**MINUTES OF A MEETING OF THE
FINANCE COMMITTEE
OF THE DUPAGE WATER COMMISSION
HELD ON THURSDAY, JANUARY 17, 2013
600 EAST BUTTERFIELD ROAD
ELMHURST, ILLINOIS**

The meeting was called to order at 6:01 P.M.

Committee members in attendance: P. Suess, C. Janc, J. Pruyn, D. Russo and J. Zay

Committee members absent: None

Also in attendance: J. Spatz, T. McGhee, C. Peterson and D. Ellsworth

Minutes

Commissioner Pruyn moved to approve the minutes of the Regular Committee Meeting of December 20, 2012 and Special Meeting of December 13, 2012 of the Finance Committee. Seconded by Commissioner Russo and unanimously approved by a Voice Vote.

All voted aye. Motion carried.

Approval of Reconciliations

Treasurer Ellsworth stated that he had reviewed the journal entries and bank reconciliations for the month of December and they were proper and correct.

Treasurer's Report – December 2012

Treasurer Ellsworth provided the Committee with a summary of the December Treasurer's Report. He noted on page 1 of the report that cash and investments totaled $67.2M down $10.4M from the previous month. The decrease is due the $12M debt payment that was authorized by the Board at the previous month's meeting. He also discussed the decline in the Illinois Funds account related to the debt payment and an increase in U.S. Treasuries related to the monthly principal and interest payments on the 2003 Revenue Bonds.

Treasurer Ellsworth noted that the $3.1 million in an account at BMO Harris was no longer being insured in full by the Dodd-Frank act. So at this point in time, any amount over $250,000 is not covered by FDIC insurance. This is why the Commission staff has worked hard over the past few weeks to update the investment policy and pledge agreement to get collateral coverage for the Commission's deposits. Chairman Suess asked if the pledge agreement to be discussed was approved tonight would the Commission than be covered. The Treasurer noted that BMO has already started the process and has money in a Federal Reserve account for the Commission. However, the Commission still needs to approve the documents for the Commission to have a perfected security interest in that collateral. General Manager Spatz stated to the Committee that discussions with BMO began well before year-end for coverage on the interest bearing account Treasurer Ellsworth noted that on the schedules within the Treasurer's report section, the investments were being shown at their initial purchase price as compared to the amortized cost being shown on the Commission's balance sheet. He then asked if the Committee would like to continue to see the investments in this form or have the schedules match the balance sheet. Commissioner Pruyn stated he would prefer to have the amounts tie to the financial statements. Financial Administrator Peterson noted that both the amortized cost and initial purchase price would still be available on the detailed investment schedules on pages 2-4. Chairman Suess agreed that the schedules should be changed to match the financial statements and other financial schedules.

Treasurer Ellsworth discussed the detailed investment schedules, individual account balances and noted the original cost of investments was $64.1M. Market yield on the portfolio was 34 basis points and weighted average maturity was 541 days.

Treasurer Ellsworth noted that operating activities reduced cash flows by slightly over $500,000 due mainly to the timing of receivables collected. Sales tax collections increased cash receipts by $21.8M. Debt Service payments year-to-date were $30.6M and investment earnings totaled $124,000.

Treasurer Ellsworth stated that all targeted reserve levels were met. He then explained that the Commission had approximately $10.9M in cash and investments over the reserve requirements. Chairman Suess asked Treasurer Ellsworth if he has noted any additional major issues that need to be discussed since the he has been with the Commission over a month now. Treasurer Ellsworth mentioned that he has discussed a few items with the General Manager and Financial Administrator, but has not noted any significant issues yet. He noted though that he has been busy with the debt refinancing and working on the changes in the investment policy.

<u>Financial Statements – December 2012</u>

Financial Administrator Peterson provided the Committee with a summary of the December Financial Statements. Revenue over expenditures increased to $16.8M as of December 31, 2012 driven by stronger-than-anticipated water sales and Sales Tax collections that continue to trend positively over the prior year. Water usage has returned to levels more in line with historical averages, which is better than budgeted 2% decline.

Chairman Suess asked if any large projects were expected to be completed before year end. General Manager Spatz stated yes, the Local Area Network and Radio System Replacement projects and that the TOB-7 Corrosion Prevention project will start before year end, but the project was delayed due to the delay in the award and weather.

Financial Administrator Peterson noted that the all the reserve accounts are fully funded and compliant. Financial Administrator Peterson discussed the decline of cash on the balance sheet compared to the prior month. It was noted that receivable balances are higher due to the timing of receivables and rate increases. She also noted that debt balances have declined by $21M since December 2011.

Financial Administrator Peterson discussed the consistency in results for the first eight months of the year. She noted that certain accounts are near budgeted levels and those accounts that may go over budgeted amounts. The first account is 01-60-6117 Operations Overtime which is at 92% of budgeted amounts with four months remaining. General Manager Spatz discussed that budgeted overtime had been reduced from the prior year; however, the Commission has had one lead operator off a significant number of days due to two separate medical procedures requiring long leaves. General Manager Spatz also noted that the operators have been using past years accrued sick and vacation time in the current year. That trend is expected to slow down as the operators will eventually use their banked leave balances.

Financial Administrator Peterson also stated account 01-60-6128 State Unemployment will go over budget in April due to the rate change that occurred last year. She noted that the appropriation budget had been adjusted to account for the rate change, so no change in that budget would be required.

Commissioner Russo requested the Commission staff to put together a schedule showing legal expenses in prior year versus the current year. General Manager Spatz noted that higher legal expenses are expected in the next couple months related to the debt refinancing. In addition, Chairman Zay noted that he would anticipate greater savings in future years as the new outside counsel becomes more familiar with the Commission's activities.

