

ITEM #:	<u>43</u>
DATE:	<u>04-28-26</u>
DEPT:	<u>W&PC</u>

COUNCIL ACTION FORM

SUBJECT: CONTRACT WITH XENIA RURAL WATER DISTRICT FOR SALE OF POTABLE WATER - AMENDMENT NUMBER TWO

BACKGROUND:

On October 22, 1996, the City Council entered into a wholesale agreement with Xenia Rural Water District to supply potable water from Ames to Xenia through a water metering facility installed by Xenia near the intersection of Bloomington Road and G. W. Carver Avenue in northern Ames. Appendix A to the original agreement allowed for the sale of up to 500,000 gallons per day. At Xenia's request, Appendix A was modified eight months later to reduce the maximum daily sale to 250,000 gallons per day.

Since that time, Xenia has purchased a varying amount of water from Ames, based on their operating needs and the capacity of their installed infrastructure. Currently, Xenia is able to take only around 120,000 gallons per day from that existing metered connection.

KEY AMENDMENTS:

Staff from Ames and Xenia have been in conversations over the past two years about a potential increase to the maximum quantity allowed under the agreement. The parties have reached terms that both staffs are able to support and recommend to their decision making bodies. Key terms of the agreement are described below, with the full text of the amendment attached.

- Xenia will be permitted to construct a new pump station on City-owned land at the Mortensen and County Line (MAC) tower site. **This specific element of the agreement is the subject of the required public hearing.**
- **The maximum day water capacity will be increased from 250,000 gallons per day to 500,000 gallons per day**, on a monthly average basis. Xenia may be permitted to purchase water in excess of this amount with the City's concurrence and at the City's sole discretion. There is no contractual requirement or obligation for Ames to make water in excess of 500,000 gallons per day available.
- In the 1996 agreement (as amended in 1997), Xenia made a one-time capacity reimbursement for the 250,000 gallons per day covered by the agreement. **In this new amendment, Xenia will make an additional one-time payment to the City of \$1,464,500 as a reimbursement to the City for the incremental 250,000 gallons per day capacity increase.** That payment does not constitute ownership by Xenia of any portion of Ames' infrastructure; it is simply to reimburse Ames' customers for prior expenses.

- **New volumetric rates will be adopted**

- During the first five years of the agreement, Xenia will purchase water at Ames' "Non-peaking Industrial Rate" that appears in Chapter 28 Division II of the *Municipal Code*. Xenia intends to immediately maximize the quantity they are able to take from Ames (approximately 120,000 gallons per day) through their existing north connection. However, Xenia initially will not be able to take the full 500,000 gallons per day. They will be installing new infrastructure to the south and west of Ames, including the pump station, and that infrastructure is needed before they can take the full contract quantity.
 - After five years, Xenia will be required to qualify annually for the "Non-peaking Industrial Rate." To qualify, they must demonstrate that their summer peak demands are no greater than 120% of their winter average demand. It is Xenia's ultimate intent to consistently draw 500,000 gallons per day from Ames, allowing them to meet that requirement. They would use their other water sources to make up any daily or seasonal fluctuation in their demand. If Xenia does not meet the requirements for the Non-Peaking Industrial Rate, they would then be billed under the City's adopted Non-Residential Rate.
 - After the initial five years, there is also a "minimum take" clause, whereby Xenia will be billed for a minimum of 200,000 gallons per day, even if their demand falls below that level. This clause ensures that Ames continues to receive at least some measure of financial benefit from the capacity that is being reserved for Xenia's use.
 - Because the agreement references the City's adopted rates, the amount charged to Xenia will automatically adjust in tandem with any future rate increases adopted by the Ames City Council for customers within Ames.
- **A key consideration that was important to the City and agreed to by Xenia was to lower the water service territory buyout terms for the developments known as Auburn Trails and Hayden's Preserve. This new agreement would supersede existing agreements that set the buyout costs at approximately \$2,800 per dwelling unit, and set a new buyout price of \$3,000 per acre. It is anticipated that this change will improve the financial viability of these residential developments moving forward.**
 - **While not a specific element of the agreement, it is anticipated by both Ames and Xenia that the increased quantities will help facilitate development in the western and southwestern fringes of Ames. It will enable Xenia to provide a water distribution system that can meet urban demands including fire flows, likely eliminating water supply as an impediment to future annexations to the west.**
 - The agreement will have a 40-year term. After that, either party may terminate for any reason with 48-months advance notice.
 - All other terms of the 1996 agreement would remain in place.

