

Staff Report

**SCENARIOS FOR PROVIDING WATER SERVICE  
TO NORTHERN GROWTH AREAS**

June 25, 2013

**OVERVIEW**

With the previous change to the Land Use Policy Plan, the City Council indicated its willingness to annex land in the City's northern growth area for residential development. However, at present two annexation requests in this area are on hold pending determination of how water service will be provided. This stems from a 1996 agreement with Xenia Rural Water District, whereby Xenia gained the right to provide water service north of Ames' city limits.

This report presents two scenarios for how this water service issue can be resolved. One is for the City to "buy out" this service territory from Xenia. The second is for Xenia to provide this service in accordance with requirements set by the City and to buy City water to serve the area. Each scenario involves unique costs and time frames that will have different long-term impacts on water service to the northern growth area.

**After reviewing this report, staff will need direction in order to negotiate a final water service agreement with Xenia.** Once this direction is given, it will also allow staff to work with the local developers to finalize annexation agreements for the Athen land, Quarry Estates, and the two Hunziker-owned tracts along Grant Avenue. Following approval of the agreements with Xenia and the developers, the proposed annexations can be approved. The final step will be for the City to begin installation of the appropriate City infrastructure along Grant Avenue.

**NORTHERN GROWTH ANNEXATION REQUESTS**

The initial annexation of northern growth residential lands began with the Rose Prairie annexation in July, 2010. Subsequently, annexation requests were received from Quarry Estates in July 2012 and for the Athen property in December 2012. Given the uncertainty surrounding water service, annexation requests have not yet received for the two Hunziker properties.

Following the Rose Prairie precedent, Council directed that annexation agreements be negotiated with the developers along Grant Avenue prior to approval of annexation requests. Further, when considering the Athen annexation request, Council directed that annexation agreements first be finalized for both the Athen property and the two Grant Avenue Hunziker properties prior to approval of the Athen annexation.

Attachment A is a map showing the northern growth area and the Athen and Quarry Estates annexation areas. Staff estimates that approximately 1,000 new residential units will be developed on this land.

**Traditionally the City has required developers of newly annexed land to cover any rural water buy-out costs or make whatever other arrangements were needed with the rural water providers. This was the case with the Barilla land, with the regional commercial land on East 13<sup>th</sup> Street, and with the Northridge Heights subdivision.**

### **EXISTING XENIA WATER TERRITORY CONTRACT**

Upon a request from Xenia, a water territory agreement was negotiated and signed in 1996. That agreement was based upon State law, which contained the following requirements:

- A rural water district (RWD) must ask a city for permission to a serve customer lying within two miles of the city's limits; and
- The city must either provide water to that customer within four years of the request, or else must allow the RWD to serve the customer.

The 1996 agreement specified a specific territory that the City chose not to serve, and which therefore became Xenia territory. (See map – Attachment B.) At the time this contract was signed, there was a mutual understanding that Xenia's water mains would be bought out as Ames grew northward into the area. Section 13 of that contract lays out the buy-out criteria to be considered, which includes the initial cost of the pipes, the depreciated value of pipes, and the market value of the distribution system.

The entire 1996 agreement is shown in Attachment C. That contract also includes a water purchase provision, which was modified in 1997 to reduce the maximum volume which Xenia could buy from 500,000 to 250,000 gallons per day.

### **CURRENT STATUS OF XENIA RURAL WATER DISTRICT**

Xenia Rural Water District has had tremendous financial struggles in recent years. It has \$128 million in debt and was in danger of bankruptcy. Consequently, Xenia

scaled back its staff and operations greatly and has imposed major rate increases on its existing customers in order to survive.

After lengthy negotiations, a forbearance agreement was reached with Xenia's creditors earlier this year. Xenia's creditors include Assured Guaranty, USDA Rural Utilities Services, and Iowa Finance Authority.

When City staff approached Xenia earlier this year about relinquishing the northern growth territory to Ames, Xenia officials stated that their creditors, particularly Assured Guaranty, now have approval and veto power over any service territory transfers or other major contracts that affect the debt they hold. They indicated that, to guaranty their investments, these creditors (and Assured Guaranty in particular) would undoubtedly seek the most favorable position possible to secure their loans.

The City Finance Director's review of audited financial statements for Xenia indicated that a decision that would allow Xenia to provide water service to Ames residents will carry significant risk due to Xenia's financial health. The most recent available Xenia financial statements are for the 2011 calendar year and were audited by the Office of the Auditor of the State of Iowa. The auditor's report indicated several concerns with the ability of Xenia to continue to operate. The auditor noted that Xenia's current assets exceeded current liabilities, and stated that there were "significant uncertainties regarding the District's ability to continue its operation and to satisfy its obligations to its creditors on a timely basis." The auditor report included "substantial doubt about the District's ability to continue as a going concern." The audit report also noted multiple instances and noncompliance with debt provisions, including nonpayment of debt and payment of debt by a bond insurer due to the District's inability to meet debt service obligations. The full report is available at <http://auditor.iowa.gov/reports/index.html>.

### **STATUS OF NEGOTIATIONS WITH XENIA**

City and Xenia staff have worked together since March to identify scenarios under which water service can be provided to the City's northern growth area. Xenia originally proposed three scenarios –

- One where Ames would "buy out" and take over the annexed areas and serve these areas with the City's water utility
- One where Xenia would serve the annexed areas with water from the Boone water treatment plant
- One where Xenia would serve the annexed areas with water purchased from the City's water utility

Both parties agreed to eliminate the Boone scenario. Drawbacks of that scenario included Xenia's need to build a 1,000,000 gallon water tower adjacent to Ames to hold water from Boone, which would be costly for Xenia and could exacerbate urban sprawl in Ames' urban fringe.

Major elements of the remaining two scenarios are outlined below.

### **SCENARIO 1 – AMES SERVING ANNEXED AREAS WITH BUY-OUT OF XENIA SERVICE TERRITORY**

Under this scenario, the right to provide water service to all the territory shown on Appendix D would be transferred from Xenia to the City. In exchange, the City would pay Xenia according to one of several options.

One option would involve a **one-time, up-front payment** to Xenia.

A second option would involve making **one-time payments to Xenia as individual customers connect to City water** in these northern areas.

A third option would involves making **monthly payments to Xenia as individual customers connect to City water**. Xenia has requested that this time period coincide with the life of the Assured Guaranty debt, which is 28 years.

A fourth option would be **any combination of the above** options.

A more detailed description of these payment options is provided under the Financial Basis section below.

Under Scenario 1, Xenia's existing rural water customers within the annexed territory would continue to be served by Xenia. If, or when, those customers want to be connected to City water, they will be responsible to pay Xenia for any territory transfer costs.

