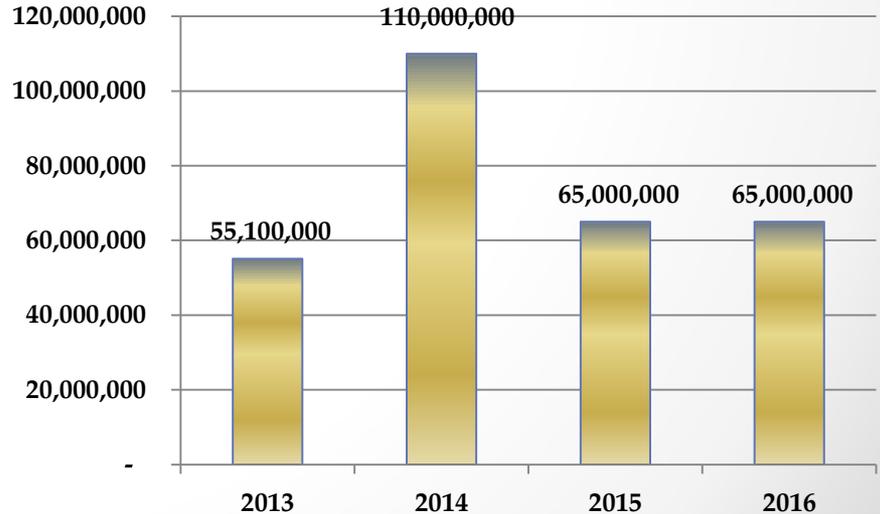
Annual Rate Adjustments (Percentage)



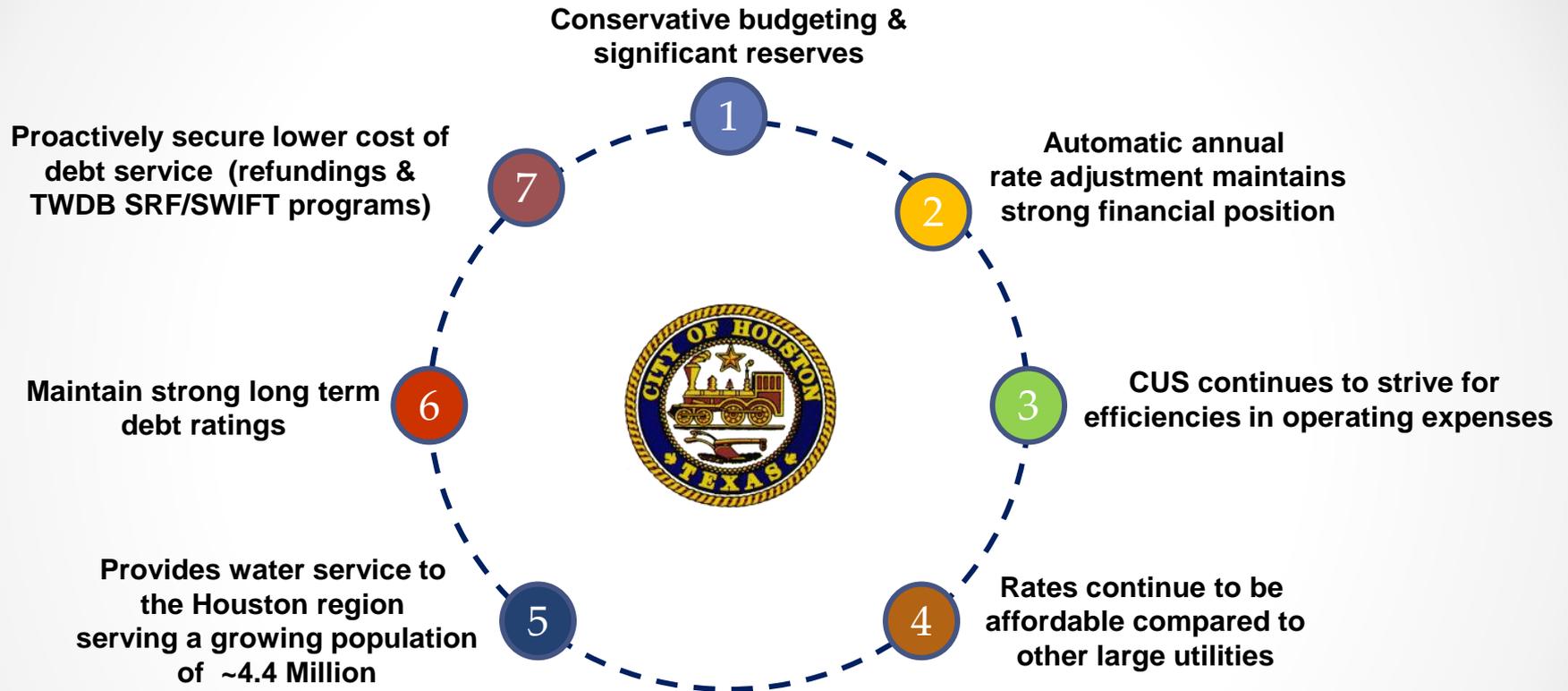
System Actual O&M (\$s)



