

CHAPTER 1024

SALE OF CITY UTILITIES AND ACQUISITION OF PUBLIC UTILITIES

H.F. 2307

AN ACT relating to the sale or acquisition of certain utilities.

Be It Enacted by the General Assembly of the State of Iowa:

Section 1. NEW SECTION. **388.2A Procedure for disposal of city utility by sale.**

1. A proposal to discontinue a city utility and dispose of such utility by sale, whether upon the council's own motion or upon the receipt of a valid petition pursuant to [section 388.2, subsection 1](#), paragraph "b", shall not be submitted to the voters of the city pursuant to [section 388.2](#) at any election unless the governing body of the city utility meets the requirements of [this section](#).

2. a. (1) The governing body of the city utility shall determine the fair market value of the utility system after obtaining two appraisals of the system's fair market value. One appraisal shall be obtained from an independent appraiser selected by the governing body, and the other appraisal shall be obtained from an independent appraiser approved by the Iowa utilities board. Both appraisals shall be conducted in conformance with the uniform standards of professional appraisal practice or substantially similar standards.

(2) Any appraisal obtained pursuant to this paragraph shall consider the depreciated value of the capital assets to be sold, the loss of future revenues to the city utility, including the right to generate surpluses, and the cost of any capital improvements reasonably necessary to provide adequate service and facilities to the city utility's customers.

b. After considering the appraisals obtained pursuant to paragraph "a", the governing body shall establish the city utility's fair market value. The fair market value shall be the greater of any of the following:

(1) The average of the two appraisals obtained pursuant to paragraph "a".

(2) The depreciated value of the capital assets to be sold.

(3) The amount necessary to retire all of the city's outstanding revenue and general obligations issued for purposes of the city utility.

c. The governing body's determination of a city utility's fair market value pursuant to [this subsection](#) shall not be dispositive of the city utility's system price, which shall be subject to negotiation by the governing body.

d. The governing body shall prepare an inventory of the city utility's real and personal property, and a statement of net position or balance sheet of the city utility, including all assets, liabilities, outstanding revenue and general obligations used to finance the city utility system.

e. The governing body shall prepare a financial information statement of the city utility that includes current and projected rate schedules for the next five fiscal years, as well as the five most recent fiscal year revenue statements, if such statements exist, and a projection of the city utility's revenue statements for the next five fiscal years.

f. The governing body shall consider alternatives to disposing of the city utility system by sale, including entering into an agreement pursuant to [chapter 28E](#), or into a finance agreement, purchase agreement, or lease agreement with another entity described in [section 476.1, subsection 5](#).

g. (1) The governing body shall make available on its internet site, at least sixty days prior to submitting a proposal for election pursuant to [section 388.2](#), a copy of each item listed in paragraphs "a" through "f" of [this subsection](#).

(2) If, at the time of posting information pursuant to subparagraph (1), the governing body has received any offers or appraisals of fair market value from any prospective purchasers of the city utility system in connection with a proposal to discontinue the city utility and dispose of such utility by sale, then the governing body shall make available on its internet site each offer and appraisal then in existence. Proprietary information of a rate-regulated public utility under [chapter 476](#) that is exempt from disclosure pursuant to [section 22.7](#) may be withheld from disclosure on the governing body's internet site. The governing body may continue to receive new or revised offers or appraisals thereafter.

(3) The governing body shall make a good-faith effort to provide, by regular mail to each property owner of the city and each ratepayer of the city utility, a notice of the proposal to dispose of the city utility by sale, a summary of the proposal, a summary of the information described in subparagraphs (1) and (2), and instructions for locating the information described in subparagraphs (1) and (2) on the governing body's internet site.

3. Upon the governing body meeting the requirements of [subsection 2](#), a city council may submit a proposal to discontinue and dispose of a city utility pursuant to [section 388.2](#).

4. If a proposal to discontinue and dispose of a city utility is to be submitted to voters following the receipt of a valid petition pursuant to [section 388.2, subsection 1](#), paragraph "b", the council shall submit the proposal at the next general election, regular city election, or a special election called for that purpose, within one hundred twenty days after the governing body of the city utility meets the requirements of [subsection 2](#).

5. A proposal to discontinue and dispose of a city utility by sale that is approved by the voters pursuant to [section 388.2, subsection 2](#), paragraph "a", shall not require the governing body or any purchasing entity to finalize a sale of the city utility.

6. No action may be brought which questions the legality of the election or the city and governing body's compliance with [this section](#), except as provided in [section 57.1](#), within twenty days of the canvass of votes for the election by the county board of supervisors.

Sec. 2. [Section 476.72, subsection 4](#), Code 2018, is amended to read as follows:

4. "Public utility" means a ~~gas or electric~~ rate-regulated public utility providing electric, gas, water, sanitary sewage, or storm water drainage service, or any combination thereof.

Sec. 3. **NEW SECTION. 476.84 Water, sanitary sewer, and storm water utilities — acquisitions — advance ratemaking.**

1. [This section](#) applies to the acquisition of water, sanitary sewer, and storm water utilities by rate-regulated public utilities. [This section](#) does not apply to the acquisition of such utilities by non-rate-regulated entities described in [section 476.1, subsection 5](#).

2. a. A public utility shall not acquire, in whole or in part, a water, sanitary sewer, or storm water utility with a fair market value of five hundred thousand dollars or more from a non-rate-regulated entity described in [section 476.1, subsection 5](#), unless the board first approves the acquisition. In addition, if the utility to be acquired is a city utility, then the public utility shall not acquire the city utility until the city has first met the requirements of [section 388.2A](#).

b. If a water, sanitary sewer, or storm water utility that is the subject of an acquisition meets the requirements of paragraph "a", then the acquiring public utility may apply to the board, prior to the completion of the acquisition, for advance approval of a proposed initial tariff for providing service to customers of the acquired utility.

c. As part of its review of the proposed acquisition, the board shall specify in advance, by order issued after a contested case proceeding, the ratemaking principles that will apply when the costs of the acquired utility are included in regulated rates. The lesser of the sale price or the fair market value of the acquired utility as established pursuant to [section 388.2A, subsection 2](#), shall be used in determining the applicable ratemaking principles. In determining the applicable ratemaking principles, the board shall not be limited to traditional ratemaking principles or traditional cost recovery mechanisms. Among the principles and mechanisms the board may consider, the board has the authority to approve ratemaking principles that provide for reasonable restrictions upon the ability of the public utility to seek an increase in specified regulated rates for a period of time after the acquisition takes place.

d. In determining the applicable ratemaking principles, the board shall find that the proposed acquisition will result in just and reasonable rates to all customers of the public utility, including but not limited to existing customers of the public utility. In making this finding, the board may consider any factor it reasonably concludes may affect future rates, including but not limited to the price paid for the acquired utility and the projected cost of reasonable and prudent changes to the acquired utility in order to provide adequate services and facilities to customers. The board shall consider whether there are ratemaking principles that will result in just and reasonable rates to all customers in determining whether to approve or disapprove a proposed acquisition.

e. Upon the approval of a proposal for acquisition by board order, the parties subject to the acquisition shall have the option of either proceeding with such acquisition or not, subject to any termination provisions contained in the acquisition agreement.

f. Notwithstanding any provision of [this chapter](#) to the contrary, the ratemaking principles established by the board pursuant to [this section](#) shall be binding with regard to the acquired utility in any subsequent rate proceeding.

Approved March 21, 2018