

MEMORANDUM

DATE: January 7, 2021

TO: Ted Corrigan, CEO and General Manager
Peggy Freese, CFO

FROM: Michael J. McCurnin, P.E., Director of Engineering Services

SUBJECT: DMWW Phase I Park Improvements :: Close Out Summary

In August of 2020, the Des Moines Water Works (DMWW) Board of Water Works Trustees officially accepted the Des Moines Water Works Park – Phase I Improvements project completed by Henkel Construction Company in the amount of \$7.1M. This project was the largest component of a broader \$12M+ endeavor by the Des Moines Water Works Park Foundation (DMWWPF) to bring park improvements, amphitheater, public artwork, natural play areas, and the Ruan Connector (City of Des Moines contract) to the southeast area of Water Works Park. While constructed entirely with private funds, collaborative efforts with the Board of Water Works Trustees and City of Des Moines were a necessity as well to make these improvements a reality. While the pandemic has clearly impacted the realization of the original fundraising goals associated with concerts and performances, the area has clearly seen elevated traffic, use, and enjoyment by the community. A fine addition to Des Moines metropolitan area has been made with this collaborative effort.

In the weeks and months since acceptance of the project, DMWW staff has been working with the DMWWPF to make the final financial reconciliations for the capital improvement elements and to also make recommendation in regard to on-going operational expenses given the adverse influence of the pandemic. You will recall that the improvements and the on-going operation of the improvements are governed by an operational agreement, a construction 28E, and an operational 28E. These agreements effectively deliver a message that cooperation and collaboration is required between DMWW and the DMWWPF, yet DMWW rate payers are to be shielded from the costs of constructing and operating the improvements.

There are three close-out items worthy of sharing some additional details.

- Reconciliation of Administrative Costs and Pump Station Costs
- Recommendation for “At Cost” Approach on Operating Expenses
- Depreciation Fund

Reconciliation of Administrative Costs and Pump Station Costs:

In addition to the contracted amount (\$7.1M to Henkel), the DMWWPF is also responsible for all DMWW direct costs associated with executing the contract. The DMWWPF expressed concerns about two different issues. The first was the construction management labor hours and expenses on the project and the second was concerns about cost over-runs on construction of the dewatering pump station constructed by DMWW staff. There is an element of merit with these concerns and more so with the dewatering pump station. Full consideration here would have resulted in a near \$100k credit. After numerous discussions and related evaluations a final credit of \$60k back to the DMWWPF was agreed upon. Additionally, DMWW staff will develop additional job numbers for future efforts to allow a truer capture of “construction management” expenses.

Recommendation for “At Cost” Approach on Operating Expenses:

The pandemic has thoroughly thwarted the “revenue generation” element of the business plan for the DMWWPF. It is unknown when performances and concerts might resume. With an eye on the longer-term goals here, staff recommendation is to charge the DMWWPF an “at cost” rate for all operational maintenance activities through June 30, 2021. With limited performances and events there are likely reduced maintenance needs. Without diving deep into the agreement details, know that strict adherence to the operational 28E at this time would likely result in over-charging the DMWWPF for operational maintenance. This does not seem appropriate. The recommended approach provides a near \$53k benefit to the DMWWPF as of 12/1/2020.

Depreciation Fund:

The operational 28E also calls for the establishment of a Depreciation Fund. Per the agreement, an initial payment in 2020 of more the \$500k was required. Such payment was not made. A payment of more than \$150k is required in 2021. Staff will continue to monitor the status of this fund moving forward. It will be important that the DMWWPF catch up on the required contributions. DMWW may want to give strong consideration to ensuring this fund is properly established prior to the DMWWPF’s pursuit of additional improvements or enhancements.

Efforts to balance cooperation between both parties and to also shield rate payers from undue costs were taken into account on each of the above items.