

**MINUTES OF A MEETING OF THE
DuPAGE WATER COMMISSION
HELD ON THURSDAY SEPTEMBER 9, 2010
600 E. BUTTERFIELD ROAD
ELMHURST, ILLINOIS**

The meeting was called to order by Vice-Chairman Mueller at 7:55 P.M.

Commissioners in attendance: T. Bennington, T. Elliott, R. Furstenau, L. Hartwig, J. Loper, W. Maio, W. Mueller, W. Murphy, F. Saverino, P. Suess, J. Zay, and D. Zeilenga

Commissioners Absent: L. Rathje

Also in attendance: T. McGhee, R. Skiba, M. Crowley, C. Johnson, J. Nesbitt, R. C. Bostick, F. Frelka, J. Schori, and E. Kazmierczak

PUBLIC COMMENTS

None

APPROVAL OF MINUTES

Commissioner Elliott moved to approve the Minutes of the August 12, 2010 Special Committee of the Whole Meeting of the DuPage Water Commission. Seconded by Commissioner Loper.

Commissioner Bennington moved to amend the motion to approve the Minutes of the August 12, 2010 Special Committee of the Whole Meeting of the DuPage Water Commission to include the approval of the Minutes of the August 12, 2010 Regular Meeting, the Executive Session Minutes of the August 12, 2010 Regular Meeting, the Minutes of the August 18, 2010 Special Meeting, the Executive Session Minutes of the August 18, 2010 Special Meeting, the Minutes of the August 26, 2010 Special Meeting, and the Executive Session Minutes of the August 26, 2010 Special Meeting of the DuPage Water Commission. Seconded by Commissioner Elliott and unanimously approved by a Voice Vote.

All voted aye. Motion carried.

At which point, the amended motion to approve the Minutes of the August 12, 2010 Special Committee of the Whole Meeting, the Minutes of the August 12, 2010 Regular Meeting, the Executive Session Minutes of the August 12, 2010 Regular Meeting, the Minutes of the August 18, 2010 Special Meeting, the Executive Session Minutes of the August 18, 2010 Special Meeting, the Minutes of the August 26, 2010 Special Meeting, and the Executive Session Minutes of the August 26, 2010 Special Meeting of the DuPage Water Commission was unanimously approved by a Voice Vote.

All voted aye. Motion carried.

TREASURER'S REPORT

Treasurer/Commissioner Zeilenga presented the August 2010 Treasurer's Report, which consisted of three pages designated Reports A, B, and C. With respect to Report A, Treasurer/Commissioner Zeilenga highlighted the water sales monthly operating cash flow, noting the two month lag was due to the water rate increase for the new fiscal year and adding that the Board may want to consider changing the regular scheduled water rate increase from May 1 to March 1. Treasurer/Commissioner Zeilenga also noted that construction costs were excluded from Report A but shown on Report B because outstanding construction costs were being paid from the proceeds of the Certificates of Debt.

After Treasurer/Commissioner Zeilenga summarized Report B, which showed cash positions against Commission bond ordinance and policy requirements, Treasurer/Commissioner Zeilenga highlighted Row A of Table 1 on Report B, noting that even though the contingency was approximately \$11MM more than the \$13MM required, \$7MM was needed to complete ongoing construction projects. Treasurer/Commissioner Zeilenga also highlighted Rows C, D, and E of Table 1 on Report B, noting that all reserve accounts were fully funded and totaled approximately \$31MM and, with respect to Table 2 on Report B, Treasurer/Commissioner Zeilenga reported that the Commission's monthly bond funds cash status showed that the final payment on the \$13MM General Obligation Bonds would be made in 2011. Treasurer/Commissioner Zeilenga also reported that Report B could be rolled into Report A once ongoing construction projects had been completed.

