



# City of Houston PWE Combined Utility System (CUS) 2015 Rate Study

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# FY15 Rate Study Assumptions

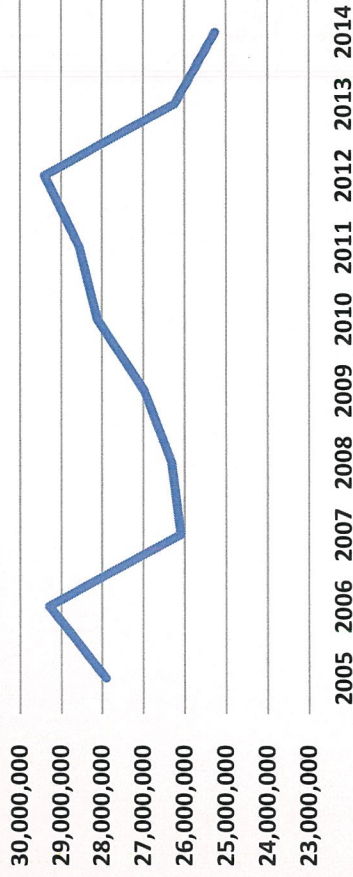
- Used FY15 Adopted CUS expense budget
- Used the FY13 Volume case for revenue updated with the average annual volume decline
- CUS continues to experience declining volume sales:
  - Ever increasing urban density – housing with no outside gardens
  - Passive conservation with low flow plumbing and fixtures, plus low water consumption appliances
  - Customers learned water use lessons during drought
- Used existing debt service + that associated with ~\$370M CIP less pay-go of \$65M
- Minimum Debt Coverage at 1.3 times



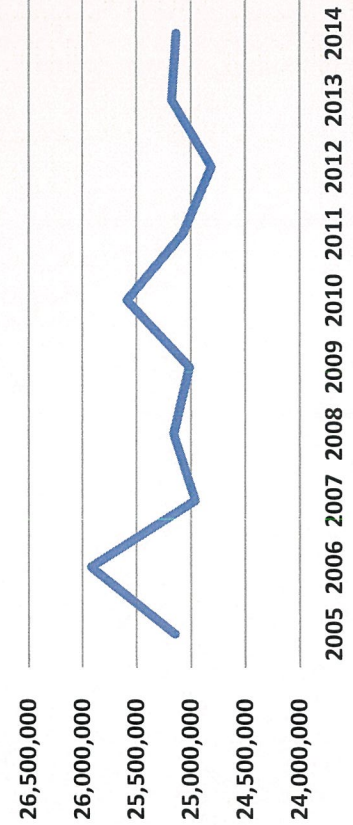


# Combined Utility System Current Trends Customer Sales Volume & Acct. Growth

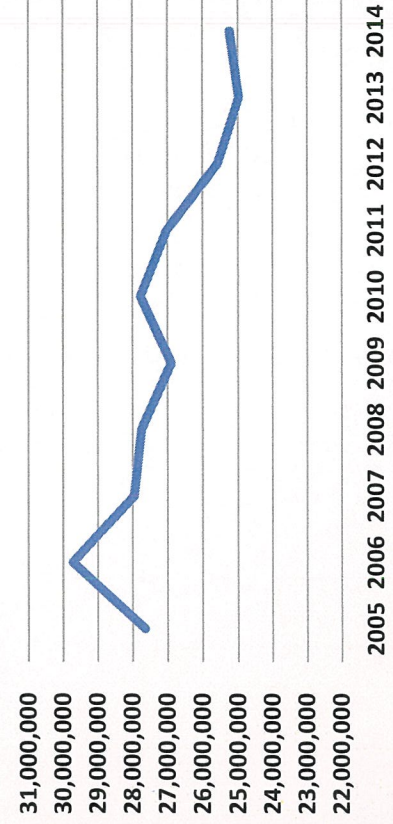
Total Billed Water Consumption  
Single Family in 1,000 Gallons



