



ANNUAL COMPREHENSIVE **FINANCIAL REPORT**

The Combined Utility System Fund

An Enterprise Fund of the City of Houston, TX

FOR THE FISCAL YEARS ENDED JUNE 30, 2024 AND JUNE 30, 2023





HOUSTON PUBLIC WORKS

Annual Comprehensive Financial Report

The Combined Utility System Fund

An Enterprise Fund of City of Houston, Texas

For The Fiscal Years Ended
June 30, 2024 and June 30, 2023



Prepared by:

Office of City Controller | Chris Hollins | City Controller
Office of City Controller | Will Jones | Deputy City Controller
HPW Financial Management Services | Samir Solanki | Chief Financial Officer
City of Houston Combined Utility System | 611 Walker Street | Houston, Texas 77002



ACKNOWLEDGMENTS



This acknowledgment is for those who assisted with the Combined Utility System's Annual Comprehensive Financial Report. This report was prepared by the Financial Reporting department of the Houston Public Works (HPW) Financial Management Services with assistance from other departments within the City of Houston.

HPW Financial Management Services

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Special Appreciation To:

All accounting and budget personnel of HPW Financial Management Services
whose extra time and effort made this report possible.



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01

INTRODUCTORY SECTION

ANNUAL COMPREHENSIVE FINANCIAL REPORT

WASTEWATER OPERATIONS



38

WASTEWATER
TREATMENT PLANTS



376

LIFT
STATIONS



2

WET WEATHER
FACILITIES



249 MILLION

GALLONS OF
WASTEWATER
TREATED PER DAY



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**OFFICE OF THE CITY CONTROLLER
CITY OF HOUSTON
TEXAS**

CHRIS HOLLINS

November 18, 2024

To the Honorable Mayor, City Council Members and the Citizens of Houston, Texas:

I am pleased to present you the Annual Comprehensive Financial Report (“ACFR”) for the Combined Utility System Fund (the “Fund”) of the City of Houston, Texas (the “City”) for the fiscal years ended June 30, 2024 (“FY2024”), and June 30, 2023 (“FY2023”) including the independent auditor's report on pages 1 through 3, prepared by McConnell and Jones/Banks, Finley, White & Co. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering unmodified opinions on the Combined Utility System's basic financial statements as of and for the years ended June 30, 2024 and June 30, 2023.

This report consists of management's representations concerning the finances of the Fund. The Controller's Office and the Combined Utility System (“CUS”) share responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures. To provide a reasonable basis for making these representations, management of the City and the CUS have established a comprehensive internal control structure which is designed to ensure that the assets of the Fund are protected from loss, theft, or misuse and to ensure that adequate accounting data is compiled to allow for the preparation of the Fund's financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”). The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and that the evaluation of costs and benefits requires estimates and judgements by management.

To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the Fund.

The ACFR is presented in three sections: Introductory, Financial, and Statistical. The Introductory Section includes this transmittal letter, a list of elected officials, and the CUS organizational chart. The Financial Section includes management's discussion and analysis (“MD&A”), financial statements with accompanying notes, required supplementary information on the financial statements, as well as the independent auditor's report on the financial statements. MD&A immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complements this letter of transmittal and should be read in conjunction with it. The Statistical Section includes selected financial, demographic, and other information generally presented on a multi-year basis.

The Financial Section described above is prepared in accordance with GAAP for governments as prescribed by the Governmental Accounting Standards Board (“GASB”). In addition, the notes to the financial statements offer additional information and are essential to understand the financial statements fully.

THE REPORTING ENTITY

Houston Public Works (“HPW”), as a department of the City of Houston, has three primary functional components: the Combined Utility System, the Houston Permitting Center, and Transportation and Drainage Operations. The CUS is supported by multiple HPW service lines including Capital Projects, Houston Water and Customer Account Services.

The Mayor serves as the Chief Executive Officer of the City. The City Controller is the second-highest elected official within City Government and serves as the Chief Financial Officer. The City Controller, as the City's Chief

Financial Officer, maintains the books of account, prepares financial statements, and, with the Mayor, co-signs all warrants, contracts, and orders for payment of any public funds or money relating to the Fund. Reporting directly to the Mayor, the HPW Director and Chief Operating Officer manage the operations and administration of the Combined Utility System with a team of Directors which includes the HPW Chief Financial Officer dedicated to the administration of the HPW financial structure.

On September 3, 2003, City Council authorized the creation of the Combined Utility System. The CUS is a self-sufficient enterprise fund of the City of Houston and is included in the City's Annual Comprehensive Financial Report. An enterprise fund is used to account for services provided to the general public on a continuing basis with costs recovered primarily through user charges. All CUS expenses including those relating to operation and maintenance, capital improvements, and debt service are paid for solely by rates and charges imposed on the CUS' customers. Under the Mayor's administrative control, the CUS manages and operates the Fund.

COMBINED UTILITY SYSTEM OVERVIEW

The CUS is the largest water/wastewater utility in Texas and provides water and/or wastewater services that reach over 5.5 million people within The Houston-The Woodlands-Sugar Land Metropolitan area. The CUS provides retail utility service to people inside the City and wholesale service to people in surrounding counties, producing 188 billion gallons of water annually.

The CUS's water production and storage system includes the following: three surface water plants, 54 groundwater plants, 129 groundwater wells, seven surface water re-pressurization plants and 136 water storage tanks and towers. The combined design production capacity for groundwater and surface water is 941 MGD (million gallons per day). The water distribution system comprises of 7,732 miles of pipes and 62,686 hydrants, while the wastewater collection system contains 6,102 miles of gravity sewer pipe, 38 wastewater treatment plants, two wet weather facilities and 376 lift stations. The wastewater treatment plants collect and treat an average of 249 million gallons of wastewater per day. The sanitary sewer collection system uses lift stations to move wastewater to treatment plants to be treated and safely returned to bayous and lakes.

Our business is managed in accordance with a threefold mission of protecting public health, protecting the environment, and providing superior customer service. These core missions are part of the larger Houston Public Works' purpose – Together we create a strong foundation for Houston to thrive. The Combined Utility System professionals proudly produce some of the best quality drinking water in the nation and continually meet or exceed state and federal drinking water regulations. The Texas Commission on Environmental Quality ("TCEQ") rates the City of Houston's drinking water system as a "Superior Water Supply System," the highest water quality rating awarded to a water utility.

ECONOMIC CONDITIONS

The City is the nation's fourth most populous city and lies within the fifth largest metropolitan statistical area in the United States - the ten-county, Houston-The Woodlands-Sugar Land metropolitan statistical area (the "MSA"). The City and the MSA continue to see year over year population growth. Based on the latest available data from 2023, the estimated population for the MSA increased from 7.34 million to 7.51 million. In addition, the overall business environment and available workforce in the State of Texas continues to attract multi-national enterprises and supporting industries to Texas. The MSA is home to 24 Fortune 500 companies in 2023, including Phillips 66, Sysco Corp., Enterprise Product Partners, ConocoPhillips, and Occidental Petroleum among others. As a result, the primary service region for the CUS entertains a diverse economic base. Leading industries include energy, petrochemical, engineering and construction, real estate, aerospace, medicine and health care, transportation, biotechnology, and computer technology.

Widely recognized as the "Energy Capital of the World," the City is a global center for virtually every segment of the oil-and-gas industry. The City is also home to the Texas Medical Center, the world's largest concentration of biomedical research and healthcare institutions, and to the Lyndon B. Johnson Space Center, NASA's center for human spaceflight training, research, and flight control. The deep-water Port of Houston is the nation's busiest when ranked by foreign tonnage and the fifth-busiest container port as ranked by total tonnage.

FISCAL YEAR 2024 IN REVIEW

Effective September 2021, the Combined Utility System finalized a Cost of Service Rate Study (“Rate Study”), and City Council authorized water and wastewater rate increases over a 5 year period that extends from FY2022-FY2026. The Rate Study is performed every five years so that revenues from rates adequately fund utility operations, bond obligations, maintenance, and ongoing capital needs (including major initiatives), and equitably recover costs from system users.

New connections for water for FY2024 were 4,662 compared to an average of 4,409 new connections in the last ten years. Water usage was 83.4 billion gallons in FY2024 compared to 82.8 billion gallons in FY2023. 72.4 billion gallons of wastewater were treated in 2024 compared to 71.7 billion gallons in 2023.

The City of Houston entered Stage One of the Drought Contingency Plan on June 21, 2022. On August 27, 2023, the City of Houston subsequently entered Stage Two of the Drought Contingency Plan. On December 14, 2023, the City of Houston rescinded Stage Two of the Drought Contingency Plan subsequently entering into Stage One. On May 29, 2024, the City of Houston rescinded Stage One of the Drought Contingency Plan. The Fund encourages water conservation (see major initiatives section below) and will continue monitoring the impact on the CUS. The impacts are referenced in our MD&A section.

MAJOR INITIATIVES

As previously indicated, Houston is anticipated to continue to grow in commerce and population, increasing demand for services for the Fund. The Fund plans to build and maintain the necessary infrastructure for water and wastewater to supply the needed services for our current and future customers. The initiatives include the One Water Plan, the Water Conservation Plan, the Ground Water Reduction Plan, the Capital Improvement Plan focusing on resilience and sustainability, and the Wastewater Consent Decree.

One Water Plan: The City is currently developing a One Water Plan (“Plan”), which will be conducted in two phases. Phase One began in August 2023 and involves engaging key stakeholders and community members to ensure the Plan addresses community needs and reflects our shared values and vision for Houston’s future. Through this phase, the City will identify the plan’s vision, objectives and guiding principles. Phase One will also include the development of a Water Equity Roadmap to ensure utility planners consider impacts on vulnerable communities and prioritize projects that deliver equitable outcomes, as well as creating a project website for project communication and engagement. Phase One is ongoing and is expected to be completed in 2025. Phase Two will consist of developing, drafting, and delivering the One Water Plan, the Alternative Source Water Supply Master Plan, and integrating the Stormwater Strategic Master Plan, Wastewater Consent Decree and the Drinking Water Master Plan, which have already begun under separate contracts. Phase Two is expected to be a multi-year effort.

The One Water Plan will establish the vision for how Houston will manage water for the benefit of our people, economy, and environment, while providing a framework for coordinated planning across the City’s water, wastewater, and stormwater utilities. The One Water Plan will maximize the delivery of projects that achieve multiple benefits and align with the City’s existing master plans and initiatives, such as the Climate Action Plan, Resilient Houston, Build Houston Forward, and Complete Communities.

Water Bill Improvement Plan: The City of Houston implemented a water bill improvement plan in April 2024 to prevent customers from receiving inaccurate water bills while tackling structural issues aimed at restoring public trust through transparency. Starting April 1, 2024, single-family residential customers began receiving set usage bills, which was reflected in their May bill. This set usage provides customers with consistent water bills while the CUS makes the necessary improvements to ensure the accuracy of each customer’s monthly water usage readings. This set usage prevents surprises in water bills, as the city works to accelerate the replacement of failed remote meter reading devices. The CUS expects to install approximately 125,000 remote reading devices throughout Houston by the end of 2024 and will fast-track the replacement of failed devices. Further detail is available at www.improvewaterbills.org.

Water Conservation Plan: The City of Houston Water Conservation Plan was updated in year 2024 with the required five-year update to the 2019 City of Houston Water Conservation Plan. Houston's 2019 Water Conservation Plan stated a total GPCD (Gallons Per Capita Per Day) baseline of 127, with the goal of reducing this number by 1.6% every five years, thereby establishing a total GPCD five-year target of 125 by 2024, and a ten-year target of 123 by 2024. As of 2024, Houston's current GPCD (and new baseline) is 126, based on the five-year historical average. Houston will continue implementing a GPCD reduction target of 1.6% every five years.

The City of Houston Water Conversation Plan includes the following strategies to achieve the goals:

1. **Water Main Replacement Program:** The aging water transmission and distribution system includes large diameter (24 inches and larger) pipe, small diameter (less than 24 inches) pipe, valves, pumps, storage tanks and a distribution system. Transmission and distribution systems are designed with a service life of 50 years. Therefore, Houston Water aims to strategically replace 2% of the system annually to mitigate leaks.
2. **Advanced Meter Infrastructure (AMI) Network:** The network will provide the City and its customers with enhanced ability to monitor near real-time water usage, forecast water consumption, and identify leaks earlier.
3. **Water Wise Building Standards:** The Houston Permitting Center revised plumbing and building codes in 2011 and adopted Resolution No. 2004-15, establishing the U.S. Green Building Council's Leadership in Energy and Environmental Design (LEED) Green Building Rating System.
4. **Houston PACE Program (Property Assessed Clean Energy):** This program is a proven financial tool that incentivizes Houston's commercial, industrial, and multifamily property owners to upgrade facility infrastructure with little or no capital outlay.
5. **Plumbing Assistance for Economically Disadvantaged Customers:** In 2023, HPW partnered with the City of Houston Housing and Community Development Department – Single Family Division, to install high efficiency faucets, showerheads, toilets, and clothes washers. This partnership will help rehabilitate low-income residences and provide additional data to inform the next steps for HPW.
6. **Rain Barrel Program:** HPW cohosts two annual rain barrel sales with the Green Building Resource Center. In 2021, HPW expanded the program to provide additional discounts to the rain barrels for Houston water customers which aims to make residential water harvesting more accessible and affordable.

Ground Water Reduction Plan: The Harris-Galveston Subsidence District ("HGSD") is a special purpose district created by the Texas Legislature in 1975. HGSD was created to regulate groundwater withdrawal throughout Harris and Galveston to prevent land subsidence, which leads to increased flooding.

One of the City's largest capital projects is the CUS's expansion of the Northeast Water Purification Plant ("NEWPP") from an 80 MGD facility to a 400 MGD facility. The construction for the expansion began in 2018 using a progressive design-build approach. Phase One was substantially completed in July 2024. Full completion of the NEWPP expansion is anticipated by 2025. The North Harris County Regional Water Authority ("NHCRWA"), the West Harris County Regional Water Authority ("WHCRWA"), the Central Harris County Regional Water Authority ("CHCRWA"), the North Fort Bend Water Authority ("NFBWA"), and the City of Houston – have joined together to share the \$2.0 billion cost of the entire project that includes transferring water from the Trinity River to Lake Houston (described below). The guaranteed maximum price (GMP) for construction of the treatment plant expansion is \$1.765 billion. The City of Houston and the four regional water authorities have also collaborated to construct the Northeast Transmission Line ("NETL"), an extension of the NEWPP. The NETL is a 16.5-mile water line ranging from 54 inches to 120 inches that will carry water produced by the NEWPP to the City, water authorities, and regional customers. The NETL is expected to be in service by the end of 2024.

Complementary to the NEWPP expansion, the Luce Bayou Interbasin Transfer Project (“LBITP”), constructed and operated by the Coastal Water Authority (“CWA”), transfers water from the Trinity River to Lake Houston. The LBITP was issued a certification of completion by the contractor in September of 2022. Both projects are funded by the City and its regional water partners, who will benefit from this increased capacity. By 2025, surface water must supply at least 60 percent of the Houston region’s drinking water and 80 percent by 2035 per HGSD requirements for Area 3. Therefore, these projects will provide an increase in the production and distribution of surface water for compliance with HGSD regulations.

Wastewater Consent Decree: In the late 1980s, the Federal government began a nationwide effort under the Clean Water Act to address sanitary sewer overflows. A sanitary sewer overflow (SSO) is a backup of raw wastewater that can contaminate our water, causing property damage, and threatening public health.

On April 1, 2021, the U.S. District Court for the Southern District of Texas approved a consent decree between the City of Houston, the United States Environmental Protection Agency (EPA) and the State of Texas to improve Houston’s wastewater system. Refer to Note 10 for further information.

CAPITAL IMPROVEMENT PROGRAM

The HPW Director will annually submit a five-year Capital Improvement Plan (“CIP”) for the Combined Utility System to the Mayor and the City Council. The CUS five-year CIP for fiscal years 2025-2029 contains appropriation requirements of approximately \$6,030.0 million.

The largest upcoming capital investments in the CUS facilities will renew and expand wastewater treatment plants, renew and rehabilitate the wastewater collection system, implement capacity remedial measures within the wastewater system, replace and upgrade equipment for the East Water Purification Plant in order to restore and expand water treatment capacity. Planned investment in these activities over the 2025-2029 CIP totals \$1,528 million, \$1,252 million, \$1,025 million, \$496 million and \$402 million, respectively.

A copy of the published five-year Capital Improvement Plan (“CIP”) is available on the City’s website: <https://www.houstontx.gov/cip/>.

FINANCIAL INFORMATION

The Fund’s financial statements are maintained on the accrual basis of accounting to ensure the timely matching of revenue against the costs of providing services. Revenues and expenses are recorded in the period in which the revenues are earned, and the expenses are incurred. In developing and maintaining the accounting systems, the administration gives consideration to the adequacy of internal controls. Internal controls are designed to provide reasonable but not absolute assurance. The Fund is responsible for implementing and maintaining an internal control structure to ensure the integrity of the Fund operations and to allow for the preparation of financial statements in conformity with generally accepted accounting principles.

The Combined Utility System controls current expenses at all division levels. The CUS’ Deputy Directors are responsible for the expenses approved by the managerial staff reporting to them; in turn, they are responsible for budgetary items that are controllable at their organizational level. Budgetary control is maintained at the expenditure category level (e.g., personnel services, supplies, other services, and capital outlay), through the encumbrance of estimated purchase amounts prior to the release of purchase orders or contracts to the vendors. This is accomplished primarily through an automated encumbrance and accounts payable system.

However, the Combined Utility System as a whole is not budgeted. The City Council approves the Fund’s annual budget for operational expenses and authorizes capital project expenditures through individual appropriation ordinances based on a five-year CIP that is proposed by the Mayor and HPW Director. City Council can legally appropriate only those amounts of money that the City Controller has certified to be available for appropriation.

The Fund operates under established ordinances for investing, financing, rate setting and cash management. These policies are parameters for developing annual operating budgets as well as the five-year CIP. According to the Fund’s current Master Ordinance, Ordinance No. 2004-299, (the “Master Ordinance”), the required reserves

include 60 days of operation and maintenance expenses. Additional reserves are required for natural or man-made disasters, expected rollovers for capital equipment and 66.7% of the Fund General Purpose Fund as defined in the Master Ordinances.

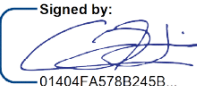
OTHER INFORMATION

Acknowledgments

The preparation of this ACFR was accomplished with the cooperation of the entire staff of the Fund, City Finance, and the Controller's office. We would like to express our appreciation to all who contributed to preparing this report. We also want to thank the Mayor and City Council members for their interest and support in enabling the Combined Utility System to fulfill its role in delivering a citywide integrated water and wastewater service to the community.

The Fund is committed to providing citizens with complete and relevant financial information. This ACFR reflects our commitment to meeting high accountability standards to uphold and maintain public trust and goodwill through the highest ethics and integrity.

Respectfully submitted,

Signed by:

01404FA578B245B...

Chris Hollins
City Controller



INTRODUCTORY SECTION

Combined Utility System

Elected Officials as of June 30, 2024



JOHN WHITMIRE
MAYOR



CHRIS HOLLINS
CONTROLLER



AMY PECK
DISTRICT A



TARSHA JACKSON
DISTRICT B



ABBIE KAMIN
DISTRICT C



CAROLYN EVANS-SHABAZZ
DISTRICT D



FRED FLICKINGER
DISTRICT E



TIFFANY D. THOMAS
DISTRICT F



MARY NAN HUFFMAN
DISTRICT G



MARIO CASTILLO
DISTRICT H



JOAQUIN MARTINEZ
DISTRICT I



EDWARD POLLARD
DISTRICT J



MARTHA CASTEX-TATUM
DISTRICT K



JULIAN RAMIREZ
AT-LARGE
POSITION 1



WILLIE DAVIS
AT-LARGE
POSITION 2



TWILA CARTER
AT-LARGE
POSITION 3



LETITIA PLUMMER
AT-LARGE
POSITION 4

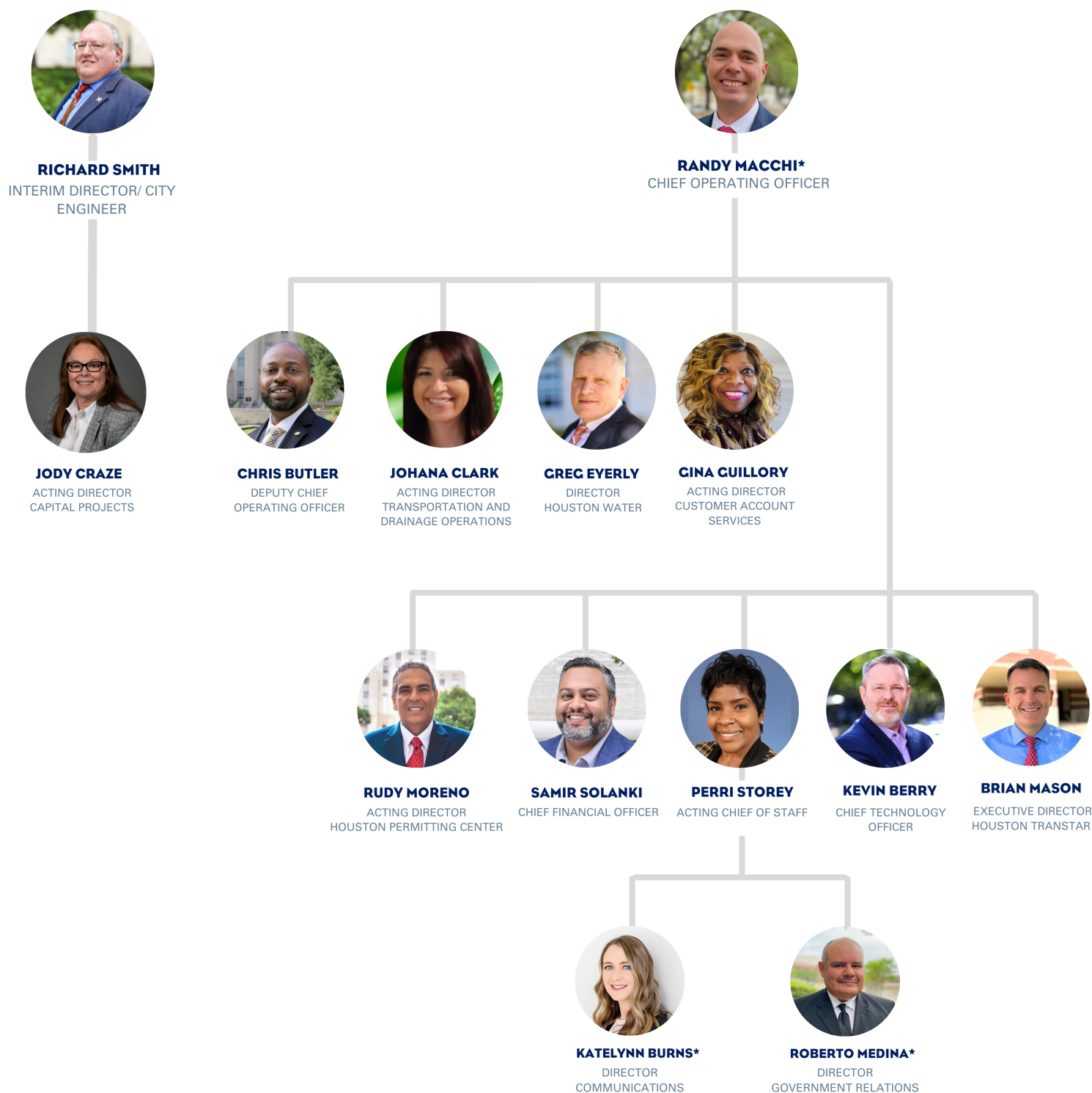


SALLIE ALCORN
AT-LARGE
POSITION 5



HOUSTON PUBLIC WORKS PRINCIPAL OFFICERS

AS OF JUNE 30, 2024



*As of July 2024, Erin Jones was named Acting Director of Communications

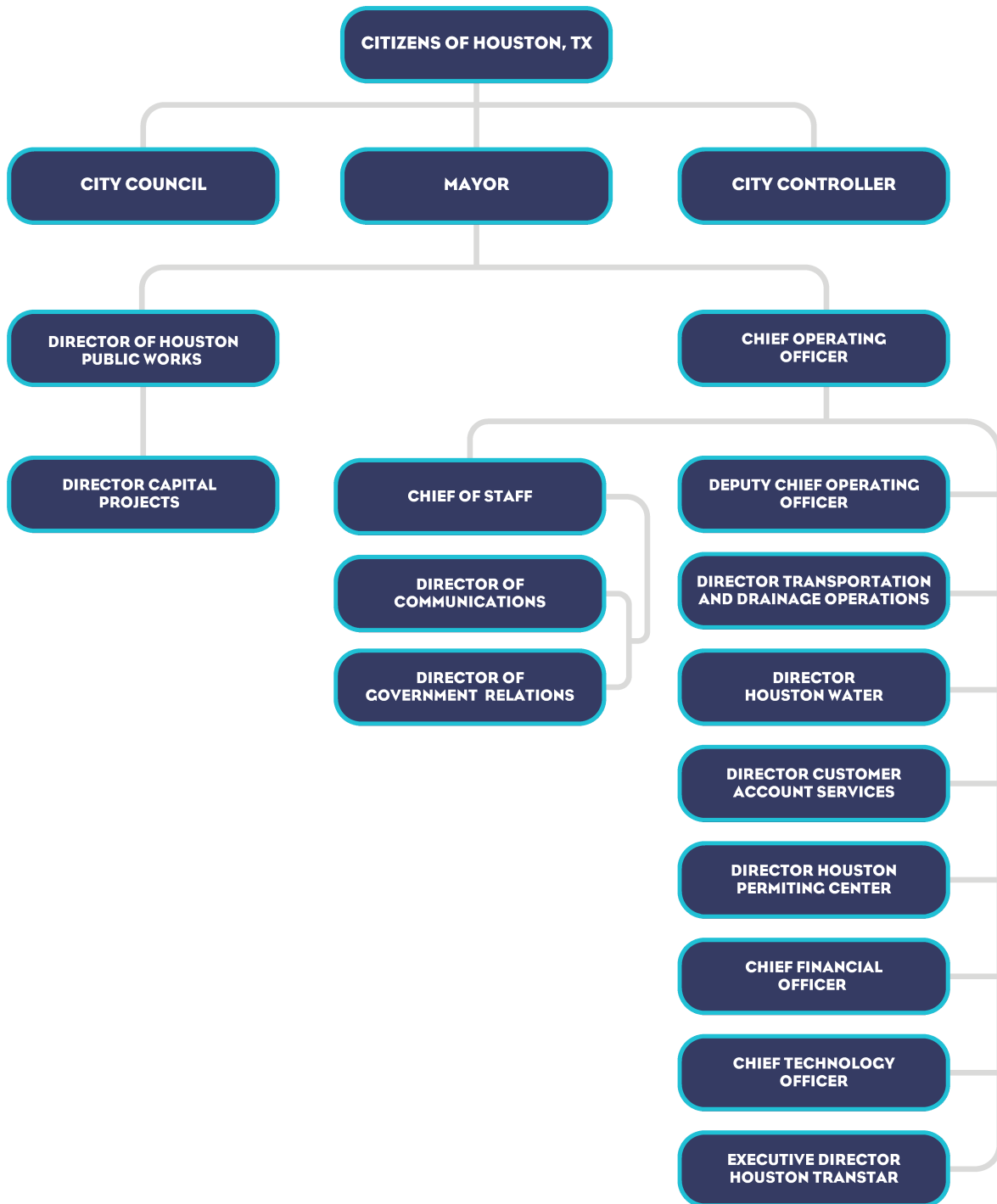
*As of July 2024, Roberto Medina was named Acting Chief of Staff.

*As of November 2024, Randy Macchi was named Director of Houston Public Works



ORGANIZATIONAL CHART

AS OF JUNE 30, 2024





INTRODUCTORY SECTION

Combined Utility System

Awards and Achievements

Gold & Silver Awards

The Combined Utility System's wastewater system has consistently been awarded the Gold and Silver awards from the National Association of Clean Water Agencies in recognition of our ability to produce wastewater discharges in compliance with federal regulations that protect the public and the aquatic environment.

2023-2024 Awards Received

- **2023 WaterSense Promotional Partner of the Year Award:** The U.S. Environmental Protection Agency honored Houston Public Works' Water Service Line for successfully promoting water-reducing programs as a WaterSense Partner.
- **2023 Water Environment Association of Texas:** HPW employee received OPS Challenge Riley Crocker Dedicated Volunteer Award.
- **2023 Wyland National Mayors Challenge for Water Conservation:** For the second year in a row, Houston was one of the five cities nationwide to win the Wyland National Mayor's Challenge and took home the top prize for populations above 600,000, thus naming it a "Water-Wise City" by the Wyland Foundation.
- **Give Water a Break 2023 Platinum Winner for Excellence in Concept, Design, and Digital Communication:** This award was issued by the international AVA Digital Awards competition in recognition of excellence by creative professionals responsible for the planning, concept, direction, design, and production of digital communication.
- **TEXAS AMERICAN WATER WORKS ASSOCIATION:**
 - Best Tasting Drinking Water: East Water Purification Plant | 1st Place (2023)
 - Top Ops Competition | 1st Place Houston Water (2023)
 - Top Ops Competition | 3rd Place Northeast Water Purification Plant (2023)
 - Top Ops Competition | 1st Place Houston Water (2024)
- **WATER ENVIRONMENT ASSOCIATION OF TEXAS (WEAT):**
 - Houston Water Microbe Masters | 3rd place as a first time competitor during Texas Water 2023 in Houston, TX.
 - Houston Water Microbe Masters | 4th place at the WEAT 2024 Operation Challenge Competition during Texas Water 2024 in Fort Worth, TX
- **NATIONAL ASSOCIATION OF CLEAN WATER AGENCIES (NACWA):** 2024 National Environmental Achievement Award in the Public Information & Education Category
- **AMERICAN PUBLIC WORKS ASSOCIATION (APWA):** 2024 TX-APWA Project of the Year award for the emergency repair of a collapsed 78-inch sewer in the Quitman/US 69.
- **GOVERNMENT FINANCE OFFICERS ASSOCIATION (GFOA):** Sabrina Jackson, Sr. Assistant Director - Financial Reporting, received 2024 GFOA recognition for outstanding public service.

AMERICAN WATER WORKS ASSOCIATION

The City of Houston is a member of the American Water Works Association (AWWA) and AWWA's Partnership for Safe Water program for treatment plant and distribution system optimization. This program is based on the voluntary commitment of water providers to go above and beyond regulatory requirements to improve the quality of water delivered to customers by optimizing water system operations.



CITY OF HOUSTON SOURCE WATER

86 %

OF OUR SUPPLY FLOWS FROM THE TRINITY RIVER INTO LAKE LIVINGSTON, AND FROM THE SAN JACINTO RIVER INTO LAKE CONROE AND LAKE HOUSTON.

14 %

OF THE CITY'S WATER SUPPLY COMES FROM DEEP UNDERGROUND WELLS DRILLED INTO THE EVANGELINE AND CHICOT AQUIFERS.

SOURCE WATER PROTECTION



A DEDICATED TEAM OF ENVIRONMENTAL INVESTIGATORS ACTIVELY MONITOR LAKES AND TRIBUTARIES FOR INDUSTRIAL DISCHARGES AND OTHER CONTAMINANTS.



INVESTIGATORS COLLECT MULTIPLE WATER SAMPLES THAT ARE TESTED FOR A WIDE SPECTRUM OF MICROORGANISMS AND POLLUTANTS.



BY 2050, HARRIS COUNTY'S POPULATION IS EXPECTED TO EXCEED 5.5 MILLION PEOPLE. IT IS IMPERATIVE THAT ALL CITIZENS USE WATER WISELY TO SUSTAIN OUR MOST IMPORTANT NATURAL RESOURCE.



WATER CONSERVATION PRACTICES HELP PROTECT THE QUALITY OF SOURCE WATER. WHEN LESS WATER IS EXTRACTED FROM NATURAL SOURCES LIKE RIVERS, LAKES, AND GROUNDWATER AQUIFERS, THERE IS REDUCED STRESS ON THESE ECOSYSTEMS. THIS, IN TURN, MINIMIZES THE RISK OF CONTAMINATION FROM POLLUTANTS AND ENSURES A CLEANER AND SAFER SOURCE OF DRINKING WATER.



02

FINANCIAL SECTION

ANNUAL COMPREHENSIVE FINANCIAL REPORT

DRINKING WATER OPERATIONS



3

SURFACE WATER
PLANTS



54

GROUNDWATER
PLANTS



129

GROUNDWATER
WELLS



7

SURFACE WATER
RE-PRESSURIZATION PLANTS



136

WATER STORAGE TANKS AND
TOWERS



188 BILLION

GALLONS OF WATER ARE
PRODUCED ANNUALLY



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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor,
Members of the City Council and City Controller
City of Houston, Texas

Opinion

We have audited the financial statements of the Combined Utility System Fund of the City of Houston, Texas (the "Combined Utility System Fund") as of and for the years ended June 30, 2024 and 2023, and the related notes to the financial statements, which collectively comprise the Combined Utility System Fund as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Combined Utility System Fund, as of June 30, 2024 and 2023, and the changes in its financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City of Houston, Texas, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Combined Utility System Fund and do not purport to, and do not, present fairly the financial position of the City of Houston, Texas, as of June 30, 2024 and 2023, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 1, amounts have been reclassified from net investment in capital assets to unrestricted net position in the prior-year financial statements to conform to the current-year presentation. This reclassification did not have an impact on the Combined Utility System Fund's total net position. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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



To the Honorable Mayor,
Members of the City Council, and City Controller
City of Houston, Texas
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Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City of Houston, Texas' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 4 through 13), the Schedule of Changes in the Fund's Net Pension Liability and Related Ratios (pages 74 through 76) and the Schedule of the Fund's Proportionate Share of OPEB Liability and Related Ratios (pages 77 through 80) be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

To the Honorable Mayor,
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We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory and statistical sections but does not include the basic financial statements and our auditor's report thereon. Our opinion on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2024, on our consideration of the City of Houston, Texas' 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 solely 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 effectiveness of the City of Houston, Texas' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Houston, Texas' internal control over financial reporting and compliance.

