

Central Iowa Regional Water Workgroup



Workshop #6

Options Analysis

December 4, 2017



Recap from our Last Discussion

- ◆ **Asset Transfer is a possible path forward with three suggestions for doing so**
 - We discussed three possibilities for how we may transfer capacity
- ◆ **Board Expansion**
 - Mentioned by not discussed at the last workshop
- ◆ **Lingering questions**
 - We discussed questions posed by the group on how to handle remaining debt, who should be included in the regional entity, and how asset transfer and governance align



What are our paths forward?

Existing and Future Capacity	Future Capacity Only	Expand DMWW Board
<ul style="list-style-type: none">• New regional entity handles <u>existing and future</u> water production• Involves transfer of existing assets• High alignment with obligation to serve• More difficult than other forms	<ul style="list-style-type: none">• New regional entity handles <u>future water production only</u>• No asset transfers necessary• All existing capacity (assets) remain with owners• Current agreements on use of existing capacity remain• Partial alignment with obligation to serve• Least difficult	<ul style="list-style-type: none">• Expanded board governs <u>existing and future</u> water production• No asset transfers necessary• Legal issues to address• Benefits dependent on board set up and control• Possible alignment with obligations



Agenda

- ◆ **Board Expansion**
 - Considerations
 - Production vs. Distribution

- ◆ **Transfer of Existing Assets**
 - Asset inclusion discussion
 - Next Steps

- ◆ **Poll Questions**



Board Expansion

- ◆ **What is it?**
 - The DMWW board is expanded to include more (TBD) members from the region
 - Expanded board handles all water production.
- ◆ **What is it not?**
 - Does not interfere with local distribution decision making – that power is reserved for current DMWW board
 - Does not require asset transfer



Challenges to Board Expansion

- ◆ **Legal challenges**
 - Size of board limited by state statute
 - Appointment authority reserved by state statute to City of Des Moines
- ◆ **Practical challenges**
 - Regional production decision authority vs. local distribution system



Board Expansion: Legal Considerations

- ◆ **Board appointments (Iowa Code 388.3)**
 - Mayor appoints utility board “subject to approval of the [city] council.”
 - Local code 118-586 aligns with state code

- ◆ **Board size (Iowa Code 388.2)**
 - Provides for appointment of either three or five members.
 - Local code 118-586 limits board to five members

- ◆ **What is needed to fulfill the vision the working group has expressed**
 - More than five members, most likely
 - Appointment/selection of regional seats by alternative method
 - State and local codes would need amendment to accomplish this



Board Expansion: Practical Considerations

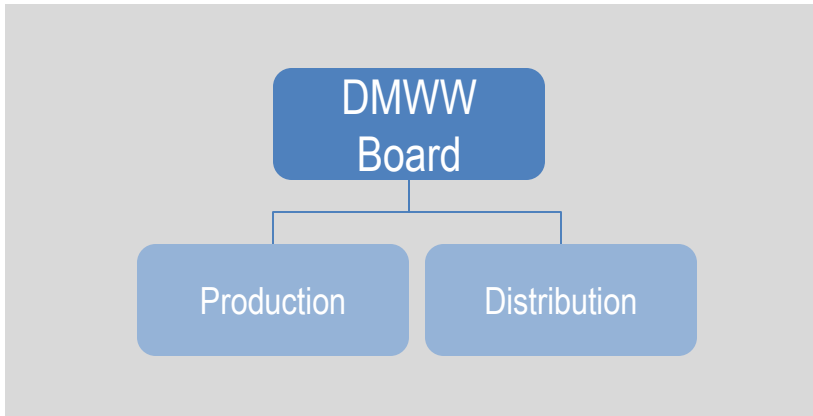
- ◆ **Water Production vs. Distribution**
 - Not practical to have the same board deciding regional issues and local distribution decisions
 - Causes potential conflicts of interests
 - E.g. Regional board should not be able to preempt local distribution needs

- ◆ **What is needed to fulfill the vision the working group has expressed**
 - Separation of authority between regional decision making and local
 - Separate governance of the two