Total Billed Water Consumption  
Multi-Family in 1,000 Gallons



Total Billed Water Consumption  
Commercial in 1,000 Gallons



## CUS FY05 to FY14 Account Growth

Single Family	9.95%
Multi Family	6.92%
Commercial	5.65%

## CUS FY10 to FY14 SF Customer Usage

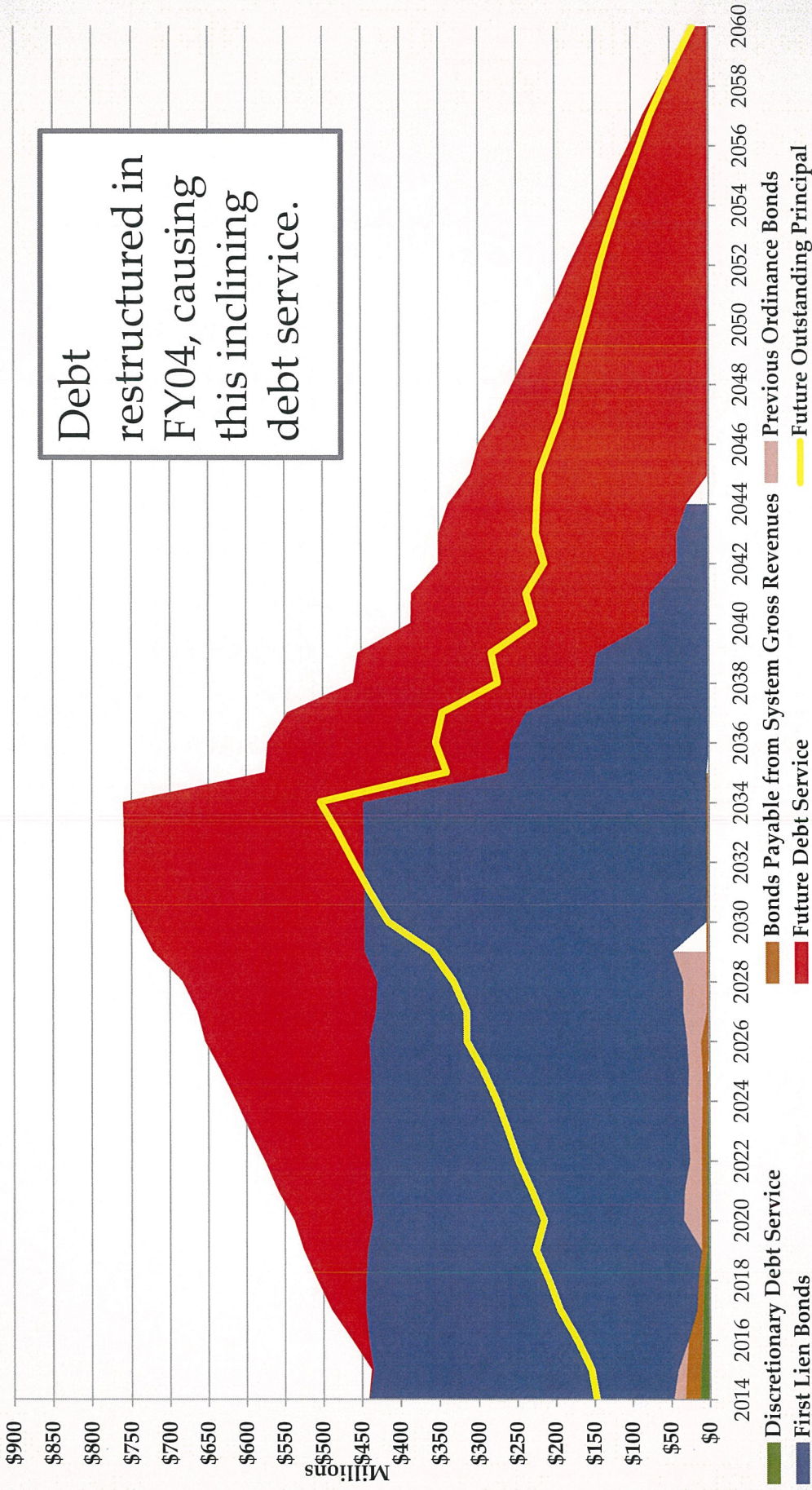
	<u>Average</u> (GPM)	<u>Mode</u> (GPM)
2010	6,321	3,000
2011	6,408	3,000
2012	6,372	1,000
2013	5,649	1,000
2014	5,402	1,000



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# CUS Annual Debt Service Projected (in \$ Millions) Payments - New Debt Issuance Through 2030



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# Rate Study Base Case – Water & WWO Cost of Service (COS)

- Cost of service for Water - Treated & Untreated  
OVERALL WATER COST OF SERVICE 3.3%
- Cost of service for Wastewater Treatment  
OVERALL WASTEWATER COST OF SERVICE 5.5%



# FY16 Budget

- Revenues – projected to increase 3% (\$30.026 million)
- Most significant expense increases:
  - Debt Service – 3.9% (\$16.9million)
  - Pension –10.5% (\$2.7 million)
  - Other equipment services – 29.8% (\$4.7 million) – wastewater pump repairs
  - Capital Expenditures – 25% (\$4.2) – ageing fleet, vehicles for expanded wastewater work related to EPA.





# Combined Rate Study Base Case

- ◆ Total based upon the CUS Rate Study Cost of Service rate adjustment is: 4.4%
- ◆ Using the indexes
  - ◆ Houston's Regional 2014 CPI of 2.8%
- PLUS
  - ◆ US Census Houston Population YOY increase 1.6% (2012 vs. 2013)

PWE implemented an automatic increase across all water and wastewater customer classes of 4.4% on April 1, 2015



# EPA Costs



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# Financial Impact of EPA on FY16 Budget

- Additional Wastewater O&M \$38.0 Million
  - WW System Evaluation
  - Enhanced sewer cleaning
  - System and restaurant inspections
  - Additional SSO rapid response Inspectors
  - Public outreach and education
- Goal to reduce SSO's - addressing 80-90% of cause
- The CUS will use available CUS cash to pay for this increased O&M in FY16 and FY17.





# CUS Reserves

- In recent years, CUS has held > 500 days operating cash in reserve.
- Discussions with financial advisors on working with rating agencies – could we reduce necessary reserves without impacting ratings.
- Moody's issued updated financial rating methodology.
- Moody's indicated for AAA rating in the reserves category, Utilities' should maintain minimum cash reserves of 250 days of operating cash.
- Given the CUS's debt load, and Houston's risks associated with hurricanes, we are targeting 300 days of operating cash.
- Using FY14 year end balance, the CUS holds \$105 million above the 300 days of operating cash.
- Use portion of reserves for EPA expenses to minimize increases.