Resolution R-3-13

General Manager Spatz stated that with the debt refinancing the Commission's reserves would be changing. Therefore, it was determined to be in the Commission's best interest to have a new reserve fund policy in place before the restricted reserves become unrestricted. Chairman Zay asked Commission staff to review what other water utilities had for reserve policies. The staff started by looking at the rating agency requirements, including Standard and Poor's and Fitch. Standard and Poor's average for number of days cash on hand to cover operating expenses was 415 days for AAA rating. Fitch stated that for a strong rating a company would have over a year or more, mid-range six months, weak would be three months or less.

Other water agencies had operating reserves from 45 to 180 days, some were difficult to get a final number due to the number of separate reserves the different agencies had. General Manager Spatz then discussed a possible timeline if an emergency were to occur, it could take 4-5 months to implement and collect higher rates to cover the higher expenses. During that time, the Commission would be spending down the reserves.

The Finance Committee then began discussions surrounding the benefits and concerns of keeping 120 days in operating reserves. Chairman Zay noted that the cash becoming unrestricted should be maintained within Commission for a long-time. He noted that the Sales Tax revenue is ending in 2016 and there is still debt balances outstanding related to the shortage few years ago. The goal is maintain a conservative reserve balance.

The reserve fund would have a targeted balance to achieve by the end of the fiscal year. Commissioner Janc discussed he hoped the Commission would have the strength of a solid single A to double AA rated firm but does recognize that holding significant reserves could make the Commission a target for other entities. He is concerned that the 120 days may not be enough days of cash on hand. General Manager Spatz noted that the Commission would have additional cash on hand including cash to pay current months bills and sales tax account balances. The policy does detail that these are Board designated funds and that the money could only be used with approval or direction from the Board.

Commissioner Russo then asked about reserves for the system replacement itself. Chairman Zay stated that was the next account to be discussed. The other account to be established with this policy is a long-term capital account for the replacement of the system to avoid some of the capital funding issues other utilities are facing now. General Manager Spatz noted this account would be more specific for its uses; it would involve the replacement of system infrastructure. The long–term capital reserve account would start out small and would grow very gradually each year. This account would not be used for an emergency that is what the operating reserve fund would be used for.

Chairman Suess agreed that the policy was needed to make sure the restricted funds were accounted for once they become unrestricted. He also noted that the Commission did still have debt outstanding, so taking this view on designating the cash was a sound financial move. He noted that in the future these balances could be reviewed to see if additional amounts were needed, particularly increasing the amount being set aside for capital. Chairman Zay wants the customers to know that the Commission is planning for the future.

Commissioner Russo moved to recommend Resolution No. R-3-13 to the General Board. Seconded by Commissioner Pruyn and unanimously approved by a Voice Vote. Motion carried.

Resolution R-4-13

General Manager Spatz noted the Commission changed our current investment policy to allow for substitutions by the bank as long as certain criteria are met. The criteria included limiting the types of investments allowed, equal market value being substituted and no prior notifications by either the General Manager or Treasurer disallowing the substitution. This is all part of section 10 within the policy. The other change was to add the two new reserve accounts that may be incorporated based upon the aforementioned reserve fund policy.

Commissioner Janc moved to recommend Resolution No. R-4-13 to the General Board. Seconded by Commissioner Russo and unanimously approved by a Voice Vote. Motion carried.

Resolution No. R-5-13

General Manager Spatz discussed Resolution R-5-13, which was updating a previous resolution that allowed the General Manager to enter into a pledge agreement with BMO Harris that was substantially the same in form as older agreements. The current resolution would update the agreement more in line with the current Investment policy and change the third party agreement to be with the Federal Reserve Bank of Boston rather than Bank of America. Financial Administrator Peterson noted that the Commission did receive changes from the bank just prior to the meeting, but there were no material adjustments. Chairman Suess asked how much collateral the Commission had right now. Treasurer Ellsworth noted that although the bank had placed over $10M in an account, that amount is not perfected. The overall target would be 103% of the amount based upon the pledge agreement. The investment policy only calls for 102%.

Commissioner Pruyn moved to recommend Resolution No. R-5-13 to the General Board. Seconded by Commissioner Janc and unanimously approved by a Voice Vote. Motion carried.

Updated on Debt Refinancing

The debt refinancing is on schedule to be completed on February 1, 2013. The rate was locked in at .98% on approximately $42M. Chairman Suess asked how the proceeds were to be invested between Feb. 1st and May 1st. Financial Administrator noted the escrow account agent, Bank of New York, would be working with the Commission to invest the reserves in Commission approved investments.

Election of Interest Period under Northern Trust Certificate of Debt

Financial Administrator Peterson stated that the Libor rate for one month is 0.21% which was the same rate as last month.

Commissioner Janc moved to recommend the election of a one-month Libor rate period with Northern Trust to the General Board. Seconded by Commissioner Russo and unanimously approved by a Voice Vote. Motion carried.

Accounts Payable

Financial Administrator Peterson presented the Accounts Payable to the committee members. The numbers below were to be presented in the General Meeting.

Dec 12, 2012 to Jan 8, 2013	$ 5,287,796.83
Estimated	$ 1,159,805.00
Total	$ 6,447,601.83

Other

General Manager Spatz mentioned that the budget needed to be to the charter customers by March 1st. Therefore, similar to last year the Commission will have a Committee of the Whole meeting prior to the General meeting in February to bring the budget in for review. After that the Commission would prepare the actual to forecast comparison requested by the Finance Committee.

Adjournment

Commissioner Russo moved to adjourn the meeting at 7:17P.M. Seconded by Commissioner Pruyn and unanimously approved by a Voice Vote.

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