Treasurer/Commissioner Zeilenga concluded his presentation by stating that as of August 31st, as shown on Report B, the Commission had approximately \$4.5MM more than required by Commission bond ordinances and policy and identifying how the Reports reconcile to each other (the "Total Expenses on Report C" Row on Report A reconciles to the "Total Expenses" on Report C; and the "Total Month End Funds Cash Balance – Table 1+2" Row on Report B reconciles to the "Total Funds" on Report C)

With respect to Report A and, specifically, water supply purchases, Commissioner Suess questioned the significant increase in total water purchases (\$5.8MM in August versus \$4.8MM in July). Former Financial Administrator Skiba noted that July water sales were substantially more than June and, therefore, water purchases were greater. As a point of information, Former Financial Administrator Skiba reminded the Board that the payments for each month's water purchases are made in the following month (one month lag).

Commissioner Elliott referred to the bottom of Report A and, specifically, the Total Accounting Water Revenue (no-lag) versus Total Accounting Chicago Water Purchases (no-lag), and asked how the billing is calculated. Former Financial Administrator Skiba explained that the billing is calculated by taking the quantity of water delivered to a customer as measured by the Commission's meter and multiplying it by the O&M water rate. With regard to water purchases, Former Financial Administrator Skiba noted that quantity of water delivered to the Commission, as measured by the City's meter, is

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multiplied by the City's water rate and submitted to the Commission for payment. As a further point of information, Former Financial Administrator Skiba reminded the Board that quantities can vary from month to month as meter readings have a +/- 2% accuracy tolerance.

Commissioner Furstenau moved to accept the August 2010 Treasurer's Report. Seconded by Commissioner Elliott and unanimously approved by a Voice Vote.

All voted aye. Motion carried.

FINANCIAL REPORT

Former Financial Administrator Skiba reported that:

- During August, \$2.0 million of debt certificate proceeds were used to fund on-going construction projects and water purchased from Chicago was paid from operating revenues with no adverse effect on required bond reserves.
- Water sales to Commission customers for August were 63.9 million gallons (2.2%) less than August 2009 and, through the first four months of the fiscal year, water sales were 66.3 million gallons (0.6%) less than the same period last fiscal year.
- August sales tax collections (May sales) were \$57,700 (2.3%) more than the same period last fiscal year, with the \$9.6 million year-to-date sales tax collections \$474,000 (5.2%) more than last fiscal year.
- The Operations and Maintenance Account was fully funded as of August 31, 2010, the Operations and Maintenance Reserve Account and the Depreciation Account were over funded, and an additional \$1.3 million was transferred to the General Account of the Water Fund for a balance of \$4.9 million.
- While the revenue bond account requirements have been met, the Water Fund had an unrestricted deficit of \$12.5 million due to the amount of debt certificate proceeds that had been used to fund operations.
- The uncommitted Sales Tax balance at August 31, 2010 was \$9.6 million.
- The remaining construction obligations for uncompleted work at August 31, 2010 were \$6.9 million.

Former Financial Administrator Skiba concluded his report by stating that cash flow looked very good and that no additional borrowing should be needed other than extending the terms of the outstanding certificates of debt.

At the request of Commissioner Bennington, Vice-Chairman Mueller changed the order of business at the meeting to move the discussion on refinancing the \$30MM Certificate of Debt to New Business.

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COMMITTEE REPORTS

Administration Committee

Meeting Canceled

Engineering & Construction Committee

Meeting Canceled

Finance Committee

Meeting Canceled

CHAIRMAN'S REPORT

None

MAJORITY OMNIBUS VOTE AGENDA

None

SUPER/SPECIAL MAJORITY OMNIBUS VOTE AGENDA

After Acting General Manager McGhee explained that Resolution No. R-38-10 would authorize the advertisement for bids on Contract QRE-5/10 for quick response electrical work through December 31, 2012; Resolution No. R-39-10 would authorize Work Authorization Order No. 22 for Martam Construction Incorporated to adjust certain blow off valves and Work Authorization Order No. 23 for Rossi Contractors, Inc. to adjust a sump pump discharge pipe to mitigate freezing in winter months; and Resolution No. R-40-10 would authorize the advertisement for bids on a contract for the removal, shop repair, and reinstallation of the Commission's 800 HP High Lift Pump Motor #5, Commissioner Bennington moved to adopt the items listed on the Super/Special Majority Omnibus Vote Agenda in a single group pursuant to the Omnibus Vote Procedures. Seconded by Commissioner Loper and unanimously approved by a Roll Call Vote:

