

CENTRAL IOWA REGIONAL WATER MEETING

Wednesday, November 15, 2017

7:30 a.m.

Urbandale City Hall

3600 86th St, Urbandale, IA 50322

Present:

City of Ankeny – Mayor Gary Lorenz

City of Des Moines –

City of Johnston – Mayor Paula Dierenfeld

City of Urbandale – Mayor Bob Andeweg

City of Waukee –

City of West Des Moines – Mayor Steve Gaer

Des Moines Water Works – Sue Huppert, Board Chair; Bill Stowe, staff

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

West Des Moines Water Works – Karen Novak, Board Chair; Diana Wilson, staff

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

1. Welcome – At 7:30 a.m., the meeting began and Mayor Gaer welcomed everyone.
2. Updates from Workshops – Mr. Mumm provided a recap from workshop sessions. We are currently in the hypothesizing and iterating phase of the process.

Workshop #1 – Obligation to Serve and Right to Serve

Areas of Consensus:

OBLIGATION OF THE WATER AUTHORITY TO PROVIDE SERVICE

The Water Authority shall provide for all drinking water production requirements of its Members whenever requested, subject to the following additional provisions:

- A. The Water Authority shall plan for and deliver no more than the Members' maximum-daily demands,
- B. The Water Authority shall provide for sufficient water pressure at the Members' delivery points at levels to be determined in coordination between the Members and the Water Authority,
- C. The Water Authority shall not deny service to any Member who requests it so long as requests are made reasonably in advance,
- D. The Water Authority may curtail service to the Members in the event of mechanical failures, unforeseen events, or Force Majeure. In such instances, curtailments shall be made proportionately without preference to any Member,
- E. All drinking water delivered by the Water Authority shall meet all applicable state and federal water quality regulations,
- F. The Water Authority shall provide services to its Members at a price that is reasonably related to its actual costs, at levels determined by its Board to be sufficient to pay the expenses of the Water Authority and to provide for the current and future financing of the Water Authority's capital projects.

EXCLUSIVE RIGHTS OF THE WATER AUTHORITY

The Water Authority shall have the exclusive right to provide all the drinking water production needs within the current and future political boundaries of its Members, subject to the following additional provisions:

- A. The Water Authority's right to serve applies to the provision of drinking water production only, which specifically includes the following activities:
 1. Withdrawal of surface or groundwater supplies,
 2. Storage of source water,
 3. Treatment of source water,
 4. Storage of treated drinking water,
 5. Transmission and pumping of treated drinking water to individual, metered delivery points of the Members'.
- B. Without exception, this Agreement does not grant the Water Authority the right to serve within the individual distribution systems of the Members.
- C. During the term of this Agreement, the Members will not:
 1. Contract for drinking water supplies from any party other than the Water Authority,
 2. Acquire or expand water production assets that infringe on the Water Authority's right to serve as described in this Section, with the following exceptions
 - a) Members who own water production assets that provide service only within their own distribution network as of the date of this Agreement, may continue to operate those assets at their current design capacity levels.
 - b) Such Members may not, however, expand water production beyond the current design capacity of the existing assets.
 3. **TBD** Apply for Water Allocation Permits from the State of Iowa, or in any way alter the flows or water quality of the Water Authority's surface and/or groundwater supplies, except that Members may own and operate aquifer storage and recovery (ASR) assets, including applying for and maintaining any regulatory permits necessary for the operations of their ASR assets.

Workshop #2 – Capitalization and Accounting Framework

Areas of Consensus:

- 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.

Areas of Contention:

- 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.

Workshop #3 Areas of Contention:

- Participants came to the realization that the regional entity would likely not have the level of authority needed to fulfill the vision without authority for the assets and their operation.
- The discussion then turned to suspending the Guiding Principles in order to discuss how a transfer of assets might occur.
- This brought up older issues about “value” and transaction models.
- The change in direction has caused us to go back and change the schedule of facilitated topics, and the topics themselves.

Workshops #4 and #5 – Valuation and Transfer of Assets

Mr. Mumm stated that given that this topic has already been discussed once before leading to no consensus within the group, is there a different way forward to accomplish a reorganization of the assets under regional authority that will benefit the ratepayers without causing financial harm?

Mr. Mumm stated in Workshop #4, it was discussed different standards of value (i.e. fair market value vs. fair value). Mr. Mumm also described two kinds of financial interests in the water production assets:

- **Owners’ equity** – investment, net of related debt, attributable to the legal owners of the business assets. These are the Des Moines Water Works’ ratepayers (non-Purchased Capacity customers).
- **Contributed equity** – investment, net of related debt, made by parties other than the owners (Purchased Capacity customers).

Mr. Mumm commented that how to take two types of equity and combined them into a regional is a serious question.

In addition, Mr. Mumm stated there are two kinds of capacity in the existing water production:

- **Subscribed capacity** – this is capacity that is already used to provide service to existing ratepayers, either those attached to the owner’s equity, or those attached to the contributed equity.
- **Reserve capacity** – this is unused capacity.

At the moment, there is approximately 110 million gallons day (MGD) of design capacity in the system, and about 98 MGD is being used, with about 12 MGD in reserved capacity. That 12 MGD is a vital asset for the region, especially in the short term.

Mr. Mumm provided examples and pros and cons of different ways to look at reorganization of the assets under regional authority that will benefit the ratepayers without causing financial harm.

- a. **Contribute – Unrestricted:** Reserve capacity is contributed to the regional entity with no restrictions on how it is used, and the capital cost recovery is averaged across all demands in the region instead of non-Purchased Capacity customers only.

- b. **Contribute – Restricted:** Reserve capacity is contributed to the regional entity, but some or all the reserve is restricted for the future use of Des Moines only.
- c. **Sell and Buy Back:** Reserve capacity is “sold” to the regional entity with the cost of the sale spread among all regional customers, but with specific benefit to DMWW.

The next workshop #5 will continue discussion on valuation and transfer of assets. Future workshop topics will be adjusted as needed.

- 3. Discussion – Mayor Gaer inquired about the available 12 million gallons day (MGD) for short-term use. Mr. Stowe stressed an “all-in” approach for regional water production assets (i.e. including West Des Moines, Altoona, Polk City, other). Mayor Lorenz asked that the group define “regional,” since it may have different meanings for different people. Mayor Gaer noted he will be providing an update at a regional city managers meeting. There was a brief discussion on how to include Grimes in the discussion. Mayor Gaer reiterated that we to be able to produce water more economically together for the region verses doing it on our own, and validate it to our customers. Mayor Lorenz inquired about current cost of service and rate making process. Ms. Novak would like clarification if West Des Moines Water Works inquired if their assets are viewed as “regional” or not.
- 4. Public Comments – John Holcomb, a resident from Urbandale, inquired about water resource from the Jordan Aquifer, the use of Aquifer Storage and Recovery Wells (ASR), and examples of other communities’ efforts to work regionally.

Ms. Huppert stated Greater Des Moines Partnership’s stated legislative priorities include water regional efforts.

Mayor Gaer noted the next workshop is Tuesday, November 28, 11:00 a.m., at Des Moines Water Works, and Thursday, November 30, at 4:00 p.m., at Des Moines Water Works. The next meeting is Wednesday, November 29, at 7:30 a.m., at Urbandale City Hall.

Meeting adjourned at 8:20 a.m.