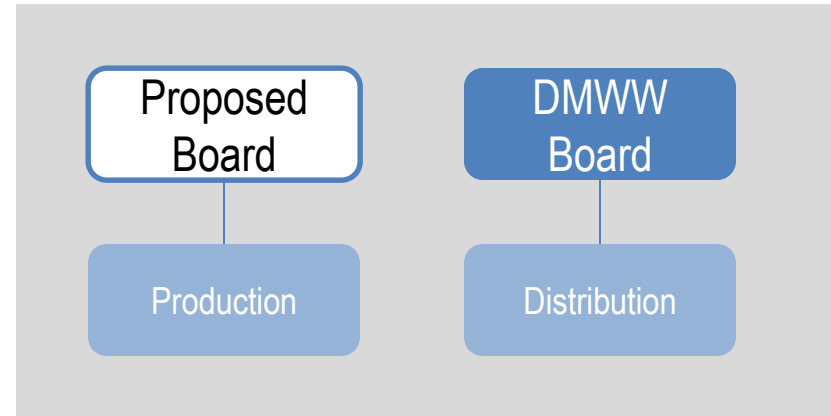
A Suggestion for Restructuring

EXISTING STRUCTURE



- All functions governed by existing 5-member board
- Under a single enterprise fund
- All members appointed by City of Des Moines Mayor
- Managed by existing DMWW staff

FUTURE STRUCTURE



- Production and distribution functions would be split internally
- Forming two separate enterprise funds, components of DMWW
- Managed by existing DMWW staff
- Members appointed by mix of local bodies



Board Expansion – How well does it align?

Item	Alignment	Note
Obligation to Serve	✓	Assuming our proposed obligations and rights to serve are adopted
Planning Authority	✓	Aligned under proposed Board
Operational Authority	✓	Aligned under proposed Board; managed by existing DMWW staff
Financing Authority	✓	DMWW has financing authority already
Accounting Authority	✓	Same accounting system, two enterprises
Asset Ownership	✓	No need to transfer assets; future assets owned by the DMWW production enterprise
Operational Alignment	✓	DMWW staff manages all facilities

Existing and Future Capacity



Consolidating Existing & Future Capacity

- ◆ **The model we have discussed includes transfer of existing capacity**
 - “Capacity” means a collection of assets from various current owners
 - We discussed subscribed capacity and reserve
 - Contributing (at no cost) the subscribed capacity
 - Possibly contributing the reserve; or a sell-buyback arrangement for it

- ◆ **This model would create a separate board to manage the existing assets**
 - Assume responsibility for regional water production from DMWW

- ◆ **The board would acquire future water production capacity**
 - Plan, finance, acquire new production assets



Existing and Future Capacity: Where We Have Been

Item	Alignment	Note
Obligation to Serve	✓	Met through other authorities
Planning Authority	✓	Regional entity plans, finances, and constructs new assets
Operational Authority	✓	Through asset ownership
Financing Authority	✓	Ability to finance projects, set rates, and review costs controlled by entity
Accounting Authority	✓	Provided by regional entity
Asset Ownership	?	Include existing <i>used and useful assets</i>
Operational Alignment	?	Depends somewhat on assets included



Industry Standard: “Used and Useful”

- ◆ **Asset must be used and useful by those who pay for their costs**
 - The asset must generally be “in service”, i.e. useable
 - Assets are useful when they provide benefits to the ratepayers

- ◆ **Cost-Benefit Nexus**
 - Current ratepayers should bear only legitimate costs of providing services to them
 - If an asset doesn’t provide service, its costs generally are not legitimate

- ◆ **Are water production assets that serve only a specific community “used and useful” to a regional entity?**
 - For: These assets are *used* to meet a portion of regional demand, and *useful* to meeting the regional obligation of service
 - Against: Only select customers *use* the water produced by these assets so they are not *useful* to all ratepayers, and therefore their costs should not be recovered by the entity

This section will include an opportunity to see consensus and take polls regarding asset inclusion and priorities

Consensus and Polling