

DISCUSSION DRAFT

September 26, 2019

TERM SHEET

FORMATION AND OPERATION OF

CENTRAL IOWA WATER WORKS

1. New Entity. A new intergovernmental entity shall be formed by a defined group of Founding Members under Chapter 28E and Chapter 28F, Code of Iowa to manage the natural resource of water as a region to ensure water remains safe, abundant, and available to meet the needs of the people of central Iowa and to provide for an assured, cost effective wholesale supply of water to the Founding Members. The name of the new entity will be the Central Iowa Water Works (“CIWW”).
2. Participation. All Central Iowa water utility systems shall be invited to participate either as Founding Members on equal terms, or as subsequently admitted members on terms to be established by the CIWW Board. Existing DMWW Total Service Customers shall be deemed to be part of Des Moines Water Works for membership purposes for so long as they remain party to a Total Service 28E Agreement with DMWW.
3. Effective Date. The Effective Date shall be determined through discussion.
4. Scope. CIWW shall have exclusive right to purchase the full output of the water production assets which comprise the existing DMWW Core Network plus the water production assets of all other Founding Members (“Water Production Assets”). Water Production Assets exclude local storage assets such as certain existing community ASR wells. Such right shall be initially by contract between CIWW and DMWW and other Founding Members with Water Production Assets. CIWW will have the opportunity to acquire the Water Production Assets, during the one-year period commencing on January 1, 2026 (“Asset Transfer Date”). If CIWW does not acquire the Water Production Assets during 2026, it will have a second opportunity to acquire the Water Production Assets, during the one-year period commencing on January 1, 2031 (“Second Asset Transfer Date”). Such opportunity shall be documented at the time of formation by undertakings and assurances to the fullest extent deemed consistent with existing bond resolutions by bond counsel. If CIWW decides to pursue asset transfer, the price to acquire the assets of the DMWW Core Network, or any other Water Production Assets, on the Asset Transfer Date shall be an amount equal to 50% of net book value of the actual assets transferred as of the Asset Transfer Date.
5. Governance. The CIWW Board shall have governance and oversight for managing water production and wholesale distribution of water to Members and other wholesale customers of the existing DMWW Core Network. CIWW’s governance and oversight will include wholesale rate-setting and long-range planning decisions regarding the management of the natural resource of water to meet the needs of the people of Central Iowa. Upon the effective date of this agreement, the CIWW Board shall oversee all long-range planning and

management issues regarding the production of water for all assets and functions controlled by CIWW including all of those that are under contract.

Until the Asset Transfer Date, DMWW shall construct, own, and finance improvements and expansions to the DMWW Core Network under DMWW's existing Long Range Plan. However, any and all alterations to the Long Range Plan, improvements to the DMWW Core Network, and all related financing and management issues related to water production shall require the approval of the CIWW Board.

Until the Asset Transfer Date, other Founding Members with Water Production Assets shall construct, own, and finance improvements and expansions to their Water Production Assets. However, any and all alterations to their Water Production Assets and all related financing and management issues related to water production shall require the approval of the CIWW Board.

6. Mutual Obligations. The CIWW shall have an obligation to provide for the water supply needs of its Members as defined by CIWW's strategic planning process. Members will exclusively contract with CIWW for their water supply.
7. Rates for Service. CIWW's costs will be apportioned to the Founding Members and any other customers of CIWW by a wholesale rate for service to be determined by the CIWW board based on cost of service plus reasonable capital accumulation. Founding Members with Water Production Assets controlled by CIWW and any customers or other members who currently have Purchased Capacity Contracts with DMWW shall receive an annual credit against the CIWW rates. The credit will be an amount equal to the annual depreciation expense of the Water Production Assets, plus a percentage of the undepreciated cost of the Water Production Assets. The credit will be applied in full annually until the Water Production Assets are completely depreciated, except that after the Asset Transfer Date the credit to any party transferring assets shall be reduced by a percentage equal to the percentage of book value paid to such party in payment for the asset transfer. After the Asset Transfer Date the Water Production Asset owners' rate credit shall be based on the remaining percentage of net book value which was not paid for asset transfer and will include a negotiated adjustment to take into account the deferral of payment for the assets transferred. Such credits shall be recognized as compensation in full for the right to the full output of the Water Production Assets provided in Section 4, both before and after the Asset Transfer Date. Standard rates shall apply to daily consumption by a member up to 2.5 times the average daily demands of such members, with consumption above such level to be subject to a surcharge. An initial base wholesale rate, to be applicable as of the Effective Date and until further action by the CIWW Board, for each Founding Member shall be specified in the founding documents based on estimated full cost of water production and application of the above described credits.
8. Growth-Related Costs. The costs of expanding the Water Production Assets for greater levels of capacity shall be shared among the members of the CIWW on a pro rata share based on each member's forecasted demands. Those with higher growth rates will share a

proportionately larger share of such growth-related costs. All such growth-related costs shall be included in the members' rate for service.

9. Upfront Capital Contributions. Each Member shall contribute to an initial CIWW start-up capital fund totaling at least \$500,000, or such greater amount not to exceed \$2,000,000 as may be established in view of the number of Founding Members. Member contributions to the fund shall be pro rata based on its population.

10. Term. CIWW shall exist for an initial term of 40 years, subject to termination for cause by a two-thirds vote of Members. Renewal for an additional term or terms shall be by majority vote of the Members.

11. Operation. CIWW shall contract for operation of the DMWW Core Network by DMWW for a minimum of 20 years subject to early termination if CIWW is terminated as provided in Section 10. Similar contracts will be negotiated with other Members for operations of their Water Production Assets. CIWW Members will retain full governance of all matters related to their individual distributions systems, including setting of local water rates and all powers they are required to reserve under existing bond resolutions.

12. Board Composition. CIWW shall be a separate entity governed by a Board of at least 5 persons and not more than 9 persons to be selected biennially. Board seats will be apportioned, with two seats allocated to DMWW and one seat allocated to each additional Founding Member over 25,000 in population. It is envisioned the initial Board will include a certain number of assigned seats (two for DMWW and one each for other Founding Members over 25,000 population). In addition, one or two at large seats (as needed to maintain an odd number of seats on the Board) shall be elected by vote of the Founding Members from among the other Founding Members on a one Member, one vote basis. At such time as another Founding Member grows to 25,000 population, they will be assigned a seat on the Board. If this newly assigned seat was the only remaining at large seat, the Board will be expanded by two seats up to a maximum of nine seats. The two new seats shall be elected by vote of the Founding Members from among the other Founding Members. At such time as all nine seats on the Board are occupied by representatives from Founding Members with population greater than 25,000, the Board will decide how best to provide fair representation for all Members going forward.

This term sheet is not an offer to make a specific contract or contracts. It does not represent a commitment to enter into any transaction. It is not intended to be either a complete description of the relationship being discussed by the parties or a binding agreement among the participants.

A binding agreement will arise only upon execution and delivery of comprehensive definitive agreements, to be negotiated by the parties, containing all the terms of the proposed transaction and relationship.