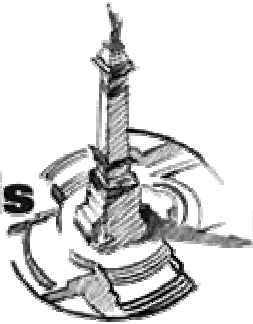


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***Water Asset Management  
Seminar  
Water System Financing and Operations***

***Indianapolis Water***

City of  
**Indianapolis**  
*Bart Peterson, Mayor*



**City of Indianapolis**  
**Department of Waterworks**

*July 29, 2002*

# *Why NiSource Sold IWC*



- IWC's parent - NiSource Inc. - merged with Columbia Energy Group of Virginia
- Federal law Requires NiSource to sell IWC System by fall 2003
- In 2000, NiSource initiated auction process to sell IWC System



# ***Benefits of City Ownership***

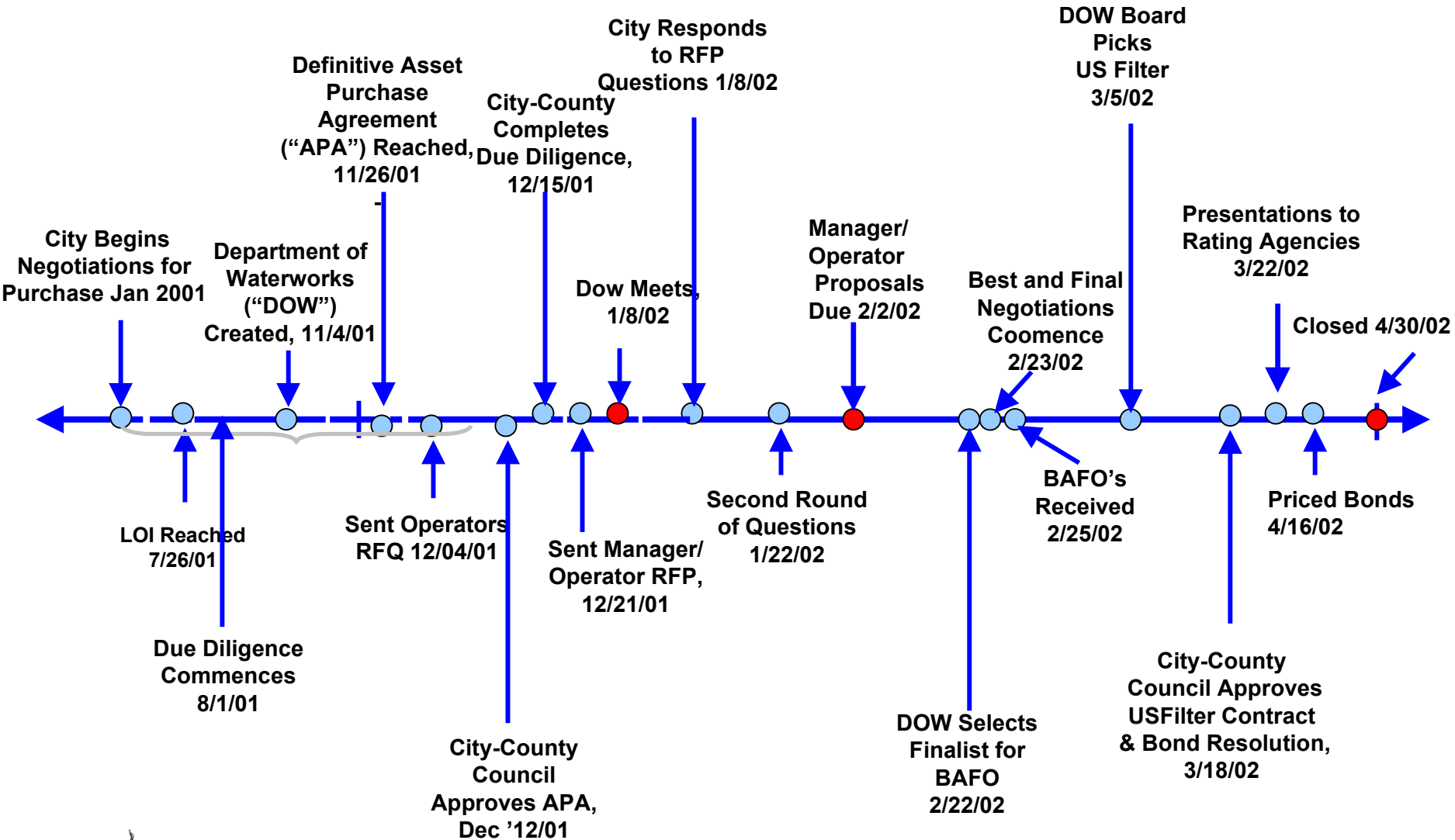
## **City ownership, private management**