Super/Special Majority Omnibus Vote

Ayes: T. Bennington, T. Elliott, R. Furstenau, L. Hartwig, J. Loper, W. Maio, W. Murphy, F. Saverino, P. Suess, J. Zay, D. Zeilenga, and W. Mueller,

Nays: None

Absent: L. Rathje

Item 1: Resolution No. R-38-10: A Resolution Directing Advertisement for Bids on a Contract for Quick Response Electrical Work (Contract QRE-5/10)—
"Super/Special Majority Omnibus Vote"

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- Item 2: Resolution No. R-39-10: A Resolution Approving and Ratifying Certain Work Authorization Orders Under Quick Response Contract QR-8/08 at the September 9, 2010, DuPage Water Commission Meeting—"Super/Special Majority Omnibus Vote"
- Item 3: Resolution No. R-40-10: A Resolution Directing Advertisement for Bids on a Contract for High Lift Pump Motor Re-Build—"Super/Special Majority Omnibus Vote"

OLD BUSINESS

Recommendations From Ad Hoc Committee

Commissioner Murphy reported that there was nothing new to discuss.

NEW BUSINESS

Updated 15 Year Financial Model

Treasurer/Commissioner Zeilenga referred to the Long Term Planning Worksheets Model 1 and Model 2 that he prepared and distributed to the Board, noting that both worksheets were available through Former Financial Administrator Skiba for further modeling based upon any assumptions desired by the Commissioners.

With regard to Model 1, Treasurer/Commissioner Zeilenga highlighted the Key Assumptions at the bottom of the printout, noting a proposed one-time 25% water rate increase in 2012 to help offset the loss of approximately \$28MM in annual sales tax collections beginning in 2016—the Sales Tax Offset Rate Increase. Treasurer/Commissioner Zeilenga added that in both of the Models, the proposed Sales Tax Offset Rate Increase would be in addition to the annual estimated 5% water rate increase—the Chicago Pass Through Increase—and final payments on both the \$30MM and \$40MM Certificates of Debt will have been made by the year 2017 unless the Commission is able to pay off the loans early.

With respect to Model 2, Treasurer/Commissioner Zeilenga advised that Model 2 is basically the same as Model 1 with the exception of the Sales Tax Offset Rate Increase. Instead of one large increase, Model 2 show the effect of dividing the Sales Tax Offset Rate Increase into two separate years—one being an increase of 15% in 2012 and another being an increase of 10% in 2017.

Commissioner Furstenau confirmed with Treasurer/Commissioner Zeilenga that under Model 1, the Commission could pay off some of the Certificates of Debt early.

Commissioner Loper questioned why the cost of water operations remained the same throughout the 15-year projection in both Models. Treasurer/Commissioner Zeilenga responded that while technically cost of operations would increase by approximately 2%-3% from year to year, it was easier to increase the contingencies for purposes of modeling various scenarios. Commissioner Loper then asked for the differences

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between Water Operations, Personnel Operating Budget, and Operating Support. Acting General Manager McGhee explained that Water Operations relates to the cost of water purchased from the City of Chicago, which includes the repairs and maintenance of the Commission's facilities and a portion of the City of Chicago's facilities; the Personnel Operation Budget relates to employee salaries, payroll taxes, employee benefits, and some professional development; and Operating Support consists of utilities, the new generator facilities, and the supplies necessary to operate the DuPage Pumping Station.