November 18, 2024

Management's Discussion and Analysis

The Combined Utility System ("CUS") is a self-sufficient department of the City of Houston, Texas (the "City"). The Combined Utility System Fund (the "Fund") operates within Houston Public Works and is an enterprise fund of the City. CUS, under the administrative control of the Mayor, manages and operates the Fund. The following Management's Discussion and Analysis (MD&A) of the CUS provides an introduction and overview of the financial activities for the fiscal years ended June 30, 2024 ("FY2024") and June 30, 2023 ("FY2023"). We encourage readers to consider the information presented here with the letter of transmittal included in the introductory section, financial statements, and the notes to the financial statements that follow this section. All dollar amounts, unless otherwise indicated, are in thousands of dollars.

Financial Highlights

- * As of June 30, 2024, the assets and deferred outflows of resources of the Fund exceeded its liabilities and deferred inflows of resources by \$3,857.7 million as compared to \$3,113.3 million on June 30, 2023. Of the total \$3,857.7 million amount in net position as of June 30, 2024, \$2,875.9 million represented net investment in capital assets; \$217.9 million was restricted for maintenance and operations, debt service payments, and capital improvements; the remaining balance of \$763.9 million represented unrestricted net portion and may be used to meet the Combined Utility System's ongoing obligations.
- * The Fund's total net position increased by \$744.4 million or 23.9% in FY2024 compared to an increase of \$635.2 million or 25.6% in FY2023.
- * Gross operating revenues for FY2024 increased by \$126.6 million or 8.4% to \$1,630.6 million compared to gross operating revenues for FY2023, which increased by \$196.5 million or 15.0% to \$1,504.0 million compared to fiscal year ended June 30, 2022 ("FY2022").
- * In FY2024, the City issued \$870.3 million of Combined Utility System First Lien Revenue Refunding Bonds, Series 2024A. Net Present Value Savings related to the Bonds totaled \$53.5 million or 7.124% of the refunded bonds, and reduced debt service by \$75.4 million.

Overview of Financial Statements

This discussion and analysis is an introduction to the Fund's financial statements, which consists of the following components: management's discussion and analysis ("MD&A"), financial statements, notes to the financial statements, and required supplementary information. The notes are essential to a complete understanding of the financial statements. A statistical section is included for further analysis.

A fund is a group of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. An enterprise fund is used to account for a business-like activity within a government. The Fund is an enterprise fund of the City; thus, it is included in the City's Annual Comprehensive Financial Report.

The Statements of Net Position present information on the Fund's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference between these sections reported as net position. Changes in net position from year to year may serve as useful indicators of whether the financial position of the Fund is improving or deteriorating.

The Statements of Revenues, Expenses, and Changes in Net Position present information showing how the Fund's net position changed during the two most recent fiscal years. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

The Statements of Cash Flows report how much cash was provided by or used for the Fund's operations, investing activities, non-capital financing activities, and capital and related financing activities.

The financial statements also include note disclosures as well as required supplementary information that provide additional explanations and details on significant accounting policies and significant financial statement line items.

Financial Analysis

The following comparative condensed financial statements and other selected information serve as the key financial data and indicators for management, monitoring, and planning.

Net Position
June 30, 2024, 2023, and 2022
(amounts expressed in thousands)

	2024	2023	2022
Assets			
Current assets	\$ 2,417,131	\$ 2,080,186	\$ 2,102,156
Noncurrent assets	322,450	503,557	679,882
Net capital assets	9,685,846	9,397,885	8,989,679
Total Assets	<u>12,425,427</u>	<u>11,981,628</u>	<u>11,771,717</u>
Deferred outflows of resources	<u>146,661</u>	<u>268,585</u>	<u>287,240</u>
Liabilities			
Current liabilities	716,961	739,939	679,877
Noncurrent liabilities	7,901,488	8,287,329	8,801,833
Total Liabilities	<u>8,618,449</u>	<u>9,027,268</u>	<u>9,481,710</u>
Deferred inflows of resources	<u>95,890</u>	<u>109,644</u>	<u>99,136</u>
Net Position			
Net investment in capital assets	2,875,934	2,444,499	1,779,915
Restricted net position	217,927	193,868	178,907
Unrestricted	763,888	474,934	519,289
Total Net Position	<u>\$ 3,857,749</u>	<u>\$ 3,113,301</u>	<u>\$ 2,478,111</u>

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position

The Combined Utility System employs forward-looking management principles to sustain a healthy debt coverage from revenues and continuously improve capital assets to provide clean drinking water and safely treat wastewater for Houston citizens. This approach has continued to build financial strength and stability for the future of our water supply. Net position may serve as a useful indicator of a government's financial position over time. At June 30, 2024, total net position was \$3,857.7 million, an increase of \$744.4 million or 23.9% from June 30, 2023. Total net position at June 30, 2023 was \$3,113.3 million, an increase of \$635.2 million or 25.6% from June 30, 2022. The largest portion of the Fund's net position, \$2,875.9 million or 74.5% in FY2024 and \$2,444.5 million or 78.5% in FY2023 reflects the investment in capital assets (e.g. land, reservoir facilities, water treatment facilities, and wastewater disposal facilities) less any related outstanding debt used to acquire those assets. The CUS uses capital assets to provide services to its citizens and customer cities; consequently, these assets are not available for future spending.

FY2024

Total assets increased by \$443.8 million or 3.7% in FY2024 compared to FY2023. Cash and cash equivalents increased by \$180.8 million or 66.5% compared to FY2023. Accounts receivable, net of related allowance, decreased by \$14.1 million or 4.9%, primarily due to a \$74.2 million or 25.2% increase in allowance for doubtful accounts. This decrease was offset by a \$60.1M or 10.3% increase in gross accounts receivable due to the rate increases implemented in April 2023 and April 2024 per rate study completed in FY2021. Capital assets increased by \$288.0 million or 3.1% in FY2024 compared to FY2023, as the nature of operating a water utility is capital-intensive. The Fund is continuously working on its capital improvement program, which is critical to the City's future and includes projects such as the Northeast Water Purification Plant ("NEWPP") expansion project, as a part of its groundwater reduction plan. Non-current restricted assets decreased by \$181.1 million or 36.0% primarily due to payments received during the fiscal year for the NEWPP expansion project.

Total liabilities decreased by \$408.8 million or 4.5% in FY2024 compared to FY2023 due to a \$385.8 million or 4.7% decrease in non-current liabilities, and a \$23.0 million or 3.1% decrease in current liabilities. Non-current bonds payable decreased by \$206.4 million or 3.0% due to the repayment of principal on outstanding debt partially offset by the Series 2024A bond debt transaction (refer to the long-term debt section below for further information). Non-current contracts payable decreased by \$10.0 million or 2.5% due to principal payments made in FY2024. Unearned revenue decreased by \$115.6 million or 31.8%, primarily due to the progression of the Northeast Expansion Project compared to FY2023 (refer to the Capital Contributions section below for further information). Total other post-employment benefits - health benefit ("OPEB-HB") increased by \$13.4 million or 10.4%. The OPEB-HB increase is due to valuation assumption changes related to an increase in obligations due to updating the trend rates, partially offset by a decrease in obligations due to a higher discount rate. Net pension liability decreased by \$37.4 million or 13.2% mainly due to a decrease in the CUS proportionate share of the net pension liability, along with an increase in investment income. Swap liability decreased by \$37.1 million or 30.2% due to a change in interest rates. The decrease in current liabilities was mainly due to a \$30.7 million or 11.4% decrease in accounts payable primarily due to the timing of significant work performed towards the NEWPP expansion and other projects. This was partially offset by a \$10.8 million or 3.7% increase in short-term bonds payable.

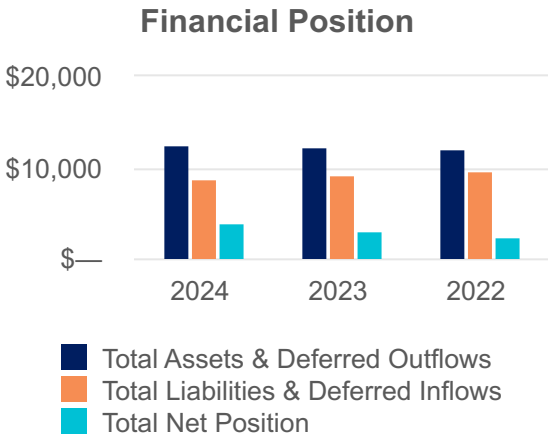
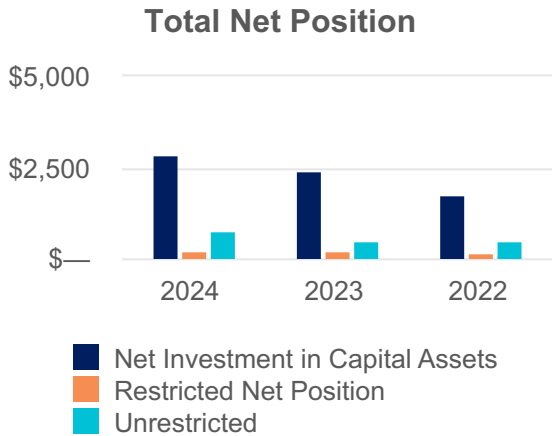
Deferred outflows of resources decreased by \$121.9 million or 45.4% during FY2024 primarily due to a \$85.2 million or 44.2% decrease in deferred outflows related to unamortized cost on refunded debt. The decrease in deferred outflows related to refunding debt is mainly due to the Series 2024A refunding transaction (refer to the long-term debt section below for further information). Deferred outflows related to the Swap liability decreased by \$37.1 million or 74.8% due to a change in interest rates. Total deferred inflows of resources decreased by \$13.8 million or 12.5%, mainly due to a decrease in amortization of prior year OPEB-HB deferred inflows due a change in assumptions, partially offset by an increase in deferred inflows for pension primarily due to amortization of prior year deferred amounts.

FY2023

Total assets increased by \$209.9 million or 1.8% in FY2023 compared to FY2022. Decreases in cash and cash equivalents by \$61.7 million and 18.5% are predominantly attributable to the following: In FY2023 there were no new debt financing transactions, therefore no borrowed cash was recorded. In FY2023, the annual pay-as-you-go (PAYGO) capital funding (financed by CUS cash) was increased from FY2022. Accounts receivable increased by \$35.8 million or 14.2% mainly due to the rate increases implemented in April 2022 and April 2023 per rate study completed in FY2021. Capital assets increased by \$408.2 million or 4.5% in FY2023 compared to FY2022 as the nature of operating a water utility is capital-intensive. The Fund is continuously working on its capital improvement program, which is critical to the city's future and includes projects such as the Northeast Water Purification Plant expansion project as a part of the City's groundwater reduction plan. View the Capital Assets section in this MD&A for further discussion and analysis on current and future capital projects. Non-current restricted assets decreased by \$176.3 million or 25.9% primarily due to payments received during the year for the NEWPP expansion project.

Total liabilities decreased by \$454.4 million or 4.8% in FY2023 compared to FY2022, primarily due to a \$514.5 million or 5.8% decrease in non-current liabilities, offset by a \$60.1 million or 8.8% increase in current liabilities. Non-current bonds payable decreased by \$328.2 million or 4.6% due to principal payments made in FY2023. Furthermore, no new bonds issuances occurred during the year (refer to long-term debt section below for further information). Unearned revenue decreased by \$121.9 million or 25.1%, primarily due to the progression of the Northeast Expansion Project compared to FY2022 (refer to Capital Contributions section below for further information). Total liability for OPEB-HB decreased by \$50.3 million or 27.3% primarily due to a change in discount rate. The increase in current liabilities was mainly due to a \$35.7 million or 15.3% increase in accounts payable primarily attributable to the significant work performed towards the NEWPP expansion and other projects.

Deferred outflows of resources decreased by \$18.7 million or 6.5% during FY2023 due to a \$15.2 million or 5.9% decrease in deferred outflows related to unamortized cost on refunded debt. In addition, due to amortization of prior year deferred amounts for OPEB-HB, net of current year additions to the deferred amounts, deferred outflows decreased by \$2.9 million or 11.2%. Total deferred inflows of resources decreased by \$10.5 million or 10.6%, mainly due to the change in discount rate from 2.16% in FY2022 to 3.54% in FY2023 for OPEB-HB resulting in an increase to deferred inflows, offset by a decrease in deferred inflows for pension primarily due to amortization of prior year deferred amounts.



Change in Net Position

For FY2024 and FY2023, net position of the Fund increased by \$744.4 million or 23.9% and \$635.2 million or 25.6%, respectively.

Changes in Net Position
For Fiscal Years Ending June 30, 2024, 2023, and 2022
(amounts expressed in thousands)

	<u>2024</u>	<u>2023</u>	<u>2022</u>
Operating revenues	\$ 1,630,575	\$ 1,503,982	\$ 1,307,513
Operating expenses	935,042	867,412	746,203
Operating Income	<u>695,533</u>	<u>636,570</u>	<u>561,310</u>
Non-operating revenues	175,643	124,892	102,108
Non-operating expenses	(282,892)	(273,040)	(257,907)
Non-Operating Revenues (Expenses)	<u>(107,249)</u>	<u>(148,148)</u>	<u>(155,799)</u>
Income before Capital Contributions and Transfers	588,284	488,422	405,511
Capital contributions	197,186	201,164	546,307
Transfers out	(41,022)	(54,396)	(57,875)
Change in Net Position	<u>744,448</u>	<u>635,190</u>	<u>893,943</u>
Total Net Position, July 1	<u>3,113,301</u>	<u>2,478,111</u>	<u>1,584,168</u>
Total Net Position, June 30	<u><u>\$ 3,857,749</u></u>	<u><u>\$ 3,113,301</u></u>	<u><u>\$ 2,478,111</u></u>

Total Revenues
For Fiscal Years Ending June 30, 2024, 2023, and 2022
(amounts expressed in thousands)

	<u>2024</u>	<u>2023</u>	<u>2022</u>
Operating Revenues			
Water/Sewer billing	\$ 1,630,575	\$ 1,503,982	\$ 1,307,513
Operating Revenues	<u>1,630,575</u>	<u>1,503,982</u>	<u>1,307,513</u>
Non-Operating Revenues			
Investment income (loss)	88,609	39,748	(50,712)
Contributions in	12,885	9,435	11,196
Other revenue	74,149	75,709	141,624
Non-Operating Revenues	<u>175,643</u>	<u>124,892</u>	<u>102,108</u>
Total Revenues	<u><u>\$ 1,806,218</u></u>	<u><u>\$ 1,628,874</u></u>	<u><u>\$ 1,409,621</u></u>

FY2024

Operating revenue is primarily comprised of water and wastewater charges. In FY2024, total operating revenues were \$1.63 billion, an increase of \$126.6 million or 8.4% from FY2023, primarily due to the rate increases implemented in April 2023 and April 2024 per rate study completed in FY2021. Effective April 1, 2024, the Fund increased water and wastewater rates by 7% and 11%, respectively, in order to account for inflation and population increases, and to pay for necessary structural improvements, such as replacing old pipes, rehabilitating or replacing groundwater wells and lift stations, and improving water and wastewater treatment plants. This was partially offset by the water bill improvement plan implemented in the fourth quarter of FY2024. Overall water consumption increased by 640.4 million gallons in FY2024 compared to FY2023. The number of active water service accounts increased from 496,945 in FY2023 to 503,520 in FY2024.

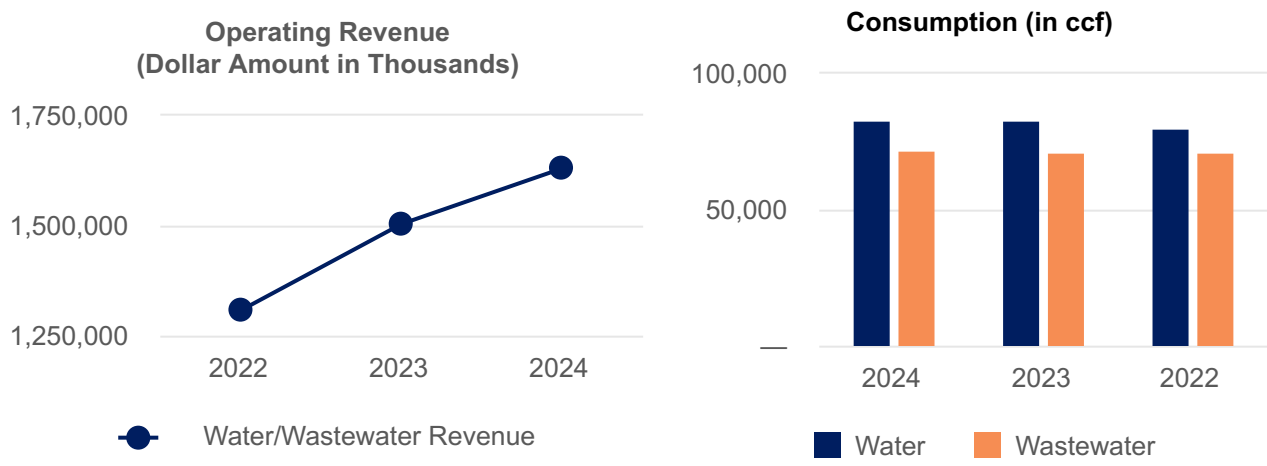
Non-operating revenues were \$175.6 million in FY2024, an increase of \$50.8 million or 40.6% from FY2023, primarily due to a fair value increase in net investment income by \$48.9 million or 122.9%.

FY2023

During FY2023, total operating revenues were \$1.5 billion, an increase of \$196.5 million or 15.0% from FY2022. This increase was mainly due to the rate increases implemented in April 2022 and April 2023 per rate study completed in FY2021. Overall water consumption increased by 2.57 billion gallons in FY2023. The number of active water service accounts increased from 494,865 in FY2022 to 496,945 in FY2023.

Non-operating revenues were \$124.9 million in FY2023, representing \$39.7 million of net investment income and \$851.1 million of other revenue, including impact fees.

Non-operating revenue increased by \$22.8 million or 22.3% in FY2023 primarily due to an increase in investment income by \$90.5 million due to an increase in fair value of investments and a decrease in other revenue by 67.7 million. The reduction in other revenue is primarily due to the Allen's Creek settlement of \$51.1 million (see Note 7) in FY2022.



Total Expenses

For Fiscal Years Ending June 30, 2024, 2023, and 2022
(amounts expressed in thousands)

	<u>2024</u>	<u>2023</u>	<u>2022</u>
Operating Expenses			
Maintenance and operating	\$ 640,844	\$ 578,050	\$ 463,364
Depreciation and amortization	294,198	289,362	282,839
Operating Expenses	<u>935,042</u>	<u>867,412</u>	<u>746,203</u>
Non-Operating Expenses			
Interest expense and debt issuance costs	282,801	270,085	257,907
Other expenses	91	2,955	—
Non-Operating Expenses	<u>282,892</u>	<u>273,040</u>	<u>257,907</u>
Total Expenses	<u>\$ 1,217,934</u>	<u>\$ 1,140,452</u>	<u>\$ 1,004,110</u>

FY2024

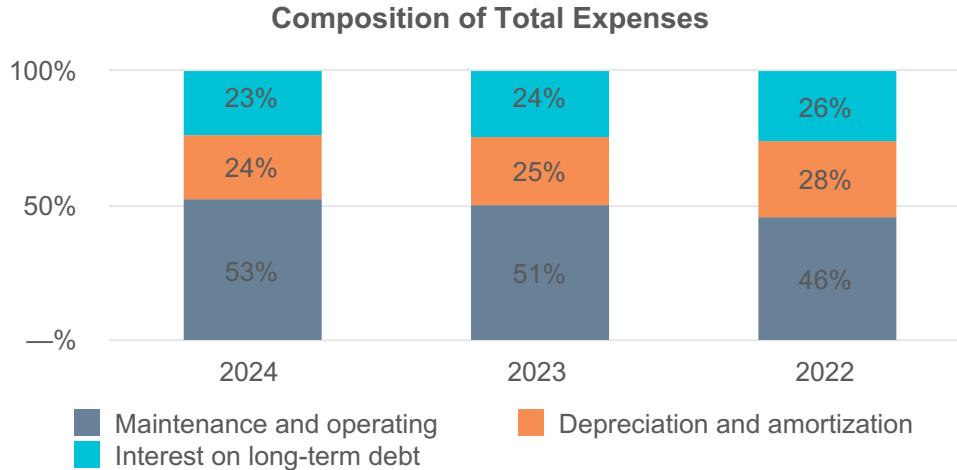
Total operating expenses were \$935.0 million in FY2024, an increase of \$67.6 million or 7.8% from FY2023. In FY2024, maintenance and operating expenses increased by \$62.8 million or 10.9%, primarily attributable to an increase in materials and supplies along with ongoing activity to satisfy Consent Decree commitments and personnel expenses increased by \$5.7 million or 4.7% due to a scheduled salary increase. Depreciation and amortization expense increased by \$4.8 million or 1.7% in FY2024, mainly due to increased infrastructure capital assets.

Non-operating expenses increased by \$9.9 million or 3.6% in FY2024 compared to FY2023, primarily due to \$5.3 million in debt issuance costs primarily related to the issuance of Combined Utility System First Lien Revenue Refunding Bonds, Series 2024A in FY2024 along with a \$4.9 million increase in arbitrage expenses.

FY2023

Total operating expenses were \$867.4 million in FY2023, an increase of \$121.2 million or 16.2% from FY2022. In FY2023, maintenance and operating expenses increased by \$114.7 million or 24.8%, primarily attributable to an increase in materials and supplies, along with an increase in repairs in Q4 of FY2023. Record-setting high temperatures and lack of rainfall during FY2023 contributed to dry soil conditions that caused significant ground shifting resulting in increased water leaks and subsequent repair costs. Personnel expenses increased by \$8.2 million or 6.28% due to a scheduled salary increase. Depreciation expense increased by \$6.5 million or 2.3% in FY2023, mainly due increased infrastructure capital assets. OPEB benefit decreased by \$32.4 million or 81.9% due to a one-time benefit term change in FY2022, which resulted in a significant OPEB (benefit) in FY2022.

Non-operating expenses increased by \$15.1 million or 5.9% in FY2023 compared to FY2022, primarily due to increased interest payments related to variable rate debt.



Capital Contributions

Capital contributions were \$197.2 million in FY2024, a decrease of \$4.0 million or 2.0% from FY2023. Capital contributions were \$201.2 million in FY2023, a decrease of \$345.1 million or 63.2% from FY2022. The majority of capital contributions during FY2024 and FY2023 represent funding for the Northeast Water Purification Plant Expansion project ("NEPE"), the Northeast Transmission Line project ("NETL"), and the Southeast Transmission Line project ("SETL"). Recognition of capital contribution revenue is based on a percentage of completion method for long-term joint venture construction contracts in accordance with GASB Statement No. 62 (Refer to Note 1.G to the financial statements). The change in capital contributions recognized for FY2023 and FY2024 is mainly due to the progression of the NEPE.

Capital Assets

The Fund's capital assets as of June 30, 2024 and 2023, amounted to \$9.7 billion and \$9.4 billion, respectively. This balance includes land, buildings, and intangible assets, in addition to infrastructure assets, such as water and wastewater lines, and water and wastewater treatment plants.

The Fund added approximately \$584.1 million of capital assets during FY2024. Construction in progress increased from \$2,450.3 million at the end of FY2023 to \$2,596.7 million at the end of FY2024. Of the \$544.4 million additions in construction in progress, approximately \$166.1 million was related to the NEWPP project, \$67.7 million was related to the Lift Station Renewal and Replacement project, and \$59.4 million was related to the Wastewater Collection System Rehabilitation and South East Wastewater Purification Plant Improvements. In addition, various water and sewer projects were placed in service during the year, resulting in transfers totaling \$397.9 million from construction in progress to infrastructure and other capital assets. FY2024 depreciation and amortization expense was \$294.2 million.

The Fund added approximately \$702.6 million of capital assets during FY2023. Construction in progress increased from \$2,224.6 million at the end of FY2022 to \$2,450.3 million at the end of FY2023. The increase was mainly due to expansion work at the Northeast Water Purification Plant, which accounted for approximately \$255.7 million of the \$679.9 million additions to construction in progress, along with \$44.3 million and \$21.6 million in additions related to the Wastewater Collection System Rehabilitation and East Water Purification Plant Improvements, respectively. In addition, various water and sewer projects were placed in service during the year, resulting in transfers totaling \$454.2 million from construction in progress to infrastructure and other capital assets. FY2023 depreciation and amortization expense was \$289.4 million.

Capital Assets
As of June 30, 2024, 2023, and 2022
(amounts expressed in thousands)

	2024	2023	2022
Land	\$ 198,691	\$ 196,117	\$ 183,194
Buildings	206,031	202,088	190,197
Improvements and equipment	203,494	200,160	197,080
Infrastructure	12,725,819	12,346,005	11,966,989
Rights and intangibles	847,142	846,948	846,510
Lease right-of-use assets	—	—	42
Construction in progress	2,596,693	2,450,250	2,224,622
Less accumulated depreciation and amortization	<u>(7,092,024)</u>	<u>(6,843,683)</u>	<u>(6,618,955)</u>
Total Capital Assets	<u>\$ 9,685,846</u>	<u>\$ 9,397,885</u>	<u>\$ 8,989,679</u>

*The depreciation policy can be found in Note 1 of the financial statements, and additional information concerning the Fund's capital assets can be found in Note 5.

Long-Term Debt

As of June 30, 2024, the Fund had approximately \$7,396.4 million in long-term debt, a decrease of \$209.1 million or 2.7% from FY2023. As of June 30, 2023, the Fund had approximately \$7,605.5 million in long-term debt, a decrease of \$332.7 million or 4.2% from FY2022.

New debt issued during FY2024 included \$870.3 million of Combined Utility System First Lien Revenue Bonds Series 2024A. Proceeds were used to refund a portion of the CUS's outstanding bonds for debt service savings, repay a portion of the CUS's Commercial Paper (CP) notes and pay issuance costs.

Face Value Outstanding Debt						
(amounts expressed in thousands)						
	2024		2023		2022	
Junior Lien Revenue Bonds	\$ 121,674	1.6 %	\$ 133,803	1.8 %	\$ 143,686	1.8 %
First Lien Revenue Bonds	6,367,277	86.1 %	6,537,881	86.0 %	6,835,066	86.1 %
Subordinate Lien Bonds	419,696	5.7 %	432,491	5.7 %	445,116	5.6 %
Long-Term Contracts	406,374	5.5 %	416,052	5.5 %	425,395	5.4 %
Pension Obligation Bonds	81,407	1.1 %	85,308	1.1 %	88,933	1.1 %
Lease and subscription liabilities	—	— %	—	— %	12	— %
Total	\$ 7,396,428	100 %	\$ 7,605,535	100 %	\$ 7,938,208	100 %

Standard & Poor's, Moody's, Fitch and Kroll underlying rating of the City's obligations as of June 30, 2024 are as follows:

	Standard & Poor's	Moody's	Fitch	Kroll
Water & Sewer System Junior Lien	AA+	Aa1	AA+	N/R
Combined Utility System First Lien	AA	Aa2	AA	N/R
Combined Utility System - CWA	AA	N/R	AA+	N/R

*Additional information on long-term debt can be found in Note 7 to the financial statements.

Debt Coverage

The City's Water and Sewer System Junior Lien Revenue Bonds are all bonds outstanding under the Previous Ordinance (prior to the Master Ordinance). City of Houston Ordinance No. 2004-299, otherwise known as the Master Ordinance, requires the Fund to maintain a debt coverage ratio of 1.20 or greater in each fiscal year. This means that Net Revenues must minimally be equal to or greater than 120% of the total debt service of Junior Lien and First Lien Bonds each fiscal year.

Coverages of total debt service on Junior Lien Bonds under Previous Ordinance and First Lien Bonds under Master Ordinance by Net Revenues was 2.18 in FY2024 and 2.05 in FY2023.

The Fund maintains the debt coverage ratio above the minimum requirement. Please refer to the Statistical Section of this report.

Economic Factors and Future Planning

The primary service area of the CUS is located in The Houston-The Woodlands-Sugar Land Metropolitan Statistical area. Continued growth is expected for the service area in the extended future. The average number of new water connections in the last ten years was 4,409 per year. In FY2024, the Fund treated an average of 513.7 million gallons per day (MGD) of water with a maximum daily capacity of 784.0 MGD. After treatment, water gets distributed to citizens in the Houston area through 7,700 miles of pipeline distribution. Throughout 38 wastewater treatment plants, an average of 249.0 million gallons of wastewater per day are collected and treated with a maximum daily treatment permitted capacity of 560.0 MGD. The sanitary sewer collection system moves wastewater to the local treatment plants to be treated and safely returned to bayous and lakes.

The executive team continues to focus on identifying and implementing necessary improvements to provide high-quality, reliable, and cost-effective service to its member and customer cities and design redundancy into critical parts of the water system. Under the City's Master Ordinance, the CUS has maintained project and financial planning to keep pace with its growth. Rate structures are reviewed consistently to ensure the CUS can meet the growing needs of its customer base.

Requests for Information

This financial report is designed to provide a general overview of the Combined Utility System's finances to our citizens, taxpayers, customers, investors and creditors. Questions concerning any of the information provided in this report, or requests for additional financial information should be addressed to the Office of the City Controller, Attention: Financial Management Services, Combined Utility System, 611 Walker St., 24th Floor, Houston, Texas 77002.

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Combined Utility System
Statements of Net Position
June 30, 2024 and 2023
(amounts expressed in thousands)

	<u>2024</u>	<u>2023</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 452,526	\$ 271,737
Investments	1,652,768	1,484,994
Receivables, net of allowances		
Accounts receivable	274,438	288,539
Special assessments receivable	—	93
Due from other funds	2,070	9
Due from other governments	3,500	7,387
Inventory	23,046	19,128
Prepaid items	8,721	8,262
Restricted assets		
Cash and cash equivalents	62	37
Total current assets	<u>2,417,131</u>	<u>2,080,186</u>
Noncurrent assets		
Investments	67,658	64,604
Prepaid items	—	2,438
Due from other governments	239,029	421,664
Amount held by other governments	15,763	14,851
Capital assets		
Land	198,691	196,117
Buildings	206,031	202,088
Improvements and equipment	203,494	200,160
Infrastructure	12,725,819	12,346,005
Construction in progress	2,596,693	2,450,250
Rights and intangibles	847,142	846,948
Lease right-of-use assets	—	—
Less accumulated depreciation and amortization	(7,092,024)	(6,843,683)
Net capital assets	<u>9,685,846</u>	<u>9,397,885</u>
Total noncurrent assets	<u>10,008,296</u>	<u>9,901,442</u>
Total Assets	<u>12,425,427</u>	<u>11,981,628</u>
Deferred Outflows of Resources		
Deferred outflows on pension liability	1,391	2,957
Deferred outflows on OPEB liability	25,041	23,154
Unamortized cost on refunded debt	107,711	192,864
Deferred outflows on swap liability	12,518	49,610
Total Deferred Outflows of Resources	<u>\$ 146,661</u>	<u>\$ 268,585</u>

(Continued)

*The accompanying notes are an integral part of these financial statements.



Combined Utility System
Statements of Net Position
June 30, 2024 and 2023
(amounts expressed in thousands)

	<u>2024</u>	<u>2023</u>
Liabilities		
Current liabilities		
Accounts payable	\$ 238,283	\$ 269,003
Accrued payroll liabilities	5,012	3,730
Accrued interest payable	35,110	34,946
Contracts payable	9,538	9,200
Due to other funds	27,955	37,845
Due to other governments	3,611	3,393
Advances and deposits	70,693	66,931
Pension obligation bonds payable	4,195	3,901
Claims and judgments	1,196	1,218
Compensated absences	12,027	12,114
Arbitrage rebate	1,550	395
Bonds payable	303,224	292,381
Other post employment benefits	4,567	4,882
Total current liabilities	<u>716,961</u>	<u>739,939</u>
Noncurrent liabilities		
Accrued interest payable	65,588	62,007
Bonds payable	6,605,423	6,811,794
Claims and judgments	4,398	4,813
Compensated absences	9,149	9,337
Contracts payable	396,836	406,852
Due to other governments	16,196	11,518
Arbitrage rebate	4,149	471
Net pension liability	246,046	283,407
Other post employment benefit payable	142,436	128,991
SWAP liability	85,942	123,043
Unearned revenue	248,113	363,689
Pension obligation bonds payable	77,212	81,407
Total noncurrent liabilities	<u>7,901,488</u>	<u>8,287,329</u>
Total Liabilities	<u>8,618,449</u>	<u>9,027,268</u>
Deferred Inflows of Resources		
Deferred inflows on pension liability	47,392	43,532
Deferred inflows on OPEB liability	48,498	66,112
Total Deferred Inflows of Resources	<u>95,890</u>	<u>109,644</u>
Net Position		
Net investment in capital assets	2,875,934	2,444,499
Restricted net position		
Restricted for maintenance and operations	123,343	101,839
Restricted for debt service	78,759	74,703
Restricted for capital improvements	15,825	17,326
Unrestricted	763,888	474,934
Total Net Position	<u>\$ 3,857,749</u>	<u>\$ 3,113,301</u>

*The accompanying notes are an integral part of these financial statements.



