

CENTRAL IOWA REGIONAL WATER WORKSHOP 7

Wednesday, December 6, 2017

4:00 p.m.

Des Moines Water Works

2201 George Flag Parkway, Des Moines, IA 50321

Present:

City of Altoona – City Councilmember Vern Willey

City of Ankeny – Mayor Gary Lorenz; City Manager David Jones

City of Des Moines – City Manager Scott Sanders

City of Clive – City Manager Dennis Henderson

City of Johnston – Councilmember David Lindeman; City Manager Jim Sanders

City of Urbandale – Mayor Bob Andeweg

City of Waukee – City Manager Tim Morman

City of West Des Moines – Mayor Steve Gaer, City Manager Tom Hadden

Des Moines Water Works – Sue Huppert, Board Chair, Graham Gillette, Board Member and Marc Wallace, Board Member, Ted Corrigan, Amy Kahler, Mike McCurnin, Laura Sarcone, and Bill Stowe, staff

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

Warren Rural Water – Andy Fish, staff

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

Xenia Rural Water – Gary Benjamin, staff

Also in attendance: Jason Mumm and David Gordon, FCS Group; Paul Drey, Brick Gentry Law Firm, and members of the public.

At 4:04 p.m., the meeting began.

Mr. Mumm provided a recap of where the discussion ended at the last workshop. There is continued support for *Option 1: Transfer of Existing and Future Capacity*. The group does not have consensus on all assets, but there is a strong indication that people are willing to consider adding all assets. Mr. Mumm provided results from unscientific polling questions conducted at the previous workshop.

1. Presentation of Formation of a Regional Entity to Include Existing and Future Water Production Assets – Existing and Future Capacity option continues to have the most support. But there are significant challenges to overcome. Particularly, questions remain over asset transfer, payments for reserve capacity, and board representation. Mr. Mumm outlined the five components of the “All-in” concept:
 - 1) *Asset Inclusion* All regional production assets are included
 - 2) *Governance and Representation* 3 alternatives to examine later in the workshop
 - 3) *Measuring and Paying for Reserve Capacity* Verifiable max-day demand compared to verifiable owned and purchased capacity at uniform value \$/MGD

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|------------------------------------|---|
| 4) <i>Handling of Operations</i> | Initial operating agreements with existing producers |
| 5) <i>Implementation and Rates</i> | All aspects implemented immediately, except for payment to members for reserve capacity (later) |

Asset Inclusion: Mr. Mumm noted that there would be appropriate consideration for split between production and distribution pieces, where applicable; but, this means all production assets. Mr. Mumm asked for discussion on asset inclusion. Ms. Novak and Mr. Smith stated that it is still West Des Moines Water Works' (WDMWW) position that WDMWW facilities not be included in the regional asset transfer. There was discussion on cash and debt incurred for recent WDMWW system upgrades. Mr. Corrigan spoke on WDMWW peaking off Des Moines Water Works currently and regionally in the future. Mr. McCune offered his thoughts on true regional efforts. The group discussed "day 1" transfer or "triggers" for transfer. Ms. Wilson provided her thoughts on AC Ward not be including to the region. Mr. Mumm suggested getting the regional entity some time to establish finically and putting a timeline on transfer of assets. He estimated that it could take approximately 3-5 years for the new regional entity to gain financial bandwidth. Mr. Lindeman provided other "trigger" examples, such as water demand/population growth, need for a new treatment plant, etc. Mr. Smith also suggested a "trigger" would be AC Ward at 100 percent subscribed capacity. Mr. Fish expressed concern from Warren Water's position about incurring regional debt. Mr. Mumm suggested another "trigger" could debt paid off. Mr. Mumm stated the business case for each community will be to get the greatest economies of scale to benefit the entire region.

Governance and Representation: Mr. Mumm stated the new entity would be a regional, independent, board of directors; separate from all other boards. The governance would include: all water production decisions; approval and payment of operation and maintenance costs; determination and financing of capital projects; determining wholesale rates (for water production); personnel decisions. And does not include: local board/council decisions on water distribution and local rate setting.