**Given the degree of review and control exercised over Xenia by its creditors, Xenia staff estimate that it will take from six to 18 months to gain lender approval of a territory transfer agreement.**

## **SCENARIO 2 – XENIA SERVES ANNEXED AREAS WITH AMES WATER**

Although this scenario does not involve negotiating payments to Xenia, it would require a more complex agreement, since the City needs to insure that its future residents in the northern growth areas receive dependable, safe, economical water service with a high level of urban fire protection. Key elements of this scenario should include the following:

### **Water source and service territory**

Xenia will provide water service to the annexed territory shown on Appendix D. Ames will sell Xenia water at the “in town” volume rate, with the understanding that this water will be provided only to customers within this annexed territory. An agreement will specify how Xenia will provide appropriate quantity and quality of water to serve these annexed areas.

With regards to Xenia’s existing customers, those along GW Carver Avenue will continue to be served from Xenia’s existing 12” main; while those along Grant Avenue will continue to be served from Xenia’s existing rural water piping.

### **Infrastructure standards & installation**

All of Xenia’s distribution infrastructure within the City must conform to the City’s adopted development requirements and design standards.

Since the City has already designed the 12” water main that will run up Grant Avenue, the City would construct this main in conjunction with installation of the City’s sanitary sewer main. Xenia will repay the City 100% of the costs associated with installation of the water main.

Xenia will provide system reliability in these areas by linking its existing mains along 190<sup>th</sup> Street and GW Carver (north of Cameron School Road) to temporarily loop the 12” Grant Avenue main with the 12” GW Carver main. Xenia will install the remainder of a permanent 12” loop along 190<sup>th</sup> Street and GW Carver as adjacent areas annex.

Xenia will maintain two connections to the City’s water system - at GW Carver (existing location) and at Harrison Road (new location).

In order to insure that the City complies with state requirements, upon request of property owners Xenia will provide water service to any newly annexed properties within two years.

### **Water rates & metering**

Ames will charge Xenia, and Xenia will charge its Ames customers, the same volume usage rates as are charged to Ames' in-town customers. Xenia will be responsible for metering and billing customers, and will share monthly meter readings with the City for our sewer billing. Xenia will work with the City to coordinate service initiations and discontinuations; and at the City's request, will disconnect water service to utility customers who are delinquent on their City utility bills.

#### **Water conservation measures**

Xenia will implement the same water rationing measures as are implemented for all other Ames utility users.

#### **Fire fighting capability & maintenance of ISO rating**

Ames will be authorized to use Xenia's distribution system and hydrants to provide fire protection within the City. Xenia's hydrant maintenance program and distribution system repairs must be of a caliber to meet the same high ISO insurance rating as is maintained for the City's own water distribution system.

#### **Service connection procedures and fees**

Procedures are outlined to specify how developers, home builders and customers will access Xenia's water system. Appendix E contains a summary of fees that Xenia will charge as development occurs and customers connect to Xenia's system in this area.

#### **Service territory transfer**

**Given Xenia's questionable financial situation, this would be a key element of any agreement whereby Xenia provides water service within the City of Ames. In the event that Xenia should enter into receivership, become financially insolvent, fail to pay the City for goods or services received, or otherwise fail or become unable to fulfill the responsibilities of the agreement, the City will assume the responsibility and the right to provide water service to this territory. Should that occur, the City would compensate Xenia for the depreciated value of the distribution system within the City's limits that was built at Xenia's expense.**

**Since Scenario 2 does not involve a transfer of assets, Xenia staff estimates that it would take from three to four months to gain lender approval for this agreement.**

#### **FINANCIAL BASIS FOR PAYMENT OPTIONS UNDER SCENARIO 1**

**From Xenia's perspective**, their financial goals are straightforward. They want to achieve one of the following:

- Under Scenario 1, they want to receive the greatest buy-out payment(s) possible in order to satisfy their creditors. Xenia staff indicates that payments over time are preferable to a lump sum up front payment.
- Under Scenario 2, they want to add as many new customers to their system as possible in order to spread their debt repayment and overhead costs. Xenia staff indicates that they see growth in urbanized areas like Ames as the key to increasing their customer base.

**From the City staff's perspective**, the key decision under Scenario 1 involves the amount that will be paid to Xenia. The staff would prefer to keep any surcharge required by Xenia to a minimum in order to minimize any differential between our existing customers and those who move into the northern growth area. In addition, the City Council must decide **who** will be responsible for making those payments. Possibilities include the following:

- Developers,
- Individual future northern area water customers,
- All of the City water utility's customers, or
- Some combination of the above.

The following options have been developed by City and Xenia staff that could justify various buy-out amounts:

**One-time, up-front payment to Xenia**

- Xenia's initial proposal of \$6,720,280 – This amount is based on Xenia's calculation of having 1,000 new customers pay the \$240.01 annual share of Xenia's average net cash flow and fixed costs over the 28 year life of their indebtedness.
- City proposal of \$265,000 – This amount is based on City staff's calculation of the value of adding 1,000 new customers to our water utility.

**One-time Payments to Xenia as individual customers connect to City water**

- City proposal of \$265 per customer – This amount is based on staff's calculation of the value of adding a new customer to our water utility.
- City proposal of \$486 per customer – This is based on having staff's calculation of having 1000 more customers help pay for the utility's fixed costs.

- Xenia proposal of \$6,720 per customer – This amount is based on Xenia’s calculation of having 1,000 new customers pay a monthly share of Xenia’s average net cash flow and fixed costs over the 28 year life of their indebtedness.

**Monthly payments to Xenia, beginning when each individual customer connects to City water**

There are multiple possible monthly payment options. The following have been discussed between Xenia and City staff:

- City proposal of \$1.50/month/customer – This is based on City staff’s calculation of the value of a new customer to our water utility.
- Xenia proposal of \$17.92/month/customer, based on Xenia’s calculation of each new customer paying share of Xenia’s average net cash flow and fixed costs over the 28 year life of their indebtedness. Xenia refers to this amount as its Availability Cost.
- City proposal of \$3.98/month/customer – This amount is based on *splitting the \$7.96 difference* between Xenia’s Availability Cost and the City’s minimum water bill. Each new resident would pay this amount in addition to paying the \$9.96 monthly minimum bill to the City.

These payments could cease by 2041 when the Assured Guaranty debt is repaid, or at some earlier date, should the Council so direct.

**RESPONSIBILITY FOR BUY-OUT PAYMENTS**

If the Council’s preferred option is for a **one-time buy-out**, then either the developers, the City, or a combination of those two would need to come up with the cash to satisfy Xenia and its creditors. Xenia staff has indicated that such an amount would need to be very large to satisfy their creditors. For that reason, this option seems unrealistic for both the City and the developers.

If the Council’s preferred option is for **one-time payments to be made to Xenia as individual customers connect to City water**, then either the developer or the home-buyer could pay that cost. Because the \$6,720 amount suggested by Xenia is economically unrealistic for any development to proceed, a lower, mutually acceptable amount may be feasible.