At which point, Commissioner Suess cautioned that adequate cash resources needed to be maintained and available for system-related issues and asked for a general rule of thumb as to the amount needed for a contingency reserve. Treasurer/Commissioner Zeilenga referred to the Operating Cash Contingency in Table 1 of Report B of the Treasurer's Report and noted that the Commission maintains a two month operating reserve (\$13MM) which the Board deemed sufficient for unexpected system repairs or infrastructure projects that may arise.

Commissioner Zay questioned whether the large water rate increase of 25% was solely based on legislation passed by Senator Cronin that would eliminate the Commission's sales tax authority in 2016 (absent referendum approval) or if there were other factors involved. Treasurer/Commissioner Zeilenga responded that at least half of the 25% rate increase was due to the elimination of the Commission's sales taxes, with the remainder due to the two outstanding short-term loans.

Commissioner Hartwig commented that the sales tax could be reinstated by referendum and suggested providing a copy of both Models to the customers and let them decide.

Commissioner Maio confirmed that Former Financial Administrator Skiba had worksheets for both Models which could be immediately updated as circumstances warrant.

Refinancing of \$30MM Certificate of Debt

At 8:25 P.M., and to avoid possible or perceived conflicts of interest, Commissioner Mueller left the meeting because he maintains certain bank accounts with West Suburban Bank, asking that Commissioner Murphy Chair the meeting during his brief absence, and Commissioner Bennington left the meeting because West Suburban Bank and US Bank are clients of his law firm, noting that he would not be returning to the meeting.

Acting General Manager McGhee reported that he and Former Financial Administrator Skiba met with West Suburban Bank to negotiate an extension of the \$30MM Certificate of Debt and the Bank had offered an interest rate of 2.50% which is .75 below the prime interest rate. Acting General Manager McGhee further reported that West Suburban Bank had also offered, if the Board desired, to establish an automatic extension mechanism whereby the rate is re-set annually at an interest rate of .75 below the then prime interest rate each year until 2015, with the Commission having the option to

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prepay in whole at any time and without penalty or prepay in part at the annual extension without penalty. Acting General Manager McGhee noted that he spoke to both Chairman Rathje and Treasurer/Commissioner Zeilenga and both were in favor of the automatic extension offer.

Commissioner Maio moved to authorize staff to draft an ordinance amendment for consideration by the Board to extend the \$30MM Certificate of Debt issued to West Suburban Bank for a period of up to five years. Seconded by Commissioner Loper.

Commissioner Loper questioned what the interest rate would be if both Certificates of Debt, totaling \$70MM, were combined into one longer term loan or if the interest rate was fixed on the five year extension of the \$30MM Certificate of Debt. Acting General Manager McGhee noted that West Suburban Bank could not accommodate a \$70MM loan as they were capped at \$30MM. Acting General Manager McGhee added, however, that in talking with Harris Bank and Northern Trust Bank, both of those Banks had indicated that they could refinance the entire \$70MM Certificate of Debt, but neither Bank had provided a definitive interest rate. Acting General Manager McGhee noted that he would contact those Banks for a definitive interest rate and contact West Suburban Bank for a fixed interest rate and report back.

Treasurer/Commissioner Zeilenga reminded the Board of the quick response made by West Suburban Bank when the Commission was in dire straits, noting that they are a community bank and the Commission should be supporting the community.

Commissioner Suess questioned the rationale behind the higher interest rate of 2.5%, noting that today's market is no less favorable then it was one year ago. After Treasurer/Commissioner Zeilenga offered Commissioner Suess the opportunity to speak directly with West Suburban Bank, the motion was unanimously approved by a Roll Call Vote.

Ayes: T. Elliott, R. Furstenau, L. Hartwig, J. Loper, W. Maio, W. Murphy, F. Saverino, P. Suess, J. Zay, and D. Zeilenga

Nays: None

Absent: T. Bennington, W. Mueller, and L. Rathje

US Bank – Replacement of Lost Bonds

Vice-Chairman Mueller returned to the meeting at 8:45 P.M.

