

BOARD EXPANSION (VER 1.0)

What is it? Board expansion is a potential regional solution in which the DMWW board is expanded to include more members from the region. The expanded board would handle all water production authorities including production, planning, and the setting of wholesale rates.

How it Fits in the Regional Plan? Board expansion is one potential deal model to consider. It is an attempted solution to realize the authorities of a regional entity desired by members.

A PROPOSED STARTING POINT FOR DISCUSSIONS

The overall question raised in considering board expansion is if it is possible to achieve the benefits of regionalization without creating an entirely new organization.

A discussed option for meeting the authorities required under a regional entity involves creating this authority within Des Moines Water Works (DMWW). This fundamentally differs from prior options in that it does not involve the creation of a new, separate, entity. Rather, it uses an existing entity (DMWW) as the conduit for regionalization. Ownership of existing assets stays with DMWW and so does ownership of future assets.

There are three important elements to begin discussion of this option; what authorities would the expanded board have (and importantly, what authorities would DMWW’s existing board retain), how would these authorities align with necessary regional obligations, and what would the expanded board look like?

Authorities of the Board

A proposed starting point for Board authorities would align with prior discussions regarding the regional entity. Importantly, local authorities such as distribution, local rate setting, and customer billing would remain with DMWW.

Potential Authorities Moved to Expanded Board	Potential Authorities Retained by Existing DMWW Board
Regional operations and maintenance through review of operating contract and budget	Distribution operations and maintenance
Regional planning to meet existing and future regional demand	Local distribution and customer service planning
Review and approval of wholesale water rates	Review and approval of Des Moines (and continued full service) customer rates
If the board oversees a separate enterprise fund, it could have financing authority for production aspects	Existing board would retain financing authority for distribution investments. A strong separation between the production and distribution elements would be necessary to ensure no conflicts in funding.

Alignment with Service Obligations

The authority of this board could encompass key elements of the authorities and obligations discussed in prior meetings. Alignment with service obligations is truly dependent on the nature of the board authorities. If the board has no real authority, the obligation to serve is untenable.

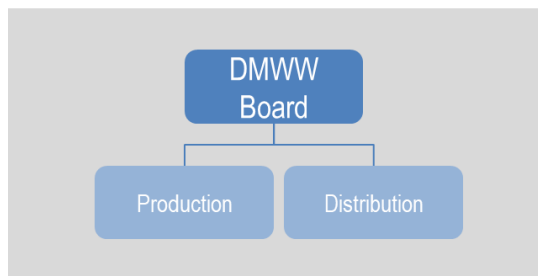
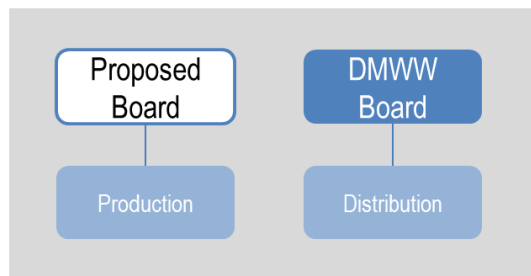
If we assume that the expanded board would have the potential authorities listed in the first table, then we can make assumptions on how the new board would align with prior authorities discussed in our workshops. Overall, the authorities would be highly aligned.

Item	Alignment	Note
Obligation to Serve	✓	Regional planning & investment controlled by Board but dependent on DMWW inability to overrule or ignore board decisions
Planning Authority	✓	Since the new board could be tasked with approving future plans, this authority is well aligned.
Operational Authority	✓	A separate board could approve operating budgets and request changes. However, it would not feasibly approve an operating contract since all operations remain within the same entity.
Financing Authority	✓	DMWW has financing authority already so this fits. The expanded board would have to maintain financial authority for production and this would not be able to conflict with distribution financing authority.
Accounting Authority	✓	Accounting authority would be through DMWW.
Asset Ownership	✓	No regional ownership of existing/future assets – no need to transfer assets. All future assets owned by DMWW production enterprise.
Operational Alignment	✓	DMWW owns assets and controls operation

Appearance of the Board

The third element to consider is the structure of the board to ensure the appropriate authorities and alignment with regional needs. This overall structure is separate from a discussion of board membership (how many seats, how they would be allocated, etc.).

An expanded DMWW board that has full authority over regional production, planning, and wholesale rates would likely have to appear less as an “expanded” board as it would be an entirely separate board.

EXISTING STRUCTURE**FUTURE STRUCTURE**

The figure above describes a suggested restructuring of the Board to ensure that the regional powers of the “expanded” board are met while not interfering with DMWW local control. In this restructuring, production and distribution functions would need to be split internally. The restructuring would also require the formation of two enterprise funds as components of DMWW. This would allow appropriate accounting and financing authority to take place.

THINGS TO CONSIDER

A restructuring of the DMWW board has strong legal and practical ramifications.

Legal Ramifications

In order to legally restructure the DMWW board as described and ensure regional representation, Iowa State law will likely have to be changed. In particular, there are two pieces of law describing utility boards that run counter to the needs of this restructured board.

Board Appointments (Iowa Code § 388.3)

Under Iowa Code § 388.3 the mayor of the city-owned utility appoints members of the utility board. Des Moines local code 118-586 mirrors this law. Both would have to be changed in order to allow other entities to appoint their own board members to this proposed regional production board in DMWW.

Board Size (Iowa Code § 388.2)

In addition, Iowa Code limits the size of city-owned utility boards to either three or five members. Similarly, Des Moines local code 118-586 mirrors this law and limits boards to five members. Unless the group can agree upon a fair representation with a five member board, these codes too must change.

Practical Challenges

If the DMWW board is not structured into two entities overseeing two separate enterprise funds, practical challenges present themselves. Foremost would be the ability and authority to handle conflict between the production and distribution sides of the utility. Would the DMWW board still be above the regional board and be able to affirm or alter the regional board’s decisions?

Financing would prove to be another significant practical challenge. This again comes to light with potential conflicts between distribution and production. What if financing a regional production project impedes the ability to finance a distribution project? Unless DMWW is restructured as two enterprise funds, financing for distribution and regional production could come in to conflict.