

**MINUTES OF A MEETING OF THE
FINANCE COMMITTEE
OF THE DUPAGE WATER COMMISSION
HELD ON THURSDAY, MAY 17, 2012
600 EAST BUTTERFIELD ROAD
ELMHURST, ILLINOIS**

The meeting was called to order at 6:08 P.M.

Committee members in attendance: P. Suess, C. Janc, J. Pruyn and J. Zay (6:15 P.M.)
(*ex officio*)

Committee members absent: D. Russo

Also in attendance: R. Furstenau, T. McGhee, N. Narducci, S. Lux of Baker Tilly, C. Peterson and J. Rodriguez

Minutes

Commissioner Pruyn moved to approve the Regular Finance Committee Meeting Minutes of April 19, 2012 and Special Finance Committee Meeting Minutes of April 12, 2012 as presented. Seconded by Commissioner Janc and unanimously approved by a Voice Vote.

Approval of Reconciliations

Treasurer Narducci noted that the reconciliations needed to be signed and they were signed before the meeting adjourned.

Treasurer's Report – April 2012

Mr. Lux provided the Committee with a summary of the April Treasurer's Report.

Mr. Lux noted that the Commission received the buy in check from DuPage County in the amount of \$2.56M at the end of April.

Mr. Lux noted that there will be three month's worth of investment activity and The PFM Group will review these in June. Commissioner Janc asked if The PFM Group will be reviewing the investments every quarter. Mr. Lux responded in the affirmative.

Committee Chairman Suess asked staff to add the weighted average duration of the portfolio to the Treasurer's Report.

At this time, Chairman Zay arrived at the meeting.

Mr. Lux noted that the outstanding debt was reduced by \$5M relating to the payment made to The Northern Trust Company. He added that as of April 30, 2012 the outstanding debt was \$110M and on May 1, 2012 an \$11M payment was made on the revenue bonds. Commissioner Pruyn asked how much money was to be paid to West

Suburban Bank in June. Mr. Lux responded that \$4M was to be paid to West Suburban Bank with the related interest.

Manager of Operations McGhee stated that Financial Administrator Peterson started at the Commission on May 14. He added that she will be taking a more active role at future meetings.

Financial Statements – April 2012

Mr. Lux provided the Committee with a summary of the April Financial Statements.

Mr. Lux noted that there will be several closing entries that will need to be made as part of the audit but none of them will significantly impact the \$18.7M of net income for the year.

Commissioner Pruyn asked how many months the money remains in the sales tax subaccount. Mr. Lux responded that the Commission budgets 80% of the sales tax for operations to cover the debt service and other activities and the last 20% goes into the sales tax account and by policy it is used for the construction activities.

Commissioner Pruyn asked what is included in the Deferred Revenue line item on the Balance Sheet. Mr. Lux responded that it is the portion of the buy in from subsequent customers that has been paid in advance. He added that the Commission recognizes that amount over the life of their contract and the large increase was a result of the payment from Dupage County.

On the Income Statement, Mr. Lux noted that the Commission generated net income of \$18.7M and it was budgeted to generate \$9.8M. He added that this is because some of the capital plans in the operating budget were never started; such as the corrosion mitigation project and some work on the pumping station. Committee Chairman Suess asked if these were expenses that were rolled forward. Mr. Lux responded in the affirmative and added that these projects were taken out of the operation budget and added to the capital budget. Committee Chairman Suess asked why the corrosion mitigation project was not started this past year. Manager of Operations stated that the project was scheduled to be started four years ago and had gone through two redesigns to reduce cost which has been reduced to less than half of the original cost. He stated that it was started up again this year but staff has had problems coordinating with ComEd.

Quarterly Budget Review

Mr. Lux provided the Committee with a synopsis of the Quarterly Budget Review.

Commissioner Janc asked why the Sales Tax – Water Revenue line item budget column and actual column match. Mr. Lux responded that the first 80% of sales tax expected to be collected is accounted for and budgeted in the Sales Tax – Water Revenue line. He added that the remaining amounts collected and budgeted go towards the general account which is the sales tax subaccount.

At this time, Commissioner Furstenau left the meeting.

Commissioner Pruyn asked why there was a variance in the Contributions line. Mr. Lux stated that there is a variance because the amount is based on when the Commission recognizes construction activities relating to the Steeple Run Meter Station. He added that next year, when the construction starts, the Commission will recognize the revenue.

Ordinance O-6-12 and Ordinance O-7-12

Manager of Operations McGhee stated that these two ordinances are amendments to the certificates of debt with West Suburban Bank (O-6-12) and The Northern Trust Company (O-7-12) to reduce the interest rate. He stated that the Commission is going to pay \$4M in June to West Suburban Bank to bring the outstanding total to \$15M and the certificate of debt was restructured to a one year deal at a reduced interest rate of 1.5%. He added that staff believes that the \$15M will be paid this year and if not, then the agreement would revert back to the original agreement which is the prime minus 75 basis points which is currently 2.5%. He stated that with The Northern Trust Company, the Commission currently pays a Libor choice plus 1.5% and the 1.5% will be reduced to 1.25% plus the Commission's Libor choice. Manager of Operations added that when speaking with the banks about refinancing these certificates, they volunteered these options to reduce the interest rates.

Board Chairman Zay stated that if the Commission is not able to pay the \$15M within a year, West Suburban Bank has always been fair with the Commission and this agreement and he doesn't foresee them having a problem renegotiating.