System Pay-as-you-go (\$s)



Strong Credit Fundamentals and Consistent Performance



Houston's Public Works & Engineering Department "People Working Everywhere"

Next Large Regional Projects

💧 Luce Bayou

- 💧 Interbasin transfer of 450 MGD water from Trinity Basin to San Jacinto Basin via Luce Bayou for storage in Lake Houston
- 💧 Water conveyance infrastructure project
 - 💧 Pump Station in the Trinity River
 - 💧 3.0 miles of pipeline
 - 💧 23.5 miles of canals
- 💧 Project underway, fully permitted and under design; Estimated completion Summer 2019
- 💧 Estimated Cost ~\$400M, Participants: NHCRWA, CHCRWA, WHCRWA & NFBWA

💧 NE Purification Plant Expansion

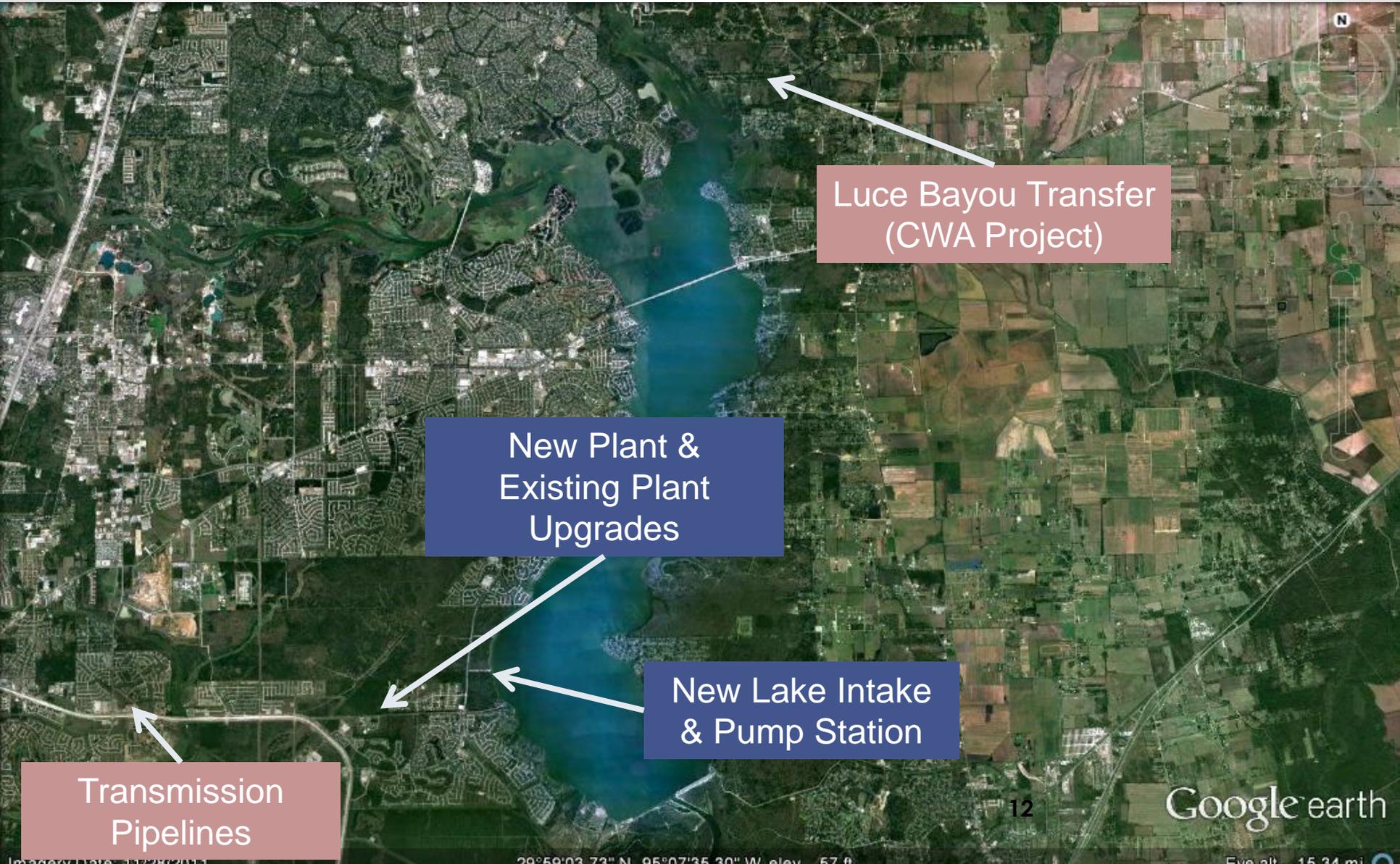
- 💧 Expansion Capacity 320MGD, Phase 1 80 MGD 2021, and Phase 2 240 MGD 2025
- 💧 Project underway - Design/Build contract executed in December 2015
- 💧 Estimated cost: \$1.3B; Participants: NHCRWA, CHCRWA, WHCRWA & NFBWA
 - 💧 CUS participation about 16%

💧 Transmission Line Expansion

- 💧 Convey treated water from eastern Harris Co. To Water Authorities in western Harris Co.
- 💧 Construction in segments underway
- 💧 Estimated cost: \$450M, about 42% paid by CUS



NEWPP Expansion



Luce Bayou Transfer
(CWA Project)

New Plant &
Existing Plant
Upgrades

New Lake Intake
& Pump Station

Transmission
Pipelines

CUS FY16 & FY17 Financing Transactions

- **TWDB Clean Water Loan #31- \$63 millions 2016A**
 - Closed: January 2016
- **TWDB SWIFT Loan Application submission for 2 loans**
 - Closed December 2015 - \$25M
 - Close December 2016 - \$63M
- **CP takeout/new money and refunding for savings: \$955 million 2016B - March 2016. NPV savings of \$116.7 million**
- **New Money ~\$250M Late Winter/Spring 2017**



CUS Risks and Actions

Risks

- ◆ Negotiations with EPA - ongoing
 - ◆ Included \$38 million for assessment, cleaning, inspections and education in FY16 budget (to be paid out of reserves) – spending significantly less as negotiations not finalized
 - ◆ Will budget again in FY17, but not as much
- ◆ Large aging system
- ◆ Significant population growth

Actions

- ◆ Reducing water loss – water loss audit to continue improvements
- ◆ Securing water resources for 2060 and beyond
- ◆ Reducing electrical usage by installing efficient pumps and LEDs
- ◆ Emphasis on Continuous Process Improvements – significant reductions in chemical costs over past several years



Questions?



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