If the Council's preferred option is for **each new customer to pay a monthly surcharge to Xenia** after they begin service, it could be argued that all new residents who choose to live in the northern growth area should pay the monthly surcharge.

### **REQUESTED COUNCIL ACTION**

After evaluating the scenarios and options described above, Council is being asked to provide staff direction on its preferred scenario and payment option, if Scenario 1 is selected. Staff will then work to negotiate an agreement with Xenia.

### **STAFF COMMENTS**

Staff understands that, because of the growing need for developable residential lots in the city limits, it is important that this rural water issue be resolved as soon as possible. However, the Council must understand that the option selected today will impact our residents far into the future. Therefore, Council members should carefully consider all aspects of each Scenario and payment option before direction is given to staff.

**Given the uncertainty of Xenia's future because of their financial situation, it appears the most secure course of action would be for the City's water utility to serve this northern growth area as it is annexed. In order to accomplish this strategy, a "buyout" of the area from Xenia will be required (Scenario 1).**

**After considering all of the options provided in this report, staff has concluded that, rather than one lump sum buyout of the area that would be paid by developers or by spreading the cost among all of the water utility customers, the preferred option for a buyout would include an "add on" fee on each customer's monthly bill. Therefore, consideration should be given to the \$3.98 monthly customer fee. In addition, since Xenia will not receive any payment under this approach until a new building is built and a meter installed, satisfying Xenia's creditors may require augmentation of these monthly payments with a minimum upfront fee paid by the developer.**

The combination of these two approaches would be more similar to our past practice of requiring the developer to be responsible for the buyout of an area previously served by rural water. Under this arrangement, the cost of this buyout would ultimately be absorbed by lot owners in the annexed area.

It is important to emphasize again that, based on Xenia staff's estimates, both of these alternatives will take a significant amount of time to gain approval from Xenia's creditors, the USDA and Xenia's Board. Scenario 1 (territory buy-out) is estimated to take from six to 18 months to gain approval. Scenario 2 (Xenia serving areas with Ames

water) is estimated to take from three to four months for approval. Either alternative will have a negative effect upon the City's need to annex land for northern residential growth.

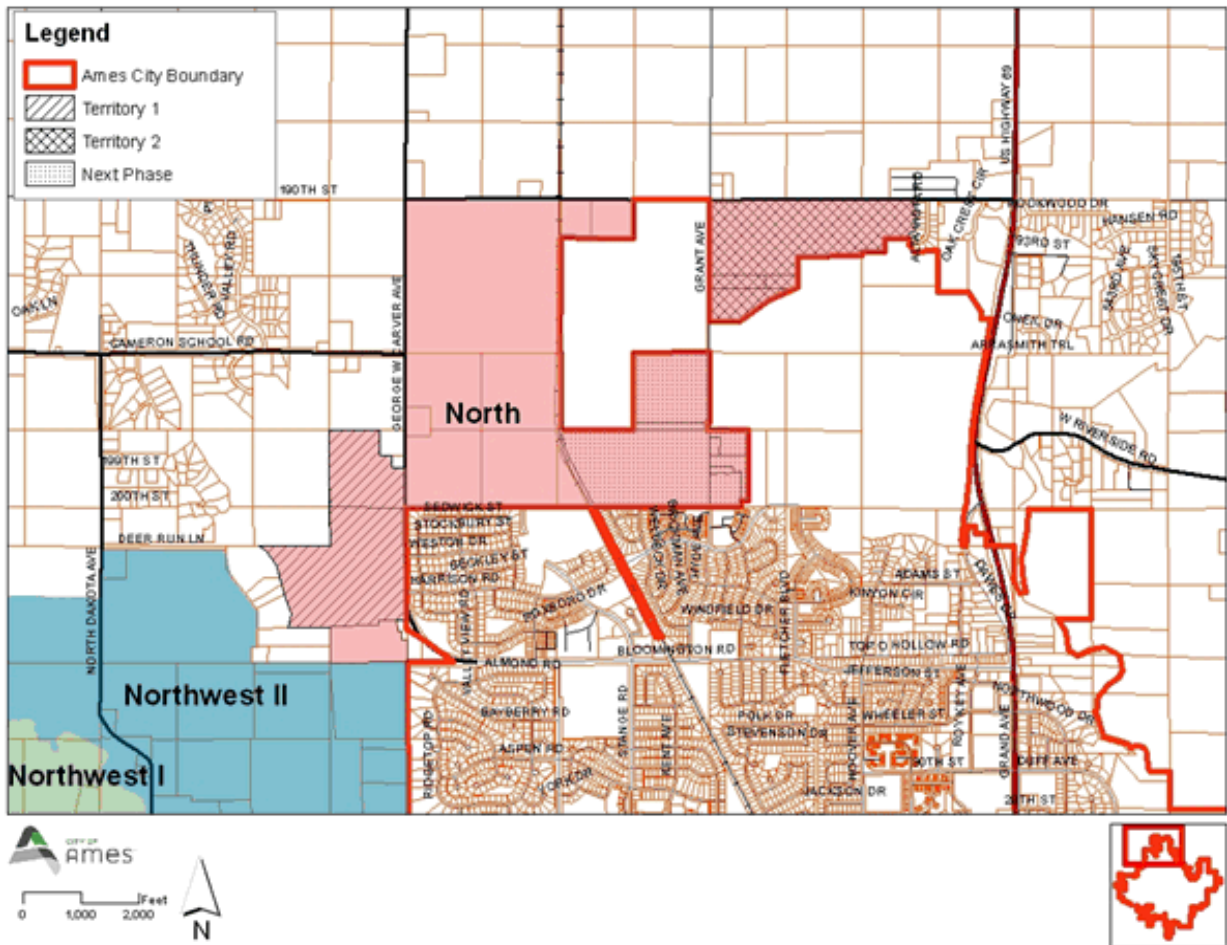
As a final note, while the situations with Xenia and with Central Iowa Water Association (CIWA) are not identical, decisions made in the northern annexation area may establish new benchmarks for the City's negotiations with CIWA for eastern industrial annexation.