Combined Utility System
Statements of Revenues, Expenses and Changes in Net Position
For the Fiscal Years Ending June 30, 2024 and 2023
(amounts expressed in thousands)

	<u>2024</u>	<u>2023</u>
Operating Revenues		
Water/Sewer billing	\$ 1,630,575	\$ 1,503,982
Total Operating Revenues	<u>1,630,575</u>	<u>1,503,982</u>
Operating Expenses		
Maintenance and operating	640,844	578,050
Depreciation and amortization	<u>294,198</u>	<u>289,362</u>
Total Operating Expenses	<u>935,042</u>	<u>867,412</u>
Operating Income	<u>695,533</u>	<u>636,570</u>
Non-Operating Revenues (Expenses)		
Investment income	88,609	39,748
Other revenue	74,149	75,709
Gain (loss) on disposal of assets	(91)	(2,955)
Interest expense	(277,490)	(269,535)
Cost of issuance for debt	(5,311)	(550)
Contributions in	<u>12,885</u>	<u>9,435</u>
Total Non-Operating Revenues (Expenses)	<u>(107,249)</u>	<u>(148,148)</u>
Income before Capital Contributions and Transfers	<u>588,284</u>	<u>488,422</u>
Capital contributions	<u>197,186</u>	<u>201,164</u>
Transfers out	<u>(41,022)</u>	<u>(54,396)</u>
Total Transfers	<u>(41,022)</u>	<u>(54,396)</u>
Change in net position	744,448	635,190
Total Net Position, July 1	<u>3,113,301</u>	<u>2,478,111</u>
Total Net Position, June 30	<u><u>\$ 3,857,749</u></u>	<u><u>\$ 3,113,301</u></u>

*The accompanying notes are an integral part of these financial statements.



Combined Utility System
Statements of Cash Flows
For the Fiscal Years Ending June 30, 2024 and 2023
(amounts expressed in thousands)

	2024	2023
Cash Flows from Operating Activities		
Receipts from customers	\$ 1,676,764	1,538,751
Payments to employees	(219,056)	(218,635)
Payments to suppliers	(324,930)	(325,616)
Internal activity-payments to other funds	(104,359)	(86,876)
Claims paid	(2,040)	(2,072)
Other receipts	72,058	79,288
Net Cash Provided by Operating Activities	<u>1,098,437</u>	<u>984,840</u>
Cash Flows from Investing Activities		
Interest income on investments	64,450	34,826
Purchases of investments	(2,448,411)	(2,447,001)
Sales of investments	2,301,742	2,450,790
Net Cash Provided by (Used in) Investing Activities	<u>(82,219)</u>	<u>38,615</u>
Cash Flows from Capital and Related Financing Activities		
Retirement of revenue bonds	(1,025,735)	(266,695)
Retirement of commercial paper	(200,000)	—
Retirement of contracts payable	(9,200)	(8,865)
Net proceeds from issuance of revenue bonds	957,774	—
Proceeds from issuance of commercial paper	200,000	—
Retirement of Junior Lien bonds	(19,005)	(4,604)
Interest expense on debt	(278,536)	(280,919)
Proceeds from disposition of assets	1,858	2,077
Retirement of subordinate lien bonds	(12,795)	(12,625)
Capital contributions from other governments	223,154	194,795
Acquisition of property, plant and equipment	(623,644)	(645,696)
Net Cash Used for Capital and Related Financing Activities	<u>(786,129)</u>	<u>(1,022,532)</u>
Cash Flows from Noncapital Financing Activities		
Interest expense on pension obligation bonds	(4,352)	(4,569)
Retirement of pension bonds	(3,901)	(3,625)
Transfers to debt service fund	(2,870)	(4,898)
Transfers to other funds	(38,152)	(49,497)
Net Cash Used in Noncapital Financing Activities	<u>(49,275)</u>	<u>(62,589)</u>
Net increase (decrease) in cash and cash equivalents	180,814	(61,669)
Cash and cash equivalents, July 1	271,774	333,443
Cash and Cash Equivalents, June 30	<u><u>\$ 452,588</u></u>	<u><u>\$ 271,774</u></u>
Cash and Cash Equivalents		
Pooled cash and cash equivalents (Note 2)	\$ 452,526	\$ 271,737
Non-pooled cash and cash equivalents (Note 2)	62	37
Total Cash and Cash Equivalents, June 30	<u><u>\$ 452,588</u></u>	<u><u>\$ 271,774</u></u>

*The accompanying notes are an integral part of these financial statements.

Combined Utility System
Statements of Cash Flows
For the Fiscal Years Ending June 30, 2024 and 2023
(amounts expressed in thousands)

	<u>2024</u>	<u>2023</u>
Reconciliation of Operating Income to Net Cash Provided		
by Operating Activities		
Operating Income	\$ 695,533	\$ 636,570
Depreciation and amortization	294,198	289,362
Changes in assets and liabilities		
Accounts Receivable	12,237	(38,899)
Due from other funds	(2,061)	2,656
Due from other governments	3,912	1,738
Inventory & prepaid insurance	(4,378)	(6,601)
Accounts payable	45,217	(12,660)
Other Long Term Liabilities	25,491	62,748
Accrued payroll liabilities	1,282	(4,721)
Due to other funds	(9,890)	6,642
Advances and deposits	3,762	7,492
Claims and judgments	(437)	(803)
Compensated absences	(275)	(109)
Other post employment benefits	(6,371)	(11,769)
Other revenues and expense	72,058	79,288
Assessments receivable	93	—
Pension related payables and deferred amounts	(31,934)	(26,094)
Net Cash Provided by Operating Activities	<u><u>\$ 1,098,437</u></u>	<u><u>\$ 984,840</u></u>
Noncash Transactions		
Capital additions included in liabilities	\$ (39,444)	\$ (45,327)
Amortization of premium and discount	(16,486)	(30,078)
Unrealized gain (loss) on investments	24,159	4,923
CAB accretion interest	6,876	7,462
Donated capital	(15,279)	(23,249)
Gain (loss) on disposal of assets	(1,947)	(2,955)
Total Noncash Transactions	<u><u>\$ (42,121)</u></u>	<u><u>\$ (89,224)</u></u>

*The accompanying notes are an integral part of these financial statements



EDUCATIONAL CAMPAIGN PROTECT OUR PIPES

The “Protect Our Pipes” campaign is a public awareness initiative aimed at preventing clogs, sewer overflows, and damage to the city's wastewater system. The campaign educates residents on what should and shouldn't be flushed down toilets or poured down drains, particularly fats, oils, grease (FOG), wipes, and other unflushable items. Approximately 70% of sewer overflows in Houston are caused by blockages from FOG and wipes, making it crucial for the community to properly dispose of these materials to protect the city's wastewater infrastructure. Below is a sample of the award-winning educational materials from the campaign.



HOUSTON PUBLIC WORKS

PROTECT OUR PIPES
Help keep fats, oils, grease, and other items from going down the drain.

PROTEGE NUESTRAS TUBERÍAS
Ayuda a evitar que los grasas, aceites y otros artículos se vayan por el drenaje.

GREASE CLOGS PIPES
Put Grease in its Place
LA GRASA BLOQUEA LAS TUBERÍAS
Ponga la Grasa en su Lugar

WIPES CLOG PIPES
Only Flush the 3 P's
LAS TOALLITAS BLOQUEAN LAS TUBERÍAS
Solo Tire las 3 P

POUR
in a safe container
VIÉRTALA
en un recipiente seguro

COOL
in the fridge
ENFRÍELA
en el refrigerador

TOSS
in the trash
DESÉCHELA
en la basura

PEE
is easily processed
PIPI
se procesa fácilmente

POO
breaks down
POPO
se disuelve

TOILET PAPER
dissolves in water
PAPEL
se desintegra en agua

LEARN MORE AT **ProtectOurPipes.org**
OBTENGA MÁS INFORMACIÓN EN **ProtectOurPipes.org**

PROTECT OUR PIPES
Help keep fats, oils, grease, and other items from going down the drain.

WHAT IS A SEWER OVERFLOW?
A sewer overflow is a backup of untreated wastewater into our streets and homes. **Sewer overflows can be prevented.** The main cause of sewer overflows in Houston is clogged pipes from fats, oils, and grease poured down sinks and wipes flushed down toilets.

PROTECT YOUR WALLET
Sewer overflows can cost thousands of dollars in plumbing costs and fines.

PROTECT YOUR HEALTH
Sewer overflows include harmful microbes that can make you and your family sick.

PROTECT OUR WATERS
Sewer overflows can pollute our environment, making our public spaces less enjoyable.

HELPFUL TIPS

USE A SINK STRAINER
Garbage disposals do not prevent clogs. Keep food scraps, hair, and other items from going down the drain.

USE A SPATULA OR PAPER TOWEL
Wipe grease from pots, pans, plates, and utensils before washing. Throw the paper towel in the trash.

RECYCLE YOUR GREASE AT AN ENVIRONMENTAL SERVICE CENTER
Visit ProtectOurPipes.org for more information and for locations.

GREASE CLOGS PIPES
Prevent harmful overflows by following these three easy steps:
Put Grease in its Place

POUR
in a safe container

COOL
in the fridge

TOSS
in the trash

WIPES CLOG PIPES
Clogs from wipes, rags, and any item other than toilet paper trap grease and cause overflows.
Only flush the 3 P's

PEE
is easily processed

POO
breaks down

TOILET PAPER
dissolves in water

HOUSTON PUBLIC WORKS

From Turkey to Tamales, MAKE PEACE WITH GREASE THIS HOLIDAY SEASON

POUR

COOL

TOSS

HOUSTON PUBLIC WORKS

WIPES CLOG PIPES
Only Flush the 3 P's

PEE

POO

TOILET PAPER

Sewer Overflows Can Threaten Public Health

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Combined Utility System Fund (the “Fund”), an enterprise fund of the City of Houston (the “City”), consists of the City’s groundwater and surface water sources, as well as conveyance, treatment, and distribution facilities, and its wastewater collection and treatment facilities.

The accompanying financial statements of the Combined Utility System have been prepared in accordance with generally accepted accounting principles in the United States of America (“GAAP”), as prescribed by the Governmental Accounting Standards Board (“GASB”). The GASB is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

A. Reporting Entity

The Combined Utility System Fund (the “Fund”), is an enterprise fund of the City of Houston, Texas. The Mayor and City Council members serve as the governing body that oversees operation of the Fund. The Fund is operated by the Combined Utility System (“CUS”) as a self-sufficient enterprise and is administered by the Director of Houston Public Works, who reports to the Mayor.

The Fund is not financially accountable for any other operations of the City, and accordingly, is accounted for as a single major enterprise fund. The Fund is included in the City’s Annual Comprehensive Financial Report (“Financial Report”), which is a matter of public record.

The Combined Utility System’s financial statements are only of the operations of the Fund and are not intended to present the financial position, changes in financial position, or, where applicable, cash flows of the City. The Fund is not financially accountable for any other operations of the City.

B. Basis of Accounting

The Combined Utility System is a proprietary fund of the City of Houston, Texas. According to GASB 34, proprietary funds are reported using a cost of services or “economic resources” measurement focus and the accrual basis of accounting. The accounting objective of this measurement focus is the determination of operating income, changes in net position, financial position, and cash flows. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of the related cash flows. All assets and liabilities (whether current or non-current) are reported in the statements of net position. The City maintains two different types of proprietary funds: enterprise funds and internal service funds. The Combined Utility System is one of the major Enterprise Funds reported by the City of Houston, Texas. Enterprise funds are used to account for those operations that are financed and operated in a manner similar to private business or where the governing body has decided that the cost of operations including capital costs (such as depreciation, amortization or debt service) are to be recovered with fees and user charges.

Enterprise funds, like the Combined Utility System, distinguish operating revenue and expenses from non-operating revenues and expenses. The principal operating revenues of the Fund are charges to water and wastewater customers for sales and services. Operating expenses include the cost of sales and services, pension expense, administrative expense, and depreciation and amortization on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

C. New Accounting Pronouncements or Recent Accounting Pronouncements

In April 2022, the GASB issued Statement No. 99, “Omnibus 2022”. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. Certain provisions of Statement No. 99 are effective upon issuance, while other provisions of Statement No. 99 are effective for fiscal years beginning after June 15, 2022 or 2023. The City and the Combined Utility System have implemented the

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

provisions of Statement No. 99 that are effective upon issuance in fiscal year ended June 30, 2022, and 2023, and the City and the Combined Utility System have implemented the provisions of GASB Statement No. 99 that are effective as of July 1, 2023, in this annual report.

In June 2022, the GASB issued Statement No. 100, "Accounting Changes and Error Corrections – an Amendment of GASB Statement No. 62". This Statement prescribes the accounting and financial reporting for (1) each type of accounting change, and (2) error corrections. This Statement requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior period, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period. The requirements of this Statement are effective for financial statements for reporting periods beginning after June 15, 2023. The City and the Combined Utility System have implemented GASB Statement No. 100 in this annual report.

In June 2022, the GASB issued Statement No. 101, "Compensated Absences". This Statement clarifies the recognition and measurement guidance for compensated absences. This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. The requirements of this Statement are effective for financial statements for reporting periods beginning after December 15, 2023. The City and the Combined Utility System are evaluating the impact that adoption of this Statement will have on its financial statements.

In December 2023, the GASB issued Statement No. 102, "Certain Risk Disclosure". The objective of the Statement is to provide users of government financial statements with essential information about risks related to a government's current vulnerabilities due to (1) certain concentrations and (2) certain constraints common in the governmental environment. The requirements of this Statement are effective for fiscal years beginning after June 15, 2024, and all reporting periods thereafter. The City and the Combined Utility System are evaluating the impact that adoption of this Statement will have on its financial statements.

In April 2024, the GASB issued Statement No. 103, "Financial Reporting Model Improvements". This Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This Statement also addresses certain application issues. The requirements of this Statement are effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter. The City and the Combined Utility System are evaluating the impact that adoption of this Statement will have on its financial statements.

In September 2024, the GASB issued Statement No. 104, "Disclosure of Certain Capital Assets". This Statement requires certain types of capital assets to be disclosed separately in the capital assets note disclosures required by Statement No. 34. This Statement also requires additional disclosures for capital assets held for sale. The requirements of this Statement are effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter. The City and the Combined Utility System are evaluating the impact that adoption of this Statement will have on its financial statements.

D. Cash, Cash Equivalents and Investments

The City follows the practice of pooled concept for the majority of cash and investments, which combines the monies of various funds for investment purpose. The Fund participates in the City's program. Interest earnings of the pool are apportioned to each fund, unless otherwise required by bond covenants, based on the fund's relative share of the investment pool. Cash equivalents are considered all highly liquid investments with original maturities of three months or less at the time of purchase. All cash and investments are displayed on the statements of net position as "Cash and cash equivalents" and "Investments" and in accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools."

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments are carried at fair value as defined in GASB Statement No. 72, "Fair Value Measurement and Application". Consistent with GASB Statement No. 72, the Fund categorizes its fair value measurements within the fair value hierarchy. The hierarchy is based on the valuation inputs used to measure the fair value of the asset.

Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. A detail of the fair value hierarchy of investments held by the Fund are disclosed in Note 2 to the financial statements. Similar disclosure for debt held by the Fund at fair values is disclosed in Note 7 to the financial statements. "Cash and cash equivalents" and "Investments" are further split into current and non-current in accordance with GASB Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements".

Investments authorized by the City's investment policy, which is guided by state laws and city ordinances, generally include: obligations of the United States of America or its agencies and instrumentalities; fully-collateralized Certificates of Deposit from City Council-approved public depositories; direct obligations of the State of Texas or its agencies and instrumentalities; other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities; obligations of states, agencies, counties, cities, and other political subdivisions; no-load money market mutual funds registered and regulated by the Securities and Exchange Commission; corporate commercial paper; fully collateralized repurchase agreements; and reverse repurchase agreements within specific terms. Investments are carried at fair value based on quoted market prices.

E. Receivables

The Fund renders bills to residential, commercial, and industrial customers on billing cycles that end on various days throughout the month. Receivables are recorded at their gross value when earned with collection term of 30 days. Included in accounts receivable are charges for services rendered but unbilled at June 30. The allowance, which includes accounts receivable balances aged past 180 days, is netted against the accounts receivable balances.

F. Inventories of Materials and Supplies

Inventories of material and supplies are valued at average cost while fuel is carried at the lower of market or replacement cost. Inventories are presented under the consumption method. The cost of these inventories are expensed when consumed rather than when purchased. Certain payments to vendors reflect cost applicable to future accounting periods and are recorded as prepaid items and expensed as the items are used.

G. Capital Assets

Capital assets are defined as assets with an initial cost of \$5,000 or more, with an estimated useful life in excess of one fiscal year. Acquired property is recorded at historical cost or estimated historical cost if original cost is not available. Donated capital assets are recorded at acquisition value at the date of donation. Construction costs (excluding land and equipment) are added to construction in progress at historical cost or estimated historical cost until the assets are substantially complete. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized.

Once capital assets are placed in service, depreciation/amortization commences unless it is not applicable to a specific asset or class of asset. Land, water rights and conveyance system rights are not amortized. Depreciation/amortization is computed using the straight-line method on the asset base over the estimated useful lives as follows:

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Asset	Years
Buildings and Improvement	15 - 50
Equipment	5 - 15
Infrastructure	6 - 50
Rights and Intangibles	Straight-line method; Nature of the asset

In accordance with GASB Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements", paragraphs 114-123, the City and CUS utilize the percentage-of-completion method for a long-term construction contract when estimates of costs to complete and extent of progress toward completion of long-term contracts are reasonably dependable.

H. Leases

CUS as Lessee

Leases are defined by the general government as the right to use an underlying asset. As a lessee, the Fund recognizes a lease liability and an intangible right-of-use lease asset at the beginning of a lease that has a term exceeding one year and the cumulative future payments on the contract exceeding \$100,000, unless the lease is considered a short-term lease or transfers ownership of the underlying asset. Right-of-use lease assets are measured based on the net present value of the future lease payments at inception, using the incremental borrowing rate or the weighted average cost of capital, which approximate the incremental borrowing rate.

Re-measurement of a lease liability occurs when there is a change in the lease term and/or other changes that are likely to have a significant impact on the lease liability.

The Fund calculates the amortization of the discount on the lease liability and report that amount as outflows of resources. Payments are allocated first to accrued interest liability and then to the lease liability. Variable lease payments based on the usage of the underlying assets are not included in the lease liability calculations but are recognized as outflows of resources in the period in which the obligation was incurred.

CUS as Lessor

As a lessor, the Fund recognizes a lease receivable. The lease receivable is measured using the net present value of future lease payments to be received for the lease term and deferred inflows of resources at the beginning of the lease term. Periodic amortization of the discount on the receivable are reported as interest revenue for that period. Deferred inflows of resources are recognized as inflows on a straight-line basis over the term of the lease. This recognition does not apply to short-term leases, contracts that transfer ownership, leases of assets that are investments, or certain regulated leases. Any initial direct costs are reported as an outflow of resources for that period.

Re-measurement of lease receivables occur when there are modifications, including but not limited to changes in the contract price, lease term, and adding or removing an underlying asset to the lease agreements. In the case of a partial or full lease termination, the carrying value of the lease receivable and the related deferred inflows of resources will be reduced and will include a gain or loss for the difference. There is no lease receivable for CUS at the years ending June 30, 2024 and June 30, 2023.

For lease contracts that are short-term, the Fund recognizes short-term lease payments as inflows of resources (revenues) based on the payment provisions of the lease contracts. Liabilities are only recognized if payments are received in advance, and receivables are only recognized if payments are received subsequent to the reporting period.

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. Subscription-Based Information Technology Arrangements

Subscription-based information technology arrangement ("SBITA") assets are defined by the general government as the right to use vendor-provided information technology ("IT") with access to vendors' IT assets. The Fund recognizes a subscription liability and an intangible subscription right-of-use asset at the beginning of the subscription term that have a term exceeding one year and the cumulative future payments on the contract exceed \$100,000 unless the contract is considered a short-term SBITA. A SBITA asset is measured based on the net present value of subscription payments expected to be made during the subscription term, using the incremental borrowing rate, and is amortized using the straight-line method over the shorter of the subscription term or the useful life of the underlying IT assets. Re-measurement of a subscription liability occurs when there is a change in the contract term and/or other changes that are likely to have a significant impact on the subscription liability. For the years ended June 30, 2024 and June 30, 2023, the Combined Utility System examined the impact of its information technology arrangements for applicability of this statement and determined that the agreements met the definition of a short term subscription-based information technology arrangement. Therefore, no intangible asset or corresponding liability was recorded.

J. Compensated Absences

Employee benefits are granted for vacation, sick leave, workers' compensation, and health care. Employees earn vacation pay based on a prescribed formula.

Full-time civilian employees of the City are eligible for 10 days of vacation leave per year. After four years, employees receive 15 days. The amount of vacation time gradually increases after that, reaching a maximum of 25 days per year after 18 years of service. Employees may accumulate up to 105 days of vacation leave (60 days for employees with a computation date after December 31, 1999). However, upon termination or retirement, full-time civilian employees are paid a maximum of 90 days of unused vacation leave (45 days for employees with a computation date after December 31, 1999) which is based on the average rate of pay during the employee's highest 60 days of employment. Part-time and temporary employees are not eligible for vacation or sick leave benefits.

Most full-time civilian employees are covered under the compensatory sick leave plan and receive a leave time allowance of 2.5 hours per payroll period (bi-weekly) up to a maximum of 65 hours per year. Employees who use fewer than 65 hours during the benefit year will receive a match of additional hours equal to the number of hours accrued minus the number of hours used. Once an employee's balance has reached 1,040 hours, no additional match for unused hours is given.

Upon termination, all unused sick leave time allowances in excess of 1,040 hours are payable to the employee at the employee's rate of pay at the time of termination. An employee who uses less than 16 hours of sick leave in any benefit year receives up to three days of personal leave in the next year. Personal leave may be used in place of vacation leave but will not accumulate and will not be paid out at termination. The balance of full-time civilian employees and firefighters are covered by a sick plan that was closed to employees in 1985. That plan accumulates a cash value for every sick day not used, which is payable upon resignation or retirement.

The City also has adopted policies of compensatory time to comply with the Fair Labor Standards Act as amended in 1985. These policies provide limits to the accumulation of compensatory time and provide that time not used will be paid in cash. Only classified employees and civilian employees in certain pay grades routinely earn compensatory time.

Vacation and other compensatory time benefits are accrued as liabilities as the benefits are earned, to the extent that the City's obligation is attributable to employees' services already rendered, and it is probable that the City will compensate the employees for the benefits through paid time off or some other means, such as cash payments.

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

K. Bond Premiums, Discounts and Issuance Costs

Bond premiums, discounts and prepaid bond insurance costs are amortized over the term of the bonds using the effective interest or straight-line amortization method. Gains or losses on refundings are reported as deferred inflows or outflows, respectively, and are amortized over the term of the lesser of the new bonds or the refunded bonds using the straight-line or effective interest method. Debt issuance costs are recognized as expenditures/expenses when incurred.

L. Net Pension Liability

For the purposes of measuring net pension liability, deferred outflows of resources, and deferred inflows of resources related to pension and pension expense, information about the fiduciary net position of the Houston Municipal Employees' Pension System, and additions to/deductions from the pension system's fiduciary net position have been determined on the same basis as they are reported by the pension system. For this purpose, benefit payments (including refunds of employee contribution) are recognized when due and payable in accordance with the benefit terms. Additional information regarding net pension liability can be found in Note 8.

M. Other Postemployment Liability

For purposes of measuring total/net other postemployment liability (OPEB), deferred outflows of resources and deferred inflows of resources related to OPEB and OPEB expense have been determined on the same basis as they are reported by the OPEB Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Additional information regarding total/net other postemployment liability can be found in Note 9.

N. Deferred Inflows/Outflows of Resources

Refunded Debt

Deferred outflows of resources represent a consumption of net assets that applies to future periods and so will not be recognized as an outflow of resources (expense) until then. Deferred inflows of resources represent an acquisition of net assets that applies to future periods. The deferred charge on refunding recorded on the statements of net position results from the difference in carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

Pension

Deferred inflows and outflows have been recognized for the net difference between the projected and actual investment earnings; this amount is deferred and amortized over a period of five years.

Pension and OPEB

Deferred inflows and outflows have been recognized for the differences between the actuarial expectation and the actual economic experience and changes in actuarial assumptions related to the defined benefit pension plan and the other post-retirement benefit plan. These amounts are deferred and amortized over the average of the expected service lives of pension plan members. See Note 8 and Note 9 for additional information on deferred inflows and outflows related to the pension plan and the other post-retirement benefits plan, respectively.

Leases

Accounting policies for deferred inflows and outflows related to leases are described under the caption - 'Leases' in Note 1. For the years ended June 30, 2024 and 2023, there are no deferred inflows and outflows related to leases.

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In accordance with GASB Statement No. 63, “Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,” the Fund reports deferred outflows of resources in the Statement of Net Position in a separate section following Assets. Similarly, the Fund reports deferred inflows of resources in the Statement of Net Position in a separate section following Liabilities.

O. Statement of Net Position | Net Position Classification

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources in the Statement of Net Position. Net position is displayed in three separate categories based on the accessibility of the underlying assets: net investment in capital assets; restricted net position; and unrestricted net position.

- a. Net investment in capital assets consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any debt attributable to the acquisition, construction or improvement of those assets.
- b. Restricted net position represents constraints on resources that are imposed through enabling legislation or externally imposed by creditors, grantors, contributors, or laws or regulations of other governments.
 - i. Restricted for Debt Service: This category includes net position in the interest and sinking funds, debt service funds and debt reserve funds that pay principal and interest for the revenue bond, commercial paper note, SWAP Contract, and Subordinate Lien.
 - ii. Restricted for Maintenance and Operations: This category primarily consists of a reserve fund dedicated to operating and maintenance expense, mandated by the various City ordinances which authorized the issuance of revenue and revenue refunding bonds. At fiscal year end the reserve fund is required to hold a balance representing at least 60 days of operating expenses, based on the annual operating budget authorized by City Council for the next fiscal year.
 - iii. Restricted for Capital Improvement: This category primarily consists of the Fund’s amounts due to other governments.
- c. Unrestricted net position consists of all other net position that does not meet the definition of “restricted” or “net investment in capital assets”.
- d. Flow Assumption: when restricted and unrestricted resources are available to cover expenses, the Fund’s policy is to apply restricted resources first, then unrestricted resources as needed.

P. Risk Management

The City and the Fund are self-insured for a portion of workers’ compensation, employee’s health, employer’s liability, public officials’ liability, property damage and certain elements of general liability. A liability has been recorded for the estimated amount of eventual loss, which will be incurred on claims arising prior to the end of the period including incurred but not reported claims.

Q. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the U.S. requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

R. Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform to the presentation in the current-year financial statements. This reclassification had no effect on previously reported change in net position.

Subsequent to the issuance of the June 30, 2023, financial statements, the Fund identified an error related to the net investment in capital assets calculation, which was understated for the years ended June 30, 2023 and 2022. The accretion of interest on deep discount debt totaling \$99.5 million and \$104.7 million was incorrectly included in the net investment in capital assets for the years ended June 30, 2023 and 2022, respectively. In addition, SWAP liabilities of \$123.0 million and \$124.7 million, along with related deferred outflows on refunding of the SWAP liability totaling \$49.6 million and \$51.2 million, were included in the net investment in capital assets calculation for the years ended June 30, 2023 and 2022, respectively. The Fund reclassified net investments in capital assets of \$172.9 million and \$178.2 million to unrestricted net position for the years ended June 30, 2023 and 2022, respectively. The reclassification did not have any impact to the Fund's total net position for the years ended June 30, 2023 and 2022.

S. Related Organizations

The following entities are related organizations to which the City and/or the Combined Utility System appoint board members but for which the City has no significant financial accountability. Some of these organizations are Coastal Water Authority, Employees Deferred Compensation Plan, and Metropolitan Transit Authority of Harris County. All transactions with these related organizations are conducted in the ordinary course of business. Further financial information is available from the respective organizations.

Note 2. DEPOSITS AND INVESTMENTS

Deposits

The City's Investment Policy (the "Investment Policy") requires all deposits to be fully collateralized with depository insurance; obligations of the United States of America or its agencies and instrumentalities (excluding those mortgage-backed securities prohibited by the Public Funds Investment Act); or in any other manner and amount provided by law for the deposits of the City. At all times, such securities should have a fair value of not less than 102% of the amount of the deposits collateralized thereby, adjusted by the amount of applicable depository insurance. There were no deposits with custodial risk at the years ended June 30, 2024 and 2023.

Cash and Cash Equivalents

The City maintains a cash and investment pool (the "Pool") that is available for use by all funds. On the Statement of Net Position, "Cash and Cash Equivalents" includes each fund's portion of the Pool and each fund's non-pooled cash; "Investments" represents each fund's portion of the Pool and non-pooled investments. Participation in the Pool is limited to normal operating activities of the fund and other funds that are restricted because of statutory or contractual considerations, but does not include cash on hand (petty cash and change funds) which is included in non-pooled cash. Earnings from the Pool are allocated to the funds based upon each fund's average daily balance in the Pool. Combined Utility System's balance in pooled and non-pooled cash accounts is as follows (in thousands):

Fiscal Year	Pooled Cash and Cash Equivalents	Pooled Investments	Total Pooled Cash and Investments	Non-Pooled Cash	Total Cash and Investments
2024	\$ 452,526	\$ 1,720,426	\$ 2,172,952	\$ 62	\$ 2,173,014
2023	271,737	1,549,598	1,821,335	37	1,821,372

Investments and Risk Disclosure

The following describes the investment positions of the City's operating funds as of June 30, 2024 and June 30, 2023. The City held \$5.76 billion and \$5.67 billion, respectively, in high grade, fixed income investments. All investments are governed by state law and the City's Investment Policy, which dictates the following objectives, in order of priority

1. Safety | 2. Liquidity | 3. Return on Investment | 4. Legal Requirements

These funds are managed internally by City personnel within a citywide investment pool. The investments listed in this section do not include the City's three pension funds, which are described separately in this report as well as the City's ACFR.

Fair Value Measurements

To the extent available, the City's investments are recorded at fair value. GASB Statement No. 72, "Fair Value Measurement and Application," defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace.

Note 2. DEPOSITS AND INVESTMENTS (continued)

Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis.

The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the City has the ability to access at the measurement date.

Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

A. General Investment Pool

This General Investment Pool consists of all working capital, construction, and debt service funds not subject to yield restriction under Internal Revenue Service arbitrage regulations. The funds of the City's enterprise systems, which include the Combined Utility System, as well as the City's general fund, are commingled in this pool to gain operational efficiency. Approximately 98.6% and 98.7% of the City's total pooled investable funds are held in this portfolio as of June 30, 2024 and June 30, 2023, respectively.

Note 2. DEPOSITS AND INVESTMENTS (continued)

City of Houston Investments As of Fiscal Years Ending June 30, 2024 and 2023	FY24 & FY23 Credit Quality Ratings ^{(1) (2)}	FY2024		FY2023	
		Fair Value (\$ in	WAM* (years)	Fair Value (\$ in	WAM* (years)
U.S. Treasury Securities	AAA	\$ 3,026,898	2.2	\$ 2,824,414	1.5
Agency Discount Notes	AAA	—	—	247,277	0.2
Government Agency Securities ⁽³⁾	AAA	730,424	1.4	1,034,987	1.4
Govt. Agency Securities (State of Israel Bonds)	AA	—	—	9,978	0.1
Government Agency Securities ⁽³⁾⁽⁴⁾	Not Rated	133,321	0.6	237,892	0.9
Government Mortgaged Backed Securities ⁽³⁾⁽⁴⁾	Not Rated	221,444	4.9	160	0.6
MMF - TexSTAR Cash Reserves	AAA Short Term	280,740	—	268,853	—
Commercial Paper	A-1/P-1 Short Term	1,017,244	0.1	621,218	0.2
Municipal Securities	AAA Long Term	159,424	1.1	221,362	1.4
Municipal Securities	AA Long Term	191,562	1.1	203,713	1.6
Total Investments		<u>\$ 5,761,057</u>		<u>\$ 5,669,854</u>	

* Weighted Average Maturity (WAM) is computed using average life of mortgage-backed securities and effective maturity of callable securities.

(1) Fitch Ratings Inc. has assigned an AAA credit quality rating and S1 volatility rating to the City's General Investment Pool. The AAA signifies the highest level of credit protection, and the S1 rating signifies volatility consistent with a portfolio of government securities maturing from one to three years.

(2) All credit ratings shown are either actual Fitch ratings, or if a Fitch credit rating is not available, the equivalent Fitch credit rating is shown to represent the actual Moody's or Standard & Poor's credit rating.

(3) These are securities issued by government sponsored enterprises, including the Federal Home Loan Bank, Federal Home Loan Mortgage Corporation (Freddie Mac), Federal National Mortgage Corporation (Fannie Mae), and Federal Farm Credit Bank.