- The City hired a third-party, professional managers to run the water system efficiently (USFOS)
- City uses low cost tax-exempt debt

## **Better regional coordination**

- Indianapolis will work with surrounding communities to maintain and enhance water service and coordinate economic development
- Department of Waterworks (“DOW”) will have advisory board

# Timeline and Accomplishments



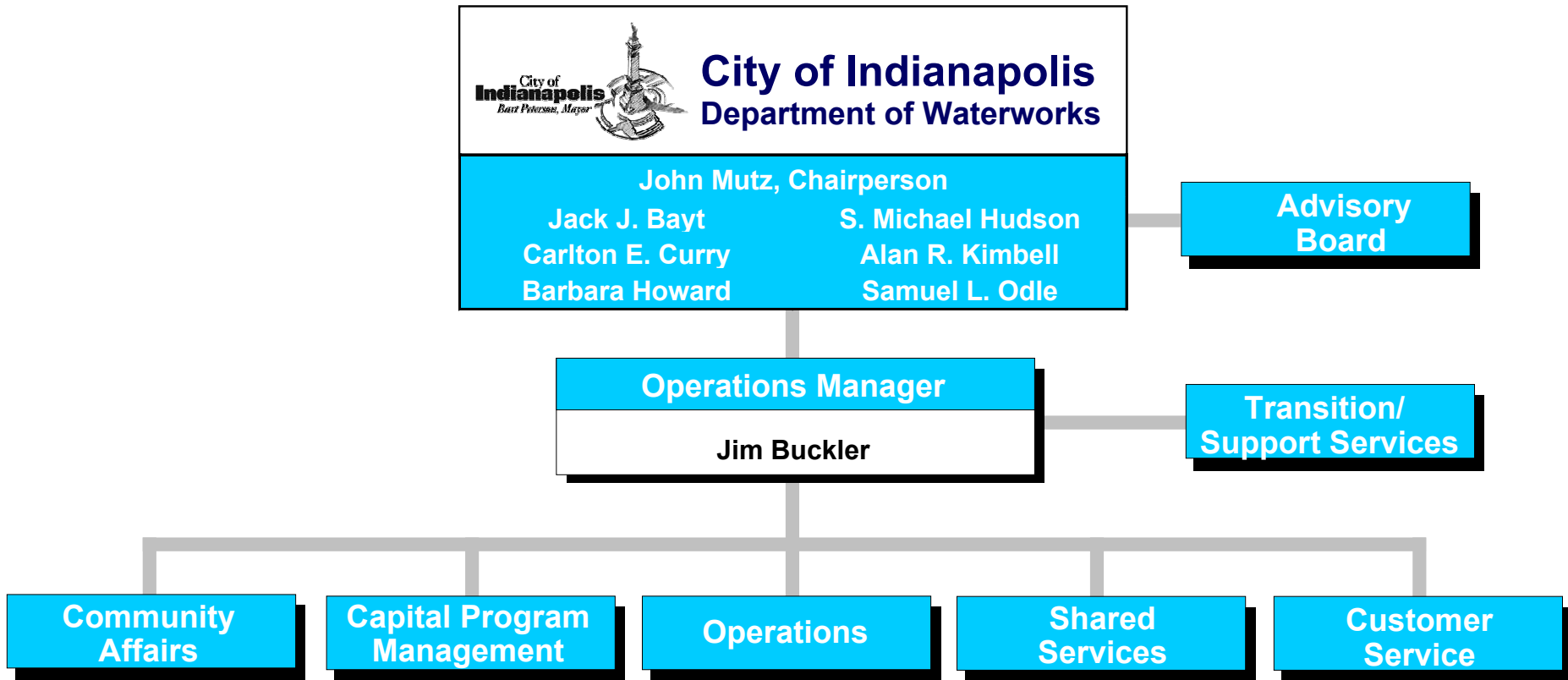
# ***Critical Success Factors***

- Governance Plan
- Financing Plan
- Operating Plan and US Filter Contract
- Purchase of Stable Utility
  - Adequate Supply
  - 100 Year History
  - No Rate Increases
- City's Credit
- Low Interest Rates

