

CENTRAL IOWA REGIONAL WATER WORKSHOP 4

Tuesday, November 14, 2017

4:00 p.m.

Des Moines Water Works

2201 George Flagg Parkway, Des Moines, IA 50321

Present:

City of Altoona – City Councilmember Vern Willey

City of Ankeny – Mayor Gary Lorenz

City of Des Moines – City Manager Scott Sanders

City of Johnston – Mayor Paula Drenfeld

City of Urbandale – Mayor Bob Andeweg

City of Waukee –

City of West Des Moines – Mayor Steve Gaer

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

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

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

Also in attendance: Jason Mumm and David Gordon, FCS Group; and members of the public.

At 4:03 p.m., the meeting began.

1. Recap – Mr. Mumm provided a recap of the process, including:

The overall vision for regional service

- Obligation to serve – general agreement that it should be a strong one
- Right to serve – general agreement that exclusivity is needed
- Ability to finance – general agreement that regional entity should have the ability to finance capital improvements and additions

Obstacles we've found along the way

- Independence – there are difficult constraints and conflicts between authority needed and authority available to meet the overall vision
- Assets – actual authority to decide how to use the assets identified as key point

Mr. Mumm noted the group ended the last workshop discussion with some important ideas, including:

Asset transfer is one of the possible paths forward

- One option was transferring the capacity from McMullen and Saylorville (perhaps some others) to the regional entity
- A second option involved transferring all water production assets to the regional entity
- These ideas challenge the Guiding Principles, but there was agreement that exploring these ideas was important

Expansion of the DMWW Board of Trustees was another idea. Mr. Mumm noted expansion of the board will be explored at a future workshop.

Mr. Mumm opened the discussion on the Guiding Principles, including Ownership of Assets. Ms. Huppert noted that she and her fellow DMWW Board members are not under the assumption that the Guiding Principles have been abandoned. Ms. Novak said she communicated to her West Des Moines Water Works Board that the Guiding Principles have been “suspended.”

Mr. Stowe commented that upon reflection “all production assets” would include West Des Moines, Altoona, Polk City, others. Ms. Novak commented that she did not interrupt that West Des Moines Water Works was included in that statement.

Mr. Mumm noted the technical question of what assets are included in valuation will be discussed with the three General Managers soon.

2. Valuation Concepts – Mr. Mumm began the valuation discussion on what is valuation and what it is not? When most people talk about value, “fair market value” standard is the definition they are using.

Fair market value has some serious assumptions:

- Hypothetical market of willing and able buyers and sellers
- Transacting an exchange of property
- Arms length
- Open and unrestricted market
- Assumption of perfect information
- Assumption of maximizing profit (or return on investment) – the “rational person” assumption

Other standards of value:

- Investment value – the value particular to a specific investor based on individual expectations and requirements taking into account unique synergistic premiums.
- Fair value – the price two specific parties may agree to taking into account the respective advantages or disadvantages that each will gain from the transaction
- Intrinsic value - fundamental value of a business without regard to any market premium or discount

Mr. Mumm posed the question to the group: do you think “fair market value” is what we are trying to achieve with the formation of a regional entity?

Mr. Sanders noted “fair market value” may be the term used in state code. Mayor Gaer commented that a regional entity should be created that is advantageous for everyone. Ms. Novak commented that “fair value” is a better standard for use in this process.

Mr. Mumm also discussed what is the interest valued:

- The specific asset(s) involved
- Who holds the investment in those assets?

- What portion of that investment is being transacted?

Mr. Mumm discussed Black & Veatch report. In the end, the conclusion of value was not something that the parties could agree to.

Mr. Mumm reviewed regional goals:

- The regional entity to own water production assets
- Any transfer of assets to accomplish two things:
 - Least possible impact to the existing ratepayers in the region
 - Without financial harm to ratepayers

Mr. Wallace commented that “without financial harm to ratepayers,” would include any monies collected in the transfer of assets would stay within that water system. Mr. Stowe suggested a unified production rate and that ownership and governance align. Mayor Gaer commented that there are short term and long term goals, noting that it might not be more expensive for some ratepayers in the short term; however, better for everyone in the region 25, 50, 100 years from now.

Mr. Mumm suggested applying the “fair value” standard instead of “fair market value.”

- Because this situation is unique and there is not an attempt to maximize profit from investments made in public infrastructure.
- Instead, the work group is trying to achieve a public good which aims at minimizing costs to ratepayers without causing financial harms.
- The relative advantages and disadvantages between the specific parties is more relevant to public decision making.

Mr. Mumm stated there are two kinds of financial interests in the water production assets:

- **Owners’ equity** – investment, net of related debt, attributable to the legal owners of the business assets. These are the Des Moines Water Works’ ratepayers (non-Purchased Capacity customers).
- **Contributed equity** – investment, net of related debt, made by parties other than the owners (Purchased Capacity customers).

In addition, Mr. Mumm stated there are two kinds of capacity in the existing water production:

- **Subscribed capacity** – this is capacity that is already used to provide service to existing ratepayers, either those attached to the owner’s equity, or those attached to the contributed equity.
- **Reserve capacity** – this is unused capacity.

At the moment, there is approximately 110 million gallons day (MGD) of design capacity in the system, and about 98 MGD is being used, with about 12 MGD in reserved capacity. That 12 MGD is a vital asset for the region, especially in the short term.

Mr. Mumm provided examples and pros and cons of different ways to look at reorganization of the assets under regional authority that will benefit the ratepayers without causing financial harm.

- a. **Contribute – Unrestricted:** Reserve capacity is contributed to the regional entity with no restrictions on how it is used, and the capital cost recovery is averaged across all demands in the region instead of non-Purchased Capacity customers only.
- b. **Contribute – Restricted:** Reserve capacity is contributed to the regional entity, but some or all the reserve is restricted for the future use of Des Moines only.
- c. **Sell and Buy Back:** Reserve capacity is “sold” to the regional entity with the cost of the sale spread among all regional customers, but with specific benefit to DMWW.

Mr. Mumm inquired about how to proceed for next workshop. Mr. Stowe requested how does each example transfer into governance? At the Wednesday morning meeting, Mr. Mumm will report consensus and obstacles at workshops.

3. Public Comments – No comments from the public were received.

Meeting ended at 6:00 p.m.