UTILITY AND SOURCE WATER IMPACTS:

The Ames Water Plant currently has an average day demand of 6.5 million gallons per day, and a peak day demand of 9.5 million gallons per day. The treatment plant has a rated capacity of 15 million gallons per day, and staff is implementing a "split treatment" improvement that will increase the capacity by an additional 0.75 million gallons per day. The City's developed source water supply is estimated to have a sustainable drought yield of 16 to 18 million gallons per day. This unused capacity is currently not generating any revenue for the utility.

Xenia is currently purchasing very little water under the existing agreement. With this amended agreement, Ames' existing customers will benefit by being able to spread the utility's fixed costs over additional gallons while utilizing surplus treatment capacity. **Initially, Xenia's estimated 120,000 gallons per day usage will generate \$170,000 per year (FY 2026 adopted rates) in additional revenue to the utility. Once their infrastructure improvements are in place and they can take the full 500,000 gallons per day, this agreement will generate an additional \$703,000 in additional revenue per year. When including the one-time up-front payment and accounting for increased variable operating costs (such as electricity, chemicals, and lime sludge disposal), this agreement would improve the Water Fund balance by \$5.42 million over the next ten years.**

Iowa Code requires a public hearing before "disposing of an interest in real property," including long-term leases. At its April 14 meeting, the City Council set April 28 as the date of the public hearing for the terms of the amendment that would permit Xenia to construct a booster pump station and water lines on the City's property at 900 S 500th Avenue; the site of the Mortensen and County Line ("MAC") water tower. Immediately following the hearing, Council may take action to approve the proposed amendment with Xenia.

At its April 23 meeting, the Xenia Rural Water District's Board of Directors approved the amended agreement. The agreement will become effective immediately upon approval from the Ames City Council.

ALTERNATIVES:

1. Take action on Amendment Number Two to the agreement with Xenia Rural Water District:
 - a. Hold a Public Hearing on the terms and conditions to allow Xenia to construct a pump station, water lines, and associated appurtenances on City-owned property located at 900 S 500th Avenue (Mortensen and County Line Water Tower site)
 - b. Adopt a resolution approving the contract amendment with Xenia as proposed
2. Hold the Public Hearing, then direct staff to negotiate different terms to the proposed amendment
3. Hold the Public Hearing, and then take no subsequent action on the agreement

CITY MANAGER'S RECOMMENDED ACTION:

The City of Ames and Xenia Rural Water District have an established 30-year-old agreement that allows Xenia to purchase potable water from the City of Ames for Xenia's subsequent resale to their direct customers. **Strengthening Xenia's ability to provide urban water service in its territory outside Ames would benefit both parties by enabling growth to the west and southwest of Ames' current city limits.** The agreement will eventually generate revenue to Ames estimated to be in excess of \$700,000 annually. An immediate effect of the agreement is that it will help facilitate two key residential developments in Ames, Auburn Trails and Hayden's Preserve, by significantly lowering the cost to transfer the water service territory from Xenia to Ames. **The agreement ties the volumetric water rate that Xenia would pay to the Non-Peaking Industrial Rate being charged to industrial customers within the Ames city limits, ensuring that Ames' customers are not subsidizing Xenia's customers.** In addition, it will also provide a one-time payment to the Water Fund of \$1,464,500. Therefore, it is the recommendation of the City Manager that the City Council adopt Alternative No. 1, as described above.

ATTACHMENT(S):

[FINAL DRAFT Xenia Agreement.pdf](#)