# ***DOW Governance***

- DOW created by ordinance in November 2001
- Six appointments, three by each caucus
  - The seventh member, a Mayoral nominee, must be unanimously accepted by other six.
- Created to ensure bipartisan oversight of water utility assets
  - Something desired by rating agencies
  - Stability of strategic direction

# DOW Management Team



# ***DOW Responsibilities***

- Selection of USFilter Operating Services, Inc. (“USFilter”) as Manager
- Construction and expansion
- Approval of debt issues and related bond resolutions
- Oversight of USFilter
- Rates
  - Rates will be approved by DOW and continue to be regulated by the Indiana Utility Regulatory Commission (“IURC”)
  - DOW expects to maintain current rates through December 31, 2006
  - **The City-County Council does not have to approve any future rate changes**

# ***Management of Waterworks***

- Board will review and approve the annual budget and the capital plan for the Waterworks.
- Board must go through the declaratory/confirmatory process for new capital projects.
- City-County Council must approve issuance of additional debt.
- Annual budget and audit of Waterworks will be provided to the City-County Council.
- Board anticipates that the Waterworks will be managed by a private management company even if the initial with USFilter contract is terminated, as long as economically feasible.
- Board expects to engage consultants to monitor USFilter's compliance with the contract terms.

# Financing Plan

- The Bond Bank Bonds are solely secured by Net Revenues of the Waterworks and certain pledge funds.
  - Net Revenues of the Waterworks include all income and revenues received/accrued, under GAAP, directly/indirectly from DOW water, goods and/or services and all gifts/grants received by DOW.
  - All amounts received by DOW remain in the system. No amounts are transferred to the City, except for PILOTs and reimbursements.
  - Debt service reserve fund is equal to 1/2 Combined Maximum Annual Debt Service
  - *Temporary* Moral Obligation Pledge to replenish debt service reserve of any deficiencies

# ***Rate Covenant (Subject to IURC Approval)***

## **Bond Resolution**

### **Greater of:**

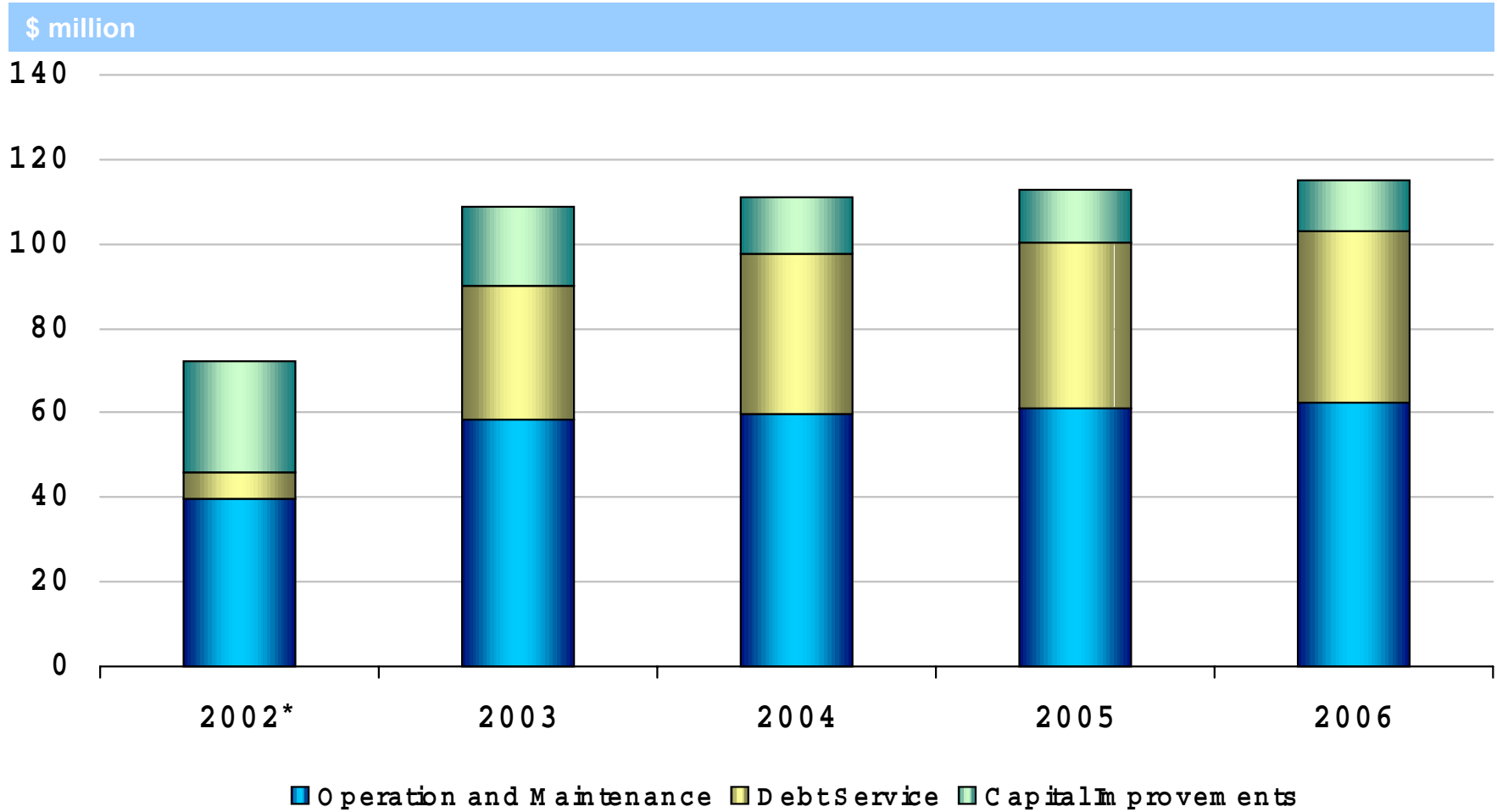
- ◆ **1.10x coverage** of actual annual debt service on Senior Debt or
- ◆ All amounts payable from Gross Revenues, including, without limitations, debt service on senior and subordinate debt, O & M expenses, payments due in accordance with any hedge, credit facility, or reserve account credit facility agreements and any payments to any fund due to deficiencies.