Measuring Reserve Capacity: Mr. Mumm provided a formula for calculating reserve capacity:

$$\begin{array}{r}
 \text{Total Purchased Capacity} \\
 + \text{Owned Capacity} \\
 \hline
 \text{Total Capacity} \\
 \text{(Less) Max-Day Demand} \\
 \hline
 \text{Reserve Capacity}
 \end{array}$$

There are challenges to max-day measurements, including choosing from any given year could overstate or understate, resulting in misleading indication of reserve capacity. Mr. Mumm suggested a weighted average of past 5-10 years; latest year has highest weight.

Payment for Reserve Capacity: Mr. Mumm suggested the regional entity compensates members with reserve capacity. The price per million gallon per day (MGD) is yet to be determined. A lower price/MGD cost will mean a lower uniform wholesale rate. Compensation can take form of cash payment or future rate considerations. Mr. Mumm suggested delay of the payment for reserve to a later date, to allow the regional entity to get established; gain credit worthiness so it can finance the payments with bonds; and pay all

members with reserves at one time on financing. Ms. Wilson noted that a condition of assets should be reviewed in this process.

Operations: Initially contract operations of existing production facilities with existing producers (e.g. Fleur, Saylorville, McMullin and transmission network contracted to DMWW; AC Ward contracted to WDMWW; Altoona production to City of Altoona; etc.)

Timeframe and Rates: All aspects of the structure would be implemented immediately EXCEPT for suggested delay for compensation of existing reserve capacity. The Wholesale rate will be implemented immediately. It will help establish financial capacity for regional entity; allows the regional entity itself to finance the payments (and other CIP) and allows time to execute the implementation plan well.

Mr. Mumm provided high-level examples of total system average cost per unit.

An unscientific poll question was asked: *do you like this idea in general?* The results were: Yes – 94%

An unscientific poll question was asked: *Which element of the option do you like the least – asset inclusion; governance and representation; measuring and paying for reserve capacity; handling of operation; implementation of rates; I like all the options.* The results were:

Asset inclusion: 22%

I like all the options: 61%

An unscientific poll question was asked: *What, if anything, have we missed?*

The initial results were:

- Value
- Coordinating
- Ops
- Events
- Storage
- Triggering events
- Cost
- Facilities included
- Legalese

2. Discussion of Board Composition and Allocation of Board Seats – Mr. Mumm noted there are a variety of options and local examples; however, there are important considerations:

- Should balance representation across the array of regional interests
 - Need to protect and honor minority interests
- Board size
 - Should provide for representation of smaller communities without making a board “too large”
- Different basis can determine representation
 - Population, Demand, etc.

Local Example #1: Water Reclamation Authority (WRA)

- One member per entity

- Additional weighting per 25,000 of population for any vote if desired
 - Seat or weighted vote

Local Example #2: DART

- One member per entity
- 3 types of decisions have weighted votes per population
 - Changing rules and regulations
 - Changing service area
 - Changing Budget

Alternative #3

- Size:
 - Fixed number of members (possibly up to 11)
- Representation and Voting:
 - Some communities have a specific number of seats based on criteria
 - Some members would be pooled together in to one seat
 - Instead of weighting, use supermajority requirement for key decisions
- Possible basis for seat allocation:
 - Population
 - Maximum Daily Demand
 - Average Day Demand
 - Purchased and Contributed Capacity
 - Some variation of all of the above

The group discussed board configuration options. Mayor Gaer stated that the recent DART process proved that all communities and entities who paid in wanted a seat at the table. The group had a consensus on the DART structure; however, instead of weighted votes based population, base it on consumption.

3. Discuss Agenda for Workshops the Week of December 11 – Mr. Mumm will provide agenda items for next.

Upcoming Schedule

- Workshop #8 – December 14, 4:00-6:00 p.m., Des Moines Water Works
- December 15, 7:30 a.m., Urbandale City Hall

Meeting ended at 6:06 p.m.