

Agenda Commentary

Memorandum of Understanding with the City of Canute (with the Clinton Public Works Authority) Regarding Water Purchase.

Staff has been working diligently for the past 20 months regarding our water source situation and the drought issue. The City of Canute has been in a situation for the past couple years that has them forced (DEQ mandate) to clean up contaminated water. Canute is a very small rural community and the burden of a new Water Treatment Facility will be very costly to their citizens. Canute has approached Clinton, understanding our struggles to locate quality water. After meeting with Canute officials and financial consultants, we have a recommended opportunity to help the citizens of Clinton quickly and offer financial relief to Canute.

Canute can build a larger facility (R.O. Plant – ground water wells) and sale excess water to Clinton. This relieves some daily costs to Canute and actually offers a better quality of water at a better price than Foss Treatment Facility.

Currently the City of Clinton has a daily allotment of 686,000 gallons per day from Foss at a price of \$3.21 per 1000 gals. Overages are at a cost of \$2.70 per 1000 gals. Clinton currently is 100% Foss water at an average of 1.5 gals per day (for 7 months, October-April). Clinton increases usage as temperatures increase from May-September. Peak usage of the 2011 Heat Drought was 4.2 MG per day (with Foss providing 2.9 and Clinton Lake providing 1.3). 2012 Foss provided us with over 2 MG per day (water restrictions and other communities demands increased, which decreased Clinton usage)

Canute needs a commitment of 750,000 Gal per day at a cost of \$2.85 per 1000 gals (cost plus \$1). As demand increases they hope to give the City over 1 MG per day at a rate of \$2.45 per 1000 gal over the 750K per day allotment. This will help our financial condition and relieve some immediate water issues. If the heat index and drought continue, some rationing may be needed, but not in the current stages we are at. Most average years the Foss and Canute sources could offer relief for the immediate future.

This would be a 25 year agreement and allows Clinton to work with Foss on expansion or consider a new facility in the next few years for future growth. Canute facility is scheduled to come on-line around early September 2013. They need an answer quickly as they have a small grant pending and they are under a DEQ mandate to have this completed in 2013.

Recommendation: With the current water contamination issues with the wells the City was targeting and the need we have, this is a great situation to help both communities. This is a good short term relief and we must continue on with a bigger long-term plan. Staff strongly recommends the MOU.

This summer may continue with restrictions, however relief should offer our community some positive news. The Foss plan is very concerning and this MOU will and should affect that plan. Clinton needs to have a diverse portfolio for its water needs. Again, this is very helpful in our efforts to look and our future needs. A good quality water relief for the immediate future.

An official contract will be written up and brought back for approval; MOU needs immediate approval for Canute's concerns to wrap up DEQ requirements. With our concerns of Foss future operational costs and the need for immediate relief, this should be a great help in both areas. We can continue working with Foss as it fits with our needs and make sure we find a good direction for water at an affordable price to our citizens. This is all critical for growth and retention.

MEMORANDUM OF UNDERSTANDING

WHEREAS, The City of Canute ("Canute") has water rights in and around its municipal limits and is contemplating the construction of a reverse osmosis water treatment plant ("The Facility") in order to provide water to its citizens.

WHEREAS, the cost of water production is decreased significantly as the number of households serviced increases.

WHEREAS, The City of Clinton ("Clinton") is in need of additional water and has an interest in the acquisition of additional water rights.

NOW, THEREFORE, it is hereby agreed by and between the parties as follows:

1. The City of Canute will construct "The Facility" capable of providing The City of Clinton up to 1.5 Million gallons per day.
2. Clinton agrees to purchase a minimum of 750,000 gallons per day from Canute at a purchase price of \$2.85, unless otherwise described in this agreement (the "Base Rate").
3. Any water Clinton wishes to purchase in excess of 750,000 gallons shall be purchased at a rate of \$2.45 per gallon, unless otherwise described.
4. Canute shall deliver all treated water to the water line of Clinton at _____.
5. The term of this Agreement shall be for a 25 year fixed period, to begin the date of first delivery to Clinton's water line.
6. Clinton shall have the option to renew for an additional 15 year term, under the same terms and conditions of this Agreement.
7. Clinton shall have an option to require an increase of production at The Facility based upon availability of water and the need in Clinton. Any increase demanded shall require a renegotiation of the Base Rates not to exceed the cost of the capital expenditure amortized over the 20 year period.
8. Canute will continue to secure available water rights which will be used to increase water production at The Facility.
9. Canute agrees to maintain The Facility in accordance with State and Federal guidelines including but not limited to DEQ requirements. Further, any water produced at The Facility will meet all State and Federal guidelines including but not limited to DEQ guidelines.

10. Although Clinton is required to purchase a minimum of 750,000 gallons per day, if Canute is unable to produce 750,000 there is no obligation of Clinton to pay for any water not produced.
11. The parties realize that the numbers included in this Memorandum of Understanding are estimates provided by third-party engineers and will serve as a ceiling for actual charges. Once the plant is constructed and actual costs of production are assessed, these numbers will be reevaluated. The Base Rate shall be calculated at cost of production plus \$0.30, not to exceed \$2.85. Any water purchased by Clinton in excess of 750,000 gallons, shall be provided to Clinton at the cost of production. The cost of production on the excess water amount shall be adjusted annually according to the applicable Consumer Price Index.
12. Should Clinton exercise its option for an additional 15 years as described in paragraph 6 above, at the termination of that 15 years, Clinton shall have the right to acquire a 49% interest in the subject plant at the cost of Ten Dollars.
13. During the duration of the initial 25 years and any renewal option, Canute shall have the exclusive right to wholesale any water produced at the plant that is not being taken by Clinton.

Parties agree to engage in this mutual project in good faith, and take all action reasonably necessary to draw this project to an appropriate conclusion. Nothing herein shall be construed as creating a partnership, or any other business relationship, between the City of Canute and the City of Clinton.

Dated this _____ day of _____, 20____.

THE CITY OF CANUTE

By: _____
Its _____

THE CITY OF CLINTON

By: _____
Its _____