## **Board Policy**

### **Greater of:**

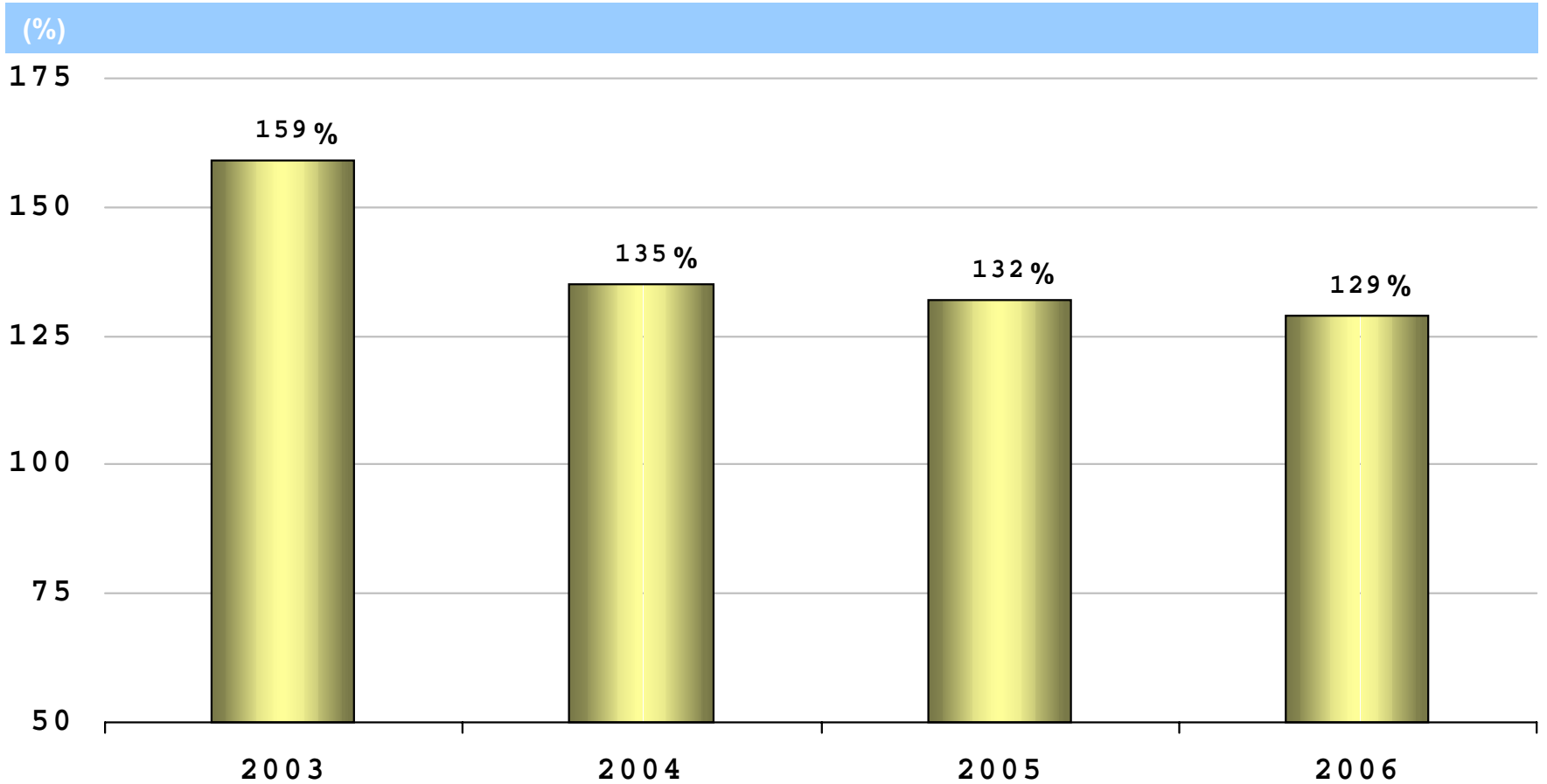
- ◆ **1.25x coverage** of actual annual debt service on Senior Debt or
- ◆ All amounts payable from Gross Revenues, including, without limitations, debt service on senior and subordinate debt, O & M expenses, payments due in accordance with any hedge, credit facility, or reserve account credit facility agreements and any payments to any fund due to deficiencies.