### **ADDENDA**

- A Map showing annexation areas
- B Map showing territory covered in 1996 Xenia agreement
- C 1996 Xenia agreements
- D Map showing water service territory to be transferred to the City
- E Summary of Xenia fees & charges

# ATTACHMENT A

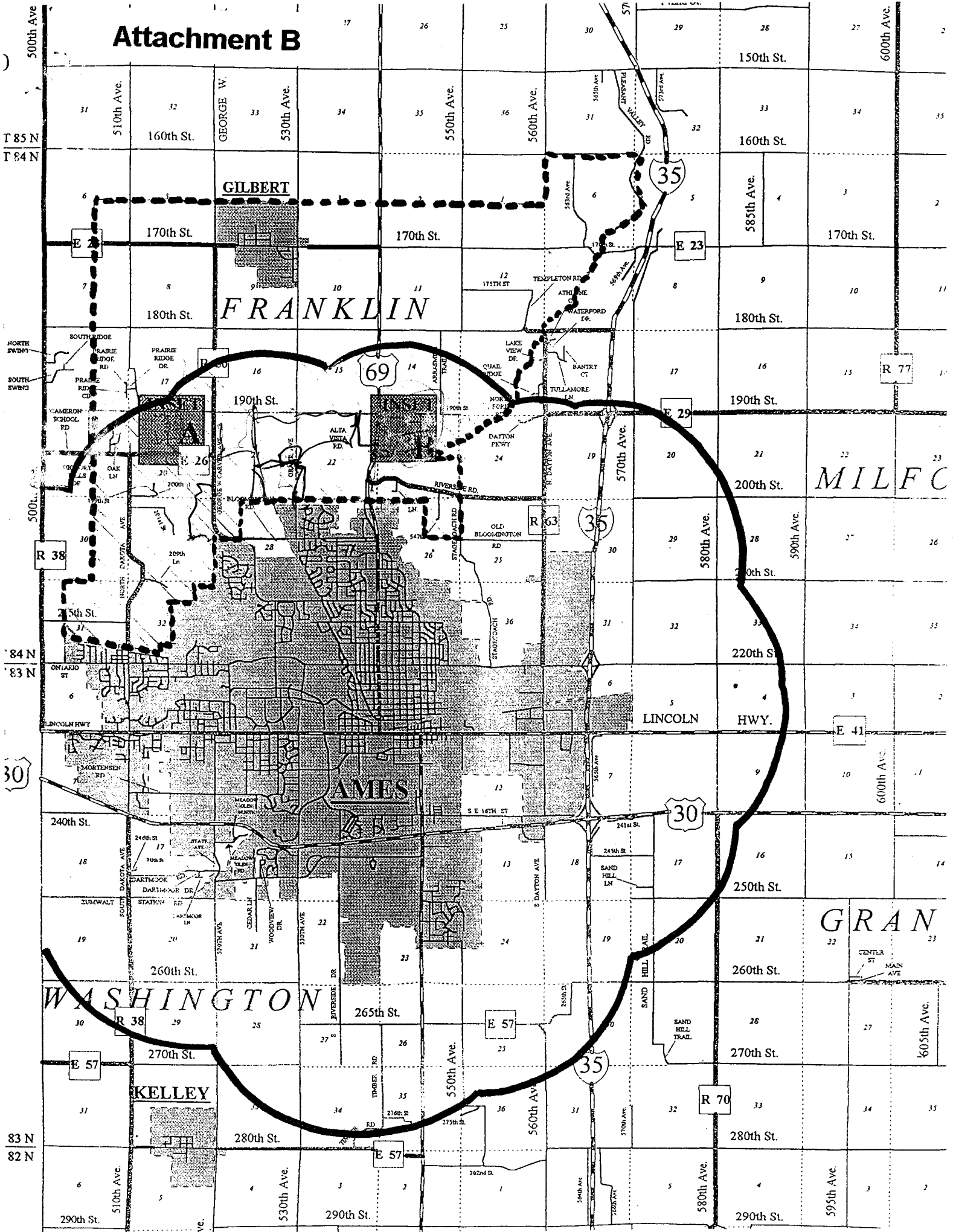
## NORTHERN GROWTH AREA & PROPOSED AREAS FOR ANNEXATION



Pink areas denote Northern Growth Area

Cross-hatched pink areas denote Athen annexation (Territory 1) and Quarry Estates annexation (Territory 2)

# Attachment B



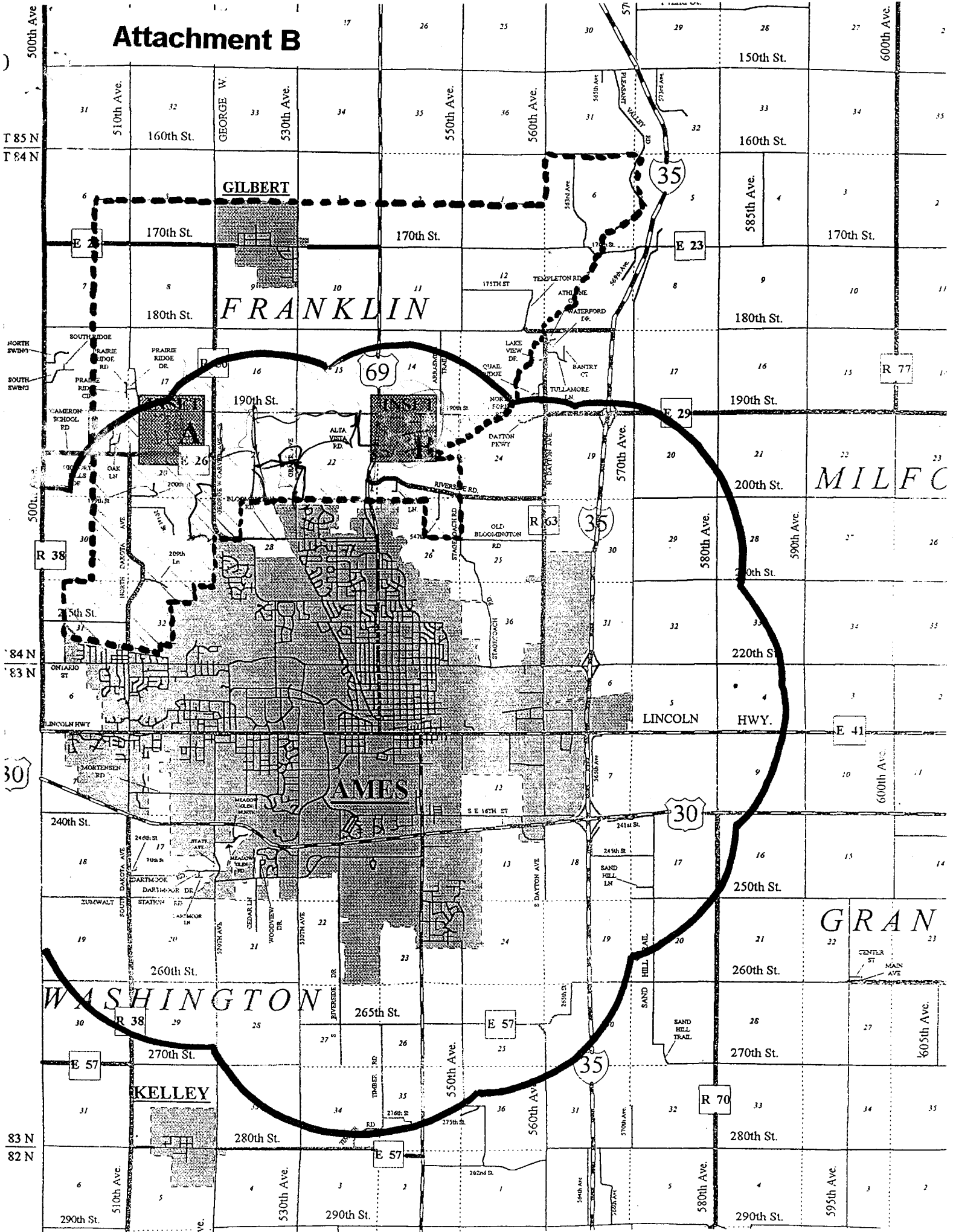
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# Attachment C

