



DES MOINES WATER WORKS  
Board of Water Works Trustees

Agenda Item No. III C  
Meeting Date: March 26, 2019  
Chairperson's Signature  Yes  No

**AGENDA ITEM FORM**

**SUBJECT: Authorize CEO and General Manager to Execute Professional Services Agreement with FCS Group**

**SUMMARY:**

In September 2017, DMWW entered into an agreement with FCS Group (FCS) to “facilitate a successful regional consolidation” of drinking water production in Central Iowa. DMWW paid one-third of the cost and West Des Moines Water Works (WDMWW) and Urbandale Water Utility (UWU) each paid one-third. Over the course of 3 months, FCS facilitated a series of meetings concerning this effort. This became known as Phase 1.

In March 2018, FCS presented a proposed work plan for Phase 2, focusing on the economic basis for regional production of drinking water with fees “not to exceed” \$200,000 including expenses. DMWW entered into an agreement with FCS, the cost of which was again divided equally among DMWW, WDMWW, and UWU. FCS concluded that regionalization could produce substantial regional benefit, but the benefits were unequally distributed across entities.

FCS has provided DMWW with a proposal for Phase 3 services to develop a workable proposal for regionalization that we can take to interested regional parties. FCS’s fees for this work are not-to-exceed \$37,000. Their proposal is attached.

**FISCAL IMPACT:**

Funds for these services were not included in the 2019 budget. Staff will identify unspent funds within the overall Utility budget to be utilized for this project.

**RECOMMENDED ACTION:**

Authorize the CEO and General Manager to execute Professional Services Agreement with FCS Group.

**BOARD REQUIRED ACTION:**

Motion to authorize the CEO and General Manager to execute Professional Services Agreement with FCS Group.

 Peggy Freese, CPA CFO	<u>3/20/19</u> (date)	 Ted Corrigan, P.E. Chief Operating Officer	<u>3/20/19</u> (date)	 William G. Stowe CEO and General Manager	<u>3.21.19</u> (date)
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Attachments: Proposal

March 19, 2019

Des Moines Water Works  
Attn: William Stowe  
2201 George Flagg Parkway  
Des Moines, IA 50321

**Subject: FCS Group Proposal for Phase 3 Services**

Dear Mr. Stowe:

Thank you for the opportunity to provide Des Moines Water Works with this DRAFT proposal for a scope of services continuing the progress made so far on the issue of forming a regional water authority in Des Moines. It has been our pleasure and great privilege to work with you and the regional parties for the past year-plus as we first worked to develop a vision for a regional authority in Phase 1, and then delved into the difficult task of evaluating the costs and benefits involved in Phase 2. The new Authority, as envisioned thus far, would consolidate essential functions of water production in the region, merging the best of region's production assets, human resources, and regional thinking. From our second phase of work, we found the benefits achieved from regionalization could produce a substantial regional benefit, but that the benefits were unevenly distributed. We reasoned it would require additional effort and negotiation by all parties to ensure those benefits could be enjoyed more broadly.

**Our last phase of work did not advance the discussion past identifying the challenge of uneven benefits from proposed regionalization. However, the attached proposal addresses this challenge head-on, resulting in a workable proposal that Des Moines Water Works can take to interested regional partners within 60 days.**

Providing a workable proposal means changing the distribution of regional benefits so more regional members may experience a net benefit rather than a net cost from regionalization. Achieving such an outcome entails making changes to some of the key assumptions we used in Phase 2, and we believe we believe changes to the following specific areas will produce the desired outcomes:

- *The Purchased Capacity and Wholesale Rate.* One of the key assumptions in the status quo scenarios was the assumed forward trend of the current DMWW rates for purchased capacity and wholesale customers. This assumption needs to be revisited and, if possible, corrected to more accurately reflect the true costs DMWW incurs to provide those services. We recommend that this assumption is addressed first, before others are addressed at all. We will coordinate any adjustments we make here with the DMWW rate consultant, Raftelis Financial Consultants (RFC), but generally the rates in question would be increased to a point where the projected rate for services more closely matches the costs. We have discussed the need for this adjustment with RFC and believe they have already determined a high-level value that we can use in our analysis.
- *Asset Transfers, Contributions and Sales of Reserve Capacity.* We applied a strict set of rules guiding the transfer of assets for the proposed Authority that included cash payments for measured reserve capacities, credits in future costs for contributed assets and, in some cases, refinancing of residual local debts (on transferred assets). The sum of these transaction had the effect of passing greater benefits on to asset owners – especially DMWW – than other regional members. The changes we envision would be to reduce the credits provided from the anticipated transfers.
- *Funding of Growth-Related Projects.* To finance growth-related capital projects, we proposed and applied a methodology whereby the fastest growing communities would be allocated larger portions of future project costs. This assumption had the effect of transferring significant cost responsibility to the