# Projected Revenue Requirements



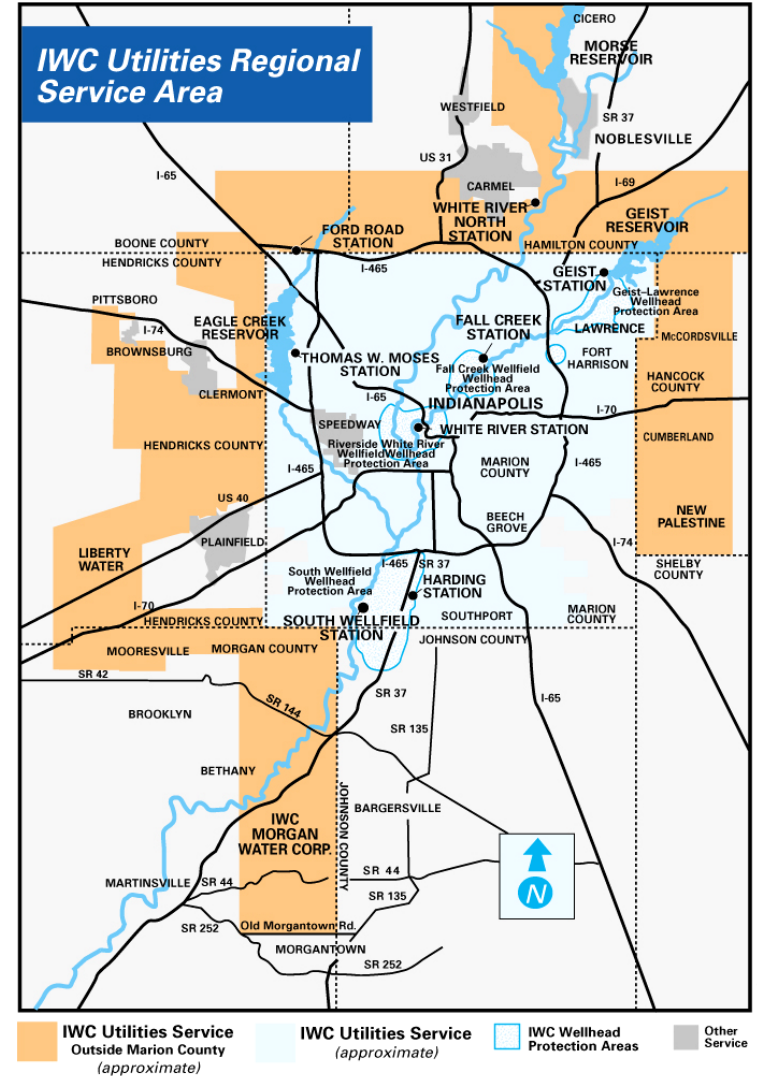
\* Represents only 8 months of requirements