## SPECIAL CONTRACT FOR AN UNUSUAL TYPE OF WATER UTILITY SERVICE XENIA RURAL WATER DISTRICT

THIS CONTRACT, made and entered into effective this 22nd day of October, 1996, by and between the City of Ames, Iowa (hereinafter called the "City") and Xenia Rural Water District (hereinafter called "Xenia"),

### WITNESSES THAT:

WHEREAS, Xenia is a rural water district existing under Chapter 357A, Code of Iowa, for the purpose of distributing a supply of potable water to consumers; and

WHEREAS, Xenia has proposed that the City provide water to Xenia for distribution as aforesaid; and

WHEREAS, the requested service is of an unusual type due to its wholesale nature; and

WHEREAS, Section 384.84(6)(a)(2), Code of Iowa, provides that a City may contract specially for services where the type of service is unusual; and,

WHEREAS, Xenia desires to purchase and the City desires to sell a supply of water upon the terms and conditions of a written contract,

NOW, THEREFORE, the parties hereto have agreed and do agree as follows:

1. The City shall sell and supply, and Xenia shall take and pay for, potable water in accordance with the terms and provisions stated in the following paragraphs of this contract. The City shall have no obligation, financial or otherwise, to provide more water to Xenia than Xenia has reserved in Appendix A.

2. Xenia shall not supply or deliver potable water to a site within two miles of the corporate limits of the City, as such limits may change, for any building or use for which any and all federal, state, county, and city permits and approvals required by law, regulation or ordinance, have not been obtained.

Any failure by Xenia to abide by the provisions of this section, shall be grounds for this agreement to be voided at the option of the City.

3. The water to be delivered hereunder shall be delivered through one or more master meter(s) at the location(s) agreed to by the City of Ames and shown in Appendix B. Said master meter(s) shall be installed by the City at Xenia's sole expense. The City will permit Xenia to purchase

the meter(s) directly but shall identify the specific meter(s) and manufacturer(s) that may be purchased. Said meter(s) shall always remain property of the City, which shall be responsible for future maintenance, repair, and/or replacement as may be needed.

4. Xenia shall provide a meter vault or building at each metering location shown in Appendix B. Xenia shall be solely responsible for all expenses for installation, maintenance and repair/replacement of the meter vault or building; applicable operating expenses including utilities; and all other expenses as may be incurred. Xenia shall be solely responsible for all expenses incurred in order to connect to the City of Ames system including but not limited to expenses for tapping, valves, materials and installation to extend the service to the metering vault or building. If the City requests over-sizing or fittings to be used solely by or for the City requirements, Xenia shall obtain bids for the oversizing or special fittings as an alternative to bids received for customary sizing or fittings. If the City then instructs Xenia to install the over-sized apparatus or special fittings, Xenia shall follow the City's instructions and the City shall pay Xenia for the difference in cost. The City of Ames may partially reimburse Xenia for some of the connection expenses where the City of Ames requests over sizing or fittings to be used solely by/for City of Ames. Xenia shall include in each meter vault or building all of the following:

- a. An approved backflow device(s) as determined by the City of Ames
- b. A meter bypass/testing branch as determined by the City of Ames
- c. Meter/service shutoff valves before and after each meter as determined by the City of Ames
- d. A sample tap connected to a frost-free, above-ground sampling port in a weather-proof, protected enclosure as determined by the City
- e. On-site and telemetry capability for meter recording/registration, including instantaneous and totalizing capability. Telemetry from the meter vault/building to the receiving unit to be located at the City of Ames Water Plant
- f. Appropriate lighting, ventilation, and warning signs to minimize entry restrictions/requirements applicable under confined space entry criteria set by IOSHA and/or the City of Ames Building/Fire Codes
- g. Gravity drain or sump and pump installation

Xenia shall submit plans and specifications for the metering facilities for approval of the City of Ames Water Meter Division prior to installation. Said approval of the Water Meter Division shall not be construed as waiving any approvals or permits required for construction of said facilities by any federal, state, or local agency having applicable jurisdiction. Xenia shall be solely responsible to obtain all approvals, permits, licenses, or authorizations needed for construction and operation of said metering facilities. Xenia shall also provide ongoing ingress and egress to said metering facilities for City of Ames personnel.

5. The rate to be charged by the City to Xenia for water provided to Xenia under this agreement shall be set by the City at such amount as the City, in its judgment, shall find appropriate so as to prevent service to Xenia being subsidized by other consumers and service to other consumers

being subsidized by Xenia. The rate to be charged Xenia shall include provision for existing capacity repayment and the unit charge for water purchased. Said rate beginning January 1, 1997 is stated in Appendix A; but, the rates stated in Appendix A may be changed by the City, from time to time, following 120 days written notice to Xenia.

6. Bills to Xenia for water provided under this agreement shall be submitted at monthly intervals, and shall be payable upon receipt. The City shall have the right to terminate service under this agreement should a bill for service hereunder remain unpaid beyond thirty (30) days of its date due.

7. The City agrees to deliver water to Xenia which meets the same health standards as water provided to customers within the City of Ames. The City shall not be liable to Xenia, or to any consumer served by Xenia with water provided by the City, or any other person, for any interruptions or failure of water service for any cause or reason; and, Xenia shall defend and indemnify the City from any and all claims of such liability.

8. Should the quantity of water available to the City to serve all its customers become inadequate, and should City so request, Xenia shall thereupon discontinue permitting persons to tap onto the Xenia system, so long only as the City makes the same requirements of all others provided with water by the City. The City agrees to give six (6) months written notice to Xenia of such suspension, unless circumstances require a shorter period of notice. Further, during times of temporary water shortage, Xenia agrees that it shall restrict the use of water by its consumers in accordance with the same program of curtailed water use as may be implemented by the City for its customers.

9. Either party may assign its interest in this agreement as collateral, but such assignment shall not relieve it from its obligations hereunder. This agreement shall remain binding upon the successors of the parties.

10. Except as stated in Item 9 above, there shall be no sale, transfer, or assignment of this contract by either party without the express written consent of the other party.

11. Xenia agrees to sell water to the City for the cost of the water from Xenia's other sources, if the City has a need for such water and Xenia is able to help meet the City's need, without adversely affecting Xenia's ability to serve its other customers..