(4) These securities were issued by the Federal Home Loan Bank, Freddie Mac, Fannie Mae, and Farmer Mac. While these individual issues were not rated, senior lien debt of these entities is rated AAA.

Risk Disclosures

Interest Rate Risk. In order to ensure the ability of the City to meet obligations and to minimize potential fair value losses arising from rising interest rate environments, the Investment Policy limits this investment portfolio's WAM to 2.5 years maximum. As of June 30, 2024 and 2023, this investment portfolio's WAM was 1.618 and 1.343 years. Modified duration was 1.504 and 1.305 years at June 30, 2024 and 2023, respectively. Modified duration can be used as a multiplier to determine the percent change in price of a bond portfolio for every 100 basis point (1%) change in yield. For example, a portfolio with a modified duration of 1.504 years would experience approximately a 1.504% change in market price for every 100 basis point change in yield.

Credit Risk - Investments. The U.S. Treasury Securities and Housing and Urban Development Securities are direct obligations of the United States government. Government Agency Securities and Mortgage Backed Securities were issued by government sponsored enterprises but are not direct obligations of the U.S. Government.

The Money Market Mutual Funds were rated AAA. Municipal Securities were rated at least AA. The City's Investment Policy limits investments in the General Investment Pool to high quality securities with maximum maturity of five years for all U.S. Treasuries, Government Agency, and Municipal Securities with the except for Government Mortgaged Backed Securities which can have maximum maturity of 15 years. Certificates of Deposit maximum maturity is two years, and Commercial Paper maximum maturity is 365 days. The General Investment

Note 2. DEPOSITS AND INVESTMENTS (continued)

Pool maximum sector exposure are as follow: U.S. Treasuries up to 100%; Government Agency Securities up to 85% with maximum exposure to any one Agency issuer is 35%; Mortgage Backed Securities up to 20%; Municipal Securities up to 20% with a rating not less than A by a nationally recognized rating agency; Money Market Mutual Funds up to 25%; Certificates of Deposit up to 15%; and Commercial Paper up to 20%.

Credit Risk – Securities Lending. Under its securities lending program, the City receives 102% of fair value for its U.S. Treasury securities at the time the repurchase agreements are signed, and agreements are limited to 90 days by policy and have been less than 35 days by practice. At June 30, 2024 and 2023, there were no securities lending agreements outstanding.

Custodial Credit Risk. The custodial credit risk for investments is the risk that in the event of failure of a counterparty, the City will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are not registered in the name of the City, and are held by either the counterparty or the counterparty's trust department or agent but not in the City's name. As of June 30, 2024 and 2023, none of the City's investments in the Pool were subject to custodial credit risk.

Foreign Currency Risk. Foreign currency risk is the risk that investments will change value due to changes in exchange rates between time of purchase and reporting or sale. The City's General Investment Pool investments are limited by policy to US dollar denominated investments and not subject to this risk.

A summary of the General Investment Pool's investment under the requirements of the fair value hierarchy is as follows:

Investments by Fair Value Level For Fiscal Year Ending June 30, 2024	Fair Value Measurements in Use (\$ in thousands)			
	FY2024 Total	(Level 1)	(Level 2)	(Level 3)
U.S. Treasury Securities	\$ 3,026,898	\$ 3,026,898	\$ —	\$ —
Government Agency Securities	863,745	—	863,745	—
Government Mortgaged Backed Securities	221,444	—	221,444	—
Municipal Securities	350,986	—	350,986	—
Commercial Paper	1,017,244	—	1,017,244	—
Total Investment by Fair Value Level	<u>\$ 5,480,317</u>	<u>\$ 3,026,898</u>	<u>\$ 2,453,419</u>	<u>\$ —</u>
Investments Measured at the Net Asset Value (NAV)				
MMF - TexSTAR Cash Reserves	<u>280,740</u>			
Total Investments at Net Asset Value (NAV)	<u>280,740</u>			
Total Investments at Fair Value and NAV	<u>\$ 5,761,057</u>			

Note 2. DEPOSITS AND INVESTMENTS (continued)

Investments by Fair Value Level For Fiscal Year Ending June 30, 2023	Fair Value Measurements in Use (\$ in thousands)			
	FY2023 Total	(Level 1)	(Level 2)	(Level 3)
U.S. Treasury Securities	\$ 2,824,414	\$ 2,824,414	\$ —	\$ —
Government Agency Securities	1,272,879	—	1,272,879	—
Government Agency Securities (State of Israel Bd)	9,978	—	—	9,978
Government Mortgaged Backed Securities	160	—	160	—
Municipal Securities	425,075	—	425,075	—
Commercial Paper	621,218	—	621,218	—
Total Investment by Fair Value Level	\$ 5,401,001	\$ 3,071,691	\$ 2,319,332	\$ 9,978
Investments Measured at the Net Asset Value (NAV)				
MMF - TexSTAR Cash Reserves	268,853			
Total Investments at Net Asset Value (NAV)	268,853			
Total Investments at Fair Value and NAV	\$ 5,669,854			

TexSTAR uses the fair value method to report its investments. Under the fair value method, fixed income securities are valued each day by independent or affiliated commercial pricing services or third-party broker-dealers. In instances where sufficient market activity exists, the pricing services or broker-dealers may utilize a market-based approach through which quotes from market makers are used to determine fair value. In instances where sufficient market activity may not exist or is limited, the broker-dealers or pricing services also utilize proprietary valuation models which may consider market transactions in comparable securities and the various relationships between securities in determining value and/or market characteristics such as benchmark yield curves, option adjusted spreads, credit spreads, estimated default rates, coupon-rates, anticipated timing of principal repayments, underlying collateral, and other unique security features in order to estimate the relevant cash flows, which are then discounted to calculate the fair values.

TexSTAR Cash Reserve Fund has not been classified in the fair value hierarchy table. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the Statement of Net Position. For additional information regarding TexSTAR, visit: https://www.texstar.org/GetDocument.aspx?FileName=TexSTAR_InformationStatement.pdf.

B. Miscellaneous Money Market Accounts

In addition to its investment pools, the City maintains several money market accounts for various purposes. These accounts are considered cash and cash equivalents on the Statements of Cash Flows because they maintain a weighted average maturity of less than three months.

The account is described below:

First American US Treasury Money Market Fund	FY2024		FY2023		FY24 & FY23 Weighted Average Maturity
	Credit Quality Ratings	Market Value (\$ in thousands)	Credit Quality Ratings	Market Value (\$ in thousands)	
Balances held for Commercial Paper Debt Service	AAA	\$171	AAA	\$105	< 39.5 Days

Note 2. DEPOSITS AND INVESTMENTS (continued)

Risk Disclosures

Interest Rate Risk. These money market funds maintain an average maturity of less than 60 days and seek to maintain a stable net asset value of \$1.00. These funds are redeemable on a same day notice.

Credit Risk. These funds hold only US dollar denominated securities that present minimal credit risk. They have the highest credit ratings.

Custodial Credit Risk. As of June 30, 2024 and 2023, none of the City's investments in this pool were subject to custodial credit risk.

Foreign Currency Risk. The City's investments in this pool are all US dollar denominated and not subject to foreign currency risk.

A summary of the Pool's investment under the requirements of the fair value hierarchy is as follows:

Investments Measured at Net Asset Value (NAV)	NAV Measurements in Use (\$ in thousands)	
	FY2024	FY2023
First American U.S. Treasury MMF	\$171	\$105

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Note 3. ACCOUNTS RECEIVABLE

The following were the accounts receivable as of June 30, 2024 and 2023 (in thousands).

Receivables:	FY2024	FY2023
Accounts	\$ 642,448	\$ 582,361
Special assessment	—	93
Due from other governments (current)	3,500	7,387
Due from other governments (non-current)	239,029	421,664
Gross Receivables	884,977	1,011,505
Less allowances for doubtful accounts	(368,010)	(293,822)
Net Total Receivables	\$ 516,967	\$ 717,683

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “due to/from other funds” not included in this schedule. Accounts receivables are shown net of an allowance for uncollectible.

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Note 4. TRANSACTIONS WITH THE CITY OF HOUSTON

Interfund Receivables and Payables

The composition of interfund balances as of June 30, 2024 and June 30, 2023 were as follows (in thousands):

Schedule of Amounts Due To and Due From Other Funds				
	Due To		Due From	
	June 30, 2024	June 30, 2023	June 30, 2024	June 30, 2023
General Fund	\$ 27,534	\$ 37,750	\$ 2,066	\$ 1
Non-major Governmental Funds	419	95	4	8
Airport System	2	—	—	—
Total	<u>\$ 27,955</u>	<u>\$ 37,845</u>	<u>\$ 2,070</u>	<u>\$ 9</u>

The outstanding balances between funds result primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. A description of the four basic types of interfund transactions and the related accounting policies are as follows:

- Loans are reported as receivables and payables as appropriate.
- Charges for services are reported as revenues for the performing fund and expenditures of the requesting fund.
- Transactions to reimburse a fund for expenditures made by it for the benefit of another fund are recorded as expenditures or expenses in the reimbursing fund and as a reduction of expenditures or expenses in the fund that is reimbursed.

Transfers

Transfers as of June 30, 2024 and June 30, 2023 were as follows (in thousands):

Schedule of Transfers In/Transfers Out				
	Transfers Out		Transfers In	
	June 30, 2024	June 30, 2023	June 30, 2024	June 30, 2023
General Fund	\$ 37,802	\$ 49,147	\$ —	\$ —
Non-major Governmental Funds	350	350	—	—
Debt Service Fund	2,870	4,899	—	—
Total	<u>\$ 41,022</u>	<u>\$ 54,396</u>	<u>\$ —</u>	<u>\$ —</u>

Transfers are used to (1) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, (3) use unrestricted revenues in the Combined Utility System and non-major revenue fund to finance general fund programs.

Note 5. CAPITAL ASSETS

A summary of changes in capital assets as of the years ended June 30, 2024 and 2023 were as follows (in thousands):

For Fiscal Year Ending June 30, 2024	July 1, 2023 Balance	Additions	Retirements	Transfers	June 30, 2024 Balance
Capital assets not being depreciated:					
Land	\$ 194,922	\$ 660	\$ —	\$ 1,842	\$ 197,424
Right of way	1,195	—	—	72	1,267
Rights and intangibles	844,785	—	—	—	844,785
Construction work in progress	2,450,250	544,382	—	(397,939)	2,596,693
Total capital assets not being depreciated	3,491,152	545,042	—	(396,025)	3,640,169
Depreciable capital assets:					
Buildings	202,088	—	—	3,943	206,031
Improvements and equipment	200,160	11,232	(8,276)	378	203,494
Infrastructure	12,346,005	27,639	(39,529)	391,704	12,725,819
Rights and intangibles	2,163	194	—	—	2,357
Lease right-of-use assets - equipment	—	—	—	—	—
Total depreciable capital assets	12,750,416	39,065	(47,805)	396,025	13,137,701
Less accumulated depreciation/amortization for:					
Buildings	(96,575)	(4,398)	—	—	(100,973)
Improvements and equipment	(160,833)	(9,456)	8,235	—	(162,054)
Infrastructure	(6,584,954)	(280,094)	37,622	—	(6,827,426)
Rights and intangibles	(1,321)	(250)	—	—	(1,571)
Lease right-of-use assets - equipment	—	—	—	—	—
Total accumulated depreciation/amortization	(6,843,683)	(294,198)	45,857	—	(7,092,024)
Depreciable capital assets, net	5,906,733	(255,133)	(1,948)	396,025	6,045,677
Total capital assets, net	\$ 9,397,885	\$ 289,909	\$ (1,948)	\$ —	\$ 9,685,846

For Fiscal Year Ending June 30, 2023	July 1, 2022 Balance	Additions	Retirements	Transfers	June 30, 2023 Balance
Capital assets not being depreciated:					
Land	\$ 182,002	\$ 1,527	\$ (176)	\$ 11,569	\$ 194,922
Right of way	1,192	—	—	3	1,195
Rights and intangibles	844,785	—	—	—	844,785
Construction work in progress	2,224,622	679,855	—	(454,227)	2,450,250
Total capital assets not being depreciated	3,252,601	681,382	(176)	(442,655)	3,491,152
Depreciable capital assets:					
Buildings	190,197	—	—	11,891	202,088
Improvements and equipment	197,080	6,873	(3,910)	117	200,160
Infrastructure	11,966,989	13,907	(65,538)	430,647	12,346,005
Rights and intangibles	1,725	438	—	—	2,163
Lease right-of-use assets - equipment	42	—	(42)	—	—
Total depreciable capital assets	12,356,033	21,218	(69,490)	442,655	12,750,416
Less accumulated depreciation/amortization for:					
Buildings	(92,201)	(4,374)	—	—	(96,575)
Improvements and equipment	(154,560)	(10,126)	3,853	—	(160,833)
Infrastructure	(6,371,134)	(274,559)	60,739	—	(6,584,954)
Rights and Intangibles	(1,030)	(291)	—	—	(1,321)
Lease right-of-use assets - equipment	(30)	(12)	42	—	—
Total accumulated depreciation/amortization	(6,618,955)	(289,362)	64,634	—	(6,843,683)
Depreciable capital assets, net	5,737,078	(268,144)	(4,856)	442,655	5,906,733
Total capital assets, net	\$ 8,989,679	\$ 413,238	\$ (5,032)	\$ —	\$ 9,397,885

Note 6. LEASES

The Fund as Lessee

The Combined Utility System has obtained equipment through long-term leases. All leases have fixed, periodic payments over the lease term, and do not contain variable payments or guaranteed residual values in the lease agreements. These leases are cancellable by the lessors or CUS with an advance notice or non-cancellable. For the years ended June 30, 2024 and 2023, no variable or other payments were made by CUS other than the periodic rental payments in accordance with lease agreements. In addition, there were no commitments under leases prior to the commencement of the lease term, and no impairment related loss was recognized by the Fund. At June 30, 2024, there were no long-term leases outstanding.

Amortization expense charged to the Fund was \$0 for the year ended June 30, 2024 compared to \$11,348 for the year ended June 30, 2023.

The Fund as Lessor

At the end of fiscal year June 30, 2024 and 2023, there are no outstanding leases (as lessor) for the Fund.

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Note 7. LONG-TERM LIABILITIES

A. General Long-Term Liabilities (\$ in thousands)

Changes in long-term liabilities for the years ended June 30, 2024 and 2023, are summarized as follows:

Long-Term Liabilities For Fiscal Year Ending June 30, 2024	July 1, 2023 Balance	Additions	Reductions	June 30, 2024 Balance	Due Within One Year
First Lien Revenue Bonds	\$ 5,461,445	\$ 870,280	\$ (998,720)	\$ 5,333,005	\$ 260,560
First Lien Revenue Bonds - Direct Placement	595,910	—	(27,015)	568,895	25,415
Plus Unamortized Premium	480,526	92,806	(107,955)	465,377	—
First Lien Revenue Bonds, Net	6,537,881	963,086	(1,133,690)	6,367,277	285,975
Junior Lien Revenue Bonds	34,342	—	(4,766)	29,576	4,274
Plus CAB Accretion	99,461	6,876	(14,239)	92,098	—
Junior Lien Revenue Bonds, Net	133,803	6,876	(19,005)	121,674	4,274
Commercial Paper	—	200,000	(200,000)	—	—
Subordinate Lien Bonds - Direct Placement	432,491	—	(12,795)	419,696	12,975
Pension Obligation Bonds	85,308	—	(3,901)	81,407	4,195
Contracts Payable					
Coastal Water Authority	44,570	—	(4,515)	40,055	4,735
Plus Unamortized Premium	2,891	—	(478)	2,413	—
Other Long Term Contracts	368,591	—	(4,685)	363,906	4,803
Plus CAB Accretion	—	—	—	—	—
Contracts Payable, Net	416,052	—	(9,678)	406,374	9,538
Total Bonds and Notes Payable	7,605,535	1,169,962	(1,379,069)	7,396,428	316,957
Claims and Judgements	6,031	631	(1,068)	5,594	1,196
Compensated Absences	21,451	12,027	(12,302)	21,176	12,027
Lease Liability	—	—	—	—	—
Arbitrage Rebate Liability	866	5,228	(395)	5,699	1,550
Net Pension Liability	283,407	82,000	(119,361)	246,046	—
Other Post Employment Benefits	133,873	19,319	(6,189)	147,003	4,567
Total Long Term Liabilities	\$ 8,051,163	\$ 1,289,167	\$ (1,518,384)	\$ 7,821,946	\$ 336,297

Note 7. LONG-TERM LIABILITIES (continued)

Long-Term Liabilities For Fiscal Year Ending June 30, 2023	July 1, 2022 Balance	Additions	Reductions	June 30, 2023 Balance	Due Within One Year
First Lien Revenue Bonds	\$ 5,701,365	\$ —	\$ (239,920)	\$ 5,461,445	\$ 247,805
First Lien Revenue Bonds - Direct Placement	622,685	—	(26,775)	595,910	27,015
Plus Unamortized Premium	511,016	—	(30,490)	480,526	—
First Lien Revenue Bonds, Net	6,835,066	—	(297,185)	6,537,881	274,820
Junior Lien Revenue Bonds	38,946	—	(4,604)	34,342	4,766
Plus CAB Accretion	104,740	7,462	(12,741)	99,461	—
Junior Lien Revenue Bonds, Net	143,686	7,462	(17,345)	133,803	4,766
Commercial Paper	—	—	—	—	—
Subordinate Lien Bonds - Direct Placement	445,116	—	(12,625)	432,491	12,795
Pension Obligation Bonds	88,933	—	(3,625)	85,308	3,901
Contracts Payable	—	—	—	—	—
Coastal Water Authority	48,870	—	(4,300)	44,570	4,515
Plus Unamortized Premium	3,369	—	(478)	2,891	—
Other Long Term Contracts	373,156	—	(4,565)	368,591	4,685
Plus CAB Accretion	—	—	—	—	—
Contracts Payable, Net	425,395	—	(9,343)	416,052	9,200
Total Bonds and Notes Payable	7,938,196	7,462	(340,123)	7,605,535	305,482
Claims and Judgements	6,834	79	(882)	6,031	1,218
Compensated Absences	21,560	11,973	(12,082)	21,451	12,114
Lease Liability	12	—	(12)	—	—
Arbitrage Rebate Liability	926	1,189	(1,249)	866	395
Net Pension Liability	284,899	—	(1,492)	283,407	—
Other Post Employment Benefits	184,167	—	(50,294)	133,873	—
Total Long Term Liabilities	\$ 8,436,594	\$ 20,703	\$ (406,134)	\$ 8,051,163	\$ 319,209

Note 7. LONG-TERM LIABILITIES (continued)

B. Schedule of Changes in Bonds and Long-Term Contracts (\$ in thousands)

	Stated Interest Rate Range %	Face Value Outstanding 6/30/2023	Face Value Outstanding 6/30/2024	Adjustments (1)	Net Outstanding
First Lien Revenue Bonds	0.34 to 5.50	\$ 5,461,445	\$ 5,333,005	\$ 465,377	\$ 5,798,382
First Lien Revenue Bonds- Direct Placement	0.04 to 3.15	595,910	568,895	—	568,895
Junior Lien Revenue Bonds	5.46 to 5.50	34,342	29,576	92,098	121,674
Commercial Paper	3.45 to 3.72	—	—	—	—
Subordinate Lien Bonds - Direct Placement	0.12 to 3.22	432,491	419,696	—	419,696
Pension Obligations Bonds	5.31 to 6.29	85,308	81,407	—	81,407
Coastal Water Authority	0.69 to 4.69	44,570	40,055	2,413	42,468
Other Long Term Contracts	3.22 to 5.85	368,591	363,906	—	363,906
		<u>\$ 7,022,657</u>	<u>\$ 6,836,540</u>	<u>\$ 559,888</u>	<u>\$ 7,396,428</u>

(1) Adjustments consist of unamortized bond premiums, discounts, and capital appreciation bond accretions.

C. Schedule for Debt Services Requirements To Maturity (\$ in thousands)

Annual debt service payments to maturity as of June 30, 2024 is as follows:

Water and Sewer Jr. Lien Revenue Bonds			Revenue Bonds		
Year Ending June 30	Principal	Interest	Year Ending June 30	Principal	Interest
2025	\$ 4,274	\$ 13,716	2025	\$ 260,560	\$ 226,013
2026	4,085	14,070	2026	271,805	212,217
2027	6,567	24,248	2027	270,615	200,134
2028	6,219	24,591	2028	282,825	187,945
2029	8,431	35,664	2029	282,515	176,773
2030-2034	—	—	2030-2034	1,802,870	674,659
2035-2039	—	—	2035-2039	1,066,875	330,906
2040-2044	—	—	2040-2044	551,545	169,657
2045-2049	—	—	2045-2049	408,245	68,702
2050-2054	—	—	2050-2054	123,565	12,662
2055-2059	—	—	2055-2059	11,585	304
Total	<u>\$ 29,576</u>	<u>\$ 112,289</u>	Total	<u>\$ 5,333,005</u>	<u>\$ 2,259,972</u>

Note 7. LONG-TERM LIABILITIES (continued)

SWAP Agreement		
Year Ending June 30	Net SWAP Payment	
2025	\$	16,005
2026		16,005
2027		16,005
2028		16,018
2029		15,782
2030-2034		42,269
2035-2039		—
2040-2044		—
2045-2049		—
2055-2059		—
Total	\$	<u>122,084</u>

Revenue Bonds - Direct Placement			
Year Ending June 30	Principal		Interest
2025	\$	25,415	\$ 7,252
2026		25,615	7,055
2027		25,855	6,836
2028		26,100	6,596
2029		26,385	6,337
2030-2034		136,530	27,172
2035-2039		134,850	18,224
2040-2044		120,265	7,658
2045-2049		46,300	1,190
2055-2059		1,580	—
Total	\$	<u>568,895</u>	<u>\$ 88,320</u>

Subordinate Lien Bonds - Direct Placement			
Year Ending June 30	Principal		Interest
2025	\$	12,975	\$ 11,211
2026		13,180	11,001
2027		13,395	10,775
2028		13,630	10,532
2029		13,885	10,269
2030-2034		74,255	46,446
2035-2039		84,660	35,997
2040-2044		97,890	22,685
2045-2049		94,130	6,861
2050-2054		1,696	21
2055-2059		—	—
Total	\$	<u>419,696</u>	<u>\$ 165,798</u>

Pension Obligations Bonds			
Year Ending June 30	Principal		Interest
2025	\$	4,195	\$ 4,121
2026		4,503	3,872
2027		4,837	3,605
2028		5,184	3,319
2029		6,051	3,013
2030-2034		23,989	9,610
2035-2039		9,431	5,736
2040-2044		12,953	3,646
2045-2049		10,264	831
2050-2054		—	—
2055-2059		—	—
Total	\$	<u>81,407</u>	<u>\$ 37,753</u>

Note 7. LONG-TERM LIABILITIES (continued)

Total Future Requirements				
Year Ending June 30	Principal	Interest	Net SWAP Payment	Total
2025	\$ 307,419	\$ 262,313	\$ 16,005	\$ 585,737
2026	319,188	248,215	16,005	583,408
2027	321,269	245,598	16,005	582,872
2028	333,958	232,983	16,018	582,959
2029	337,267	232,056	15,782	585,105
2030-2034	2,037,644	757,887	42,269	2,837,800
2035-2039	1,295,816	390,863	—	1,686,679
2040-2044	782,653	203,646	—	986,299
2045-2049	558,939	77,584	—	636,523
2050-2054	126,841	12,683	—	139,524
2055-2059	11,585	304	—	11,889
Total	<u>\$ 6,432,579</u>	<u>\$ 2,664,132</u>	<u>\$ 122,084</u>	<u>\$ 9,218,795</u>

LONG-TERM CONTRACTS (\$ in thousands):

Coastal Water Authority Maintenance and Operation Lien		
Year Ending June 30	Principal	Interest
2025	\$ 4,735	\$ 1,604
2026	9,535	1,247
2027	2,430	948
2028	2,555	823
2029	2,685	719
2030-2034	14,800	2,142
2035-2039	3,315	66
2040-2044	—	—
2045-2049	—	—
2050-2054	—	—
2055-2059	—	—
Total	<u>\$ 40,055</u>	<u>\$ 7,549</u>

U.S. Army Corps of Engineers		
Year Ending June 30	Principal	Interest
2025	\$ 166	\$ 250
2026	171	244
2027	176	239
2028	182	233
2029	188	227
2030-2034	1,034	1,042
2035-2039	1,213	864
2040-2044	1,421	656
2045-2049	1,665	412
2050-2054	1,536	126
2055-2059	—	—
Total	<u>\$ 7,752</u>	<u>\$ 4,293</u>

Note 7. LONG-TERM LIABILITIES (continued)

CWA Luce Bayou			
Year Ending June 30	Principal	Interest	
2025	\$ 3,280	\$	2,325
2026	3,375		2,768
2027	3,460		2,675
2028	3,560		2,577
2029	3,660		2,475
2030-2034	3,335		9,229
2035-2039	8,220		5,133
2040-2044	10,305		2,993
2045-2049	7,419		532
2050-2054	—		—
2055-2059	—		—
Total	\$ 46,614	\$	30,707

CWA Luce Bayou ROW			
Year Ending June 30	Principal	Interest	
2025	\$ 697	\$	542
2026	724		514
2027	753		484
2028	783		454
2029	815		421
2030-2034	4,588		1,586
2035-2039	5,580		574
2040-2044	—		—
2045-2049	—		—
2050-2054	—		—
2055-2059	—		—
Total	\$ 13,940	\$	4,575

CWA Luce Bayou SWIRFT			
Year Ending June 30	Principal	Interest	
2025	\$ 660	\$	8,367
2026	670		9,918
2027	680		10,694
2028	695		10,889
2029	705		13,300
2030-2034	3,785		96,405
2035-2039	47,450		69,678
2040-2044	89,110		38,998
2045-2049	105,180		20,644
2050-2054	46,665		2,843
2055-2059	—		—
Total	\$ 295,600	\$	281,736

Note 7. LONG-TERM LIABILITIES (continued)

Other Contracts Total Future Requirements			
Year Ending June 30	Principal	Interest	Total
2025	\$ 9,538	\$ 13,088	\$ 22,626
2026	14,475	14,691	29,166
2027	7,499	15,040	22,539
2028	7,775	14,976	22,751
2029	8,053	17,142	25,195
2030-2034	27,542	110,404	137,946
2035-2039	65,778	76,315	142,093
2040-2044	100,836	42,647	143,483
2045-2049	114,264	21,588	135,852
2050-2054	48,201	2,969	51,170
2055-2059	—	—	—
Total	\$ 403,961	\$ 328,860	\$ 732,821

D. TERMS OF LONG-TERM DEBT

1. Water and Sewer System Junior Lien Revenue Bonds

The City's Water and Sewer System Junior Lien Revenue Bonds are all bonds outstanding under the Previous Ordinance (prior to the Master Ordinance). The Master Ordinance defines "Previous Ordinance" as, collectively, the City's ordinances that authorized the issuance of outstanding "Previous Ordinance Bonds." "Previous Ordinance Bonds" are defined as, on any date, all of the City's Water and Sewer System Junior Lien Revenue Bonds that are outstanding under the Previous Ordinance.

On September 3, 2003, City Council authorized creation of the Combined Utility System ("the CUS") which currently consists of the City's Water and Sewer System. On June 10, 2004, as part of the restructuring to the new Combined Utility System, the City refunded a substantial portion of its outstanding junior lien bonds and reissued bonds as Combined Utility System bonds. The only Previous Ordinance bonds that are currently outstanding are the Series 1998A Bonds. Debt service payments on remaining Water and Sewer Junior Lien Revenue Bonds ("Junior Lien Bonds") will be made after payment of operating expenses and prior to any "other" debt service payments on the Combined Utility System bonds. The final maturity date for the remaining Junior Lien Bonds is December 1, 2028. No additional Junior Lien Bonds may be issued. As of June 30, 2024 and 2023, the current principal balance outstanding totaled \$29.6 million and \$34.3 million, respectively.

2. Combined Utility System - First Lien Revenue Bonds

First Lien Revenue Bonds are special obligations payable from and secured solely by a pledge of net revenues after maintenance and operating expenses and junior lien debt service payments.

On April 21, 2004, City Council approved the Master Ordinance for issuance of City of Houston, Combined Utility System Revenue obligations. The Master Ordinance includes covenants and agreements relating to the operation and management of the Combined Utility System. The System's First Lien Revenue Bonds are special obligations of the City, payable from and secured by a lien on Net Revenues of the Combined Utility System, after payment of all required payments, including and not limited to, those defined as maintenance and operation expenses under Previous Ordinance, and debt service on Water and Sewer Junior Lien bonds. Therefore, the lien on Net Revenues securing these bonds is subordinate to the lien securing Junior Lien Bonds. So long as any bonds remain outstanding, the Master Ordinance requires the System to generate Net Revenues in each fiscal year at least equal to the greater of 120% of the combined debt service on all Previous Ordinance and First Lien Revenue

Note 7. LONG-TERM LIABILITIES (continued)

Bonds outstanding, or 110% of the combined debt service on all Previous Ordinance, First Lien and Second Lien Revenue Bonds outstanding, in such fiscal year. As of June 30, 2024 and 2023, the current principal balance outstanding totaled \$5,333.0 million and \$5,461.4 million, respectively.

In June 2004, the Combined Utility System issued First Lien Revenue Refunding Bonds, Series 2004B and 2004C (Taxable) bonds as auction rate securities, each consisting of various sub-series, i.e., Series 2004B-1 through 2004B-6 and Series 2004C-1 through 2004C-5. In 2008, as a result of the credit/liquidity crisis, the series 2004B bonds were converted to variable rate demand bonds. In 2012, the Series 2004B-1 bonds were refunded by SIFMA Index Floating Rate Bonds, consisting of \$125 million and \$100 million of First Lien Revenue Refunding Bonds, Series 2012A and 2012B, respectively. In June 2018, the Series 2012B bonds were remarketed as variable rate demand bonds (VRDB) and continue to remain outstanding as VRDBs. In 2020, the Series 2012A were remarketed as VRDBs and continue to remain outstanding as such. The remaining Series 2004B-2, B-3, B-4, B-5, and B-6 remain outstanding as VRDBs.

With respect to the Series 2004C bonds, in May 2008, these bonds were refunded by \$249.08 million of First Lien Revenue Refunding Bonds, Series 2008A and \$205.3 million first Lien Revenue Refunding Bonds, Series 2008D Bonds (Taxable), both of which were issued as adjustable rate bonds in multiple subseries. The Series 2008D-1, D-2, and D-3 sub-series have since been refunded with fixed rate bonds. In 2010, the Series 2008A-1 and A-2 bonds were refunded by the Series 2010B bonds, which were direct purchase adjustable rate bonds issued in the Indexed Floating Rate mode, with a mandatory tender date ("MDT") of March 22, 2013. In 2012, the Series 2010B bonds were refunded by the Series 2012C bonds, which were publicly offered SIFMA Index Floating Rate Bonds with a MDT of August 1, 2016. In 2016, the Series 2012C bonds were refunded by the Series 2016C bonds, which were a direct purchase by BAML. The 2016C bonds were issued as adjustable rate bonds with a MDT of August 1, 2019. In 2018, as a direct result of tax reform and the decrease in the corporate tax rate, the 2016C were refunded by the Series 2018C bonds, which as of June 30, 2024, are VRDBs.

Combined Utility System Direct Placement First Lien Revenue Bonds

In prior years, the City issued Direct Placement First Lien Revenue Bonds facilitated by the Texas Water Development Board ("TWDB") through their Clean Water State Revolving Fund ("CWSRF") and Drinking Water State Revolving Fund ("DWSRF"). Direct placement debt with TWDB is offered at subsidized interest rates for qualified water and wastewater projects. As of June 30, 2024 and 2023, the current principal balance outstanding totaled \$568.9 million and \$595.9 million, respectively.

Proceeds are used to pay for projects, a debt service reserve fund and to pay costs of issuance of the Bonds. The bonds were issued beginning in 2011 and mature in varying amounts through 2049.

The Direct Placement First Lien Revenue bonds contain no unique default provisions, payment provisions, or collateral pledged. In the event of default, such as failing to make timely payments in accordance with the agreements, the outstanding balances, including accrued interest, may become due immediately. As of June 30, 2024 and 2023, the CUS is in compliance with terms and conditions of these loan agreements.

3. Swap Agreements

In accordance with the Government Accounting Standards Board Statement No. 72, "Fair Value Measurement and Application", the City has determined the swap liability to be a level 2 measurement. The fair value below includes consideration of the City's credit rating and an adjustment for nonperformance risk. The City has determined that the swaps are effective hedges and the change in the fair values are reported as deferred inflows/outflows on the statement of net position (GASB 53, para.75).

Note 7. LONG-TERM LIABILITIES (continued)

A summary of the total fair value is as follows:

Notional Amount	Change in Fair Value	Fair Value at June 30, 2024	Fair Value at June 30, 2023
\$902,400,000	\$(12,518,271)	\$85,941,544	\$123,043,331
	(Deferred Outflows)	(Reported in SWAP Liability)	(Reported in SWAP Liability)

General Terms:

Objective (GASB 53, para. 71): To manage interest rate exposure and to reduce the cost of capital related to the City's Combined Utility System First Lien Revenue Refunding Bonds, Series 2004B (the "Series 2004B Bonds"), the City entered into several interest rate swap agreements (the "Series 2004B Swaps").