# Projected Debt Service Coverage



# IWC Facts and Service Area

- 279,000 customers serving a population of approximately 1.1 million
- 75% of customers and 80% of revenues from Marion County
- \$679 book value of utility plant
- 4,000 miles of pipeline
- 440 employees
- 80% of water comes from surface sources
- Approximately 58 well supplement surface water sources
- Average daily production of finished water – 140 MGD with 201 MGD produced on peak day



# IWC System Assets

- IWC System water supply includes:



- 12 water treatment plants:

- 4 surface water treatment plants

<b>White River</b>	<b>T. W. Moses</b>
<b>White River North</b>	<b>Fall Creek</b>

- 8 groundwater treatment plants

<b>Darlington</b>	<b>South Wellfield</b>
<b>Liberty</b>	<b>Harding</b>
<b>Harbour East</b>	<b>Ford Road</b>
<b>Harbour West</b>	<b>Geist</b>



***MANAGEMENT AGREEMENT/  
USFILTER OPERATING SERVICES, INC.***

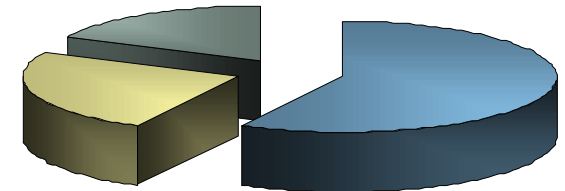
# ***USFilter Operating Services, Inc. ("USFilter")***

- USFilter, a Vivendi Environnement company, is North America's largest water company providing the most comprehensive water services for commercial, industrial, municipal and residential customers.
- \$4.5 billion in sales (\$17 million 8 years ago)
- Operates more than 500 facilities in North America, serving 50 million people
- \$50 million per year spent on R & D; hold the largest number of technology patents in water industry
- The water industry leader for e-business application adoption from procurement, inventory management to customer relationship management
- On *Fortune's* "100 Fastest Growing Company" list -three consecutive years. Ranked #1 Environmental Firm Specializing in Water and Wastewater by industry trade publication, *Engineering News Record*, in 2000



## **Water Business**

Consumer & Commercial  
\$800 million (18%)



Waterworks Distribution  
\$1.1 billion (24%)

Municipal & General  
Industry \$2.6 billion  
(58%)



# ***USFilter's Responsibilities***

- USFilter is compensated for operating, maintaining and managing the Waterworks. Thus, USFilter bears the cost of providing all such services and associated costs, including, but not limited to, the following:
  - Insurance - worker's compensation; general, environmental, and auto liability; property damage; business interruption, employment related
  - Capital Planning for Waterworks
  - An Inventory of chemicals, materials, and other supplies necessary to operate and maintain
  - Offer employment to IWC employees and assume benefits plans
  - Fund cost of O & M projects without any additional payment, including materials and related services
  - Construct certain capital projects requested by DOW. DOW will pay USFilter Additional Service Payments for architectural and engineering and construction services provided by USFilter
  
- DOW will adopt a Capital Plan delineating which Capital Projects shall be constructed by USFilter and which Capital Projects shall be publicly bid.

# Summary of Management Fees and Letter of Credit

- Roughly 80% of Service Fee is a Fixed Fee paid monthly
  - initial fixed fee is \$39.5 million, adjusted annually by the lesser of 2.5% or 88.6% of CPI for the first 5-years, 88.6% of CPI thereafter
  - 20-year term of fee arrangement with reopener beginning in 2007 if growth exceeds certain parameters
  
- Roughly 20% of Service Fee is an Incentive Fee, amount paid quarterly based on actual performance, quarterly advances of 60% to be reconciled at year end
  
- US Filter will maintain a \$40 million letter of credit to be drawn by DOW in the event US Filter fails to perform

Components of Maximum Incentive Fee	
Component	%
Customer Service	35
Water Quality/Environmental	30
Replacement Cycle of Capital Assets	10
Capital Investment Adjustment	5
Technical O & M	10
Discretionay Measures	10