12. Xenia shall construct oversized water transmission lines, with the additional cost of such pipe, material, and installation as appropriate, being at City's expense, at such locations as may be requested by the City. The actual differential cost shall be determined through a process of taking bid alternates.

13. With regard to the area within two-miles of the corporate limits of the City, as such limits may change, the City and Xenia may negotiate a buy/sell agreement of all or parts of the water

distribution system within that area. Issues to be considered during the negotiation of the purchase price include but are not limited to:

- a. the cost of initial construction, modifications, and improvements;
- b. the principal balance owed by Xenia to its lender for financing of such construction, modification and improvements;
- c. depreciation and functional obsolescence;
- d. any appraisal of the market value of the said distribution system made by an MAI appraiser acceptable to both the City and Xenia;
  
- e. the City and Xenia's out-of-pocket expenses necessarily incurred in the purchase and sale of said distribution system.
- f. The authorization to transmit water through the bought-out area at such transmission rate as may from time to time be set.

14. Upon Xenia's completion of construction of its initial distribution system, Xenia shall send the City bid tabulation sheets documenting the costs of that initial construction. Annual updates shall be provided at the end of each calendar year to reflect the costs of improvements and modifications during that year, including the addition of new water users. City shall report to Xenia any and all changes in the City's corporate limits as such changes occur.

15. This contract shall be effective upon the date first above written and shall continue for a period of forty (40) years. Thereafter, this Agreement shall continue from time to time unless and until either party shall terminate it by giving written notice of intent to do so to the other party not less than two (2) years in advance of the termination date.

IN WITNESS WHEREOF, the parties hereto have caused this instrument to be signed and sealed by their duly authorized representatives.

XENIA RURAL WATER DISTRICT

By: Tom E. Mower

By: Thomas J. Pinner

CITY OF AMES, IOWA

By: Larry R. Curtis  
Larry R. Curtis, Mayor

Attested by: Sandra L. Ryan  
Sandra L. Ryan, City Clerk



**CONSENT**

The U.S. Department of Agriculture Rural Development, lender to Xenia Rural Water District, hereby evidences its CONSENT of the entry into the foregoing Water and Service Agreement by Xenia Rural Water District.

Dated this 12 day of November, 1996.

**U.S. DEPARTMENT OF AGRICULTURE**

By: 

**DORMAN A. OTTE, Director  
Rural Utilities & Community Facilities**

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rev. 9/25/96

**APPENDIX A**

**Water Service Agreement between  
City of Ames and Xenia Rural Water District**

**CAPACITY RESERVED and Payment Rate**

1. **Water CAPACITY RESERVED**

Xenia Rural Water District reserves, and the City of Ames agrees to provide, such quantity of water as shall be demanded, up to 500,000 gallons per day. This volume shall be known as the CAPACITY RESERVED for purposes of calculating payments due under the agreement. In the event circumstances limit the City of Ames' ability to provide water in the volume demanded, no adjustment or modification of the payments due will be made. Xenia may request an increase of the CAPACITY RESERVED by providing 90 days' notice to the City, except for increases requested according to Item 3 below. If approved by the City, this change will be initiated at the beginning of the next full billing cycle.

2. **Payment for Capacity Purchase**

Xenia agrees to pay to the City of Ames the amount calculated as shown below for reimbursement of existing capacity in the water utility. Said payment does not acquire ownership for Xenia. The payment is simply reimbursement to the City of Ames for expenses already incurred. Said amount is due and payable not later than 14 days prior to obtaining service. The City may agree to monthly payments in lieu of a single payment, but this payment option shall be limited to a time period not to exceed seven years in length and at a rate of interest as determined by the City of Ames.

0.5 , mil gal/day (CAPACITY RESERVED) x \$1,122,200/mil gal/day = \$ 561,100

3. **Unit Rate for Water Purchased**

Xenia agrees to pay to the City of Ames each month for water purchased during the billing period. All water metered (or estimated in the event of a meter malfunction) will be billed at the unit rate set out below. Said unit rate is composed of the following components.

<u>Component</u>	<u>Unit Rate, \$/mil gal</u>
Finance and Billing	\$ 60
Operation and Maintenance	990
Annual Capital Improvements	<u>270</u>
TOTAL	\$1,320

In addition, Xenia agrees to pay to the City of Ames for extra use during the billing period for all water used in excess of the CAPACITY RESERVED. The extra use fee shall increase as the volume of use increases above the CAPACITY RESERVED. The extra-use fee is as follows:

<u>Extra-Use Ratio</u>	<u>Extra-Use Fee, \$/mil gal</u>
<1.05	\$ 1,500
1.05 to 1.1499	2,000
1.15 to 1.2499	2,500
1.25 to 1.3999	3,500
>1.40	5,000

The amount of the extra use fee is calculated as follows:

$$\text{Extra-Use Ratio} = \text{Average Use/Day (during billing period)} \div \text{CAPACITY RESERVED}$$

[ \_\_\_\_\_, mil gal (Monthly Volume Used) -  
[ \_\_\_\_\_, mil gal/day (CAPACITY RESERVED) x \_\_\_\_\_ (Days in Billing Period) ] ] x  
\_\_\_\_\_ (Extra-Use Fee) = \$ \_\_\_\_\_

In the event of mandatory use reductions imposed by City of Ames, the extra-use fee shall be calculated by substituting "Winter Consumption less Mandatory Reduction" for "Capacity Reserved" in the above equations. "Winter Consumption" is the average use during the previous winter (November through April).

Furthermore, it is agreed that an increase in the amount of CAPACITY RESERVED in Item No. 1 above shall be requested whenever any of the following occurs unless said event(s) occurs during a mandatory use reduction situation.

- A. Any single month where use exceeds CAPACITY RESERVED by 25 percent or more
- B. Any two months within any six-month period where use exceeds CAPACITY RESERVED by 15 percent or more
- C. Any four months within any six-month period where use exceeds CAPACITY RESERVED by five percent or more
- D. Any occurrence during any billing period where the peak day use exceeds CAPACITY RESERVED by 55 percent or more.

All such requests, if approved, shall become effective at the start of the next billing cycle and all CAPACITY RESERVED charges are due and payable immediately. The parties may agree to monthly payments as per Item No. 2 above.