Additionally, to manage interest rate exposure and to reduce the cost of capital related to the City's Combined Utility System First Lien Revenue Refunding Bonds, Series 2018C (the "Series 2018C Bonds"), the City entered into an interest rate swap agreement (the "Series 2018C Swap").

The Series 2004B Swaps and Series 2018C Swap are collectively referred to herein as the "Swaps". Moreover, the Series 2004B Bonds and the Series 2018C Bonds are collectively referred to herein as the "Bonds".

Hedging Relationship (GASB 53): Hedge accounting can be applied for derivative instruments that are found to be effective hedges under GASB 53. The City has determined that the swaps are effective hedges and the changes in fair values are reported as deferred inflows/outflows on the statement of net position.

Non-Performance Adjustments (GASB 72, para. 62): GASB 72 requires a government to consider nonperformance risk when measuring the fair value of a liability. The fair values include consideration of the City's credit rating and an adjustment for nonperformance risk.

Credit risk (GASB 53, para. 73(a)): As of June 30, 2024 and 2023, the City was not exposed to credit risk because the Swaps had a negative fair value. However, should interest rates change and the fair value of the Swaps become positive, then the City will be exposed to credit risk in the amount of the fair value of the Swaps. In accordance with the City's swap policy and as established the Swaps, if a counterparty's credit rating falls below AA, collateral must be posted in varying amounts, depending on the credit rating and the fair value of the Swaps. No collateral has been required to date.

Basis risk (GASB 53, para. 73(c)): Basis risk is measured by the difference between variable receipts on the Swaps and variable payments on the Bonds. In the case of the Series 2004B Bonds, the basis is the difference between the 1-Week Securities Industry and Financial Markets Association ("SIFMA") 10-Year USD SOFR ICE Swap Rate ("10-Year SOFR"). In the case of the Series 2018C Bonds, the basis is the difference between SIFMA and 10-Year SOFR.

As of July 1, 2023, the ICE Benchmark Administration ceased publishing any LIBOR setting using the methodology in place as of December 31, 2021. As a result, as of July 1, 2023, LIBOR is no longer an appropriate benchmark interest rate for a derivative instrument that hedges the interest rate risk of taxable debt for purposes of GASB Statement No. 53. The agreements have been amended in July 2023 to reflect this change.

Termination risk (GASB 53, para. 73(d)): The City retains the right to terminate the Swaps at any time and for any reason. If the City terminates any of the Swaps, then a termination payment reflecting the "then-current" market value of the Swaps will be payable to or receivable by the City. By comparison, the City's counterparties may only terminate the Swaps in the event that the City fails to perform under the terms of the swap agreement, e.g., the City defaults on any swap payments.

Hedged Debt (GASB 53, para. 74): As of June 30, 2024 and 2023, debt service requirements for the swap agreements are reported in Note 7C as if the swap was in effect, assuming current interest rates remain the

Note 7. LONG-TERM LIABILITIES (continued)

same. As rates vary, variable rate bond interest payments and net swap payments will vary. Expected debt service payments on the associated bonds are included with other Combined Utility System Bonds on Note 7C.

a. Synthetic Fixed Rate SWAP Agreements

Combined Utility System Synthetic Fixed Rate Swaps: On June 10, 2004, the City entered into three identical pay-fixed, receive variable rate swap agreements. The City pre-qualified six firms to submit competitive bids on the swap. The bidding took place on June 7, 2004. The three firms selected all matched the lowest fixed rate bid of 3.7784%. On November 15, 2018, the City amended the swap by changing the floating rate index from one-month LIBOR to 10-year constant maturity swap rate (CMS).

Terms: The notional amount totals \$653,325,000, the principal amount of the associated 2004B Bonds. The City's swap agreements contain scheduled reductions to outstanding notional amounts that follow anticipated payments of principal of the 2004B Bonds in varying amounts during the years 2028 to 2034.

On July 1, 2023, the City adhered to the June 2022 Benchmark Module of the ISDA 2021 Fallbacks Protocol. This adherence changed Series 2004B Swap's floating-rate indices from 10-Year CMS to 10-Year SOFR.

Under the initial terms of the swaps, the City will pay a fixed rate of 3.7784% and receive a floating rate equal to 57.6% of One-Month U.S. Dollar LIBOR plus 37 basis points. All agreements were effective June 10, 2004, the date of issuance of the 2004B Bonds, and will terminate on May 15, 2034.

However, effective November 15, 2018, as per the amended terms, the City will now receive variable payments based on 58.55% of 10-year SOFR.

At June 30, 2024 and 2023, the effective rate on the 2004B Bonds associated with the swap was computed as follows:

2004B Bonds	Amended Terms	June 30, 2024 Rate % Received/(Paid)	June 30, 2023 Rate % Received/(Paid)
Variable rate payment from counterparties	58.55% 10Y SOFR	2.4546	2.0439
SWAP receipt		2.4546	2.0439
Fixed rate paid to counterparties		(3.7784)	(3.7784)
Net rate received/(paid) for SWAP		(1.3238)	(1.7345)
Average variable rate on 2004B bonds year-end		(3.5114)	(2.4735)
Plus: dealer and credit fees on 2004B bonds		(0.5004)	(0.5356)
Effective rate of the 2004B bonds		(5.3356)	(4.7437)

In contrast, the fixed rate the City paid on its Combined Utility System Series 2004A fixed rate bonds, which have a comparable maturity, was 5.08%.

Fair Value. Because long-term interest rates have changed since inception of the swaps, the swaps had a negative fair value of \$66,461,683 and \$95,443,410 on June 30, 2024 and June 30, 2023, respectively. This value was calculated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. The fair value is recorded on the balance sheet of the Combined Utility System in the SWAP liability. These net payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps.

Note 7. LONG-TERM LIABILITIES (continued)

Counterparty	Notional Amount	Fair Value at June 30, 2024	Fair Value at June 30, 2023	Counterparty Rating (Moody's/S&P/Fitch)
Goldman Sachs	\$ 353,325,000	\$ (35,950,547)	\$ (51,623,495)	A1/A+/A+
JP Morgan Chase	150,000,000	(15,262,385)	(21,916,151)	Aa2/A+/AA
Wells Fargo	150,000,000	(15,248,751)	(21,903,764)	Aa2/A+/AA-
Total	\$ 653,325,000	\$ (66,461,683)	\$ (95,443,410)	

b. Forward Interest Rate SWAP

Combined Utility System Forward Starting Swap: On November 1, 2005, the City entered into a forward interest rate swap transaction with Royal Bank of Canada ("RBC"). The City pre-qualified eight firms to submit competitive bids on the swap. RBC submitted the lowest fixed rate bid of 3.761% and was selected. On September 1, 2015, the swap agreement was novated to Wells Fargo.

On November 15, 2018, the City amended the swap by changing the floating rate index from one-month LIBOR to 10-year constant maturity swap rate (CMS). The transaction was conducted through a competitive bid process.

On July 1, 2023, the City adhered to the June 2022 Benchmark Module of the ISDA 2021 Fallbacks Protocol. This adherence changed the Series 2018C Swap's floating-rate index from 10-Year CMS to 10-Year SOFR.

Terms. Under the terms of the initial contract, the City will pay a fixed rate of 3.761% on a par value of \$249,075,000, and it will receive variable payments based on 70% of One-Month U.S. Dollar LIBOR. The City's scheduled net swap payments are insured by Ambac Assurance Corporation.

However, effective November 15, 2018, under the amended contract, the City will now receive variable payments based on 58.55% of 10-year SOFR.

At June 30, 2024 and 2023, the effective rate on the 2018C Bonds associated with the swap was computed as follows:

2018C Bonds	Initial Terms	Amended Terms	June 30, 2024 Rate % Received/(Paid)	June 30, 2023 Rate % Received/(Paid)
Variable rate payment form		58.55% 10Y SOFR	2.4546	2.0439
Swap receipt			2.4546	2.0439
Fixed rate paid to counterparties	Fixed		(3.7610)	(3.7610)
Net rate received/(paid) for SWAP			(1.3064)	(1.7171)
Year-end variable rate on 2018C bonds			(3.5090)	(2.5431)
Dealer and credit fees on 2018C bonds			(0.5004)	—
Effective rate of 2018C bonds			(5.3158)	(4.2602)

Fair value. The swap had a reported negative fair value of \$19,479,860 and \$27,599,921 on June 30, 2024 and June 30, 2023, respectively. The fair value is recorded on the balance sheet of the Combined Utility System in the SWAP liability. This value was calculated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These net payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps.

Note 7. LONG-TERM LIABILITIES (continued)

Counterparty	Notional Amount	Fair Value at June 30, 2024	Fair Value at June 30, 2023	Counterparty Rating (Moody's/S&P/Fitch)
Wells Fargo	\$ 249,075,000	\$ (19,479,860)	\$ (27,599,921)	Aa2/A+/AA-

4. Commercial Paper

Effective December 17, 2009, the City established a \$700.0 million Series B Commercial Paper Note program that provides for the issuance of Commercial Paper Notes to finance costs of eligible projects, including acquisition, construction, improvements and additions or extension for the City's Combined Utility System, and pay costs of issuance. Effective May 17, 2023, the City amended and restated the Series B Ordinance authorizing for issuance \$1.0 billion of Commercial Paper Notes. The program is structured as a revolving Commercial Paper Note program, whereby the Series B Notes may be issued for a period that does not exceed 270 days and the maximum interest rate may not exceed 10%. The Series B Commercial Paper Notes are issued as Third Lien Obligations and are payable from and secured by a lien on Net Revenues of the CUS which is subordinate to the lien securing payment of First Lien Bonds. The Combined Utility System's outstanding notes from credit agreements contain a two – four-year repayment provision in the event of default or material adverse change.

A portion of the Series B Notes, in the amount of \$475.0 million, is secured by credit facilities from Bank of America (Series B-1 and Series B-6) with an expiration date of August 19, 2027, Sumitomo Mitsui Banking Corporation, acting through its New York Branch (Series B-3) with an expiration date of January 10, 2025, PNC Bank, N.A. (Series B-4) with an expiration date of July 12, 2025 and JPMorgan (Series B-7) with an expiration date of May 30, 2025. The Series B-7 (\$100.0 million of principal) was established within the amended and restated ordinance of May 2023. As of June 30, 2024 and 2023, the CUS has no outstanding borrowings in Series B commercial paper notes, respectively.

The remaining \$525.0 million exists as an Extendable Commercial Paper ("ECP") Note program in the amounts of \$75.0 million and \$250.0 million, that provide for the issuance of Series B-2 and Series B-5 ECP Notes as Third Lien Obligations. During fiscal year 2023, the City amended and restated the Supplemental Ordinance authorizing the issuance of Series B-2 ECP notes in the aggregate principal amount not to exceed \$275.0 million outstanding at any time and provide for the issuance of Series B-2 notes through December 15, 2039. The Series B-2 ECP Notes and Series B-5 ECP Notes may each be issued for a period not to exceed 90 days (which may be extended, but in no event later than 270 days following the date of issuance) and bear interest at an annual rate not to exceed 9%.

The Series B-2 and Series B-5 ECP Notes are (1) separately offered and remarketed by Morgan Stanley & Co. LLC, (2) issued as Third Lien Obligations, and (3) are separately payable from and secured by a lien on Net Revenues of the CUS, which is subordinate to the lien securing payment of First Lien Bonds. Proceeds of Series B-2 and B-5 ECP Notes may each be used to finance various capital projects of the Combined Utility System.

Note 7. LONG-TERM LIABILITIES (continued)

Series	Size (\$ in millions)
B-1	\$100.0
B-2	275.0
B-3	75.0
B-4	100.0
B-5	250.0
B-6	100.0
B-7	100.0
Total	\$1,000.0

5. Subordinate Lien Bonds - Direct Placement

In December 2015 (2015E) and December 2016 (2016D), the City closed on a Texas Water Development Board "TWDB" direct placement subordinate lien State Water Implementation Fund for Texas (SWIFT) Loans of \$25.9 million and \$63.0 million, respectively. These loans were issued to fund the Northeast Plant Expansion and Northeast Transmission Line. Annual debt service is payable from the Combined Utility System, General Purpose Fund. The annual debt service payments began in May 2016 and May 2017, respectively. As of June 30, 2024 and 2023, \$5.3 million and \$4.6 million of the principal had been paid for the 2015 loan, respectively and \$11.9 million and \$10.1 million of the principal has been paid for the 2016 loan, respectively. These bonds mature on November 15, 2045 and November 15, 2046, respectively. Two new SWIFT loans were issued in November 2017 (2017C) and June 2018 (2018B) for \$83.2 million and \$106.9 million, respectively. The annual debt service payments began in May 2018 and November 2018, respectively, and the bonds mature in fiscal years 2047 and 2048, respectively.

As of June 30, 2024 and 2023, \$13.0 million and \$10.8 million of principal has been paid for 2017C, respectively and \$13.6 million and \$10.8 million of principal has been made paid for 2018B, respectively. A new SWIFT loan was issued in November 2018 (2018F) for \$170.3 million. As of June 30, 2024 and 2023, \$20.5 million and \$16.3 million of principal was paid for this bond, respectively. This bond matures in fiscal year 2049. Additionally, a new SWIFT loan was issued in November 2020 (2020E) for \$38.0 million. As of June 30, 2024 and 2023, \$3.4 million and \$2.2 million of principal was paid for this bond. This bond matures in fiscal year 2050. The outstanding debt for Subordinate Lien as of June 30, 2024 and 2023 is \$419.7 million and \$432.5 million, respectively.

The direct placement subordinate lien bonds contain no unique default provisions, payment provisions, or collateral pledged. In the event of default, such as failing to make timely payments in accordance with the agreements, the outstanding balances, including accrued interest, may become due immediately. As of June 30, 2024 and 2023, the CUS is in compliance with terms and conditions of these loan agreements.

6. Coastal Water Authority (CWA)

The contract payable relating to CWA represents the outstanding balance of \$40.1 million and \$44.6 million on June 30, 2024 and 2023 for Series 2010 and Series 2014 (both refunding) issued by CWA, a governmental agency of the State of Texas, to finance the construction of a water conveyance system. Pursuant to a series of exchange agreements with CWA, the City issued the Certificate and endorsed the bonds and is unconditionally obligated to pay from the gross revenues of the City's Combined Utility System all debt service payments on these Certificates and Bonds, as well as amounts necessary to restore deficiencies in funds required to be accumulated under the CWA bond resolutions. The outstanding bonds mature on December 15, 2025 and December 15, 2034, respectively.

Note 7. LONG-TERM LIABILITIES (continued)

Luce Bayou

In January 2009, the City entered into a contract with CWA for the project design, property acquisition, construction and financing of the Luce Bayou Interbasin Transfer Project. This would include the construction of infrastructure sized to transfer approximately 450,000 acre feet per year of the City's permitted surface water from Trinity River to Lake Houston. The funding for this project is to be financed and paid through the Texas Water Development Board (TWDB) financing program. The Water Infrastructure Fund (WIF) Bonds are secured by the City's pledged revenues to pay Debt Service.

The current contract payable out of the General Purpose Fund relating to Luce Bayou as of June 30, 2024 and 2023 represents \$28.8 million and \$28.8 million of State Participation Loan (maturing in 2047), respectively, \$28.0 million of Series 2009 WIF Loan (maturing in 2029, outstanding principal balance of \$14.9 million and \$17.7 million as of June 30, 2024 and 2023, respectively) and \$5.1 million of Series 2010 WIF Loan (maturing in 2030, outstanding principal balance of \$3.0 million and \$3.4 million as of June 30, 2024 and 2023, respectively). The annual debt service payments for the State Participation Loan started in FY2015, Series 2009 started in FY2019 and Series 2010 WIF Loan started in FY2020. In FY2017, two new State Water Implementation Revenue Fund for Texas (SWIRFT) bonds were issued in relation to Luce Bayou in November 2015 and December 2016 for \$66.6 million and \$136.5 million, respectively. The annual debt service payments for these bonds started in FY2019 and their maturity is in 2050 and 2051, respectively. Additionally, in FY2018, two new State Water Implementation Revenue Fund for Texas (SWIRFT) bonds were issued in relation to Luce Bayou in November 2017 for \$72.8 million and \$24.2 million, respectively. The annual debt service payments for the \$72.8 million bond started in FY2019. This bond matures in 2052. The annual debt service payments for the \$24.2 million bond started in FY2018, with a current outstanding principal balance of \$19.8 million and \$20.4 million as of June 30, 2024 and 2023, respectively. This bond matures in 2047.

Luce Bayou & Mitigation Costs - ROW

Land and Mitigation Costs associated with the Luce Bayou Project relate to acquisition of land and costs of environmental mitigation. CWA advanced funds to pay for the City's share of Land and Mitigation costs from available CWA revenues in lump sums (\$6.4 million in 2009, \$3.2 million in 2010, \$3.2 million in 2012) for a total of \$12.8 million. Repayment of the loan started in FY 2019 with the accrued interest during 2009-2020 rolled into principal to be amortized over the next 20 years. On June 30, 2024 and 2023, the current principal balance is \$13.9 million and \$14.6 million, respectively.

7. Other Contracts

Payments on the following contracts will be made only after the Combined Utility System has funded all maintenance and operation costs and debt service payments for the Combined Utility System, including required reserves.

U.S. Army Corps of Engineers

On June 20, 1967, the City, TRA, and Chambers-Liberty Counties Navigation District contracted with the United States of America to have the U.S. Army Corps of Engineers build a salinity control barrier and recreation facilities at Wallisville Lake. Because of legal actions, construction was blocked for a long period, and the project was not completed until April 2003. The City's share of the project cost was \$10.6 million, which will be paid to the U.S. government over 50 years at 3.222% interest with final payment due January 1, 2053. Current principal balance outstanding as of June 30, 2024 and 2023 is \$7.8 million and \$7.9 million, respectively.

Note 7. LONG-TERM LIABILITIES (continued)

Pension Obligation Bonds

The City has issued several series of General Obligation Taxable Pension Bonds. The proceeds were used to reduce the unfunded actuarial accrued liability of the Houston Municipal Employees Pension System and the Houston Police Officers Pension System. Interest is payable semi-annually, and principal is payable in varying amounts through 2047. Although these obligations have an ad valorem tax pledge, the Combined Utility System records a portion of the liabilities because the liabilities are directly related and expected to be paid from those funds based on percentages of payroll. On June 30, 2024 and 2023, the pension obligation bonds have an outstanding balance of \$81.4 million and \$85.3 million, respectively.

E. DEBT ISSUANCES AND REFUNDINGS

On May 14, 2024, the City issued \$870,280,000 of Combined Utility System First Lien Revenue Refunding Bonds, Series 2024A with coupons ranging from 5% to 5.25%. The proceeds were used for the purpose of refunding \$200,000,000 of Combined Utility System Commercial Paper Notes, to defease \$247,770,000 of Combined Utility System First Lien Revenue Refunding Bonds, Series 2014C by placing new bond proceeds in an escrow to provide for the future debt payments on defeased bonds, and to purchase for cancellation \$503,145,000 portions of Series 2015D, 2016B, 2017B, 2018D, 2018E, 2019C, 2020D, 2021 bonds, and to pay costs of issuance of the Bonds. The true interest cost of the 2024A Bonds is 3.718%. The Bonds mature in varying amounts from 2025 to 2054. Net Present Value Savings related to the Bonds totaled \$53,493,514, or 7.124% of the refunded bonds, and reduced debt service by \$75,383,429. As of June 30, 2024, \$247.8 million of defeased bonds are still outstanding.

Prior Year Defeased Debt

In fiscal year 2021, the City issued Combined Utility System First Lien Revenue and Refunding Bonds Series 2020C and Combined Utility System First Lien Revenue Refunding Bonds Series 2020D to defease \$208.9 million of Bonds by placing new bond proceeds in an escrow to provide for the future debt payments on the defeased bonds. Accordingly, the escrowed assets and the liability for the defeased bonds are not included in the accompanying financial statements. At June 30, 2024 and 2023, \$0 and \$91.2 million of defeased bonds are still outstanding.

In fiscal year 2021, the City issued Combined Utility System First Lien Revenue Refunding Bonds Series 2021B to defease \$92.1 million of the CUS Series 2012D and 2013B Bonds, by placing new bond proceeds in an escrow to provide for the future debt payments on the defeased bonds. Accordingly, the escrowed assets and the liability for the defeased bonds are not included in the accompanying financial statements. At June 30, 2024 and 2023, \$0 and \$41.6 million of defeased bonds are still outstanding.

F. ARBITRAGE REBATE

Arbitrage rebate rules, under the Internal Revenue Code Section 148 and related Treasury Regulations, require generally that a tax-exempt bond issuer forward to the federal government any profits made from investing bond proceeds at a yield above the bond yield, when investing in a taxable market. Payments based on cumulative profits earned by bonds are due, in general, every five years. At June 30, 2024 and 2023, a yield restriction/arbitrage of \$5.7 million and \$0.9 million was accrued.

Note 8. DEFINED BENEFIT PENSION PLAN

A. General Information

Plan Description

As a department of the City, the Combined Utility System participates in the Houston Municipal Employees' Pension System ("HMEPS"); a single-employer defined benefit pension plan administered by an independent Board of Trustees. HMEPS provides pension, disability, and death benefits for all municipal employees employed full-time by the City. The benefit provisions of the pension plan were established under the authority of Texas statutes (Vernon's Texas Civil Statutes, Articles 6243.e2 (1), 6243h, and 6243g-4), which establish the various benefit provisions. The fiscal year of each pension fund ends June 30.

The Municipal Employees' Pension System publishes its separate financial statements and included as a fiduciary component unit in the Annual Comprehensive Financial Report of the City. A complete copy of the summary plan description and the stand-alone financial statements can be obtained from the Houston Municipal Employees' Pension System at 1201 Louisiana St., Suite 900, Houston, Texas 77002-2555 or via <http://hmepps.org>.

Benefits Provided

Houston Municipal Employees' Pension System includes three contributory groups (Groups A, B, and D) and provides for service-connected disability and death benefits to eligible members and surviving spouse and/or dependents, with no age or service eligibility requirements. Pension benefits are based on a participant's average monthly salary and years of debited service, as defined in the Pension Statute. Pension benefits are adjusted annually for a cost of living adjustment of between 0% and 2%, depending on investment returns. The maximum pension benefit is 90% of the participant's average monthly salary. A Deferred Retirement Option Plan (DROP) is available to eligible members.

Contributions

For HMEPS, employer and employee obligations to contribute, as well as employee contribution rates, are included in the Pension Statute, and some requirements are delineated in an amended and restated meet and confer agreement, effective July 1, 2011. Additionally, these laws provide that employer funding be based on periodic actuarial valuations, statutorily approved amounts, or amounts agreed to in meet and confer agreements.

All active participants are required to contribute to the Plan. Effective July 2017, group A participants contribute 7% of salary, group B participants contribute 2% of salary, and group D participants contribute 2% of salary. Effective July 2018, group A and group B participants contributed 8% and 4%, respectively. Beginning in January 2018, group D participants contributed an additional 1% of their salary.

As a result of Senate Bill 2190 of the 85th Texas Legislature ("SB 2190"), beginning in fiscal year 2018, the City is required to contribute the "Total City Contribution" to the Plan, which consists of the sum of (a) an actuarially determined percentage of payroll ("City Contribution Rate") multiplied by actual payroll and a fixed dollar amount ("City Contribution Amount") which is based on the Unfunded Actuarial Accrued Liability as of July 1, 2016 ("Legacy Liability"). The Legacy Liability payment is amortized over 30 years, beginning on July 1, 2017, and grows at 2.75% per year regardless of the actual payroll growth rate.

The City as a whole and for the years ended June 30, 2024 and 2023, the City Contribution Rate was 8.48% and 8.44% of payroll, respectively, and the City Contribution Amount was \$146.0 million and \$142.0 million, respectively.

Also, SB 2190 required a one-time payment of \$250 million to the Plan in Pension Obligation Bond proceeds during the year ended June 30, 2018.

Note 8. DEFINED BENEFIT PENSION PLAN (continued)

As of the most recent measurement date of the Net Pension Liability, membership data for the pension plans are as follows:

City (HMEPS)	
Retirees or beneficiaries currently receiving benefits	11,972
Former members vested but not receiving benefits	8,890
Active members	11,578
Total Participants	32,440

B. Net Pension Liability

The CUS Fund's liability for the net pension liability in the City's pension plan was allocated and reported on the statement of net position.

The Net Pension Liability ("NPL") is the difference between the Total Pension Liability ("TPL") and the plan's Fiduciary Net Position ("FNP"). The TPL is the present value of pension benefits that are allocated to current members due to past service by entry age normal actuarial cost method. The TPL includes benefits related to projected salary and service, and automatic cost of living adjustments ("COLAs"). In addition, ad hoc COLAs are also included in the TPL to the extent they are substantively automatic. The FNP is determined on the same basis used by the pension plans. The City's TPL, NPL and certain sensitivity information are based on an actuarial valuation performed as of July 1, 2023 and 2022. The total pension liability was rolled forward from the valuation date to the measurement dates of June 30, 2024 and 2023, using generally accepted actuarial principles. A schedule of Net Pension Liability, in addition to the information above, includes multi-year trend information (beginning with FY2015) and is presented in the Required Supplementary Information section of this ACFR.

Net Position Liability (in thousands)

Measurement Date	June 30, 2024		June 30, 2023	
	Houston Municipal Employees' Pension	Fund proportionate share of NPL	Houston Municipal Employees' Pension	Fund proportionate share of NPL
Total Pension Liability	\$ 5,812,828	\$ 984,693	\$ 5,698,777	\$ 993,297
Less: Fiduciary Net Position	(4,360,172)	(738,647)	(4,072,345)	(709,890)
Net Position Liability	\$ 1,452,656	\$ 246,046	\$ 1,626,432	\$ 283,407

Combined Utility System's proportionate share of NPL is 16.94% and 17.43% for Fiscal Years 2024 and 2023.

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Note 8. DEFINED BENEFIT PENSION PLAN (continued)

C. Schedule of Changes in Net Pension Liability (in thousands)

City (HMEPS)	June 30, 2024			June 30, 2023		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Service Cost	\$ 88,999	\$ —	\$ 88,999	\$ 85,184	\$ —	\$ 85,184
Interest on the Total Pension Liability	389,086	—	389,086	381,016	—	381,016
Difference between Expected and Actual Experience	(5,779)	—	(5,779)	6,279	—	6,279
Employer Contributions	—	212,959	(212,959)	—	204,895	(204,895)
Employees Contributions	—	34,645	(34,645)	—	34,600	(34,600)
Pension Plan Net Investment Income	—	403,867	(403,867)	—	221,364	(221,364)
Assumptions Changes	—	—	—	—	—	—
Benefits Payments	(356,914)	(356,914)	—	(334,859)	(334,859)	—
Refunds	(1,341)	(1,341)	—	(989)	(989)	—
Administrative Expense	—	(6,046)	6,046	—	(5,636)	5,636
Other	—	657	(657)	—	619	(619)
Net Change	114,051	287,827	(173,776)	136,631	119,994	16,637
Net Pension Liability Beginning	5,698,777	4,072,345	1,626,432	5,562,146	3,952,351	1,609,795
Net Pension Liability Ending	\$ 5,812,828	\$ 4,360,172	\$ 1,452,656	\$ 5,698,777	\$ 4,072,345	\$ 1,626,432

D. Pension Expense

For the years ended June 30, 2024 and 2023, the City recognized pension expense for HMEPS as follows (in thousands):

City (HMEPS)	June 30, 2024	June 30, 2023
Service Cost	\$ 88,999	\$ 85,184
Interest	389,086	381,016
Difference between Expected and Actual Experience	3,955	(1,966)
Changes of Assumptions	(7,827)	(7,828)
Differences between Projected and Actual Earnings	(110,197)	(84,487)
Member Contributions	(34,645)	(34,600)
Projected Earnings on Plan Investments	(281,003)	(273,117)
Administrative Expense	6,046	5,636
Other	(657)	(619)
Total Pension Expense	\$ 53,757	\$ 69,219

The Fund's proportionate shares of pension expense are \$4.2 million and \$9.6 million for June 30, 2024 and 2023, respectively.

Note 8. DEFINED BENEFIT PENSION PLAN (continued)

E. Schedule of Deferred Outflows and Inflows of Resources

Deferred outflows of resources and deferred inflows of resources by source reported by the Fund at June 30, 2024 and 2023 (in thousands):

Fund proportionate share	June 30, 2024		June 30, 2023	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between Expected and Actual Experience	\$ 1,391	\$ (702)	\$ 2,957	\$ (553)
Changes of Assumptions	—	(1,022)	—	(2,415)
Net Difference between Projected and Actual Earnings on	—	(36,145)	—	(34,978)
Change in Proportion	—	(9,522)	—	(5,585)
Total	\$ 1,391	\$ (47,392)	\$ 2,957	\$ (43,531)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to Pensions at June 30, 2024 for the Fund, will be recognized in pension expense as follows (in thousands):

Year Ending June 30	Fund
2024	\$ (34,630)
2025	(3,295)
2026	(3,914)
2027	(4,162)
2028	—
Thereafter	—
Total	\$ (46,001)

A single discount rate of 7.00% was used to measure the TPL for the Municipal Employees' Pension plan. This single discount rate was based on the expected rate of return on the pension plan's investments of 7.00%% and the current municipal bond rate was not applicable. The projection of cash flows used to determine this single discount rate assumed that respective plan member contributions will be made at the current contribution rate and that City contributions will be made at the rate determined actuarially in the annual Risk Sharing Valuation Study which would become effective in the fiscal year beginning one year after the study date. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, a single discount rate of 7.00% was applied to all periods of projected benefit payments to determine the total pension liability. For the June 30, 2024 and 2023 measurement dates, the single discount rate used was 7.00%.

F. Sensitivity of the Net Position Liability to Changes in the Discount Rate

The following presents the Net Position Liability for Municipal Employees' Pension plan, calculated using the current discount rate of 7.00%, as well as what the Combined Utility System's Net Pension Liability would have been if they were calculated using a discount rate that is 1% point lower and 1% point higher than the current rate (in thousands):

Note 8. DEFINED BENEFIT PENSION PLAN (continued)

	June 30, 2024		
	1% Decrease	Current Discount Rate	1% Increase
	6.00%	7.00%	8.00%
Municipal Employees' Pension System	\$ 2,032,436	\$ 1,452,656	\$ 964,646
Fund proportionate share of NPL	\$ 344,248	\$ 246,046	\$ 163,389

	June 30, 2023		
	1% Decrease	Current Discount Rate	1% Increase
	6.00%	7.00%	8.00%
Municipal Employees' Pension System	\$ 2,202,979	\$ 1,626,432	\$ 1,141,455
Fund proportionate share of NPL	\$ 383,871	\$ 283,407	\$ 198,899

G. Schedule of Assumptions

Inflation	2.25%
Salary Changes	3.25% to 5.50%
Investment Rate of Return	7.00%
Valuation Date	July 1, 2023
Actuarial Cost Method	Entry Age Normal Cost
Amortization Method	Level Percent of Payroll, Open
Amortization Period	24 Years
Asset Valuation Method	5 Year smoothed market, direct offset of deferred gains and losses
Ad hoc OPEB and Ad hoc COLA	3.00% – 6.00%
Mortality Assumption	PUB-2010 table, amount weighted, below-median income, with a 2-year set forward. The rates are then projected on a fully generational basis by the long-term rates of improvement of scale MP-2020.
Experience Study	6/30/2020

The long-term expected rate of return on the investments was supported using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic rates of return for each major asset class included in HMEPS' target asset allocation and actual allocation as of June 30, 2024 and 2023, are summarized as follows.

Note 8. DEFINED BENEFIT PENSION PLAN (continued)

Asset Class	June 30, 2024		June 30, 2023	
	Target Allocation	Long Term Expected Rate of Return	Target Allocation	Long Term Expected Rate of Return
Domestic equity	— %	— %	28.00 %	6.75 %
Private equity	17.00 %	7.45 %	17.00 %	9.60 %
Fixed income	10.00 %	5.88 %	10.00 %	5.10 %
Real estate	12.50 %	6.00 %	12.50 %	7.95 %
Inflation linked	20.00 %	7.00 %	20.00 %	7.73 %
Private debt	12.50 %	8.20 %	12.50 %	8.20 %
International equity	28.00 %	5.10 %	— %	— %
Cash & Short-term	— %	4.00 %	— %	3.65 %
	<u>100.00 %</u>		<u>100.00 %</u>	

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Note 9. OTHER EMPLOYEE BENEFITS

A. Retiree Health Insurance Benefits

The City of Houston Other Post-Employment Benefit (“OPEB”) Health plan is a single-employer plan, and calculations are based on the OPEB benefits provided under the terms of the plan in effect at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point.

The City provides certain health care benefits for retired employees as approved during annual budget process. Substantially all employees become eligible for these benefits if they reach normal retirement age while working for the City. The City is not required by law or contractual agreement to provide funding for OPEB other than pay-as-you-go amounts necessary to provide current benefits to retirees, eligible dependent, and beneficiaries.

Contributions are recognized in the year paid. The plan is not accounted for as a trust, and an irrevocable trust that meets the criteria of GASB codification P22.101 or P52.101 to pay related benefits has not been established for this OPEB plan. The cost of retiree health care premiums incurred by the City (employer and subscriber) amounted to approximately \$63.6 million and \$56.5 million for the years ended June 30, 2024 and June 30, 2023, respectively. The cost of retiree health care premiums incurred by the Fund amounted to approximately \$4.7 million and \$4.2 million for the years ended June 30, 2024 and June 30, 2023, respectively.

