

Proposal for Increasing Regional Participation in Water Production

Introduction

Des Moines Water Works (DMWW) began providing safe, affordable, and abundant drinking water in 1871, as a private water company. In 1919, DMWW became an independent public utility under the Code of Iowa. Efforts by the City of Des Moines to make DMWW a city department were halted by the passage of another law in 1923. This law ensured DMWW would permanently remain independent and free of City supervision. To this day, DMWW is operated by a Board of Water Works Trustees, appointed by the Mayor of the City of Des Moines and approved by the City Council. The Board of Water Works Trustees has powers similar to a city council, including the power to operate and control DMWW's assets. However, the Board is prohibited from levying taxes, or passing ordinances.

In its early days as a public utility, DMWW provided water to retail customers within the City of Des Moines. When DMWW signed a wholesale agreement to supply the City of Urbandale with water, fewer than 175,000 people called Central Iowa home. Over the decades, DMWW became a regional utility. By forging partnerships with municipalities, counties, and businesses, DMWW built and continues to operate the water production and transmission system required to meet the area's demand. Today, over 500,000 people rely on DMWW for their water.

DMWW is a public utility free from the burden of providing profits to shareholders or a revenue stream to city government. As such, the DMWW Board of Water Works Trustees' first financial responsibility, after assuring our water is safe, is to promote and safeguard the interests of Des Moines ratepayers, who are also the ultimate owners of DMWW. Of paramount importance to the ratepayer-owners of DMWW is the wise management of the limited natural resource of water. In the twenty-first century, such management requires increased cooperation, shared decision-making, the balancing of risk, and the equitable distribution of benefits with DMWW regional partners. Because of this, DMWW spent more than two years coordinating, leading, and participating in broad regional discussions on how best to meet the challenge of providing safe, affordable and abundant water to Central Iowa in the years to come. These discussions have been open to all stakeholders in Central Iowa and supported by a consultant with technical expertise. The discussions and analysis provided by the consultant have helped forward regional discussion.

For the last several months, DMWW has pursued internal discussions and tested concepts with external parties, including the City of Ankeny and Urbandale Water Utility to explore workable options for managing regional water production. The following proposal is a framework for

exploring concepts that might be widely agreeable, not a definitive agreement. It is a starting point for further discussion, not a final document.

Important to understanding the discussion document is a brief history of the regional discussions and an explanation of the concepts included in this proposed discussion document.

The Pursuit of Regional Cooperation and Participation

DMWW retail customers account for 67% of DMWW's water revenue. The remaining 33% of DMWW's water revenue comes from the wholesale distribution of water to other water utilities across the region. The West Des Moines water utility, the Altoona water utility, and Polk City water utility own and operate water production facilities and purchase water from DMWW to supplement water they produce and to meet demand during peak times or emergencies. The remaining water utilities in Central Iowa purchase 100% of the water they distribute to their customers from DMWW. The wholesale sale of water to these communities account for more than 50% of the water DMWW produces.

The DMWW Board believes a failure to cooperate regionally could lead to communities building, maintaining, and operating duplicate water production facilities. Such duplicative facilities would raise costs for consumers and further deplete an already strained watershed. **But, the DMWW Board refuses to accept the choice is limited to maintaining the current system or creating one where communities compete for access to water.**

In 2017, DMWW entered a two-year process with partners from across the region to examine ways to increase cooperation, share decision-making, balance risk, and equitably distribute benefits across the region. A range of alternatives from merging all retail and water production assets under a single regional entity to sharing costs and decision-making while maintaining separately governed entities were considered. FCS Group, a national utility consulting firm, was hired to assist with a structured process which included data gathering and analysis, and stakeholder workshops. The technical aspects of forming a regional entity, including board composition and operating contracts were defined. FCS Group also completed an in-depth financial analysis of the regional concept compared to the existing water supply model.

Existing Variables and Potential Obstacles to Regional Governance

The FCS Group financial analysis, completed in October 2018, showed many significant benefits to regionalizing water production in Central Iowa, but the benefits were unevenly distributed. The FCS recommendations were based on 1) ownership of water production assets, 2) how the costs of adding water production for economic growth were to be attributed, and 3) how to calculate charges for water during peak demands. The formation of a new regional water authority was proposed. The proposed authority would purchase all of the water production assets in the region. The new authority would raise money from members, through the issuance of bonds, and by implementing rate increases to customers to buy these assets.