fast-growing communities, who were also in many cases among the smaller communities in the region. The result was higher future costs for these communities and a decrease in net benefits compared to the status quo. The changes we anticipate here include either reducing or changing the allocation of growth-related costs or changing the assumed approach toward growth funding altogether. For example: we may change the growth allocation such that part of the costs are allocated directly to the faster-growing communities and the rest is shared amongst all members in recognition of the broad economic value that growth may provide to the region as a whole.

- *Peaking Charges.* Our work in Phase 2 included an allocation of future costs of the Authority based in part on peak demands forecasted in the DMWW Long Range Plan. This assumption had the effect of placing greater cost responsibilities on those communities with the highest forecasted peaking requirements. Proposed changes to these assumptions include reducing the forecasted peak demands of regional members. For example: we may reduce the peaking for individual members to reflect an assumed expectation that members will manage peak demands more aggressively than what was forecasted in the Long-Range Plan.

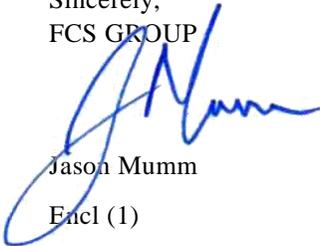
By changing assumptions in the above areas, we expect we can levelized the anticipated benefits to include as many of the regional members as possible. Once we've determined what it would take to accomplish the maximum distribution of benefits, we can advise DMWW on what terms need to be included in its offer. We anticipate a range of terms, each influencing the outcome in the distribution of net benefits.

All the models and tools we developed in performing our analyses in Phase 2 can be leveraged in Phase 3 to help us quickly determine a range of terms and their corresponding outcomes. Using the same tools from Phase 2 has the added benefit of making the results we obtain in Phase 3 directly comparable to the earlier phase. Within 45 days from a notice to proceed, we will have our preliminary results available for review by DMWW. Assuming timely review of the preliminary results, within 60-days, we can have a completed offer sheet put together that DMWW could take to interested parties in the region. We do not need to collect any additional data or information from DMWW or other parties, nor do we need to engage in any workshops or coordinating meetings except to discuss with DMWW its specific preferences regarding the range of terms to include in the final offer sheet.

We have ensured the availability of the members of our team from Phase 2 to complete this short-term assignment. Our scope includes two on-site trips to Des Moines that we propose to use at the 45-day mark to work with you on finalizing the offer sheet. We will complete this assignment for a not-to-exceed budget of \$37,000. Should DMWW need any further assistance from us beyond the scope outlined above, we would be pleased to provide additional services by amending our agreement with you, in writing, to include a description of the services requested, and an estimated revision to the total not-to-exceed budget. Any revision to the not-to-exceed budget shall be based on our then current hourly rates. Our standard hourly rates (enclosed) are effective until December 31, 2019 and may change thereafter.

If you have any questions at all about this proposal, please call me at (303)652-7548, my direct line.

Sincerely,  
FCS GROUP



Jason Mumm

Encl (1)

**FCS GROUP**  
**2019 STANDARD FEE SCHEDULE**

**Effective DECEMBER 15, 2018**

**LABOR**

<b><u>POSITION/TITLE</u></b>		<b><u>BILLING RATE</u></b>
Principals	Standard Rate	\$260
Senior Project Manager	Standard Rate	\$210
Senior Special Projects Manager	Standard Rate	\$200
Project Manager II	Standard Rate	\$185
Project Manager I	Standard Rate	\$175
Project Consultant	Standard Rate	\$160
Senior Analyst	Standard Rate	\$140
Analyst	Standard Rate	\$130

**Administrative and Technical Support**

Public Relations		\$155
Technical Writer/Graphic Artist	\$ 130	
Administrative Support		\$ 85

**DIRECT EXPENSES**

Major direct expenses, such as travel, mileage, and lodging, will be charged at cost. Other expenses will not be directly charged unless by mutual agreement of the client and FCS GROUP and specific terms will be established in advance prior to expenditure and billing.

**SUBCONSULTANTS**

When applicable, subconsultants will be charged at invoiced cost plus 10%.