

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

October 12, 2021

3:30 p.m.

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

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

Staff Members: 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: Dale Acheson (Urbandale Water Utility), Gary Benjamin (Xenia Rural Water District), Jack Carra (LMC Insurance), Matt McQuillen (City of Clive), Christina Murphy (West Des Moines Water Works), Theresa Rotschafer (City of Johnston), Jim Sanders (City of Johnston)

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

1. Polk County Water and Land Legacy Bond Referendum

Mr. Corrigan noted that representatives from Polk Water and Land Legacy made a presentation at the September 28, 2021, Board meeting and requested that the Board endorse and financially support their upcoming bond referendum. Following the presentation there were questions about the ability of the Board to financially support or officially endorse ballot issues.

Legal counsel has cited Iowa Code Section 68A.505 which provides:

“The state and the governing body of a county, city, or other political subdivision of the state shall not expend or permit the expenditure of public moneys for political purposes, including expressly advocating the passage or defeat of a ballot issue. This section shall not be construed to limit the freedom of speech of officials or employees of the state or of officials or employees of a governing body of a county, city, or other political subdivision of the state. This section also shall not be construed to prohibit the state or a governing body of a political subdivision of the state from expressing an opinion on a ballot issue through the passage of a resolution or proclamation.”

This section clearly prohibits the Board from donating money to the campaign. The Board could, however, pass a resolution in support of the measure.

In 2010, the Board considered a similar request to support passage of a constitutional amendment to establish a Natural Resources and Outdoor Recreation Trust Fund. The Board requested and received a legal opinion that clarified that Water Works funds could not be spent to expressly advocate the passage or defeat of a ballot issue; however, the Board is specifically allowed to express an official opinion on such matters by passage of a Board resolution, which it did at that time.

It was noted that the Board would be at liberty to pass a similar resolution related to the Polk Water and Land Legacy Bond Referendum if it desired to do so.

2. Corporate Insurance Renewals

Mr. Carra discussed the results of LMC’s efforts respecting DMWW coverages, including an overview of the expiring coverages and pricing, as well as proposed 2022 coverages and pricing.

3. Cost of Service Study

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 and certain rate structure changes to better align rates with costs of service to various classes of wholesale customer.

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

Since components of the cost of service tie directly to proposed 2022 rates and budget, the report should be considered a draft, and any changes to rates or budget based upon discussions at the Finance & Audit Committee Meeting will require revisions to the report prior to final acceptance by the Board.

4. Proposed 2022 Water Rates

Proposed 2022 Water Rates were presented and discussed.

Among other things, staff recommends that DMWW proceed with establishing 2022 purchased capacity wholesale rates based on the recommendations made by Raftelis to include: 1) a fixed monthly availability per Max Day thousand gallons to recover fixed costs, and 2) a volumetric charge per thousand gallons to recover variable costs. DMWW legal counsel's opinion is that the rate changes contemplated are within the bounds of the Master Agreement, but it was noted that West Des Moines Water Works has formally shared a contrary view of the Master Agreement language through its counsel. Consideration of such a change was deferred last year in view of regionalization. Regionalization discussions have progressed but are still underway, and staff recommends that matter be considered and adopted this year.

The 2022 budget has not yet been finalized, but work will be completed over the next several weeks integrating Raftelis' recommendations into the revenue projections. Proposed 2022 rates and a preliminary look at the 2022 Budget will be presented at the October Finance & Audit Committee meeting.

5. Proposed 2022 Budget

The Board of Trustees will set the Public Hearing for the 2022 Budget at the October Board meeting. Ms. Holland reviewed projections for 2022 revenue and additional funding, and for expenses.

She also highlighted department statistics. Total revenue for 2022 is proposed to be budgeted at \$79.6 million, up \$2.4 million compared to the 2021 budget. Water pumpage is proposed to be budgeted at 17.2 billion gallons, an increase of 100 million gallons from the 2021 budget. The 2022 proposed revenue budget reflects recommended rate increases taking effect on April 1, 2022.

Additional funding for 2022 of \$20.3 million includes unspent funds that have been carried over from the prior year's budget, development plan review, other projects funded by outside entities, and projects funded by State Revolving Fund (SRF) proceeds.

Total operating expenses of \$52.8 million are proposed for 2022. This is an increase of \$2.1 million, or 4.2%, from the 2021 budget. Total capital expenditures are proposed at \$45.9 million. The utility's debt service obligations for the year total approximately \$500,000. This assumes that the 2012A & 2012B bonds will be paid off in 2021.

Contribution to operating reserves is proposed at \$700,000 in 2022, to increase the accumulated reserves due to increases in operating expenses.

6. CEO and General Manager's Comments

Mr. Corrigan stated that DMWW is in a position to move some of water treatment plant expansion projects forward in view of the status of ongoing regional discussions. DMWW intends to use State Revolving Fund (SRF) funding to pay for design of these projects in 2022 because there's an understanding that SRF debt can easily be transferred to the regional entity once it is formed.

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

Meeting adjourned at 5:10 p.m.