RESOLUTION NO. 96-498

**RESOLUTION APPROVING WATER PURCHASE AGREEMENT  
WITH XENIA RURAL WATER DISTRICT; APPROVING REQUEST  
TO PROVIDE WATER SERVICE WITHIN DESIGNATED PORTIONS OF TWO-MILE  
LIMIT; AND DIRECTING THAT REVENUES FROM PURCHASE AGREEMENT  
BE DEPOSITED IN WATER UTILITY TRUST FUND  
FOR THE CITY OF AMES, IOWA**

WHEREAS, since early 1994, this Council and City Staff have participated in several meetings regarding the sale of City water to areas outside the corporate limits of the City of Ames, including potential sales to nearby rural water systems; and


WHEREAS, the City Council directed Staff to work on development of partnering agreements with nearby rural water agencies; and

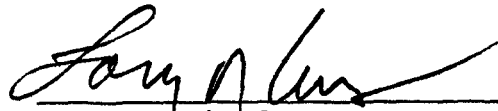
WHEREAS, Staff recently completed negotiations for water sales to Xenia Rural Water District, and an agreement has been prepared and signed by the Xenia Rural Water District Board, subject to approval by the U.S. Department of Agriculture, the principal financing agency; and

WHEREAS, in conjunction with the water purchase agreement, Xenia Rural Water District has also filed a request to provide service within the two-mile limit of Ames in an area north and northwest of the City.

NOW, THEREFORE, BE IT HEREBY RESOLVED by the City Council of the City of Ames, Iowa, that the water service agreement between the City of Ames, Iowa and Xenia Rural Water District be hereby approved, subject to acceptance and approval by the U.S. Department of Agriculture; that the Water District's request to provide water service within designated portions of the two-mile limit of Ames be hereby approved; and that Staff be directed to deposit the additional revenues resulting from this agreement in a water utility trust fund reserved for future expansion of the City's water capacity.

ADOPTED THIS 22nd day of October, 1996.

  
Sandra L. Ryan, City Clerk

  
Larry R. Curtis, Mayor

Introduced by: Tedesco  
Seconded by: Campbell  
Voting aye: Campbell, Hoffman, Parks, Quirmbach, Tedesco, Wirth  
Voting nay: None Absent: None

Resolution declared adopted and signed by the Mayor this 22nd day of October, 1996.

**RESOLUTION NO. 97-343**

**RESOLUTION AMENDING RURAL WATER SALES CONTRACT  
BETWEEN XENIA RURAL WATER DISTRICT  
AND THE CITY OF AMES, IOWA**

WHEREAS, on October 22, 1996, this Council adopted Resolution No. 96-498 approving a contract to sell water to Xenia Rural Water District; and

WHEREAS, according to the contract, Xenia Rural Water District would receive a capacity reserved of 500,000 gallons per day for the purpose of calculating payments due under the contract, with the anticipation that the City would receive \$560,000+ from Xenia for this reserved capacity; and

WHEREAS, Xenia has subsequently requested to receive only 250,000 gallons per day capacity reserved, as the City of Gilbert has indicated it is not interested in receiving water from Xenia at this time; and

WHEREAS, Xenia has made a payment of \$280,550 to the City for this capacity reserved in accordance with a formula provided in the contract; and

WHEREAS, Xenia has agreed to pay the City for extra use during the billing period for all water used in excess of the capacity reserved; and

WHEREAS, the extra use fee will escalate as the volume of use increases according to the table provided in the contract; and


WHEREAS, Xenia has further agreed to request an increase in the amount of capacity reserved when the use exceeds capacity reserved; and

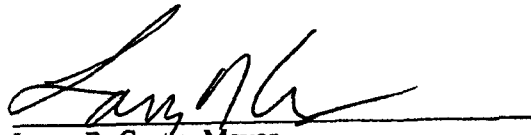
WHEREAS, Staff has prepared a contract amendment for the reduced capacity reserved; and

WHEREAS, the amendment has been approved by the Xenia Rural Water District board.

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Ames, Iowa, that the amendment to the contract between the City of Ames and Xenia Rural Water District be hereby approved, allowing Xenia to receive 250,000 gallons per day capacity reserved at this time.

ADOPTED THIS 24th day of June, 1997.

  
Sandra L. Ryan, City Clerk

  
Larry R. Curtis, Mayor

Introduced by: Tedesco

Seconded by: Wirth

Voting aye: Campbell, Hoffman, Parks, Quirnbach, Tedesco, Wirth

Voting nay: None Absent: None

Resolution declared adopted and signed by the Mayor this 24th day of June, 1997.

**FIRST AMENDED  
APPENDIX A**

Water Service Agreement between  
City of Ames and Xenia Rural Water District

**CAPACITY RESERVED and Payment Rate**

1. Water CAPACITY RESERVED

Xenia Rural Water District reserves, and the City of Ames agrees to provide, such quantity of water as shall be demanded, up to 250,000 gallons per day. This volume shall be known as the CAPACITY RESERVED for purposes of calculating payments due under the agreement. In the event circumstances limit the City of Ames' ability to provide water in the volume demanded, no adjustment or modification of the payments due will be made. Xenia may request an increase of the CAPACITY RESERVED by providing 90 days' notice to the City, except for increases requested according to Item 3 below. If approved by the City, this change will be initiated at the beginning of the next full billing cycle.

2. Payment for Capacity Purchase

Xenia agrees to pay to the City of Ames the amount calculated as shown below for reimbursement of existing capacity in the water utility. Said payment does not acquire ownership for Xenia. The payment is simply reimbursement to the City of Ames for expenses already incurred. Said amount is due and payable not later than 14 days prior to obtaining service. The City may agree to monthly payments in lieu of a single payment, but this payment option shall be limited to a time period not to exceed seven years in length and at a rate of interest as determined by the City of Ames.

$$0.25, \text{ mil gal/day (CAPACITY RESERVED)} \times \$1,122,200/\text{mil gal/day} = \$280,550$$

3. Unit Rate for Water Purchased

Xenia agrees to pay to the City of Ames each month for water purchased during the billing period All water metered (or estimated in the event of a meter malfunction) will be billed at the unit rate set out below. Said unit rate is composed of the following components.

Component	Unit Rate, \$/mil gal
Finance and Billing	\$ 60
Operation and Maintenance	990
Annual Capital Improvements	270
TOTAL	\$1,320

In addition, Xenia agrees to pay to the City of Ames for extra use during the billing period for all water used in excess of the CAPACITY RESERVED. The extra use fee shall increase as the volume of use increases above the CAPACITY RESERVED. The extra-use fee is as follows:

Extra-Use Ratio	Extra-Use Fee, \$/mil gal
<1.05	\$ 1,500
1.05 to 1.1499	2,000
1.15 to 1.2499	2,500
1.25 to 1.3999	3,500
>1.40	5,000

The amount of the extra use fee is calculated as follows:

Extra-Use Ratio = Average Use/Day (during billing period) + Capacity Reserved

[\_\_\_\_\_, mil gal (Monthly Volume Used) -

[\_\_\_\_\_, mil gal/day ((CAPACITY RESERVED) X \_\_\_\_\_ (Days in Billing Period) X \_\_\_\_\_ (Extra-Use Fee) = \$ \_\_\_\_\_

In the event of mandatory use reductions imposed by City of Ames, the extra-use fee shall be calculated by substituting "Winter Consumption less Mandatory Reduction" for "Capacity Reserved" in the above equations. "Winter Consumption" is the average use during the previous winter (November through April).

