

CENTRAL IOWA REGIONAL WATER WORKSHOP 2

Monday, October 23, 2017

4:00 p.m.

Des Moines Water Works

2201 George Flagg Parkway, Des Moines, IA 50321

Present:

City of Altoona – City Councilmember Vern Willey; Jim Utter, staff

City of Ankeny – Mayor Gary Lorenz

City of Des Moines – Mayor Frank Cownie; City Manager Scott Sanders

City of Johnston –

City of Polk City – Mike Schulte, staff

City of Urbandale – Mayor Bob Andeweg; City Manager AJ Johnson

City of Waukee – Mayor Bill Peard

City of West Des Moines – Mayor Steve Gaer

Des Moines Water Works – Sue Huppert, Board Chair; Ted Corrigan, Amy Kahler and Laura Sarcone, staff

Urbandale Water Works – John McCune, Board Chair; Dale Acheson, staff

Warren Water District – Andy Fish, Stan Ripperger, staff

West Des Moines Water Works – Karen Novak, Board Chair and Jody Smith, Board Member;
Diana Wilson, staff

Also in attendance: Jason Mumm and Melanie Hobart, FCS Group; and members of the public.

1. Welcome – At 4:05 p.m., the meeting began. Mr. Mumm provided a recap from Workshop 1, including consensus and open issues for *Obligation to Serve and Right to Serve*.
2. Capitalization of Regional Entity, 28E/28F – Mr. Mumm’s position paper stated:
“Capitalization” refers to the entity’s authorization to fund its capital projects with various sources of debt, member contributions, cash reserves, or other sources (e.g. certificates of participation, leases, etc.). The guiding principles state that the entity will own the future water production capacity assets for the region. The question of capitalization is about whether the entity should have the authority to finance those purchases by issuing its own debt and/or taking on its own obligations. In other words: should the entity (its board) be able to independently finance its capital needs?

Consensus was achieved in the following areas for ***Capitalization of Regional Entity***:

- The regional entity should have the authority to issue revenue bonds pledged against its own wholesale revenues.
- The authority to issue revenue bonds will require a 28F form of agreement rather than a 28E.

Please see Workshop 2 workflow notes attached for more detail.

3. Accounting for Regional Water Production Costs – Mr. Mumm’s position paper stated: *The accounting approach refers to how the regional entity will keep track of its revenues, expenses, assets, and liabilities (i.e. its accounting system) in a manner appropriate for its obligation and right to serve. It also informs how the entity will report its financial status for public accountability. The guiding principles state that the entity will: manage (but not own) existing capacity, own the future water production assets, and establish wholesale rates for the region’s water production needs. It follows that the regional entity’s managerial and governance decisions will require timely knowledge of accounting information. Because the entity will consist of existing and new assets with different asset owners, the question of how to account for all the entity’s costs poses challenges.*

Accounting for Regional Water Production Costs follow-up items:

- Regarding existing production capacity, the regional board cannot assume the fiduciary responsibilities of another board or council.
 - This creates practical issues with respect to the accounting of regional assets and related costs, and this affects flow of critical financial information
- Practically, for existing water production, the regional entity could only replicate or review the accounting information of others.
 - Does this situation give the regional entity the level of independence that the region desires?
- These issues are less contentious regarding future investments for the region – the regional entity can have a greater role.

Please see Workshop 2 workflow notes attached for more detail.

Meeting ended at 6:04 p.m.

Workshop #2 Oct. 23, 2017

Agenda

TOPIC: CAPITALIZATION

Capitalization

Should the entity issue its own debt?

28E

Risk of not all members funding

Debt rates are potentially different for each entity


"Power of pocketbook" rests with members

Each member can decide not to issue debt

28F

Disadvantage: Without ownership of assets, bonds not guaranteed

Advantage: One debt issue, not issued to each member

 Yes, 28F

Expansion of existing utilities


Existing assets able to build out to already in place future capacity, not beyond

Need to document existing / future capacities

See also: [How to deal with growth equitably?](#)

Who has control of existing expansion decisions?

Reduction in use by member has impact on region

 The Enterprise Organization

The Contributory Organization

TOPIC: ACCOUNTING STRUCTURE

Accounting Structure

How much latitude does regional entity have?

Does Des Moines Water Works maintain rate setting control?

Record keeping

Can't easily transfer records, need to duplicate

Extra costs?

Staff needs?

See also: [Who would handle day to day accounting?](#)

Who would handle day to day accounting?

If regional entity is issuing debt they need access / control?

Future assets

Owned by regional entity, need staff to manage

Regional authority's control

Impetus for regional entity is to have more eyes on plans, and influence in regional expansion decisions

Governance issue

Regional board vs. existing boards

See also: [Authority over assets](#)

Need to make a clear distinction between who is managing the facility vs who owns the facility

Need to be co-equals, not clear how to execute

Management vs. ownership of assets

How to avoid duplication?

Example: Does regional board have power to reject DMWW O&M budget?

functional challenge to have different owner than manager

Authority over assets

Under Iowa law DMWW board has fiduciary authority

Capital priorities

Where are capital dollars going?

Example: In future planning, who decides whether to expand existing or build new? What if cost of production varies between facilities? Which customers pay higher rate? Who decides?

Which board makes these decisions?

This drives accounting and rates

Rate Setting

How to make regional entity whole?

Need 100% consensus from members

DMWW in control of their costs (making themselves whole)

Long-term consensus necessary

Long-term all members need to feel comfortable with costs and allocations

Recognition of who paid for existing assets

Starting point options

1. Current rate variation due to purchased capacity

Is this a problem?

Purchase capacity holds

2. New equivalent rate for all

Framework A: Owner Based

Framework B: Entity Based



Ideas



Parking Lot

Allocation of debt

How to deal with growth equitably?

Include in cost sharing workshop.

Costs in region driven by growth of individual members, not all.

Need to balance in existing production capacity.

Specific questions on non-member allocation.

Issue of new entrance

Rate setting authority

Central Iowa Regional Working Group Workshops

Workshop #2
Oct. 23, 2017

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TOPIC: CAPITALIZATION

Capitalization

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- 28E Risk of not all members funding
- "Power of pocketbook" rests with members
- 28F Disadvantage: Without ownership of assets, bonds not guaranteed
- Advantage: One debt issue, not issued to each member
- Yes, 28F

- The Enterprise Organization
- The Contributory Organization

Expansion of existing utilities

- Need to document existing / future capacities
- Who has control of existing expansion decisions?
- Reduction in use by member has impact on region

TOPIC: ACCOUNTING STRUCTURE

Accounting Structure

How much latitude does regional entity have?

Record keeping

- Can't easily transfer records, need to duplicate
- Who would handle day to day accounting?
- If regional entity is issuing debt they need access / control?

Extra costs?
Staff needs?

Future assets

- Owned by regional entity, need staff to manage
- Regional authority's control

Governance issue

- Regional board vs. existing boards
- Management vs. ownership of assets

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How to deal with growth equitably?

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Parking Lot

- Allocation of debt
- Rate setting authority
- Capital priorities long-term

Actions

- Minutes for board approval / modification