



Council Communication No. 97-294

SYNOPSIS –

Now that the City’s external financial auditor, KPMG Peat Marwick, has completed its audit of construction costs for the Wastewater Reclamation Authority (WRA) sewer projects for the period December 1, 1982 through June 30, 1996, the WRA communities who have deferred their payments on bonds would like an audited calculation of what their deferred debt amount is through June 30, 1997. This will allow the deferred debt communities of Johnston, Polk County, and Warren County to settle or make arrangements for payment with the creditor communities of Des Moines, Clive, Pleasant Hill, Urbandale Sanitary Sewer District, Urbandale-Windsor Heights Sanitary District, and West Des Moines. Under the terms of the ICA Agreement, those communities who were parties to the agreement but did not have the sewer users to pay their share of construction costs, or did not anticipate connecting to the system immediately upon its completion, were allowed to "defer" payment on their bonded debt to the other WRA communities who have the ability to pay. This arrangement has been approved by the WRA Management Agency, the governing board for WRA operations.

FISCAL IMPACT –

The preliminary amounts estimated as being deferred by Johnston, Polk County and Warren County through June 30, 1996 are as follows:

Johnston	\$ 580,000
Polk County	5,800,000
Warren County	765,000
	\$7,145,000

Of this amount, approximately \$5,100,000, or 71 percent, is owed to the City of Des Moines. This means that when these three communities pay off their current debt that has been covered by the six creditor communities mentioned above, Des Moines will be paid an estimated \$5,100,000, plus an adjustment for fiscal year 1997. This money would then go into the City’s own Sanitary Sewer Fund and be used to pay annual and ongoing debt service on sewer revenue bonds that are currently outstanding (Des Moines’ share of current annual debt service on sewer revenue bonds is approximately \$6.8 million). This would mean that Des Moines could maintain its sewer rate at the current level of \$2.25 per thousand gallons for at least another year, or as projected now, until 1999. Another option would be to use this refund to fund Des Moines’ share of WRA construction projects in the future in lieu of selling new bonds.

The cost of the audit contract with KPMG Peat Marwick will be a maximum of \$48,890. Since the work involves analyzing the seven outstanding debt issues, the costs of the audit will be

applied to each debt issue and then to each of the nine communities in proportion to their share of each debt issue.

RECOMMENDATION –

Approval of the contract with KPMG Peat Marwick as the City of Des Moines will greatly benefit from repayment of debt owed by the WRA debtor communities.

BACKGROUND –

The ICA (Integrated Community Area, now WRA) Agreement, which was formulated in 1979 per section 28E of the Iowa Code in response to the Federal Clean Water Act of 1973, stipulated that communities involved in construction of the areawide treatment facilities who did not have sufficient users or means to pay for their share of system costs could defer their payment to the other “participating” communities. The participating communities, as part of the ICA Agreement, were obliged and agreed to cover the debt payments of the deferring communities until such time as the deferring communities connected to the system and or had enough users to begin paying on their deferred amounts.

As a result of the WRA construction audit and knowledge of final costs and each community’s share of those costs, the WRA Management Agency Board, with the recommendation of the Operating Agency (the City of Des Moines), and concurrence of the debtor communities of Johnston, Polk County and Warren County, needs to have an accurate audited accounting of the deferred amounts to allow repayment in full, or in an agreed-upon time frame, the amounts of their deferred debt. Polk County, in particular, as the largest debtor, is in a position to currently pay all of its deferred debt and would like to do so (this would require a supplement to the ICA Agreement, the preparation of which is currently underway). The other debtor communities are also in favor of repayment and need an audited calculation of their repayment amount.