Staff Attorney Crowley explained that the successor Bond Trustee for the Commission's \$13MM in General Obligation Bonds outstanding had recently advised staff that the sole remaining Bond outstanding had been lost somehow and that the Bond Trustee was requesting, on behalf of the registered owner of the lost Bond, that the lost Bond be replaced and that the Commission waive any conflict of interest and consent to the Bond Trustee retaining Chapman and Cutler to prepare the replacement Bond. Staff Attorney Crowley advised that even though she had no concerns with respect to the

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waiver and consent request, she did have concerns with respect to the Bond replacement request. Staff Attorney Crowley noted, for example, that no explanation had been provided as to how the Bond was lost, what steps had been taken to verify its loss, how the predecessor Bond Trustee obtained custody of the lost Bond, or how the Bond Trustee was authorized to make the requests, or receive a replacement Bond, on behalf of the registered owner of the lost Bond.

After Commissioner Furstenau expressed concerns with taking action based on very little information, Commissioner Furstenau moved to table consideration of the Bond replacement and conflict waiver request for thirty (30) days until additional detailed information could be provided. Seconded by Commissioner Elliott and unanimously approved by a Roll Call Vote:

Ayes: T. Elliott, R. Furstenau, L. Hartwig, J. Loper, W. Maio, W. Murphy, F. Saverino, P. Suess, J. Zay, D. Zeilenga, and W. Mueller

Nays: None

Absent: T. Bennington and L. Rathje

Finance Committee Chairman/Commissioner Zay voiced his concern with not receiving all financial related agenda items for review prior to distribution to the other Commissioners. Treasurer/Commissioner Zeilenga apologized, noting he was not aware that Commissioner Zay had been appointed Chairman of the Finance Committee. Finance Committee Chairman/Commissioner Zay also voiced his concern with the lack of Finance Committee meetings and the lack of paperwork to evidence his check signing and wire transfer authority.

ACCOUNTS PAYABLE

Commissioner Murphy moved to approve the Accounts Payable in the amount of \$7,303,581.04, subject to submission of all contractually required documentation, for invoices that have been received. Seconded by Commissioner Elliott.

Commissioner Furstenau questioned the need to place invoices pertaining to attorney services in a confidential envelope, noting that the public has a right to see what the invoices are for. Commissioner Elliott responded that although the amount of the invoice was not confidential and was included on the Accounts Payable, the detailed description of the services provided was confidential and making this information available to the public could waive attorney/client privilege and work product protection. Commissioner Elliott then suggested creating a publicly available document that would identify the number of hours worked and the hourly rate charged by each attorney and paralegal working on Commission matters.

Without further discussion, the motion was unanimously approved by a Roll Call Vote:

Ayes: T. Elliott, R. Furstenau, L. Hartwig, J. Loper, W. Maio, W. Murphy, F. Saverino, P. Suess, J. Zay, D. Zeilenga, and W. Mueller

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Nays: None

Absent: T. Bennington and L. Rathje

Commissioner Murphy moved to approve the Accounts Payable in the amount of \$554,850.00, subject to submission of all contractually required documentation, for invoices that have not yet been received but have been estimated. Seconded by Commissioner Furstenau and unanimously approved by a Roll Call Vote:

Ayes: T. Elliott, R. Furstenau, L. Hartwig, J. Loper, W. Maio, W. Murphy, F. Saverino, P. Suess, J. Zay, D. Zeilenga, and W. Mueller

Nays: None

Absent: T. Bennington and L. Rathje

EXECUTIVE SESSION

None

GENERAL MANAGER APPOINTMENT

None

Commissioner Maio moved to adjourn the meeting at 8:55 P.M. Seconded by Commissioner Murphy and unanimously approved by a Voice Vote.

All voted aye. Motion carried.