

**MINUTES OF MEETING OF FINANCE AND AUDIT COMMITTEE
OF THE BOARD OF WATER WORKS TRUSTEES
PURSUANT TO NOTICE**

Tuesday, October 11, 2022

3:30 p.m.

Present (or Participating by Video or Audio Conference Link):

Board Members: Mr. Joel Aschbrenner, Ms. Andrea Boulton, Mr. Graham Gillette, Ms. Susan Huppert, Ms. Diane Munns

Staff Members: Rachel Brown, Pat Bruner, Nathan Casey, Ted Corrigan, Kyle Danley, Doug Garnett, Donna Heckman, Michelle Holland, Amy Kahler, Mike McCurnin, Jenny Puffer, Laura Sarcone, Jennifer Terry, and Michelle Watson

Also in attendance: Jack Carra (AssuredPartners)

Meeting called to order at 3:30 p.m.

1. Corporate Insurance Renewals

Ms. Heckman and Mr. Carra discussed the results of Assured Partners' efforts respecting DMWW coverages, including an overview of the expiring coverages and pricing, as well as proposed 2023 coverages and pricing.

2. Cost of Service Study

DMWW's draft 2023 Cost of Service Study Report was presented and reviewed.

Ms. Kahler advised that in 2017, DMWW engaged Raftelis to review our cost of service study to ensure the principles and methodologies used are consistent with generally accepted industry standards. At that time, Raftelis recommended several changes, including changing from a historical cost model to a forward-looking revenue requirements model.

The draft 2023 Cost of Service Study Report summarizes how revenue requirements are allocated not only to various cost functions, but also to various customer classes. The Study assigns costs attributable to peaking based on the demands each customer class places on the system.

3. Proposed 2023 Water Rates

Proposed 2023 Water Rates were presented and discussed.

Several years ago, Raftelis' calculations and methodologies showed DMWW is not fully recovering the cost to serve some customer classes, especially the Wholesale Purchased Capacity customer class. Because DMWW recovers 100% of costs from all customers in total, where one customer class is under-recovering costs, another customer class is over-recovering. To achieve full cost recovery in the Purchased Capacity rate, a three-year phase-in approach was recommended and implemented. Rate increases of 15% implemented in each of 2021 and 2022 were established to bring alignment between revenue and costs in the Purchased Capacity customer class. Next year, 2023, will be the third and final year of this phase-in approach.

Based on COS results, staff recommends a 10% increase for Purchased Capacity customers, and a 0% rate increase for the Wholesale With Storage customer class. All rates are proposed to be effective April 1, 2023.

In recent years, Board and staff have discussed transitioning to a different wholesale rate structure that would distribute costs more equitably to wholesale customers within the Purchased Capacity and With Storage classes based on the demands each customer places on the system. These changes have not been implemented pending the outcome of regionalization discussions. As the Central Iowa Water Works (CIWW) 28E is anticipated to be signed by the effective date of the new rates, staff is not recommending changes to the wholesale water rate structure at this time. If, contrary to expectations, CIWW does not come to fruition, staff will likely recommend reconsidering changes to the wholesale rate structure before next year's rate cycle.

Water affordability and designing retail water rate structures to encourage wise use of water are important conversations in the water industry today. The 2023 Budget includes a study to evaluate water affordability and DMWW's retail rate structure considering modern objectives of a sustainable water system.

4. Proposed 2023 Budget

The Board of Trustees will set the Public Hearing for the 2023 Budget at the October Board meeting. Ms. Holland reviewed projections for 2023 revenue and additional funding, and for expenses.

She also highlighted department statistics. Total revenue for 2023 is proposed to be budgeted at \$85.4 million, up \$5.8 million compared to the 2022 budget. Water pumpage is proposed to be budgeted at 17.7 billion gallons, an increase of 500 million gallons from the 2022 budget. The 2023 proposed revenue budget reflects recommended rate increases taking effect on April 1, 2023.

Additional funding for 2023 of \$35.1 million includes unspent funds that have been carried over from the prior year's budget, development plan review, other projects funded by outside entities including regional participation, and projects funded by State Revolving Fund (SRF) proceeds.

Total operating expenses of \$58.1 million are proposed for 2023. This is an increase of \$5.1 million, or 9.6%, from the 2022 budget. Total capital expenditures are proposed at \$62.5 million. The utility's debt service payments were fairly constant from 2018-2021. The 2012A and 2012B bonds were paid off in 2021. There were minimal debt service payments budgeted in 2022 and as SRF-funded projects will still be under early construction in 2023, no debt service payments are budgeted in 2023.

The 2023 budget does not include funds to increase operating reserves. Generally, the increase to operating reserves is budgeted at \$500,000. The increase needed for operating reserves to meet the Board policy of three months' operating expenses in reserves will come from prior year excess revenues rather than 2023 rate revenue.

5. CEO and General Manager's Comments

Mr. Corrigan reminded attendees that the Departmental Budget Overviews will be presented at the November Finance and Audit Committee meeting.

6. Public Comments – There were no comments from the public.

Meeting adjourned at 4:40 p.m.