



# Council Communication

Office of the City Manager

Date August 10, 2009

Agenda Item No. 76  
Roll Call No. 09-  
Communication No. 09-549  
Submitted by: **Richard A. Clark, City Manager**

## AGENDA HEADING:

Approving 28E agreement with Des Moines Water Works.

## SYNOPSIS:

A revised 28E agreement with Des Moines Water Works (DMWW) is recommended for approval. The agreement addresses the provision of billing and collection services by DMWW for the City's sanitary sewer, stormwater management and solid waste utilities, free water for City facilities that are tax-supported, the phase-in of water charges for City golf courses and the payment of an increased amount of Payment In Lieu Of Taxes (PILOT). The term of the agreement is 20 years, with the PILOT provisions defined for 5 years.

## FISCAL IMPACT:

Amount: \$358,000 increase in the cost of billing and collection services in the first year, to be divided between the City's three utilities. This will bring the total cost of billing and collection services to \$1,073,000 annually. The amount will be adjusted annually based on a formula that considers the cost of providing the services.

Free water will continue to the City's tax-supported facilities. The value of free water is estimated to be over \$700,000 annually.

Even though the operation of City golf courses is no longer tax supported, they will continue to receive free water until 2014 when they will begin paying for water by phasing in charges of 20% in 2014, and increasing by 20% per year through 2018, when charges will be based on 100% of consumption. When fully phased-in, annual water bills for golf courses are expected to total approximately \$100,000 annually.

The PILOT, currently \$234,000 annually, will increase by \$378,680 (160%) to \$612,680 for the first year. The amount will be recalculated each year based on a formula similar to the City's stormwater and sanitary sewer utilities. \$634,000 was budgeted for FY2010.

Funding Sources: The increased cost of billing and collection will be deducted from utility revenues collected by DMWW on behalf of the City. This will reduce the amount that would otherwise have been transferred, but this reduction was provided for in the FY2010 budget.

The cost of water for golf courses when the phase-in period begins in 2014 will be paid by the City's golf enterprise fund, up to an amount that is based on historical consumption. The cost of water used above that amount will be shared equally between the City and the golf course operator. The PILOT payment will be deposited in the General Fund, FIN820700, FY2010 Recommended Operating Budget, page 109.

#### **ADDITIONAL INFORMATION:**

Over the past year, City and DMWW officials and staff have met to review and improve our collaborative efforts. Included in the review were a number of long-standing agreements that needed to be revisited and refreshed. The proposed 28E agreement replaces several of those agreements with a single, more comprehensive agreement. There are other cooperative agreements remaining, such as DMWW's operation of the Botanical Center and maintenance of the Fleur Drive planters that do not fit as well into this comprehensive agreement, so we have chosen to keep them separate.

The operations of the City and DMWW intersect in many areas, the most significant of which is billing services. DMWW has invested \$7 million to develop billing software and continues to support the software and produce monthly bills for four utilities; water bills for DMWW and sanitary sewer, stormwater and solid waste collection for the City. DMWW bills the City for the incremental cost incurred to bill the City's utilities over and above what it costs them to produce the water bill. The City, therefore, does not pay for costs associated with bill printing, meter reading, postage or any other base level costs. The City pays for the additional staff needed to serve customers, due to the added workload created by dealing with the additional services. The incremental costs are specified by type in the new agreement and will be subject to change annually as costs change. The City has been paying 29 cents per bill per utility since 1998. The most recent calculation of costs results in a cost of 45 cents per bill. This arrangement is one of the better examples of collaboration in the City, leading to greater efficiency and lower cost to Des Moines' citizens.