As a department of the City, the CUS participates in the OPEB plan of the City’s municipal employees. A separate accounting is not done for the Fund’s portion. CUS’s proportionate share of the net OPEB liability is 7.43% and 7.50% for fiscal years 2024 and 2023.

1. Membership

Membership data is updated every two years by the Actuary. As of the most recent actuarial valuation of the total OPEB Liability, membership data is as follows:

City	
Retirees and Beneficiaries Currently Receiving Benefits	10,175
Active Members	20,954
Total Participants	31,129

2. Total and Net OPEB Liability

The total OPEB liability was measured as of June 30, 2023 and June 30, 2022. The total OPEB Liability was determined from an actuarial valuation as of June 30, 2023 and June 30, 2022. The net OPEB Liability is the total OPEB Liability less the Plan Fiduciary Net Position. The total OPEB liability is the present value of all future benefit payments for current retirees and active employees, considering assumptions about demographics, turnover, mortality, disability, retirement, health care trends, and other actuarial assumptions (in thousands).

Note 9. OTHER EMPLOYEE BENEFITS (continued)

Measurement Date: June 30, 2023 and 2022

Reporting Date: June 30, 2024 and 2023

City	June 30, 2024	June 30, 2023
Total OPEB Liability	\$1,952,112	\$1,759,895
Less: Fiduciary Net Position	—	—
Net OPEB Liability	<u>\$1,952,112</u>	<u>\$1,759,895</u>
The Fund's Portion of Net OPEB Liability	\$145,128	\$131,934

A schedule of Total OPEB Liability, in addition to the information above, includes multi-year trend information (beginning with year 2018) and is presented in the Required Supplementary Information section.

3. Schedule of Changes in Total OPEB Liability

Changes of assumption reflects a change in discount rate from 3.54% in 2023 to 3.65% in 2024. In addition, per capita health costs and future trend on such costs, as well as actuarial spread factors used to estimate individual retiree and spouse costs by age and by gender, have been updated. Changes in total OPEB liability for the years ended June 30, 2024 and June 30, 2023, are as follows:

	June 30, 2024	June 30, 2023
Changes in total OPEB Liability (in thousands)	City	City
Service cost	\$ 89,215	\$ 124,690
Interest	64,343	52,553
Change of benefit terms	—	—
Difference between expected and actual experience	10,771	23,213
Changes of assumptions	91,495	(720,476)
Benefit payments	(63,607)	(56,511)
Net change	192,217	(576,531)
Beginning total OPEB Liability	1,759,895	2,336,426
Ending total OPEB Liability	<u>\$ 1,952,112</u>	<u>\$ 1,759,895</u>

4. OPEB Expense (Benefit)

The City recognized OPEB expense (benefit) of \$(8.3) million and \$2.6 million for the reporting years ended June 30, 2024 and June 30, 2023, respectively. The Fund recognized OPEB expense (benefit) of \$(0.6) million and \$0.2 million for the reporting years ended June 30, 2024 and June 30, 2023, respectively. Components of OPEB expense (benefit) recognized is as follows (in thousands):

Note 9. OTHER EMPLOYEE BENEFITS (continued)

Components of OPEB Expense (Benefit)	June 30, 2024	June 30, 2023
	City	City
Service cost	\$ 89,215	\$ 124,690
Interest	64,343	52,553
Current-period benefit changes	—	—
Difference between expected and actual experience	1,346	3,316
Amortization of beginning of year deferred amounts	(174,617)	(75,008)
Changes of assumptions	11,437	(102,925)
OPEB expense (benefit)	<u>\$ (8,276)</u>	<u>\$ 2,626</u>

5. Schedule of Deferred Outflows and Inflows of Resources

Deferred outflows and inflows of resources are differences between actual and expected experience that are not reflected in the current year's expenses. Deferred outflows of resources and deferred inflows of resources by source reported by the City and the Fund at June 30, 2024 and 2023 is as follows (in thousands):

	June 30, 2024		June 30, 2023	
	City		City	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	\$ 247,116	\$ (593,721)	\$ 220,498	\$ (796,552)
Difference between expected and actual earning in the total OPEB liability	26,005	(48,403)	19,896	(76,945)
City contributions subsequent to the measurement date	60,872	—	63,556	—
Total	<u>\$ 333,993</u>	<u>\$ (642,124)</u>	<u>\$ 303,950</u>	<u>\$ (873,497)</u>

	June 30, 2024		June 30, 2023	
	Fund		Fund	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	\$ 18,372	\$ (44,140)	\$ 16,530	\$ (59,716)
Difference between expected and actual earning in the total OPEB liability	1,933	(3,598)	1,492	(5,768)
Fund contributions subsequent to the measurement date	4,399	—	4,725	—
Total	<u>\$ 24,704</u>	<u>\$ (47,738)</u>	<u>\$ 22,747</u>	<u>\$ (65,484)</u>

Note 9. OTHER EMPLOYEE BENEFITS (continued)

\$60.9 million reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized by the City as a reduction of the total OPEB liability in the year ending June 30, 2025. \$4.4 million reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized by the Fund as a reduction of the total OPEB liability in the year ending June 30, 2025.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to total OPEB Liability at June 30, 2024 for the City and the Fund will be recognized in OPEB expense (benefit) as follows (in thousands):

<u>Year Ending June 30</u>	<u>City of Houston</u>	<u>Fund</u>
2025	\$ (115,240)	\$ (8,567)
2026	(69,052)	(5,134)
2027	(43,001)	(3,197)
2028	(80,451)	(5,981)
2029	(86,826)	(6,455)
Thereafter	25,567	1,901
Total	<u>\$ (369,003)</u>	<u>\$ (27,433)</u>

6. Sensitivity of the Total OPEB Liability to Changes in the Discount Rate and Healthcare Cost Trend Rate

The following presents the total OPEB liability, calculated using the current discount rate and the healthcare cost trend rate, as well as what the City's and the Fund's total OPEB Liability would have been if they were calculated using a discount rate or healthcare cost trend rate that is 1-percent-point lower and 1-percent-point higher than the current rate (in thousands):

June 30, 2024	1% Decrease	Current Discount Rate	1% Increase
	2.65%	3.65%	4.65%
City - Net OPEB Liability	\$ 2,297,634	\$ 1,952,112	\$ 1,679,213
Fund proportionate share of NOL	170,816	145,128	124,840
<hr/>			
June 30, 2023	1% Decrease	Current Discount Rate	1% Increase
	2.54%	3.54%	4.54%
City - Net OPEB Liability	\$ 2,057,272	\$ 1,759,895	\$ 1,524,711
Fund proportionate share of NOL	154,228	131,934	114,303

Note 9. OTHER EMPLOYEE BENEFITS (continued)

June 30, 2024	1% Decrease in Health Care Cost Trend Rates	Current Health Care Cost Trend Rate	1% Increase in Health Care Cost Trend Rates
City - Net OPEB Liability	\$ 1,628,968	\$ 1,952,112	\$ 2,375,156
Fund proportionate share of NOL	121,104	145,128	176,579

June 30, 2023	1% Decrease in Health Care Cost Trend Rates	Current Health Care Cost Trend Rate	1% Increase in Health Care Cost Trend Rates
City - Net OPEB Liability	\$ 1,490,595	\$ 1,759,895	\$ 2,111,265
Fund proportionate share of NOL	111,746	131,934	158,275

7. Schedule of Assumptions

The total OPEB Liability was rolled forward from an actuarial valuation as of June 30, 2023 using the following assumptions, applied to all periods included in the measurement, unless otherwise specified.

Experience study	June 30, 2022
Inflation	2.25%
Salary increases	2.75% to 22.75%, varies by job classification, service, and age
Discount rate	3.65% and 3.54% for June 30, 2023 and 2022 reporting, respectively
Measurement date	June 30, 2023
Healthcare Costs Trends Rates	
Medical	6.75% grading down to 4.50% by 0.25% per annum
Prescription drug	9.50% grading down to 4.50% by 0.50% per annum
Medicare Advantage	-2.80% in the first year, then 4.50% thereafter
Administrative costs	2.00%
Healthy mortality rates	Rates that vary by job classification and employee status. The rates are consistent with the pension plans valuation assumptions for the same employees.

B. Long-Term Disability Plan (LTD)

The long-term disability ("LTD") plan, with related contributions and benefit payments accounted for as an internal service fund of the City, is a part of the City's Compensable Sick Leave Plan ("CSL") and is provided at no cost to City employees who are members of CSL. The LTD plan is a single-employer plan. Coverage is effective the later of September 1, 1985 or upon completion of one year of continuous service. When an employee cannot work because of injury or illness, the plan provides income equal to 50% of base pay plus longevity, or 70% of base pay plus longevity when combined with income benefits available from other sources. Plan benefits may be payable after all CSL scheduled sick leave benefits, including frozen sick leave days, have been used, however, not before six months of absence from work. The plan is administered by Reed Group, which is reimbursed by the internal service fund for claims as they are paid along with a fee for administrative services. For the years ended June 30, 2024 and June 30, 2023, claims paid totaled approximately \$0.9 million for each year. The Fund participates in the OPEB-LTD plan for the City's municipal employees. No assets are accumulated in a trust that meets the criteria of GASB codification P22.101 or P52.101 to pay related benefits for this OPEB plan.

Note 9. OTHER EMPLOYEE BENEFITS (continued)

A separate accounting is not done for the Fund's portion. It is allocated its share of experience on annual basis.

1. Changes in Total OPEB LTD Liability

Total OPEB - LTD Liability (in thousands)

City	June 30, 2024	June 30, 2023
Beginning Balance	\$ 14,071	\$ 14,170
Changes for the Year		
Service Cost	1,558	1,571
Interest	628	541
Experience	(1,644)	(965)
Benefit Payments	(870)	(920)
Assumption Changes	(95)	(326)
Net Changes	(423)	(99)
Ending Balance	\$ 13,648	\$ 14,071

Total OPEB liability at June 30, 2024 and 2023 was measured as of June 30, 2024 and 2023, respectively. At June 30, 2024, total OPEB liability of \$13.6 million includes \$8.4 million and \$5.3 million for active and disabled employees. At June 30, 2023, total OPEB liability of \$14.1 million includes \$8.2 million and \$5.9 million for active and disabled employees, respectively.

The Fund's proportionate share of the total OPEB liability for the LTD at June 30, 2024 and 2023 was 13.74% and 13.78%, respectively.

2. OPEB LTD Expense

For the reporting year ended June 30, 2024 and June 30, 2023, the OPEB expense of the City is \$1.9 million and \$2.0 million. Components of OPEB Expense (in thousands) for the years ended for June 30, 2024 and June 30, 2023 are as follows:

	June 30, 2024		June 30, 2023	
	City of Houston	Fund	City of Houston	Fund
Service Cost	\$ 1,558	\$ 214	\$ 1,571	\$ 216
Interest on TOL	628	86	541	75
Difference between Expected and Actual Experience	(504)	(69)	(340)	(47)
Changes in Assumptions	237	33	247	34
Total OPEB Expense	\$ 1,919	\$ 264	\$ 2,019	\$ 278

Note 9. OTHER EMPLOYEE BENEFITS (continued)

3. Schedule of Deferred Outflows and Inflows of Resources

Deferred outflows of resources and deferred inflows of resources by sources related to the LTD reported by the City and Fund at June 30, 2024 and 2023 (in thousands):

	June 30, 2024		June 30, 2023	
	City		City	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between Expected and Actual Experience	\$ 556	\$ (4,615)	\$ 692	\$ (3,610)
Changes of Assumptions	1,895	(917)	2,264	(954)
Total	\$ 2,451	\$ (5,532)	\$ 2,956	\$ (4,564)

	June 30, 2024		June 30, 2023	
	Fund		Fund	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between Expected and Actual Experience	\$ 77	\$ (634)	\$ 95	\$ (497)
Changes of Assumptions	260	(126)	312	(131)
Total	\$ 337	\$ (760)	\$ 407	\$ (628)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB at June 30, 2024 for the City and the Fund will be recognized in OPEB expense as follows (in thousands):

Year Ending June 30	City of Houston	Fund
2025	\$ (266)	\$ (37)
2026	(266)	(37)
2027	(266)	(37)
2029	(255)	(35)
2029	(394)	(54)
Thereafter	(1,634)	(223)
Total	\$ (3,081)	\$ (423)

Note 9. OTHER EMPLOYEE BENEFITS (continued)

4. Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the Total OPEB liability - LTD, calculated using the current discount rate of 4.31% and 4.13%, June 30, 2024 and 2023, respectively, as well as what the total OPEB Liability would be if they were calculated using a discount rate that is 1-percentage point lower and 1 percentage point higher than the current rate (in thousands):

June 30, 2024	1% Decrease 3.31%	Current Discount Rate 4.31%	1% Increase 5.31%
City - Total OPEB / LTD Liability	\$ 14,168	\$ 13,648	\$ 13,120
Fund proportionate share of NOL	1,946	1,875	1,802

June 30, 2023	1% Decrease 3.13%	Current Discount Rate 4.13%	1% Increase 5.13%
City - Total OPEB / LTD Liability	\$ 14,622	\$ 14,071	\$ 13,517
Fund proportionate share of NOL	2,014	1,939	1,862

The last experience study for the LTD plan was performed as of April 30, 2024.

C. Deferred Compensation Plan

The City offers its employees a deferred compensation plan (the "DCP"), created in accordance with Internal Revenue Code Section 457 as a separately administered trust. The DCP, available to all City employees, permits employees to defer a portion of their salary until future years. The City does not make any matching or discretionary contributions to the DCP. The DCP is considered as an other employee benefit plan in accordance with paragraph 6 of GASBS No. 97. The DCP is not considered as a fiduciary activity of the City under the provisions of GASBS No. 84. The deferred compensation funds are not available until termination, retirement, death or unforeseeable emergency. However, the DCP now offers loans to participant employees. The maximum loan amount is the lesser of \$50,000 or 50% of the total account balance, less any outstanding loans. The minimum loan amount is \$1,000. The DCP's assets are not subject to the City's general creditors and are not included in these the accompanying financial statements.

D. Workers' Compensation Self-Insurance Plan

The City has established a Workers' Compensation Self-Insurance Plan ("the "WCSP"), accounted for within the various operating funds. The WCSP is administered by TriStar Insurance Group, Inc. Funds are wire transferred to TriStar as needed to pay claims.

Note 9. OTHER EMPLOYEE BENEFITS (continued)

As of June 30, 2024 and 2023, the City has an accumulated liability in the amount of \$143.2 million and \$146.2 million, respectively, covering estimates for approved but unpaid claims and incurred but not reported claims (calculated on an actuarial basis) recorded in the City's Statement of Net Position. The amount of liability is based on an actuarial study each year. The Fund's share of the liability totaled approximately \$5.6 million and \$6.0 million at June 30, 2024 and 2023, respectively.

Schedule of Changes in City Liability (in thousands)

City	June 30, 2024	June 30, 2023
Beginning actuarial estimate of claims liability, July 1	\$ 146,202	\$ 148,698
Incurred claims for fiscal year	20,726	24,704
Payment of claims	(25,889)	(19,200)
Actuarial adjustment	2,199	(8,000)
Ending actuarial estimate of claims liability, June 30	<u>\$ 143,238</u>	<u>\$ 146,202</u>

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Note 10. COMMITMENTS AND CONTINGENCIES

Litigation and Claims

The City and the Fund are defendants in various lawsuits and is aware of pending claims arising in the ordinary course of its municipal and enterprise activities, certain of which seek substantial damages. The matters affecting the Combined Utility System are primarily class actions and contracts. The status of such litigation ranges from an early discovery stage to various levels of appeal, against which the City and the Fund will continue to vigorously defend itself. The amount of damages is limited in certain cases under the Texas Tort Claims Act and is subject to appeal. The City intends to defend itself vigorously against the suits. In the opinion of management, the outcome of any litigation will not have a material effect on the financial position or the Combined Utility System's ability to conduct business.

Clean Water Act. The City entered into a Consent Decree executed with the United States of America on behalf of the Environmental Protection Agency ("EPA") and the State of Texas ("Texas") to settle claims arising under the Clean Water Act relating to the City's Wastewater Collection and Treatment System. The Consent Decree became effective on April 1, 2021, when it was entered by the United States District Court for the Southern District of Texas, Houston Division, in the matter entitled United States of America, et al. v. City of Houston, Texas; Civil Action No. 4:18-cv-03368.

The Consent Decree contains specific remedial measures to address sanitary sewer overflows ("SSOs") and wastewater treatment plant permit exceedances that are being implemented over the 15-year term of the Consent Decree. A copy of the Consent Decree is available on the City's website at <https://www.publicworks.houstontx.gov/> that sets forth details regarding the City's obligations and as well as progress reports to date.

Per the provisions of the Consent Decree, the City paid \$4.4 million in penalties to the State and EPA, and \$200,000 in attorneys fees to the State to resolve all civil claims of the federal government and the State against the City for alleged wastewater violations since 2005. The Consent Decree also provides for the imposition of stipulated penalties to be paid to the United States and State over the term of the Consent Decree for SSOs, effluent exceedances, and failure to timely complete/submit deliverables and/or implement compliance requirements. During the eleven (11) quarters since the operation under the consent decree, the City has been assessed and has paid \$2.5 million in stipulated penalties to the United States and State for SSOs and effluent exceedances; the City has not been assessed any stipulated penalties to-date for failing to timely complete/submit deliverables and/or implement compliance requirements.

While the total amount of the investment to be made in the wastewater system will not be known until the System completes the assessment work to identify the condition and remedial measures needed, it is estimated that the City may be required to invest \$9 billion over the 15-year term of the Consent Decree to upgrade the wastewater system pursuant to the Consent Decree. The City also plans to undertake a water and wastewater rate study to take into account this additional investment in wastewater infrastructure in evaluating impacts on future water/wastewater utility rates. Other than the costs identified above paid for resolution of all civil claims of the federal government and the State against the City for alleged wastewater violations since 2005 and the stipulated penalties paid to date, the City cannot predict the final financial impact on current and future long-term operations, annual maintenance and/or capital improvements costs that may be required, which could be substantial. Until the City conducts and completes its next rate study, the City will manage the System through capital investments, maintenance and assessment activities. These activities include enhanced sewer cleaning, restaurant inspections, system inspections and investigations, SSO response, and public outreach and education.

Note 10. COMMITMENTS AND CONTINGENCIES (continued)

Environmental Liabilities

The assessment and remediation of asbestos, mold and groundwater contamination are ongoing and included in the cost of the capital project at the time it becomes an obligating event under GASB 49. Management had determined the costs of this additional remediation for which the Combined Utility System is ultimately liable would not be material in these financial statements.

Commitments for Capital Facilities

At June 30, 2024 and 2023, the Fund had appropriated, but not yet spent, \$1,152.8 million and \$1,395.5 million, respectively, for capital projects.

Risk Management

The City purchases fidelity coverage to comply with City ordinance, boiler and machinery insurance with a per occurrence loss limit of \$125.0 million and commercial property insurance with a per occurrence loss limit of \$200.0 million. The commercial property insurance sub-limit for flood is \$200.0 million. The commercial property insurance provides deductibles as follows: \$2.0 million per occurrence for all perils, except (1) 3% of the damaged insured value for windstorm or hail from a named storm, subject to a \$2.5 million minimum and a \$20.0 million maximum deductible and (2) 3% of the damaged insured value for flood, subject to a \$2.5 million minimum and a \$20.0 million maximum deductible. Should a named storm event occur that involves both perils of windstorm and flood, the maximum deductible is \$20.0 million. The City's property insurance retention is 10% of the \$50.0 million primary limits, not to exceed the \$5.0 million retention limit.

Electricity Futures Contracts

On July 1, 2020, the City of Houston entered into an electricity supply agreement with Reliant Energy Retail Services, Inc. for a 5-year term with two 1-year options. The total committed price is approximately \$640.1 million for expected usage of the potentially 7-year contract. As of June 30, 2024, the remaining commitment is \$241.9 million.

On November 13, 2015, the City entered into a solar energy supply agreement with ENGIE to supply solar power to the City from a facility located in Alpine, Texas, for a 20-year term starting in April 2017. The contract value is approximately \$124.7 million. As of June 30, 2024, the remaining commitment is \$81.5 million.

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Note 11. RELATED ORGANIZATION TRANSACTIONS

Trinity River Authority (TRA)

The City and TRA have a long-term contract under which the City is obligated to pay debt service for certain bonds as well as certain maintenance and operating expenses for a TRA dam and reservoir. During the fiscal year ended June 30, 2008, all outstanding long-term debt had been paid off. During the fiscal years ended June 30, 2024 and June 30, 2023, the City paid \$6.2 million and \$4.5 million for maintenance and operating expenses under the terms of the contract.

In December 2016, the City and the TRA entered into a Raw Water Supply Contract. This contract referred to prior agreements with TRA regarding the construction of Lake Livingston and the Wallisville salinity control barrier of which the City paid for all the construction costs. The 2016 agreement established a receivable due from TRA for their 30% share of the project costs. The receivable will be offset by the charges due from the City to TRA as established by the Raw Water Supply contract. It is estimated the receivable will be dismissed by 2040. The balance as of June 30, 2024 and June 30, 2023 was \$56.9 million and \$60.1 million, respectively. For FY2024, the current portion of this receivable was \$3.5 million, with the remaining \$53.4 million reflected as non-current. For FY2023, the current portion of this receivable was \$3.5 million, with the remaining \$56.6 million reflected as non-current.

Coastal Water Authority (CWA)

The City has a long-term contract with Coastal Water Authority (CWA) for water conveyance. During the fiscal year ended June 30, 2024, the City paid CWA \$6.4 million for debt services and \$35.9 million for maintenance and operating expenses. During the fiscal year ended June 30, 2023, the City paid CWA \$6.4 million for debt services and \$32.0 million for maintenance and operating expenses.

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Note 12. SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 18, 2024, the date that financial statements were available to be issued, and determined that there were no events that require disclosure. No events occurring after this date have been evaluated for inclusion in these financial statements.

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REQUIRED SUPPLEMENTARY INFORMATION





Schedule of Changes in the Fund's Net Pension Liability and Related Ratios

For Fiscal Years Ending June 30 (in thousands)

Last 10 Fiscal Years

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Total Pension Liability	\$984,693	\$993,297	\$984,500	\$972,139	\$895,898	\$865,387	\$843,068	\$737,088	\$745,768	\$902,524
Plan Fiduciary Net Position	(738,647)	(709,890)	(699,601)	(691,048)	(484,128)	(512,509)	(492,791)	(386,811)	(355,527)	(465,299)
Net Pension Liability	<u>\$246,046</u>	<u>\$283,407</u>	<u>\$284,899</u>	<u>\$281,091</u>	<u>\$411,770</u>	<u>\$352,878</u>	<u>\$350,277</u>	<u>\$350,277</u>	<u>\$390,241</u>	<u>\$437,225</u>
CUS Proportionate Percentage	16.94%	17.43%	17.70%	17.87%	16.80%	16.53%	16.49%	14.86%	14.81%	18.94%
Covered Payroll	\$126,782	\$123,799	\$120,068	\$114,889	\$105,007	\$101,552	\$100,820	\$89,900	\$94,885	\$118,232
The Fund's Proportionate Share of NPL as a Percentage of Covered Payroll	194.07%	228.93%	237.28%	244.66%	392.14%	347.49%	347.43%	389.63%	411.28%	369.80%
Plan Fiduciary Net Position as a Percentage of TPL	<u>75.01%</u>	<u>71.46%</u>	<u>71.06%</u>	<u>71.09%</u>	<u>54.04%</u>	<u>59.22%</u>	<u>58.45%</u>	<u>52.48%</u>	<u>47.67%</u>	<u>51.56%</u>


Schedule of the Fund's Contributions for Municipal Pension Plans
For Fiscal Years Ending June 30
(in thousands)

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Actuarially Determined Contribution	\$35,473	\$35,201	\$34,567	\$33,648	\$30,735	\$29,461	\$69,905	\$27,455	\$24,032	\$29,416
Contributions in Relation to the Actuarially Determined Contribution	36,070	35,703	34,929	33,017	29,639	29,131	69,505	27,132	23,695	27,466
Contribution Deficiency (Excess)	\$(598)	\$(502)	\$(362)	\$631	\$1,095	\$330	\$400	\$323	\$336	\$1,949
Covered Payroll	\$126,782	\$123,799	\$120,068	\$114,889	\$105,007	\$101,552	\$100,820	\$89,900	\$94,885	\$118,232
Contributions as a Percentage of Covered Payroll	28.45%	28.84%	28.74%	28.23%	28.69%	68.94%	30.18%	24.97%	23.23%	23.00%

Schedule of the Fund's Investment Returns
For Fiscal Years Ending June 30
(in thousands)

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Annual Return	9.8%	6.1%	5.0%	38.6%	(3.7)%	6.2%	8.7%	12.2%	0.9%	N/A

Notes to Required Pension Supplementary Information

Valuation Date: July 1, 2023 and 2022

Notes: Actuarially determined contribution rates are calculated as of July 1, which is 12 months prior to the beginning of the fiscal year in which they are contributed. The assumptions shown below apply to the Actuarially Determined Employer Contribution for fiscal year 2024 and 2023 which was determined by the July 1, 2023 and 2022 actuarial valuation. These assumptions are the same as those used to determine the Net Pension Liability as of June 30, 2024 and 2023.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial cost method: Entry Age Normal

Amortization method: Level Percentage of Payroll, Open

Remaining amortization period: 24 years

Assets valuation method: 5 year smoothed market, direct offset of deferred gains and losses

Inflation: 2.25%

Salary increases: 3.25% to 5.50% including inflation

Investment rate of return: 7.00%

Retirement age: Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2021 valuation pursuant to an experience study of the period 2015– 2020.

Mortality: PUB-2010 Mortality Table, amount weighted, Below-Median Income, with a 2-year set forward. The rates are then projected on a fully generational basis by the long-term rates of improvement of MP-2020.

Other information: 1. The actuarially determined contribution includes the Legacy Liability payment as specified by the January 1, 2016 Risk Sharing Valuation Study and a calculated employer rate equal to the normal cost and the amortization of any new unfunded liabilities over a closed 30 year period from the valuation date the liability base was created.

2. Investment rate of return was lowered from 8.50% to 8.00% as of July 1, 2015 and subsequently lowered to 7.00% as of July 1, 2017.

3. Salary increases were changed as of July 1, 2016, from 3.25%-6.00%, including inflation, to 3.25%-5.50%, including inflation.


Schedule of the Fund's Proportionate Share of OPEB Liability and Related Ratios
(in thousands)

	Health Benefits						
	2024	2023	2022	2021	2020	2019	2018 (1)
Total OPEB liability	\$145,128	\$131,934	\$182,172	\$211,742	\$144,480	\$149,754	\$183,319
Plan Fiduciary Net Position	—	—	—	—	—	—	—
Net OPEB Liability	\$145,128	\$131,934	\$182,172	\$211,742	\$144,480	\$149,754	\$183,319
Fund's proportionate percentage	7.43%	7.50%	7.80%	8.10%	6.51%	6.64%	7.52%
Fund's covered-employee payroll	\$104,098	\$102,160	\$104,826	\$105,985	\$86,713	\$85,324	\$92,872
Total OPEB liability as a percentage of the Fund's covered-employee payroll	139.42%	129.14%	173.78%	199.78%	166.62%	175.51%	197.39%

Notes to Schedule:

(1) The schedule is intended to show information for ten years. The additional years' information will be displayed as it becomes available.



Schedule of the Fund's Proportionate Share of OPEB Liability and Related Ratios

(in thousands)

	Long-Term Disability						
	2024	2023	2022	2021	2020	2019	2018 (1)
Total OPEB Liability	\$1,875	\$1,939	\$1,996	\$2,217	\$1,460	\$1,097	\$852
Plan Fiduciary Net Position	—	—	—	—	—	—	—
Net OPEB Liability	\$1,875	\$1,939	\$1,996	\$2,217	\$1,460	\$1,097	\$852
CUS Proportionate Percentage	13.74%	13.78%	14.08%	14.26%	9.38%	8.51%	7.73%
Fund's Covered-employee Payroll	\$138,732	\$131,445	\$126,157	\$113,310	\$72,920	\$70,931	\$60,951
Total OPEB liability as a percentage of the Fund's covered-employee payroll	1.35%	1.47%	1.58%	1.96%	2.00%	1.55%	1.40%

Notes to Schedule:

(1) The schedule is intended to show information for ten years. The additional years' information will be displayed as it becomes available.

Notes to Required Pension Supplementary Information

Retiree Health Insurance Benefits

Note: There are no assets in a trust compliant with GASB codification P22.101 or P52.101 to pay related benefits.

Measurement Date: June 30, 2023 for reporting date as of June 30, 2024.

Benefit Changes: Reflected June 30, 2023

No changes.

Reflected June 30, 2022

• Effective July 1, 2022, the OOP maximum for all non-Medicare Advantage plans increased from \$8,150 to \$8,700. For the purposes of this valuation, the impact of this change was considered negligible.

Reflected June 30, 2021

• Texas Plus, Cigna Health Spring, and UHC Plan F plans have all been terminated as of 12/31/2020 and a new plan, Aetna PO1 PPO Basic, was added as of 1/1/2021.

Reflected June 30, 2020

No changes.

Reflected June 30, 2019

Effective May 1, 2019:

For Cigna Limited Network Plan:

- Deductible increased from \$150 / \$450 (individual / family) to \$200 / \$600.
- OOP maximum increased from \$4,500 / \$9,000 to \$7,900 / \$15,800.
- Prescription Drug deductible increased from \$100 / \$300 to \$150 / \$450.

For Cigna Open Access Plan:

- Deductible increased from \$750 / \$1,500 (individual / family) to \$850 / \$1,700
- OOP maximum increased from \$6,840 / \$13,700 to \$7,900 / \$15,800.

For Consumer Driven Plan:

- OOP maximum increased from \$6,840 / \$13,700 to \$7,900 / \$15,800.

Retirees of Texas plan has been discontinued.

Effective May 1, 2020:

For Cigna Limited Network Plan:

- OOP Maximum increased from \$7,900 to \$15,800 to \$8,150/\$16,300.

For Cigna Open Access Plan:

- OOP Maximum increased from \$7,900 to \$15,800 to \$8,150/\$16,300.

For Consumer Driven Health Plan:

- OOP Maximum increased from \$7,900 to \$15,800 to \$8,150/\$16,300 in network and \$12,000/\$24,000 to \$16,000/\$32,000 out of network.
- Prescription coinsurance increased from 40% to 60%.

For Kelsey Care Advantage:

- Specialist copay increased from \$15 to \$20.

For Cigna Health Spring

- Emergency Room Copay increased from \$100 to \$120.
- Non-preferred generic pharmacy copay increased from \$10 to \$45.
- Mail order prescription drugs moved to two times retail for all tiers.

Aetna PPO:

- Inpatient copay increased from \$80 to \$250 for in network and from \$80 to 20% per stay for out of network.
- Non-preferred generic pharmacy copay increased from \$20 to \$40 for out of network.
- Preferred brand name pharmacy copay increased from \$40 to \$80 for out of network.

Reflected June 30, 2018

- KelseyCare Advantage HMO – Specialty Drug copay increased to \$75
- Texas Plus – Inpatient copay increased to \$325, emergency room copay rates to \$100, prescription drug copays increased to \$10/\$15/\$40/\$55/\$75.
- Cigna HealthSpring – Emergency room copay increased to \$100, mail order prescription drugs move to two times retail for all tiers.

Changes of Assumptions: Effective June 30, 2023



- The basis for the discount rate remained the same (20-year, general obligation, municipal bond index), resulting in a change in discount rate to 3.65% compared to 3.54% in prior year.
- The trend rates associated with the starting healthcare claims and contribution were updated to reflect recent experience and expected impacts due to the Inflation Reduction Act (IRA) legislation effective in 2025.

Effective June 30, 2022

- The basis for the discount rate remained the same (20-year, general obligation, municipal bond index), resulting in a change in discount rate to 3.54% compared to 2.16% in prior year.
- Medicare and prescription drug claims costs and trend rates were updated to reflect recent experience.
- The actuarial factors used to estimate individual retiree and spouse costs by age and by gender were updated. The new factors are based on a review of historical claims experience by age, gender, and status (active vs retired) from Segal's claims data warehouse.

Effective June 30, 2021

- The basis for the discount rate remained the same (20-year, general obligation, municipal bond index), resulting in a change in discount rate to 2.16% compared to 2.21% in prior year.
- The demographic assumptions (mortality, turnover, disability and retirement) for the Fire department were updated to be consistent with the Houston Firefighter's Relief and Retirement Fund Actuarial Certification as of July 1, 2020, dated September 16, 2021, completed by Buck Consulting.

Effective June 30, 2020

- Medical and prescription drug claims costs and trend rates were updated to reflect recent experience.
- The basis for the discount rate remained the same (20-year, general obligation, municipal bond index), resulting in a change in discount rate to 2.21 compared to 3.50% in prior year.
- Active participation rates upon retirement were updated to reflect recent experience.
- Life insurance to be fully retiree paid and is no longer being valued.

Effective June 30, 2019

- The excise tax regulation was repealed by Congress in December 2019.
- The basis for the discount rate remained the same (20-year, general obligation, municipal bond index), resulting in a change in the discount rate to 3.50% compared to 3.87% in the prior year.
- Post-Medicare starting costs were adjusted for the actual premiums charged. Similar adjustments were made for contribution rates.
- Prescription drug trend rates were changed to reflect future expectations by extending the number of years until the ultimate trend is reached.