The cost of becoming a member of the new authority was too high for some, while others would have received significant financial benefits. There was little interest in this regionalization model flowing from the analysis and discussions stalled.

Earlier this year, West Des Moines launched an effort separate from these regionalization discussions to pursue the possible development of a water treatment plant and a separate regional utility that would serve a smaller portion of the Central Iowa region. A study is underway to determine the feasibility of this plan. The study may conclude a new water treatment plant might provide participating communities a cost-effective alternative to purchasing water from DMWW or participating in a new regional entity with DMWW. A fair analysis should contemplate the environmental impacts of a duplicative facility, and the financial cost incurred by both those inside and outside the areas served.

The Shared Governance Option

While considering a framework for discussion, the DMWW Board followed the three guiding principles developed during the last two years of regional discussions.

1. Collaborative decision-making focused on conserving and protecting the natural resource of water is in the best interest of the people of the region and the planet.
2. Drinking water should be produced and made available in a manner that is fair and equitable to every person, business, government entity, and organization in the region.
3. Shared risk should result in shared benefits. While some short-term production methods may save money or result in lower costs for a subset of customers, cost savings alone do not outweigh the benefits of regional cooperation. The wise management and conservation of water is beneficial to the entire region and will result in lower regional costs over the long-term.

The framework distributed this week is one developed by DMWW to stimulate discussion. All participating regional partners, including the DMWW Board, would have to review the final, negotiated agreement that would result from further discussions, and vote to approve that definitive agreement before an entity would be created. The discussion framework contains the following concepts.

1. Creation of Central Iowa Water Works (CIWW): A new intergovernmental entity, CIWW, would be established under Iowa Code to allow regional partners to make efficient use of existing water infrastructure and cooperate to their mutual advantage to manage the natural resource of water for the region. This new entity would also have the responsibility to deliver safe and abundant drinking water to the members of CIWW.
2. Participation: Central Iowa water utility systems would be invited to join CIWW as founding members. DMWW total service customers would be deemed to be part of DMWW so long as they remain a party to their existing 28E agreement. If a water utility system wishes to join CIWW after the founding members have been established, the terms would be established by the CIWW board. All members would exclusively contract with CIWW for their water supply. CIWW would contract for the operation of members water production assets for a minimum of 20 years. CIWW members would retain full governance of all matters related to their individual distribution systems, including setting local water rates.

3. **Board Composition:** CIWW would be governed by a Board of at least five persons and not more than nine persons to be selected biennially. Board seats would be apportioned with two seats allocated to DMWW, and one seat allocated to each additional founding member over 25,000 in population. Upon its creation, the board would also include one or two at-large seats as needed to maintain an odd number of seats on the board.
4. **Ownership:** CIWW would have the opportunity to purchase water production assets from its members on two separate occasions, the first in 2026, and second in 2031. Until acting on asset transfer, asset owners would continue to construct, own, and finance improvements and expansions to their existing production facilities. All financing and management issues related to water production would require approval from the CIWW board.
5. **Governance and Scope:** The CIWW Board would provide oversight and governance for managing water production and wholesale distribution to its members, wholesale rate setting, and long-range planning. CIWW would have the exclusive right to purchase the full output of the water production assets of all its members.
6. **Future Water Production Expansion:** The cost of expanding water production assets in the region would be shared among the members of the CIWW proportionally based on each member's forecasted demand. Those with higher growth rates would share a larger share of the costs.
7. **Upfront Capital Contribution:** Upon entering into CIWW, each member would be required to contribute towards the entities start-up capital fund. Each member would be asked to contribute a proportionate share of the start-up fund. The initial start-up fund would be at least \$500,000, and not more than \$2,000,000 in total. Member contributions to the start-up fund would be based on population.

Conclusion – Moving Forward Together

The Board of Water Works Trustees of DMWW offers the above Shared Governance Option as one alternative worthy of consideration. By providing his option, the Board hopes to further the dialogue it has held with its ratepayers, the people of the region, and governments. The above proposal was developed as one possible plan for safeguarding the natural resource of water through regional cooperation while continuing to meet the economic development and human needs for water into the future.

The DMWW Board finds this proposal worthy of exploration because it feels it has the potential of meeting many of the key objectives developed during the last two years of discussion. By releasing this white paper, the Board hopes to provide a framework for further discussion, and most importantly, an eventual agreement that will serve the best interests of all involved.