The City has been receiving water free of charge for tax-supported municipal facilities since at least 1987. The proposed agreement will continue that policy. However, with the change in the City's golf course management to an operating contract with a private entity, the golf courses will no longer be supported by property taxes. We have reached agreement with DMWW to delay charges for golf course water until 2014, when they will phase in by increasing by 20% each year from 2014 through 2018. Under the current Waveland and Grandview Golf Course management agreement, (expires January 10, 2010) the City is responsible for all utility costs. Under the current Blank Golf Course management agreement, if water charges are imposed upon the City, the agreement is subject to renegotiation. The cost of water was not included as a deal point when RFPs were issued for golf course operation, although the RFP did indicate that if the City's free water arrangement ended, that matter would be subject to renegotiation with the selected vendor, and that issue but was raised during contract negotiations for Waveland and Grandview with C Corporation, the City's contract operator. Since the cost was not considered in pricing quoted in that contract proposal, the golf course contract was structured so that the City will pay the cost of water up to an amount determined to be typical annual consumption (30 million gallons per year per course) beyond which the contractor and City will share costs equally. The contract for Blank Golf Course will need to be renegotiated prior to 2014 to come more in-line with the water cost provisions in the Waveland/Grandview contract.

PILOT payments to the City have been based on a 1998 Letter of Understanding and fixed at \$234,000 annually. The proposed agreement, which will replace the Letter of Understanding, provides for PILOT payments based on a formula similar to those used by other City enterprise funds. The formula

simulates a property tax payment that is based only on the Police and Fire tax rate and 73% of the insured value of buildings and book value of land. The tax rate and values will be recalculated each year. The PILOT section of the agreement requires payment for five years, although it contains a requirement to discuss future payments beyond 2014, while stopping short of making it a requirement.

The proposed agreement also requires that DMWW will pay the City for ice breaking and removal by Public Works and pay sanitary sewer and stormwater management fees. This is consistent with an agreement signed in 1987.

The DMWW Board and staff have expressed a desire to reach an understanding on these issues so we can move forward with other collaborative endeavors. City staff shares the desire to bring some certainty to these issues in a way that is equitable to both parties and allows us to foster a closer working relationship with DMWW.

### **PREVIOUS COUNCIL ACTION(S):**

Date: December 22, 2008

Roll Call Number: 08-2220

Action: Accepting proposal from C Corporation for the management of Grandview and Waveland Municipal Golf Courses, and authorizing the City Manager to negotiate an agreement. Moved by Meyer to include in the contract early termination provisions for both parties, with the City's right to terminate early if C Corporation does not meet their Capital Improvement obligations. Motion Carried 5-1-1.  
Nays: Mahaffey Pass: Vlassis

Date: July 10, 2006

Roll Call Number: 06-1385

Action: On agreement with C Corporation, (Jeff Chiodo, President) for the A.H. Blank Golf Course and Clubhouse Management Agreement from July 1, 2006 through January 15, 2019, continued from June 19, 2006 Council Meeting. Moved by Kiernan to adopt. Motion Carried 6-1. Nays: Hensley.

Date: January 19, 1998

Roll Call Number: 98-2191

Action: Moved by Vlassis to approve the Letter of Understanding between the City and Board of Water Trustees, and direct Legal to prepare a formal 28E Agreement. Motion Carried 5-1. Nays: Flagg.

Date: February 27, 1995

Roll Call Number: 95-790

Action: Approved Intergovernmental 28E agreement with Board of Water Works Trustees for provision of billing and collection services to the City for sewer, solid waste collection and stormwater utilities. Motion Carried 4-2. Nays: Flagg, Vlassis.

Date: January 16, 1987

Roll Call Number: 87-200

Action: Approved Intergovernmental 28E agreement with Board of Water Works Trustees to provide water free of charge to City facilities which are fully tax supported, to waive annual main rental charges, and to charge Water Works for ice cutting services.

**BOARD/COMMISSION ACTION(S): NONE**

**ANTICIPATED ACTIONS AND FUTURE COMMITMENTS:**

Renegotiate Blank Golf Course contract to address water usage prior to 2014.  
Review and renegotiate PILOT formula in 2014.

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