Reflected June 30, 2018

- Medical, prescription drug, Medicare Plan, and administrative expected claims and payments were changed, based on experience through June 30, 2018.
- Medical, prescription drug, Medicare Plan, and administrative trend rates were changed to reflect future expectations.
- Demographic changes included mortality changes for all participants, changes to the salary scale for
- Municipal and Police participants, and changes to the retirement rates for Police and Fire participants.
- The basis for the discount rate remained the same (20-year, general obligation, municipal bond index), resulting in a change in the discount rate to 3.87% compared to 3.58% in the prior year.

Long Term Disability

Note:

There are no assets in a trust compliant with GASB codification P22.101 or P52.101 to pay related benefits.

Measurement Date:

June 30, 2024 for reporting date as of June 30, 2024.

Changes of Assumptions:

Discount rate - FY2024: 4.31%; FY2023: 4.13%; FY2022: 3.54%; FY2021: 2.16%; FY2020: 3.50%; FY2019: 3.50%; FY2018: 3.87%.

Employees Covered:

Houston Fire Department is covered by this LTD Plan in addition to all municipal employees. Houston Police Department is not covered by this LTD Plan.



EDUCATIONAL CAMPAIGN GIVE WATER A BREAK

The "Give Water a Break" campaign is Houston Water's latest initiative to educate the public about water conservation during droughts and promote year-round conservation. Below is a sample of the award-winning educational materials from the campaign.

BE A WATER WATCHDOG

Call 311 to report water use violations



HOUSTON IS IN A STAGE TWO DROUGHT
MANDATORY RESTRICTIONS ARE IN EFFECT | VISIT GIVEWATERABREAK.ORG

HOUSTON PUBLIC WORKS

DON'T DROWN YOUR LAWN

Limit Watering to 5 Minutes or Less to Help Prevent Runoff



HOUSTON IS IN A STAGE TWO DROUGHT
MANDATORY RESTRICTIONS ARE IN EFFECT | VISIT GIVEWATERABREAK.ORG

HOUSTON PUBLIC WORKS

DON'T SET IT AND FORGET IT

Adjust Sprinkler Systems to Match the Current Watering Restrictions



HOUSTON IS IN A STAGE TWO DROUGHT
MANDATORY RESTRICTIONS ARE IN EFFECT | VISIT GIVEWATERABREAK.ORG

HOUSTON PUBLIC WORKS

TOP TIPS FOR WATERING DURING A DROUGHT:

USE SHORT WATERING TIMES TO AVOID RUNOFF:

Set your irrigation system to run for 5 minutes or less to allow the soil to absorb water. This helps prevent runoff and ensures water reaches the roots.



IT TAKES A DROP, NOT A TSUNAMI.

Give Water a Break.



HOUSTON PUBLIC WORKS

Visit givewaterabreak.org for Water Saving Tips

STOP SMOTHERING YOUR LAWN. GIVE WATER A BREAK.

STAGE ONE DO'S:

- Do Water Using a Handheld Hose
- Do water only between 7 pm and 5 am
- Do water only on your Recommended days
 - Sunday & Thursday for Homes with Even Addresses
 - Tuesday & Saturday for Homes with Odd Addresses
- Do Only Water Grass and Plants on Your Property
- Do Call 311 to Report Leaks

STAGE ONE DON'TS:


- Don't Use Automatic Sprinklers to Water
- Don't Water Outside of Recommended Hours
- Don't Water Outside of Recommended Days
- Don't Use Watering Times Longer Than Five Minutes
- Don't Delay in Repairing Leaks in Your Irrigation System
- Don't Water on Rainy Days
- Don't Allow Water to Run Off Onto:
 - Adjacent Properties
 - Public or Private Roadways
 - Street Drains or C gutters

HOUSTON IS IN A STAGE ONE DROUGHT. VOLUNTARY WATER USAGE RESTRICTIONS ARE IN EFFECT. Learn More at givewaterabreak.org

HOUSTON PUBLIC WORKS


USE DRIP IRRIGATION:

Consider using a soaker hose or drip irrigation system to deliver water directly to the roots of your plants. This is more efficient than using a sprinkler.




MULCH YOUR GARDEN:

Apply a layer of mulch around your plants and in your garden beds. Mulch helps soil retain moisture, reducing the need for frequent watering.



LET YOUR GRASS GROW TALLER:

Taller grass shades the soil, reducing evaporation and promoting deeper root growth.



DUMP THE HIGH WATER BILL

Download the Water My Yard App

Available on Google Play and the App Store



HOUSTON PUBLIC WORKS
Give Water a Break

Visit WaterMyYard.org

INDOOR WATER-SAVING TIPS

- Check and report indoor water leaks.
- Turn off faucets when not in use.
- Install water-efficient appliances.
- Take shorter showers.
- Wash only full loads of laundry and dishes.
- Use fewer dishes each day.

OUTDOOR WATER-SAVING TIPS

- Limit watering your lawn.
- Check and report water leaks.
- Check and fix sprinkler heads.
- Use a rain barrel.
- Set automatic sprinklers to save.
- Turn off sprinklers during winter.
- Use mulch in your garden.
- Use native plants.
- Keep water off sidewalks.
- Use car washes.
- Use a pool cover.

Visit givewaterabreak.org for more water-saving tips and call 311 to report water leaks.



GIVE WATER A BREAK.


Houston, it's not 'til it's water!

It's our community's responsibility to conserve water by taking proactive steps to reduce water usage. Your continued support helps Houston be a stronger, more resilient city each and every day.



COLLECT RAINWATER:

Install a rain barrel to collect rainwater from your roof. This water can be used to irrigate your plants during dry spells.



CHOOSE DROUGHT-RESISTANT PLANTS:

Opt for native or drought-resistant plants in your landscaping. These plants require less water to thrive.



VISIT GIVEWATERABREAK.ORG FOR MORE TIPS AND TRICKS!

HOUSTON PUBLIC WORKS



03

STATISTIC SECTION (UNAUDITED)

ANNUAL COMPREHENSIVE FINANCIAL REPORT

Statistical Section

(Unaudited)

The statistical section of the Combined Utility System's annual comprehensive financial report represent detailed information to provide context to the information in the financial statements, note disclosures, and required supplementary information.

Section	Page	Description
FINANCIAL TRENDS	84	These schedules contain trend information to help the reader understand how the Combined Utility System's financial performance and well-being have changed over time.
REVENUE CAPACITY	87	These schedules contain information to help the reader assess the Combined Utility System's revenue resources and rate structures.
DEBT CAPACITY	99	These schedules present information to help the reader assess the affordability of the Combined Utility System's current levels of outstanding debt and the ability to issue additional debt in the future.
DEMOGRAPHIC AND ECONOMIC INFORMATION	107	These schedules offer demographic and economic indicators to help the reader understand environment within which the Combined Utility System's financial activities take place.
OPERATING INFORMATION	111	These schedules contain service and infrastructure data to help the reader understand how the information in the Combined Utility System's financial report relates to the services provided and the activities performed.



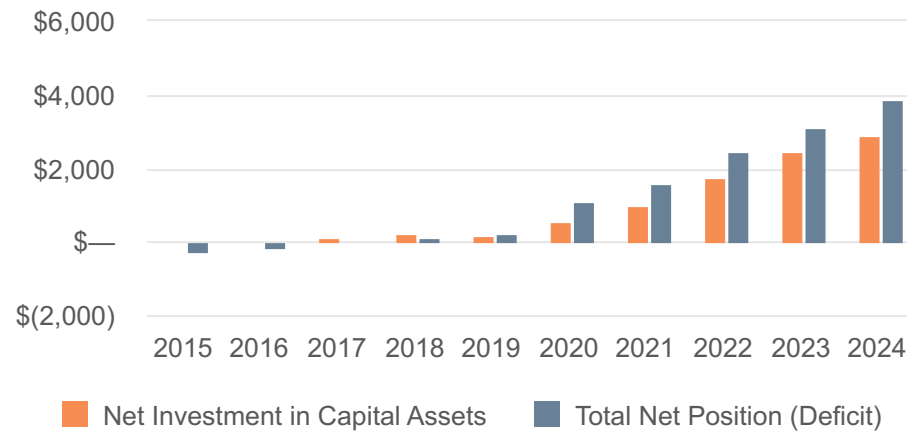
FINANCIAL TRENDS SCHEDULES



City of Houston, TX
Combined Utility System
Net Position

Last Ten Fiscal Years (amounts expressed in millions)
(Unaudited)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
					(restated)	(restated)				
Net Position										
Net investment in capital assets	\$ —	\$ 20	\$ 136	\$ 222	\$ 178	\$ 539	\$ 995	\$ 1,780	\$ 2,444	\$ 2,876
Restricted net position										
Restricted for debt service	—	—	—	85	64	70	72	72	75	79
Restricted for maintenance and operations	75	83	77	78	82	85	91	91	102	123
Restricted for capital improvement	1	1	74	16	14	15	15	16	17	16
Unrestricted (deficit)	(322)	(261)	(249)	(255)	(82)	394	411	519	475	764
Total Net Position (Deficit)	\$ (245)	\$ (156)	\$ 38	\$ 146	\$ 257	\$ 1,104	\$ 1,584	\$ 2,478	\$ 3,113	\$ 3,858



City of Houston, TX
Combined Utility System
Change in Net Position

Last Ten Fiscal Years (amounts expressed in thousands)
(unaudited)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Operating Revenues										
Water sales	\$ 486,517	\$ 529,879	\$ 547,054	\$ 559,010	\$ 554,294	\$ 591,611	\$ 584,594	\$ 698,263	\$ 802,915	901,357
Wastewater system user charges	434,305	462,786	475,392	479,978	485,183	509,315	510,832	607,343	713,004	767,457
Penalties, other services and charges	6,602	9,917	3,349	13,561	2,965	(834)	(2,686)	1,907	(11,937)	(38,239)
Total Operating Revenues	927,424	1,002,582	1,025,795	1,052,549	1,042,442	1,100,092	1,092,740	1,307,513	1,503,982	1,630,575
Non-Operating Revenues										
Investment income (loss)	7,685	12,652	3,954	8,074	55,170	54,988	3,310	(50,712)	39,748	88,609
Other non-operating revenue	49,632	55,306	58,414	74,595	83,688	70,546	84,451	152,820	85,144	87,034
Total Non-Operating Revenues	57,317	67,958	62,368	82,669	138,858	125,534	87,761	102,108	124,892	175,643
Total Revenues	\$ 984,741	\$ 1,070,540	\$ 1,088,163	\$ 1,135,218	\$ 1,181,300	\$ 1,225,626	\$ 1,180,501	\$ 1,409,621	\$ 1,628,874	1,806,218
Operating Expenses										
Maintenance and operating	\$ 428,732	\$ 451,342	\$ 354,396	\$ 492,391	\$ 516,503	\$ 518,591	\$ 529,971	\$ 463,364	\$ 578,050	\$ 640,844
Depreciation and amortization	231,048	236,841	246,218	252,093	257,430	265,306	273,747	282,839	289,362	294,198
Total Operating Expenses	659,780	688,183	600,614	744,484	773,933	783,897	803,718	746,203	867,412	935,042
Non-Operating Expenses										
Interest on long-term debt	265,013	252,116	248,920	248,284	268,708	247,440	242,569	257,907	270,085	282,801
Other expenses	—	1,877	—	—	—	—	—	—	2,955	91
Total Non-Operating Expenses	265,013	253,993	248,920	248,284	268,708	247,440	242,569	257,907	273,040	282,892
Total Expenses	\$ 924,793	\$ 942,176	\$ 849,534	\$ 992,768	\$ 1,042,641	\$ 1,031,337	\$ 1,046,287	\$ 1,004,110	\$ 1,140,452	1,217,934
Capital Contributions	9,983	10,364	17,260	9,624	12,330	319,627	408,344	546,307	201,164	197,186
Transfers (In/Out)	(47,725)	(49,759)	(61,395)	(63,058)	(57,831)	(50,921)	(61,984)	(57,875)	(54,396)	(41,022)
Total Change in Net Position	\$ 22,206	\$ 88,969	\$ 194,494	\$ 89,016	\$ 93,158	\$ 462,995	\$ 480,574	\$ 893,943	\$ 635,190	\$ 744,448



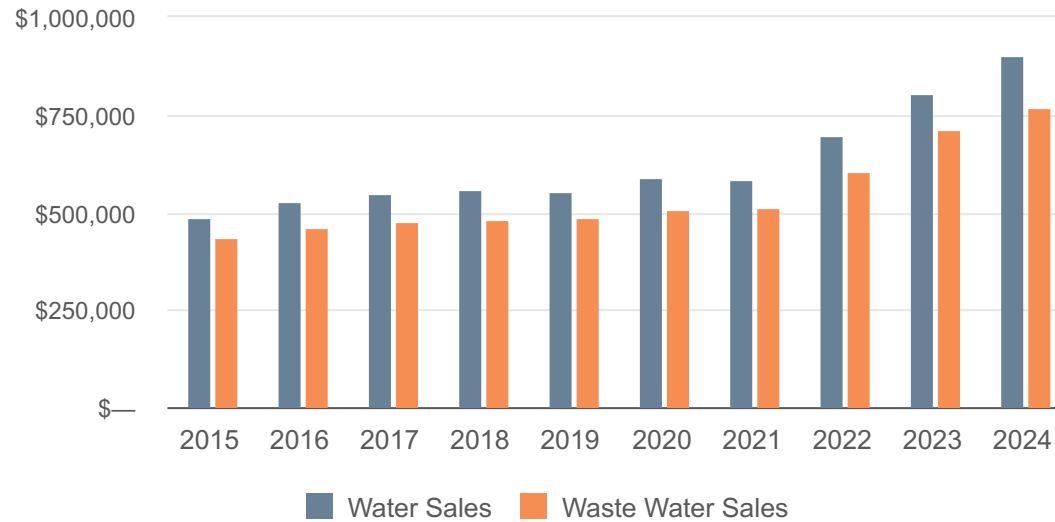
REVENUE CAPACITY SCHEDULES



Operating Revenues by Source

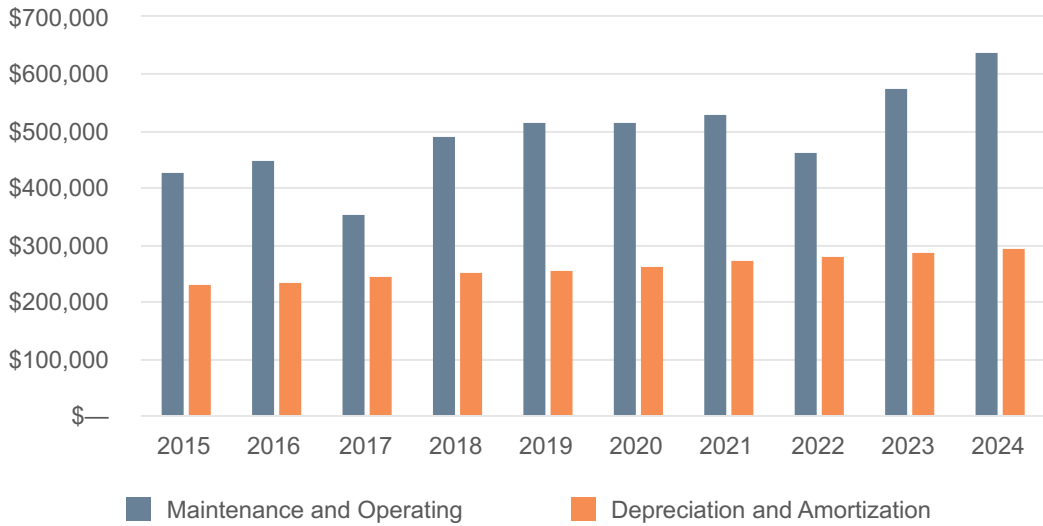
Last Ten Fiscal Years (amounts expressed in thousands)
(unaudited)

Fiscal Year	Water Sales	Waste Water Sales	Service Charges and Fees	Total
2015	\$ 486,517	\$ 434,305	\$ 6,602	\$ 927,424
2016	529,879	462,786	9,917	1,002,582
2017	547,054	475,392	3,349	1,025,795
2018	559,010	479,978	13,561	1,052,549
2019	554,294	485,183	2,965	1,042,442
2020	591,611	509,315	(834)	1,100,092
2021	584,594	510,832	(2,686)	1,092,740
2022	698,263	607,343	1,907	1,307,513
2023	802,915	713,004	(11,937)	1,503,982
2024	\$ 901,357	\$ 767,457	\$ (38,239)	\$ 1,630,575



Operating Expenses
Last Ten Fiscal Years (amounts expressed in thousands)
(unaudited)

Fiscal Year	Maintenance & Operating	Depreciation & Amortization	Total Operating Expenses
2015	\$ 428,732	\$ 231,048	\$ 659,780
2016	451,342	236,841	688,183
2017	354,396	246,218	600,614
2018	492,391	252,093	744,484
2019	516,503	257,430	773,933
2020	518,591	265,306	783,897
2021	529,971	273,747	803,718
2022	463,364	282,839	746,203
2023	578,050	289,362	867,412
2024	\$ 640,844	\$ 294,198	\$ 935,042



Revenues and Expenses

Last Ten Fiscal Years

(amounts expressed in thousands)

(unaudited)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Operating Revenues										
Water sales	\$ 486,517	\$ 529,879	\$ 547,054	\$ 559,010	\$ 554,294	\$ 591,611	\$ 584,594	\$ 698,263	\$ 802,915	\$ 901,357
Waste water system user charges	434,305	462,786	475,392	479,978	485,183	509,315	510,832	607,343	713,004	767,457
Penalties, other services and charges	6,602	9,917	3,349	13,561	2,965	(834)	(2,686)	1,907	(11,937)	(38,239)
Total Operating Revenues	927,424	1,002,582	1,025,795	1,052,549	1,042,442	1,100,092	1,092,740	1,307,513	1,503,982	1,630,575
Non-Operating Revenues										
Investment income (loss)	7,685	12,652	3,954	8,074	55,170	54,988	3,310	(50,712)	39,748	88,609
Other income	49,632	55,306	58,414	74,595	83,688	70,546	84,451	152,820	85,144	87,034
Total Non-Operating Revenues	57,317	67,958	62,368	82,669	138,858	125,534	87,761	102,108	124,892	175,643
Total Revenues	<u>\$ 984,741</u>	<u>\$ 1,070,540</u>	<u>\$ 1,088,163</u>	<u>\$ 1,135,218</u>	<u>\$ 1,181,300</u>	<u>\$ 1,225,626</u>	<u>\$ 1,180,501</u>	<u>\$ 1,409,621</u>	<u>\$ 1,628,874</u>	<u>\$ 1,806,218</u>
Operating Expenses										
Maintenance and operating	\$ 428,732	\$ 451,342	\$ 354,396	\$ 492,391	\$ 516,503	\$ 518,591	\$ 529,971	\$ 463,364	\$ 578,050	\$ 640,844
Depreciation and amortization	231,048	236,841	246,218	252,093	257,430	265,306	273,747	282,839	289,362	294,198
Total Operating Expenses	659,780	688,183	600,614	744,484	773,933	783,897	803,718	746,203	867,412	935,042
Non-Operating Expenses										
Interest on long-term debt	265,013	252,116	248,920	248,284	268,708	247,440	242,569	257,907	270,085	282,801
Other expenses	—	1,877	—	—	—	—	—	—	2,955	91
Total Non-Operating Expenses	265,013	253,993	248,920	248,284	268,708	247,440	242,569	257,907	273,040	282,892
Total Expenses	<u>\$ 924,793</u>	<u>\$ 942,176</u>	<u>\$ 849,534</u>	<u>\$ 992,768</u>	<u>\$ 1,042,641</u>	<u>\$ 1,031,337</u>	<u>\$ 1,046,287</u>	<u>\$ 1,004,110</u>	<u>\$ 1,140,452</u>	<u>\$ 1,217,934</u>

Coastal Water Authority (CWA) Revenues and Expenses

Last Ten Fiscal Years (amounts expressed in thousands)
(unaudited)

The following schedule sets forth the revenues and expenses (exclusive of certain non-cash transactions, primarily depreciation and amortization) of the "Water and Sewer System", as defined in the Coastal Water Authority Official Statements.

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Operating Revenues										
Water sales	\$ 486,517	\$ 529,879	\$ 547,054	\$ 559,010	\$ 554,294	\$ 591,611	\$ 584,594	\$ 698,263	\$ 802,915	\$ 901,357
Waste water system user charges	434,305	462,786	475,392	479,978	485,183	509,315	510,832	607,343	713,004	767,457
Penalties, other services and charges	6,602	9,917	3,349	13,561	2,965	(834)	(2,680)	1,907	(11,937)	(38,239)
Total Operating Revenues	927,424	1,002,582	1,025,795	1,052,549	1,042,442	1,100,092	1,092,746	1,307,513	1,503,982	1,630,575
Non-Operating Revenues	45,865	51,066	49,993	74,020	81,164	84,261	61,914	99,202	163,340	131,443
Total Gross Revenues (A)	\$ 973,289	\$1,053,648	\$1,075,788	\$1,126,569	\$1,123,606	\$1,184,353	\$1,154,660	\$1,406,715	1,667,322	1,762,018
Operating Expenses										
Maintenance and operating	406,619	419,161	431,126	432,152	461,859	459,410	499,533	503,696	578,839	589,890
Contractual maintenance and										
CWA debt service	18,064	17,684	7,204	6,399	6,385	6,381	6,398	6,376	6,356	6,351
Total Contractual	18,064	17,684	7,204	6,399	6,385	6,381	6,398	6,376	6,356	6,351
Total Operating Expenses (B)	424,683	436,845	438,330	438,551	468,244	465,791	505,931	510,072	585,195	596,241
Net Revenues	\$ 548,606	\$ 616,803	\$ 637,458	\$ 688,018	\$ 655,362	\$ 718,562	\$ 648,729	\$ 896,643	\$1,082,127	\$1,165,777
Gross Revenue (A) / Total Operating Expenses (B)	2.29	2.41	2.45	2.57	2.40	2.54	2.28	2.76	2.85	2.96

Largest Treated Water Customers

For Fiscal Years Ending June 30, 2024 and June 30, 2015
 (unaudited)

The following schedule presents information concerning the ten largest treated water customers of the Combined Utility System for the twelve month period ended June 30, 2024. The total charges to such customers during such period represent approximately 3.91% of the Combined Utility System's Gross Revenues and 7.71% of total water sales revenues for such period.

2024		2015	
Customers	Gross Charges	Customers	Gross Charges
1. North Harris Co. Regional Water Authority	\$ 13,718,755	1. North Harris Co. Regional Water Authority	\$ 12,521,085
2. West Harris Co. Regional Water Authority	10,893,885	2. West Harris Co. Regional Water Authority	7,237,759
3. North Channel Water Authority	10,078,038	3. North Channel Water Authority	6,997,232
4. City of Pasadena	7,955,930	4. North Fort Bend County Water Authority	5,404,793
5. North Fort Bend County Water Authority	7,021,504	5. City of Pasadena	3,822,812
6. Gulf Coast Water Authority (Galveston)	6,579,063	6. Anheuser-Busch, Inc	3,432,723
7. Anheuser-Busch, Inc	4,436,024	7. Gulf Coast Water Authority (Galveston)*	3,274,672
8. Baytown Area	3,785,071	8. City of Pearland	2,654,690
9. City of Pearland	3,633,167	9. Memorial Villages Water Authority	2,164,934
10. Clear Lake City	3,276,308	10. Clear Lake City	2,156,308
	<u>\$ 71,377,745</u>		<u>\$ 49,667,008</u>

Largest Untreated Water Customers

For Fiscal Years Ending June 30, 2024 and June 30, 2015
(unaudited)

The following schedule presents information concerning the ten largest untreated water customers of the Combined Utility System for a twelve month period ended June 30, 2024. The total of the contract payments by these ten customers during such period represents approximately 2.97% of the Combined Utility System's Gross Revenue and 5.87% of total water sales revenues for such period.

2024		2015	
Customers	Gross Charges	Customers	Gross Charges
1. Equistar Chemicals LP CH11	\$ 16,788,106	1. Equistar Chemicals	\$ 7,620,844
2. Deer Park Refining Partnership LP	6,006,348	2. Shell Oil	4,564,225
3. Houston Refining, LP (Lyondell-Citgo) CH11	5,740,978	3. Air Liquide America Corp.	3,755,826
4. Battleground Water Company	5,401,027	4. Battleground Water Company	3,706,548
5. Chevron Phillips Chemical Co,	5,247,005	5. Houston Refining, LP (Lyondell-Citgo)	3,296,037
6. Air Liquide America Corp.	4,480,023	6. Chevron Phillips Chemical Company	2,985,953
7. Hoechst Celanese	3,291,393	7. Baytown Area	2,795,558
8. Occidental Chemical	2,534,208	8. Hoechst Celanese	2,120,202
9. TPC Group (formerly Texas Petrochemical)	2,518,349	9. Occidental Chemical Corporation	1,670,684
10. Dear Park Energy Center	2,292,511	10. Deer Park Energy Center	1,386,459
	<u>\$ 54,299,948</u>		<u>\$ 33,902,336</u>

Largest Wastewater Customers

For Fiscal Years Ending June 30, 2024 and June 30, 2015
 (unaudited)

The following schedule presents information concerning the ten largest customers of the Sewer Facilities for the twelve month period ended June 30, 2024. The total charges to such customers represent approximately 2.33% of the Fund's Gross Revenues and 5.44% of Sewer Facilities gross charges during such period.

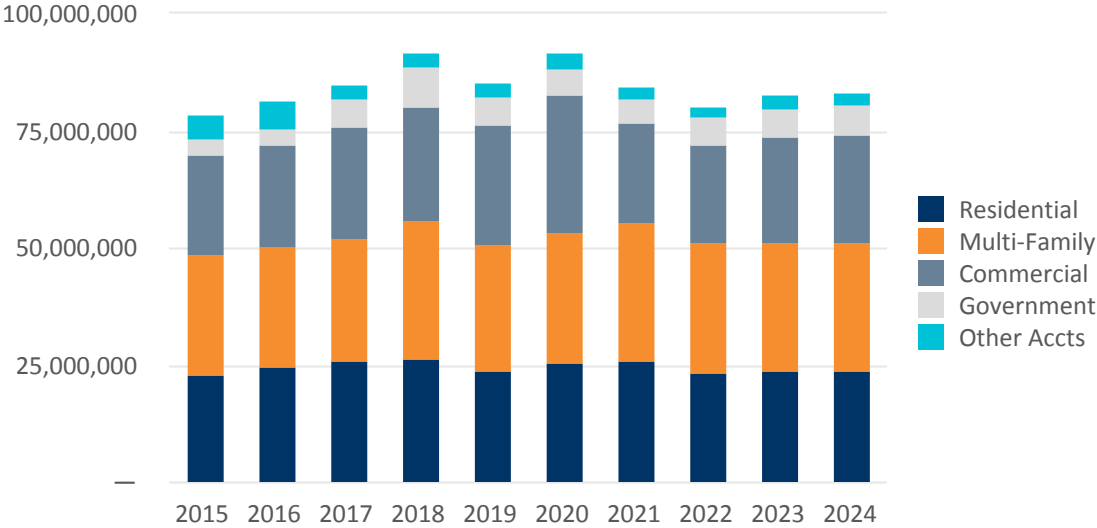
2024		2015	
Customers	Gross Charges	Customers	Gross Charges
1. City of Houston	\$ 10,026,487	1. Anheuser-Busch, Inc	\$ 4,518,145
2. Anheuser-Busch, Inc	7,971,285	2. Harris County	3,827,016
3. Houston Independent School District	6,468,141	3. City of Houston	3,569,115
4. University Of Houston	5,150,912	4. Houston Independent School District	2,767,596
5. Harris County	4,789,086	5. University of Houston	2,715,575
6. Memorial Hermann	3,575,087	6. Oak Farms Dairies	1,848,830
7. Rice University	2,201,100	7. Methodist Hospital	1,755,401
8. MD Anderson	1,484,589	8. MD Anderson Hospital	1,139,376
9. Methodist Hospital	604,507	9. Coca Cola	809,848
10. Republic Services	252,734	10. Gerald D. Hines	785,337
	<u>\$ 42,523,928</u>		<u>\$ 23,736,239</u>



Treated Water Consumption

*Last Ten Fiscal Years (in thousand gallons)
(NOT INCLUDING WHOLESALE NOR RAW WATER)
(unaudited)*

Fiscal Years	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Residential	23,265,022	24,744,815	25,911,974	26,498,295	24,144,424	25,495,741	26,166,947	23,640,857	24,058,354	23,937,110
Multi-Family	25,370,691	25,676,282	26,323,185	29,640,195	26,521,613	27,766,727	29,532,580	27,836,619	27,363,147	27,167,733
Commercial	21,591,973	21,825,149	23,764,306	24,188,333	25,778,408	29,590,893	21,200,453	20,818,858	22,411,325	23,049,978
Government	3,149,624	3,558,515	6,174,766	8,670,358	5,982,549	5,566,938	5,347,518	5,715,351	6,054,926	6,718,901
Other Accts	5,099,403	5,903,309	3,072,484	2,777,547	3,092,248	3,270,522	2,528,725	2,195,120	2,887,063	2,541,471
Total	78,476,713	81,708,070	85,246,715	91,774,728	85,519,242	91,690,821	84,776,223	80,206,805	82,774,815	83,415,193

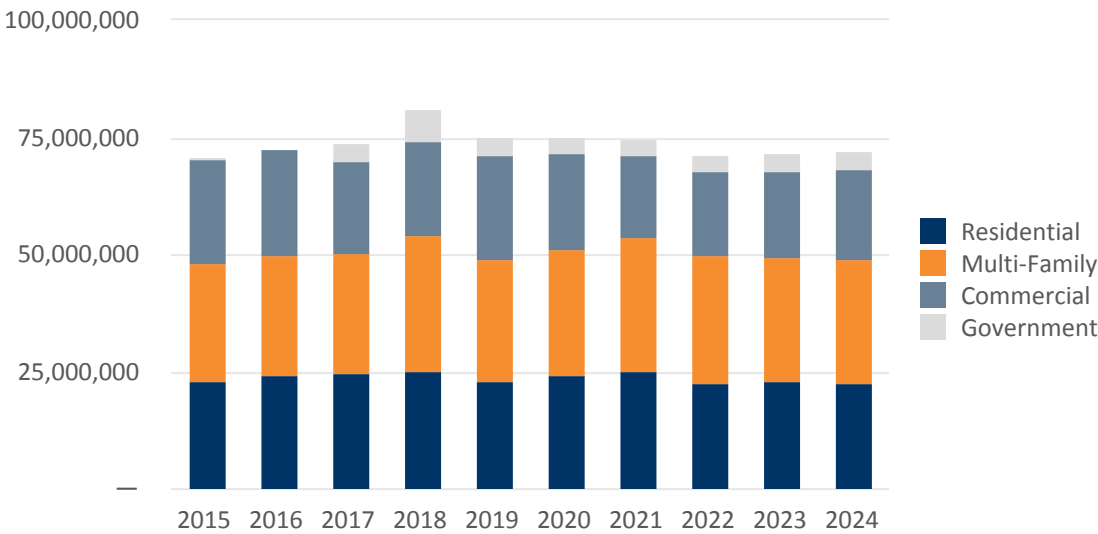




Waste Water Consumption

*Last Ten Fiscal Years (in thousand gallons)
(unaudited)*

Fiscal Years	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Residential	23,176,519	24,545,897	24,729,939	25,368,705	23,107,362	24,305,681	25,058,608	22,652,739	22,912,312	22,694,348
Multi-Family	25,290,180	25,520,422	25,669,642	29,017,348	25,860,847	27,100,348	28,918,302	27,264,817	26,640,463	26,396,148
Commercial	22,165,594	22,375,995	19,777,267	20,008,565	22,373,928	20,236,691	17,472,601	17,901,146	18,597,125	19,273,235
Government	428,287	400,109	3,799,206	6,865,830	4,030,345	3,402,662	3,251,174	3,541,662	3,503,413	4,051,230
Total	71,060,580	72,842,423	73,976,054	81,260,448	75,372,482	75,045,382	74,700,685	71,360,364	71,653,313	72,414,961



Water and Wastewater Average Rate Adjustments - All Customer Classes

Date	Average Percent Rate (Increase/Decrease)		
	Water	Sewer	
April 2015	4.4%	4.4%	Current water rates are based on customer class. Customer classes include single-family, commercial, industrial, contract and agricultural. The amount of the bill is the sum of the fixed charge based on meter size and an additional charge based on the volume of water consumed. For example, for single-family customers, water rates can vary from \$9.64 for the first thousand gallons to \$100.25 for ten thousand gallons.
April 2016	1.4%	1.4%	
April 2017	3.4%	3.4%	
April 2018	2.8%	2.8%	
April 2019	2.8%	2.8%	Wastewater rates also include a fixed charge based on meter size and an additional charge based on the volume of the water usage. For example, for single-family customers, wastewater rates can vary from \$21.97 for the first thousand gallons to \$133.01 for ten thousand gallons. Additionally, industrial customers may be subject to a sewer surcharge based on the quality of their wastewater discharge.
April 2020	3.5%	3.5%	
April 2021	1.5%	1.5%	
September 2021*	9.0%	20.0%	
April 2022*	7.5%	11.0%	The bill for a typical single family residential customer using 7,000 gallons per month would be \$157.90 for both water and wastewater services. Refer to table below for further information. However, total water and sewer charges may range from \$31.61 for 1,000 gallons to \$110.81 for 5,000 gallons per month for single-family residential customers.
April 2022	5.6%	5.6%	
April 2023	9.2%	9.2%	
April 2023*	6.0%	6.0%	*Determined from Water and Wastewater Cost of Service Study Rate formally approved by City Council in 2021. Refer to City of Houston, TX Ordinance No. 2021-15 for further information.
April 2024*	7.0%	11.0%	