Election of Interest Period under Northern Trust Certificate of Debt

Manager of Operations stated that the Libor rate for one month is 0.24% which has not changed since last month. He added that when Ordinance O-7-12 is approved then the Commission will be at 1.49% or 25 basis points lower than the current rate.

The committee members agreed to reset the interest period to one month.

Discussion on Selection of Financial Advisor and Refinancing Debt

Manager of Operations McGhee stated that a draft Request for Proposals was composed for services. He stated that after discussions with The PFM Group, Harris Bank, and other banks; it wasn't beneficial to do any refinancing of the revenue bonds at this point in time.

Mr. Lux stated that he reviewed the draft and his comment was that it is very general because staff is not sure what other functions the Financial Advisor would handle. He stated that it might be more beneficial to narrow it down to say 'to assist and determine a structure for refinancing on revenue bonds and review of other related debt' for this current transaction then if the Commission needed something else at a future date, then staff could compose another Request for Proposals.

Committee Chairman Suess agreed with Mr. Lux's statement and added that there should be a line in the Request for Proposals about facilitation of the bidding of the debt issuance. Mr. Lux agreed and responded that he believes that this should be decided when the Commission determines what the structure of the Request for Proposals should be, for example, a negotiated bond sale or a competitive sale. He added that another item in the Request for Proposals should be reviewing the pricing to determine that it is reasonable.

Manager of Operations McGhee stated that after discussing this with General Manager Spatz, they believed that there wasn't an immediate need to have this ready for the committee's review at this meeting and that staff would like a little more time to work on this. Committee Chairman Suess agreed that there is time to work on this draft and would like to have this draft available at next month's meeting. Board Chairman Zay agreed and added that the Commission should take their time and solicit some firms.

After some discussion, Committee Chairman Suess stated that the refinancing should be a onetime project and then the Commission can evaluate the firm and should the Commission need someone else in the future, this firm might be able to assist in another project.

Update on the Legal Review of Financial Contracts

Manager of Operations McGhee stated that Holland & Knight is still discussing with Harris Bank's lawyers on one final issue about Harris Bank wanting total indemnification. Board Chairman Zay stated that if the review is not completed by the end of the month, then staff should look for another bank.

List of Forensic Audit Action Items and financial oversight and controls

Manager of Operations McGhee handed out a draft copy of Actions Taken in Response to the Jenner & Block Report dated February 2012. He stated that Treasurer Narducci suggested that staff make sure that the Commission is in compliance with the new legislation and that this does not take any action on the Commission's part. He added that Mr. Lux drafted this response document and that staff feels the Commission is in compliance with these recommendations. He asked the committee members for their review and comment on the response document.

Mr. Lux stated that staff feels they have implemented almost all of the items.

Board Chairman Zay asked if all of these items are state legislation. Manager of Operations McGhee replied that some of the items are state legislation and the state legislation does not indicate line by line which items to incorporate from the recommendations from the Jenner & Block report.

Committee Chairman Suess stated that he would like the committee to review this and add it as an agenda item at the next meeting. He added that he would like the committee to address which items are legislative and which are recommendations from the Jenner & Block report. He stated that he would like to finalize this document,

present it to the board and make it part of the minutes.

Manager of Operations McGhee stated that some of the responses to Jenner & Block's report were addressed by having Baker Tilly on staff and then by adding a permanent financial administrator. He added that Financial Administrator Peterson would have to have some input on the response document as well.

Commissioner Pruyn asked if anything in the response document has changed since February. Manager of Operations McGhee stated that the date just needs to be updated.

Board Chairman Zay stated that the committee doesn't need to have this finalized by next month so they can take their time to evaluate the response document.

Accounts Payable

Mr. Lux presented the Accounts Payable to the committee members.

April 11, 2012 – May 8, 2012	\$5,481,466.30
<u>Estimated</u>	<u>\$5,189,990.00</u>
Total	\$10,671,456.30

Commissioner Pruyn asked what payments were made on the business card since it stated 'Toll Charges' next to a \$5,000 amount. Manager of Operations McGhee stated that this is a standard description and it is for two credit cards that the Commission has; one for General Manager Spatz and one for himself. He added that the \$5,000 amount was a total of the two cards which was for toll charges along with other purchases.

Executive Session

Commissioner Janc moved to go into Executive Session to discuss matters related to personnel pursuant to 5 ILCS 120/2(c)(1) and (2). Seconded by Commissioner Pruyn and unanimously approved by a Roll Call Vote:

Ayes: P. Suess, C. Janc, J. Pruyn and J. Zay

Nays: None

Absent: D. Russo

The Committee went into Executive Session at 6:54 P.M.

Commissioner Pruyn moved to come out of Executive Session at 7:05 P.M. Seconded by Commissioner Janc and unanimously approved by a Voice Vote.

All voted aye. Motion carried.

Other

Manager of Operations McGhee mentioned that the public hearing for the appropriation ordinance will be held during a Committee of the Whole meeting in July and the operations part of the budget will be 105% with the rest being at 135% of the budget.

Committee Chairman Sues mentioned that he will not be attending the June meeting.

Adjournment

Commissioner Pruyn moved to adjourn the meeting at 7:06 P.M. Seconded by Commissioner Janc and unanimously approved by a Voice Vote.