Furthermore, it is agreed that an increase in the amount of CAPACITY RESERVED in Item No. 1 above shall be requested whenever any of the following occurs unless said event(s) occurs during a mandatory use reduction situation.

- A. Any single month where use exceeds CAPACITY RESERVED by twenty -five (25) percent or more
- B. Any two months within any six-month period where use exceeds CAPACITY RESERVED by fifteen (15) percent or more
- C. Any four months within any six-month period where use exceeds CAPACITY RESERVED by five (5) percent or more
- D. Any occurrence during any billing period where the peak day use exceeds CAPACITY RESERVED by fifty-five (55) percent or more.

All such requests, if approved, shall become effective at the start of the next billing cycle and all CAPACITY RESERVED charges are due and payable immediately. The parties may agree to monthly payments as per Item No. 2 above.

This instrument supercedes the initial "Appendix A" to the Contract of October 22, 1996, between the parties hereto.

IN WITNESS WHEREOF, the parties hereto have caused this instrument to be signed and sealed by their duly authorized representatives as of this 24th day of June, 1997.

XENIA WATER DISTRICT

By Thomas L. Prime

By Howard M. Adelstein





CITY OF AMES, IOWA

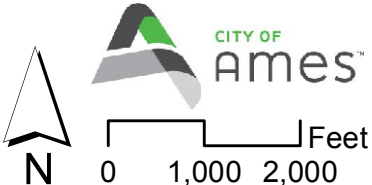
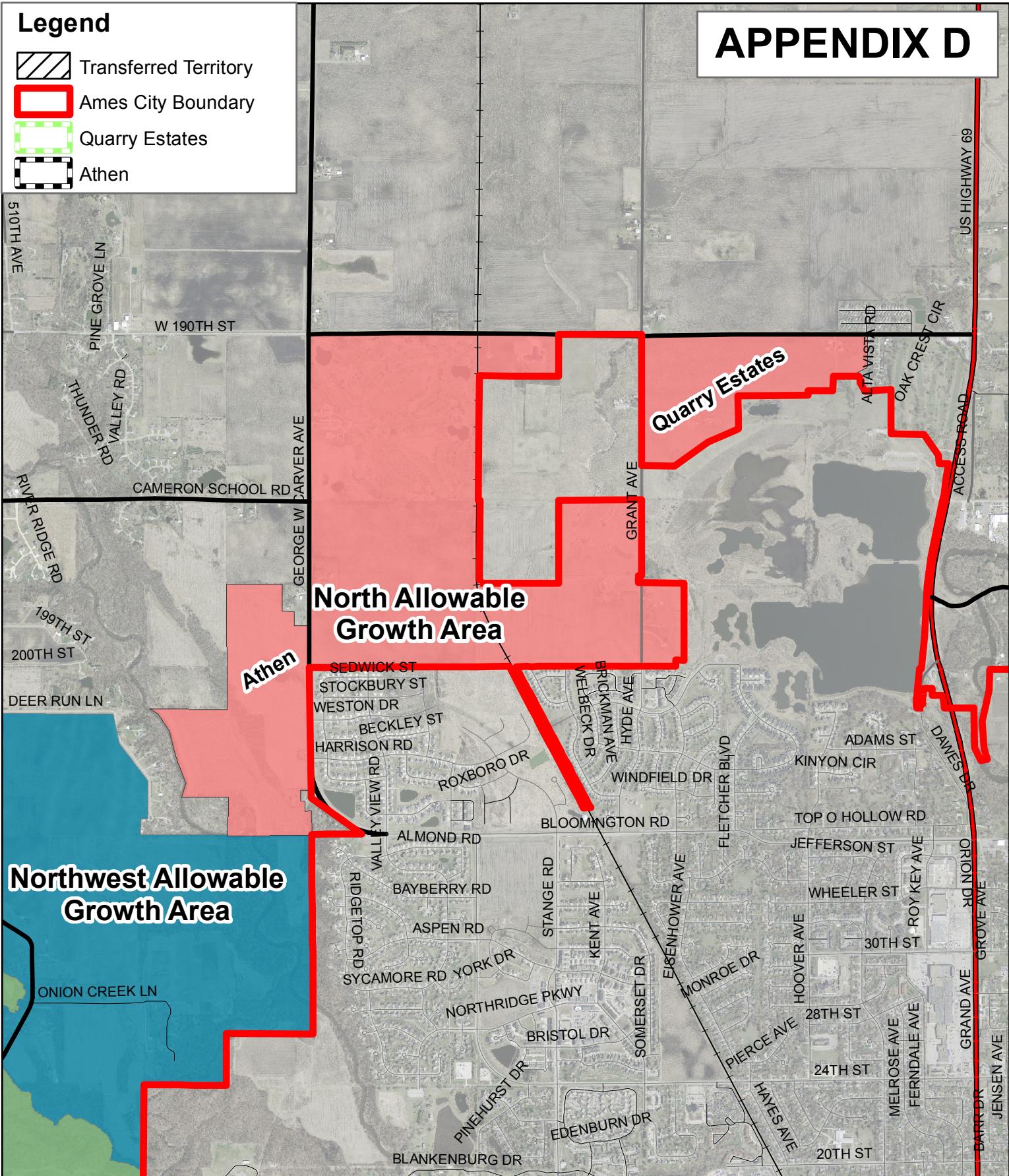
By Larry R. Curtis  
Larry R. Curtis, Mayor

By Sandra L. Ryan  
Sandra L. Ryan, City Clerk

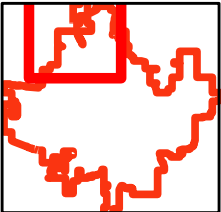
# APPENDIX D

## Legend

-  Transferred Territory
-  Ames City Boundary
-  Quarry Estates
-  Athen



## SCENARIO 1: POSSIBLE TERRITORY TRANSFER





**APPENDIX E**

**SUMMARY OF XENIA FEES & CHARGES**

Ames North Growth Areas  
 Xenia Domestic Water Infrastructure  
 Actions and Fees

Action	Fee/Amount	Xenia	Developer	Home Builder	Home Owner
12" Perimeter Loop:					
8" Base Equivalent	\$1,500,000		+X		
12" Upsizing Increment	\$500,000	*X			
Subdivision Mains, Valves, Hydrants	Varies		X		
Tapping Fee	\$150			X	
System Development Fee	**TBD		**	**	
Service meter	SDF				
Availability Cost (Monthly)	\$17.92				X

+ Developer to reimburse Xenia at time of development

\* Xenia to recover upsizing costs as part of the System Development Fee

\*\*System Development fee could be paid for by either Developer or Homebuilder/Owner