Water & Wastewater Rates - Example of Single-Family Residential Customer Billings

Date	Water*	Sewer*	Total	
April 2015	36.90	47.08	83.98	*Rates are calculated in this example based on a monthly consumption of 7,000 gallons with 5/8" or 3/4" meter. Rates will change with the level of consumption.
April 2016	37.42	47.75	85.17	
April 2017	38.69	49.38	88.07	Please refer to our website Houstonwater.org for a complete list of customer classes and rates.
April 2018	39.78	50.77	90.55	
April 2019	40.90	52.18	93.08	
April 2020	42.33	54.01	96.34	
April 2021	42.96	54.83	97.79	
September 2021	47.25	64.00	111.25	
April 2022	54.72	73.91	128.63	
April 2023	63.28	83.91	147.19	
April 2024	67.11	91.01	158.12	

Discretionary Debt Service paid by the Combined Utility System

The total amount of Discretionary Debt Service paid from Net Revenues of the Combined Utility System for the past nine fiscal years and the amount budgeted for fiscal year 2025 is set forth below:

Fiscal Year	Discretionary Debt Service (in thousands)
2025 (budgeted)	\$ 2,900
2024	2,800
2023	4,900
2022	4,900
2021	5,000
2020	5,600
2019	7,800
2018	9,100
2017	9,200
2016	9,900

Indirect Charges Paid by the Combined Utility

Fiscal Year	Indirect Charges (in thousands)
2025 (budgeted)	\$ 9,220
2024	8,418
2023	7,333
2022	8,824
2021	9,503
2020	11,069
2019	10,404
2018	10,877
2017	9,988
2016	9,810

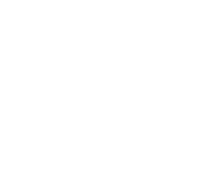
General Purpose Fund Transfers for Drainage

The Combined Utility System transfers from its General Purpose Fund to the Storm Water Fund for the past nine fiscal years and the amount budgeted for fiscal year 2025 are reflected below (unaudited):

Fiscal Year	General Purpose Fund Transfer (in thousands)
2025 (budgeted)	\$ 69,900
2024	37,800
2023	49,200
2022	52,600
2021	56,500
2020	45,300
2019	50,100
2018	53,900
2017	52,300
2016	39,900



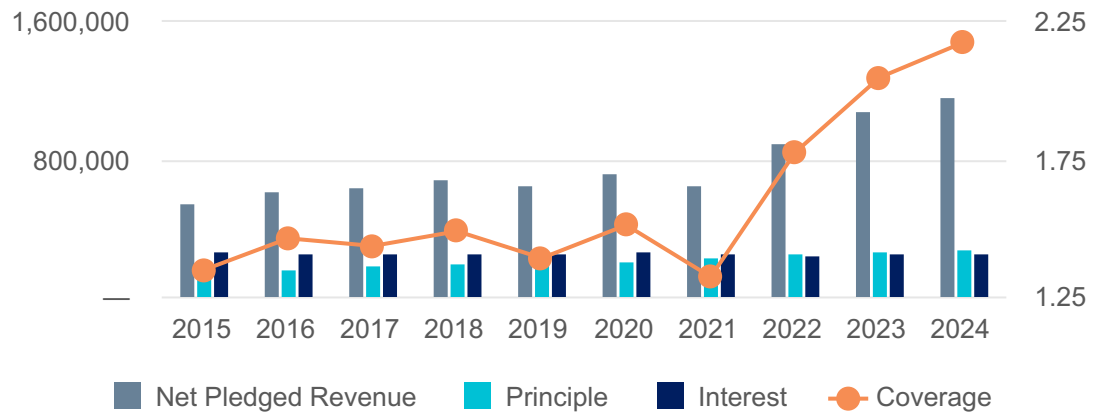
DEBT CAPACITY SCHEDULES



Fiscal Year	Operating & Non-Operating Revenues ⁽²⁾	Less: Total Expenses	Net Pledged Revenue	Debt Service		Coverage
				Principal	Interest	
2015	973,289	424,683	\$ 548,606	140,685	266,636	1.35
2016	1,053,648	436,845	\$ 616,803	160,450	261,489	1.46
2017	1,075,788	438,330	\$ 637,458	184,570	259,941	1.43
2018	1,126,569	438,551	\$ 688,018	200,505	261,978	1.49
2019	1,123,606	468,244	\$ 655,362	213,810	257,760	1.39
2020	1,184,353	465,791	\$ 718,562	207,110	268,749	1.51
2021	1,154,660	505,931	\$ 648,729	228,641	262,231	1.32
2022	1,406,715	510,072	\$ 896,643	254,501	250,694	1.77
2023	1,667,322	585,195	\$ 1,082,127	271,299	257,069	2.05
2024	1,762,018	596,241	\$ 1,165,777	279,586	256,035	2.18

(1) Including water and sewer system bonds, Combined Utility System bonds, and commercial paper interest.

(2) Income and revenues derived from the operation of the Combined Utility System with limited exclusions.



Revenue Bond Coverage

Last Ten Fiscal Years (amounts expressed in thousands)
(unaudited)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Operating Revenues										
Water sales	\$ 486,517	\$ 529,879	\$ 547,054	\$ 559,010	\$ 554,294	\$ 591,611	\$ 584,594	\$ 698,263	\$ 802,915	\$ 901,357
Wastewater system user charges	434,305	462,786	475,392	479,978	485,183	509,315	510,832	607,343	713,004	767,457
Penalties, other services and charges	6,602	9,917	3,349	13,561	2,965	(834)	(2,680)	1,907	(11,937)	(38,239)
Total Operating Revenues	927,424	1,002,582	1,025,795	1,052,549	1,042,442	1,100,092	1,092,746	1,307,513	1,503,982	1,630,575
Non-Operating Revenues										
Investment earnings under Previous Ordinance	5,733	6,718	8,880	14,695	21,890	23,679	14,479	8,935	28,285	54,534
Investment earnings under Master Ordinance	2,221	2,390	3,061	4,054	11,246	13,184	5,967	3,757	6,541	9,916
Contributions from Water Authorities	—	—	—	—	—	—	—	—	54,339	—
Other non-operating revenues	7,671	22,264	17,853	30,905	19,407	18,438	9,070	37,568	23,478	30,550
Total Non-Operating Revenues	15,625	31,372	29,794	49,654	52,543	55,301	29,516	50,260	112,643	95,000
Total Gross Revenues	943,049	1,033,954	1,055,589	1,102,203	1,094,985	1,155,393	1,122,262	1,357,773	1,616,625	1,725,575
Expenses										
Contract Revenue Bonds Payments ⁽¹⁾										
Coastal Water Authority debt service	18,064	17,684	7,204	6,399	6,385	6,381	6,398	6,376	6,356	6,351
Total Contract revenue bond payments	18,064	17,684	7,204	6,399	6,385	6,381	6,398	6,376	6,356	6,351
Maintenance and operating expenses	406,619	419,161	431,126	432,152	461,859	459,410	499,533	503,696	578,839	589,890
Total Expenses	424,683	436,845	438,330	438,551	468,244	465,791	505,931	510,072	585,195	596,241
Restricted Receipts under Master Ordinance	30,240	19,694	20,199	24,366	28,621	28,960	32,398	48,942	50,697	36,443
Net Revenues under Master Ordinance	\$ 548,606	\$ 616,803	\$ 637,458	\$ 688,018	\$ 655,362	\$ 718,562	\$ 648,729	\$ 896,642	\$1,082,127	\$1,165,777
Bond Debt Service										
Previously issued bonds	11,215	—	—	—	—	23,520	22,405	15,480	17,345	19,005
First Lien bonds	396,101	419,260	443,274	461,505	471,570	452,339	468,467	489,715	511,023	516,616
Total Debt Service	\$ 407,316	\$ 419,260	\$ 443,274	\$ 461,505	\$ 471,570	\$ 475,859	\$ 490,872	\$ 505,195	\$ 528,368	\$ 535,621
Bond Debt Service Coverage:										
Junior Lien Bond Coverage under Previous Ordinance ⁽²⁾	46.02	—	—	—	—	28.76	27.24	54.52	59.09	58.90
First Lien Bond Coverage under Master Ordinance ⁽³⁾	1.36	1.47	1.44	1.49	1.39	1.54	1.34	1.80	2.08	2.22
Total Coverage ⁽⁴⁾	1.35	1.47	1.44	1.49	1.39	1.51	1.32	1.77	2.05	2.18

(1) These are "Required Payments under Previous Ordinance."

(2) Coverage of debt service on Previous Ordinance Bonds by Net Revenues as calculated under Previous Ordinance, which does not include as revenues, Investment Earnings under Master Ordinance and

(3) Coverage of debt service on First Lien Bonds by Net Revenues less debt service on Junior Lien Bonds under Previous Ordinance.

(4) Coverage of total debt service on Junior Lien Bonds under Previous Ordinance and First Lien Bonds under Master Ordinance by Net Revenues.

(5) Total coverages are as published in City's ACFR.

Outstanding Debt by Type

Last Ten Fiscal Years (amounts expressed in thousands)
(unaudited)

Outstanding Debt by Type	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
First Lien Revenue Bonds	\$ 6,221,781	\$ 6,433,228	\$ 6,544,163	\$ 6,377,562	\$ 6,430,091	\$ 6,439,889	\$ 6,984,887	\$ 6,835,066	\$ 6,537,881	\$ 6,367,277
Junior Lien Revenue Bonds	144,487	152,527	161,014	169,932	179,393	165,141	151,227	143,686	133,803	121,674
Commercial Paper	120,000	60,000	20,000	220,000	185,000	275,000	—	—	—	—
Subordinate Lien Bonds	—	25,915	88,295	276,060	441,895	430,805	457,590	445,116	432,491	419,696
Pension Obligation Bonds	59,272	58,232	57,117	98,381	96,976	95,429	92,302	88,933	85,308	81,407
Coastal Water Authority	92,642	78,094	73,516	69,582	65,514	61,281	56,843	52,239	47,461	42,468
Other Long Term Contracts	105,575	105,291	307,442	404,551	402,966	398,032	393,003	373,156	368,591	363,906
Total Outstanding Debt Payable	\$ 6,743,757	\$ 6,913,287	\$ 7,251,547	\$ 7,616,068	\$ 7,801,835	\$ 7,865,577	\$ 8,135,852	\$ 7,938,196	\$ 7,605,535	\$ 7,396,428
Total Active Accounts*	461	464	475	485	487	492	494	495	497	504
Outstanding debt per active account	\$ 14.64	\$ 14.90	\$ 15.25	\$ 15.70	\$ 16.01	\$ 15.98	\$ 16.47	\$ 16.04	\$ 15.30	\$ 14.69

*Information Public Sector (IPS) billing system managed by HPW Customer Account Services

Net Revenue of Maximum Annual Debt Service

The following calculation shows coverage by net revenues of maximum annual debt service on the Previous Ordinance and First Lien bonds (*unaudited*):

	FY 2024		FY2023
Maximum Annual Debt Service Requirements on Previous Ordinance Bonds (2029) ⁽¹⁾	\$ 44,095,000	Maximum Annual Debt Service Requirements on Previous Ordinance Bonds (2029) ⁽¹⁾	\$ 44,095,000
Maximum Annual Debt Service Requirements on First Lien Bonds (2030) ⁽¹⁾⁽²⁾	\$ 547,205,557	Maximum Annual Debt Service Requirements on First Lien Bonds (2030) ⁽¹⁾⁽²⁾	\$ 550,744,741
Combined Maximum Annual Principal and Interest Requirements on Previous Ordinance Bonds and First Lien Bonds (2024)	\$ 553,234,310	Combined Maximum Annual Principal and Interest Requirements on Previous Ordinance Bonds and First Lien Bonds (2023)	\$ 553,982,122
Net Revenues under Previous Ordinance for Fiscal Year Ending June 30, 2024 ⁽³⁾	\$ 1,129,333,396	Net Revenues under Previous Ordinance for Fiscal Year Ending June 30, 2023 ⁽³⁾	\$ 1,031,430,320
Net Revenues under Master Ordinance for Fiscal Year Ending June 30, 2024 ⁽⁴⁾	\$ 1,165,775,713	Net Revenues under Master Ordinance for Fiscal Year Ending June 30, 2023 ⁽⁴⁾	\$ 1,082,127,044
Total Funds available for Debt Service Coverage, July 1, 2024 ⁽⁵⁾	\$ 1,299,611,746	Total Funds available for Debt Service Coverage, July 1, 2023 ⁽⁵⁾	\$ 1,105,615,300
Coverage of Maximum Annual Debt Service Requirements on Previous Ordinance Bonds	25.61	Coverage of Maximum Annual Debt Service Requirements on Previous Ordinance Bonds	23.39
Coverage of Maximum Annual Debt Service Requirements on First Lien Bonds	4.51	Coverage of Maximum Annual Debt Service Requirements on First Lien Bonds	3.97
Coverage of Maximum Annual Debt Service Requirements on Previous Ordinance Bonds and First Lien Bonds	4.46	Coverage of Maximum Annual Debt Service Requirements on Previous Ordinance and First Lien Bonds	3.95

(1) Does not include debt service on CWA bonds, which are payable from gross revenues as a maintenance and operating expense.

(2) First Lien debt service largest payment requirement.

(3) Excludes restricted receipts under Master Ordinance.

(4) Net revenues as calculated under the Master Ordinance, which includes as revenues restricted receipts and earnings under the Master Ordinance.

(5) Available cash from operating and general purpose fund net of encumbrances.

Water & Sewer Facilities General

The City of Houston Drinking Water Operations (DWO) System covers over 589 square miles, providing drinking water to four counties: Harris, Fort Bend, Montgomery, and Galveston. There are 503,520 active water service accounts. 86% of source water is pulled from the San Jacinto and Trinity rivers while the remaining 14% originates from groundwater wells. In total, DWO has 941 million gallons per day (MGD) combined design production capacity of groundwater and surface water. More specifically, the water production and storage system include 3 surface water plants, 54 groundwater plants, 129 groundwater wells, 7 surface water re-pressurization plants, and 136 water storage tanks and towers. Average water purification and production is 514 MGD, which is enough to fill the Astrodome almost twice per day. The water distribution network consists of 7,732 linear miles of piping, 62,686 fire hydrants, and over 171,924 valves that are managed and maintained to the highest standards.

The City of Houston Wastewater Operations System receives and processes wastewater generated by residential, commercial, and industrial customers throughout the service area. The service area covers approximately 660 square miles within the City of Houston and serves a population of about 2.3 million people. The Wastewater System consists of over 6,102 miles of both gravity and force main lines, 1900 miles of service lines within public right of way, 38 wastewater treatment plants, and over 376 lift/pumping stations and a centralized laboratory. The general condition of the collection lines varies depending on age, location and type of construction. The average daily wastewater flow through the Wastewater Treatment Facilities for Fiscal Year 2024 was 249 million gallons per day (mgd). The permitted treatment capacity of the wastewater treatment facilities, as reflected by State permits, is 560 mgd.

Annexation Program - In - City Districts

The City has created reinvestment zones and public improvement districts in which infrastructure improvements, including water and wastewater facilities, will be financed by the respective district or zone through bonds supported by assessments within the districts and by a tax increment fund into which will be deposited the amount of ad valorem taxes collected in the reinvestment zones in excess of the amount calculated on the basis of the property tax appraisals in effect at the time of creation of the particular reinvestment zone. Under State law, the City can create a public improvement district both within the corporate limits of the City and within its extraterritorial jurisdiction.



Five Year CIP Funding of Proposed System Improvements

Last Ten Fiscal Years (amounts expressed in thousands)
(unaudited)

It is anticipated that the system improvements contemplated in the Combined Utility System's Five Year CIP will be financed approximately as follows:

	Fiscal Year 2016 - 2020	Fiscal Year 2017 - 2021	Fiscal Year 2018 - 2022	Fiscal Year 2019 - 2023	Fiscal Year 2020 - 2024	Fiscal Year 2021 - 2025	Fiscal Year 2022 - 2026	Fiscal Year 2023-2027	Fiscal Year 2024-2028	Fiscal Year 2025-2029
Proposed Source of Funding										
System Revenue Bonds (Net Proceeds and Interest Earnings)	\$ 1,670,200	\$ 2,309,400	\$ 1,865,600	\$ 1,599,067	\$ 1,792,283	\$ 1,840,147	\$ 2,200,943	\$ 2,624,950	\$ 3,499,689	\$ 4,451,203 (1)
System Revenue	385,000	445,000	445,000	535,000	470,000	440,000	500,000	1,500,000	1,250,000	1,500,000
Swift Loan (Subordinate Lien)	285,800	270,900	250,200	353,445	428,264	107,434	—	—	—	—
Contributed Capital	1,290,900	1,223,300	1,242,200	2,030,511	1,459,401	571,340	391,518	97,801	97,801	78,802
Total Proposed Source of Funding	\$ 3,631,900	\$ 4,248,600	\$ 3,803,000	\$ 4,518,023	\$ 4,149,948	\$ 2,958,921	\$ 3,092,461	\$ 4,222,751	\$ 4,847,490	\$ 6,030,005

(1) The department's fiscal year 2025-2029 CIP anticipates the periodic issuance of additional First Lien Bonds and Subordinate Lien Commercial Paper. City Council must approve each issuance of bonds, but not each issuance of Commercial Paper Notes.



Obligations Payable from System Revenues

Last Ten Fiscal Years (amounts expressed in thousands)
(unaudited)

The following sets forth the total outstanding principal amount of the system obligations payable from revenues of the Combined Utility System.

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Contract Revenue Bonds Payable from the Combined Utility System Gross Revenues										
CWA Bonds ⁽¹⁾	\$ 85,925	\$ 71,855	\$ 71,855	\$ 64,300	\$ 60,710	\$ 56,955	\$ 52,995	\$ 48,870	\$ 44,570	\$ 40,055
Total - Contract Revenue Bonds	\$ 98,900	\$ 85,925	\$ 71,855	\$ 71,855	\$ 64,300	\$ 60,710	\$ 56,955	\$ 52,995	\$ 48,870	\$ 40,055
System Revenue Bonds Payable from the Combined Utility System Net Revenues										
Previous Ordinance Bonds	57,339	57,339	57,339	57,339	57,339	49,949	43,292	38,946	34,342	29,576
First Lien Bonds	5,917,480	5,964,895	5,964,895	5,927,760	5,970,330	6,009,025	6,514,400	6,324,050	6,057,355	5,901,900
Third Lien Obligations	—	—	—	220,000	185,000	275,000	—	—	—	—
Total - System Revenue Bonds	\$ 5,974,819	\$ 6,022,234	\$ 6,022,234	\$ 6,205,099	\$ 6,212,669	\$ 6,333,974	\$ 6,557,692	\$ 6,362,996	\$ 6,091,697	\$ 5,931,476
Total - All Bonds Payable from System Revenues	\$ 6,060,744	\$ 6,094,089	\$ 6,094,089	\$ 6,269,399	\$ 6,273,379	\$ 6,390,929	\$ 6,610,687	\$ 6,411,866	\$ 6,136,267	\$ 5,971,531

(1) Under a 1968 agreement, as amended and superseded in part, and a 1995 agreement, CWA agreed to construct the CWA conveyance system and certain other projects and the City agreed to pay, as a maintenance and operation expense of the System, amounts calculated to be sufficient to cover maintenance and operation expenses of the CWA Conveyance System plus debt service of the CWA bonds.

Debt Service Schedule

(unaudited)

The following schedule sets forth the principal and interest requirements on all outstanding bonds payable from revenues of the Combined Utility System for each of the City's fiscal years ending June 30 as shown below, based on footnoted assumptions. The following schedule also does not include discretionary debt service Payments or interest on commercial paper notes issued as Third Lien Obligations under the Master Ordinance.

Fiscal Year Ending June 30	Total Payable from System Gross Revenues ⁽¹⁾	Payable from System Net Revenues			Total Debt Service ^{(1) (2)}
		Previous Ordinance Bonds	First Lien Bonds ⁽²⁾	Total Payable from System Gross Revenues ⁽¹⁾	
2025	6,338,956	17,990,000	535,244,310	553,234,310	559,573,266
2026	10,782,206	18,155,000	532,696,933	550,851,933	561,634,139
2027	3,378,081	30,815,000	519,444,889	550,259,889	553,637,970
2028	3,378,456	30,810,000	519,483,322	550,293,322	553,671,778
2029	3,404,306	44,095,000	507,791,413	551,886,413	555,290,719
2030	3,400,828	—	547,205,557	547,205,557	550,606,385
2031	3,396,313	—	544,281,534	544,281,534	547,677,847
2032	3,386,100	—	541,450,053	541,450,053	544,836,153
2033	3,381,000	—	526,609,170	526,609,170	529,990,170
2034	3,376,200	—	523,953,682	523,953,682	527,329,882
2035	3,381,300	—	355,081,066	355,081,066	358,462,366
2036	—	—	352,992,427	352,992,427	352,992,427
2037	—	—	332,051,469	332,051,469	332,051,469
2038	—	—	259,828,386	259,828,386	259,828,386
2039	—	—	250,901,941	250,901,941	250,901,941
2040	—	—	195,272,681	195,272,681	195,272,681
2041	—	—	194,901,825	194,901,825	194,901,825
2042	—	—	160,352,796	160,352,796	160,352,796
2043	—	—	153,171,350	153,171,350	153,171,350
2044	—	—	145,426,741	145,426,741	145,426,741
2045	—	—	133,683,392	133,683,392	133,683,392
2046	—	—	116,579,770	116,579,770	116,579,770
2047	—	—	99,230,593	99,230,593	99,230,593
2048	—	—	96,460,872	96,460,872	96,460,872
2049	—	—	78,482,024	78,482,024	78,482,024
2050	—	—	60,816,529	60,816,529	60,816,529
2051	—	—	26,611,456	26,611,456	26,611,456
2052	—	—	26,606,206	26,606,206	26,606,206
2053	—	—	11,888,975	11,888,975	11,888,975
2054	—	—	11,886,700	11,886,700	11,886,700
2055	—	—	11,889,106	11,889,106	11,889,106
Total	\$ 47,603,746	\$ 141,865,000	\$ 8,372,277,168	\$ 8,514,142,168	\$ 8,561,745,914

(1) Includes CWA maintenance and operating lien

(2) \$249,075,000 of the Series 2012C variable rate bond debt service is calculated at the rate of 5.061% through March 2013 and thereafter at the fixed rate payor swap rate of 3.761%. This was refunded in 2016 & again in 2018 to Series 2016C and Series 2018C respectively. Series 2004B debt service is adjusted to take into account expected payments under the Series 2004B Qualified Hedge Agreements.

DEMOGRAPHIC AND ECONOMIC SCHEDULES





City of Houston, Texas
Demographic and Economic Statistics
Last Ten Fiscal Years
(unaudited)



STATISTICAL SECTION
Combined Utility System
Demographic and Economic Schedules

Fiscal Year	Population ^{(1) (2)}	Personal Income (amount in thousands) ⁽³⁾	Per Capita Personal Income ⁽³⁾	Median Age ⁽⁴⁾	Education Level in Years of Formal Schooling ⁽⁴⁾	School Enrollment ⁽⁴⁾	Average Unemployment Rate (percentage) ⁽⁵⁾
2015	2,238,653	\$366,978	\$55,013	32.4	1,336,739	1,829,867	4.8
2016	2,283,616	\$351,012	\$51,572	32.6	1,384,097	1,849,065	5.6
2017	2,306,360	\$377,978	\$54,788	32.6	1,433,072	1,874,344	5.2
2018	2,313,079	\$403,674	\$57,875	32.7	1,490,351	1,893,312	4.7
2019	2,314,478	\$415,920	\$58,884	32.9	1,522,732	1,932,292	4.0
2020	2,315,720	\$428,501	\$59,893	32.9	1,508,624	1,915,864	11.6
2021	2,300,027	\$467,267	\$64,837	33.4	1,675,719	1,920,741	7.4
2022	2,288,250	\$501,653	\$68,344	35.3	1,715,458	1,911,456	4.8
2023	2,302,878	Not available	Not available	35.4	1,763,563	1,943,808	4.5
2024	2,314,157	Not available	Not available	35.7	Not available	2,005,380	4.9

(1) Source: U.S. Census Bureau - QuickFacts: Houston, TX; Population estimates, July 1, 2014 - July 1, 2019.

(2) Source: U.S. Census Bureau - Annual Estimates of the Resident Population for Incorporated Places of 20,000 or More: estimate as of July 1, 2020 - July 1, 2023, for fiscal years 2022 - 2024.

(3) Source: U.S. Department of Commerce, Bureau of Economic Analysis. Amounts as of year ended December 31, 2022 for The Houston-The Woodlands-Sugar Land, TX Metropolitan Statistical Area (MSA). Information for the years ended December 31, 2023, and 2024 are not yet available.

(4) Source: U.S. Census Bureau - American Community Survey, Houston-Pasadena-The Woodlands, TX Metropolitan Statistical Area.

(5) Source: U.S. Bureau of Labor Statistics. Information is as of June every year for The Houston-The Woodlands-Sugar Land, TX Metropolitan Statistical Area.



City of Houston, Texas
Principle Employers
Employer (Listed Alphabetically)
Last Ten Fiscal Years⁽¹⁾
(Unaudited)



STATISTICAL SECTION
Combined Utility System
Demographic and Economic Schedules

2024	2023	2022	2021	2020
AT&T	Amazon	CHI St. Luke's Health	ExxonMobil	ExxonMobil
Baker Hughes	CHI St. Luke's Health	ExxonMobil	HEB	HEB
CenterPoint Energy	ExxonMobil	HCA Houston Healthcare	HCA Houston Healthcare	HCA Houston Healthcare
ConocoPhillips	HCA Houston Healthcare	HEB	Houston Methodist	Houston Methodist
Enterprise Products Partners	HEB	Houston Methodist	Kroger	Kroger
EOG Resources	Houston Methodist	Kroger	Memorial Hermann Health System	Memorial Hermann Health System
ExxonMobil	Kroger	Memorial Hermann Health System	Schlumberger	Shell Oil Company
Group 1 Automotive	Memorial Herman Health System	Schlumberger	UT MD Anderson Cancer Center	UT MD Anderson Cancer Center
Halliburton	Schlumberger	UT MD Anderson Cancer Center	United Airlines	United Airlines
Kinder Morgan	Walmart	Walmart	Walmart	Walmart
2019	2018	2017	2016	2015
HEB	Exxon Mobil	HEB	ExxonMobil	Cameron International
Houston Methodist	HEB	Houston Methodist	Houston Methodist Hospital System	ExxonMobil
Kroger	Houston Methodist	Kroger Company	Kroger Company	HEB
McDonald's Corp	Kroger Company	McDonald's Corp	Memorial Hermann Health System	Houston Methodist
Memorial Hermann Health System	McDonald's Corp	Memorial Hermann Health System	National Oilwell Varco	Kroger
Schlumberger	Memorial Hermann Health System	UT MD Anderson Cancer Center	Schlumberger Limited	Memorial Hermann Health System
Shell Oil Company	Texas Children Hospital	United Airlines	Shell Oil Company	National Oilwell Varco
UT MD Anderson Cancer Center	UT MD Anderson Cancer Center	Schlumberger Limited	UTMB Health	Shell Oil Company
United Airlines	United Airlines	Shell Oil Company	UT MD Anderson Cancer Center	UT MD Anderson Cancer Center
Walmart	Walmart	Walmart	United Airlines	United Airlines

Source: Greater Houston Partnership Research

(1) Starting Fiscal Year 2022, information such as the number of employees or the employees' percentage of total employment is not available for disclosure. Prior year information has been modified to the format consistent with the current fiscal year for presentation purposes.

City of Houston, Texas
Full-Time Equivalent Employees as of June 30, 2024
(unaudited)

Fiscal Year	Combined Utility System	City
2015	2,166.2	22,380.0
2016	2,179.6	22,326.2
2017	2,254.8	22,514.5
2018	2,266.6	22,586.0
2019	2,245.0	21,932.1
2020	2,239.5	21,962.8
2021	2,289.0	21,835.6
2022	2,245.2	21,966.6
2023	2,257.0	21,897.7
2024	2,248.6	22,168.6



OPERATING INFORMATION SCHEDULES





Water Facilities Capacity and Sales

Last Ten Fiscal Years (million gallons per day)
(unaudited)

The following schedule sets forth information concerning Water Facilities capacity, production, and sales as follow.

Capacity, Production, and Sales							Treated and Untreated Total Sales			
Fiscal Year	Available Capacity		Production Planned		Actual Production		Fiscal Year	Treated	Untreated	Total
	Ground	Surface	Ground	Surface	Ground	Surface				
2015	72	1172	268	1171	49	595	2015	359	216	575
2016	117	1172	268	990	74	371	2016	359	216	575
2017	237	562	98	352	71	387	2017	395	217	612
2018	242	540	83	382	72	389	2018	405	218	623
2019	230	565	73	381	N/A	N/A	2019	403	215	618
2020	225	565	82	422	60	395	2020	389	209	598
2021	204	560	82	422	59	387	2021	410	232	642
2022	178	535	82	422	59	399	2022	400	245	645
2023	153	540	71	401	71	405	2023	416	227	643
2024	145	645	72	416	75	441	2024	422	232	654

As of June 30, 2024, the Water Facilities and the Sewer Facilities served approximately 503,520 active service connections, respectively. During Fiscal Year 2024 approximately 48.39% of System Gross Revenues were derived from the sale of water, (90.96% from treated water and 9.04% from untreated water), approximately 42.02% from providing wastewater treatment services 2.57% from interest income and the remaining 4.74% from various other sources. Of the treated water sales, 78.33% of revenues were from retail customers and 21.67% from bulk sales to other governmental entities.

Operating Indicators and Capital Asset Statistics by Function

Last Ten Fiscal Years

(unaudited)

General Water and Wastewater Indicators

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Water										
New connections ⁽¹⁾	6,349	4,559	4,530	4,612	4,524	3,083	3,805	4,009	3,956	4,662
Water main breaks	10,572	11,122	9,638	8,355	11,067	8,178	9,427	8,539	11,119	11,788
Average daily pumpage (millions of gallons)	428	445	458	461	454	455	447	458	476	514
Wastewater										
Wastewater line repairs	2,186	2,252	2,322	2,452	2,222	1,893	2,152	2,067	1,987	2,120
Average daily sewage treatment (millions of gallons)	257	256	253	252	270	245	264	251	242	249

Water and Wastewater Capital Asset Statistics

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Water										
Water main (miles)	7,128	7,128	7,128	7,144	7,210	7,174	7,640	7,639	7,660	7,732
Number of hydrants	N/A	N/A	60,420	60,543	61,524	61,876	61,991	62,103	62,509	62,686
Maximum daily capacity (millions of gallons)	803	808	799	782	795	790	764	713	693	784
Wastewater										
Sanitary sewers (miles) ⁽²⁾	6,950	6,950	6,950	6,192	6,200	6,300	6,396	6,186	6,192	6,102
Storm sewers (miles)	3,838	3,894	3,946	3,987	3,987	3,987	3,987	3,987	3,987	3,900
Maximum daily treatment permitted (millions of gallons)	563	563	563	564	564	564	564	564	587	560

(1) New connections represents all water connection types as meters (physical connections) to the water supply, not the regulatory definition of a connection.

(2) The sanitary sewers (miles) for FY2015 to FY2018 were adjusted to reflect updated information received from Wastewater Operations Branch.

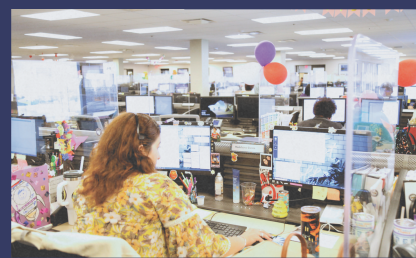
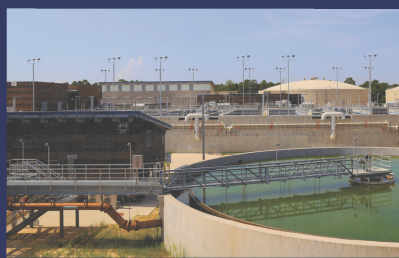


Water Right Permits

*Last Ten Fiscal Years (Rights in MGD)
(unaudited)*

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Surface Water										
Trinity River Basin	914	914	914	914	914	914	914	914	914	914
Water Reuse	259	259	259	259	259	259	259	259	259	259
San Jacinto River Basin	258	258	258	258	258	258	258	258	258	258
Bayous	116	116	116	116	116	116	116	116	116	116
Brazos River Basin	62	62	62	62	91	91	91	91	91	91
Total Surface Water Rights	1,609	1,609	1,609	1,609	1,638	1,638	1,638	1,638	1,638	1,638
Ground Water Production Capacity ⁽¹⁾	235	235	187	142	142	142	142	146	146	139
Total Water Available	N/A	1,844	1,796	1,751	1,780	1,780	1,780	1,784	1,784	1,777

(1) Pursuant to rules of the Harris - Galveston Coastal Subsidence District.




HOUSTON
PUBLIC WORKS

