

**MINUTES OF A MEETING OF THE
FINANCE COMMITTEE
OF THE DUPAGE WATER COMMISSION
HELD ON THURSDAY, APRIL 19, 2012
600 EAST BUTTERFIELD ROAD
ELMHURST, ILLINOIS**

The meeting was called to order at 6:03 P.M.

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

Committee members absent: J. Pruyn and J. Zay (*ex officio*)

Also in attendance: J. Spatz, T. McGhee, N. Narducci, S. Lux of Baker Tilly, and J. Rodriguez

Minutes

Commissioner Janc moved to approve the Minutes of the March 15, 2012 Finance Committee meeting as presented. Seconded by Commissioner Russo and unanimously approved by a Voice Vote.

Approval of Reconciliations

Treasurer Narducci noted that the reconciliations were approved.

Treasurer's Report – March 2012

Treasurer Narducci provided the Committee with a summary of the March Treasurer's Report.

Mr. Lux noted that the cash and investments are higher this month because of the timing of receipts.

General Manager Spatz noted that all items tagged with PFM Asset Management have been moved to The PFM Group to start investing. Mr. Lux added that the investments are transferred into the operating and maintenance reserve account and the depreciation account in March and in April the board designated \$13M amount in the general account to The PFM Group for investing.

Commissioner Janc asked if line F on page six was a building account. Mr. Lux responded in the affirmative and added that the Commission is mandated by the bond ordinance to deposit 1/12th of the Commission's principle and interest requirements which builds to the balance in Other Cash. General Manager Spatz added that this will be paid May 1.

Commissioner Russo asked if Treasurer Narducci had met with staff prior to this committee meeting to review all necessary finance items. Treasurer Narducci

responded that he normally meets with staff a few hours prior to the committee meeting but he was running late this meeting.

Financial Statements – March 2012

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

He noted that the water usage chart was added to the Financial Statements per the Committee's request. Commissioner Russo asked what the projected water loss was in the rate model. General Manager Spatz responded that the rate model projected 2% loss every year. He added that the rate model also projected a 3% loss from the water purchased from the City of Chicago which means the Commission sells only 97% of water purchased and right now the Commission is selling 98% of what is purchased so the full 3% loss is not being witnessed in the water usage chart. Mr. Lux added that this is based on a five year trend.

Chairman Suess asked why there are two different amounts on different pages for the sales tax subaccount. Mr. Lux responded that the sales tax subaccount on page 5 is a summary of accounts based on net assets which is the total cash less any liabilities funded by that cash so the sales tax subaccount is net of construction liabilities and retainage payable and customer deposits so the difference represents those liabilities that are funded through the sales tax account when they come due.

Resolution R-17-12

Mr. Lux stated that the resolution is for staff to use some sales tax money to pay down the debt certificates. He added that the sales tax account is for construction activities and the way the policy is set up is that there is \$13M in the sales tax account and \$3M worth of liabilities and \$2.5M for the capital plan for next year. He added that there are significant resources in the account and what is proposed is to transfer some money out of sales tax account and use that to pay down debt next month or the month after for when the West Suburban and Northern Trust certificates are due.

Commissioner Janc asked how much staff would like to use to pay down the debt certificates. Mr. Lux stated that \$9M is being proposed to pay down the debt and there is \$9M more in the general account above the board designated reserve of \$13M so a combination between the \$9M in the general account and the \$4-5M of the sales tax dollars to use to make the debt certificate payments in the next few months.

Commissioner Russo stated that he thought that the Commission was concerned about construction and replacement of funds in the in the five year plan rate model. He stated that there is a feeling of nervousness about having too much money in the reserves because of what happened in the past but he thought that the Commission might be a little under in the reserves by the end of the five years. Manager of Operations McGhee stated that though there may be significant monies in the reserve, staff is not considering capital expenditures to the same extent as was the case in the past. Commissioner Russo stated that he wanted to make sure this is not happening. General

Manager Spatz stated that the restricted reserves requirements stay the same based on the bond ordinance and the unrestricted reserves continue to build even with paying down the debt.

Mr. Lux asked the committee members to turn to page 6 of the Treasurer's Report and look at the operating cash contingency line has \$19M favorable and minus the \$9M the Commission will still have \$10M above the \$13M that is board designated.

Mr. Lux added that the Commission makes \$3M in cash flow and \$1.2M goes to cover the principal/interest requirements to the Bank of New York, \$175,000 goes to the depreciation account, and during most of fiscal year 2012 the Commission was receiving a credit from the City of Chicago from \$350,000-\$500,000 which helped the Commission pay less for the water bill. He added that the Commission is going to have to pay more on the water bill as the credit is completed.

Commissioner Russo asked how much money the Commission would have left to pay on the debt certificates after the \$9M payment is made. General Manager Spatz stated that the Commission would have \$15M left to pay to West Suburban Bank which would be paid in half and \$30M to Northern Trust.

Treasurer Narducci asked staff if the new Financial Administrator could do a cash analysis so the committee could have all of the information when it is discussed. Manager of Operations McGhee stated that this would be a good exercise for the new Financial Administrator.

After more discussion, the committee was in agreement to recommend Resolution R-17-12 for approval.

Election of Interest Period under Northern Trust Certificate of Debt

General Manager Spatz stated that the Libor rate for one month is 0.24% which has not changed since last month.

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

Ordinance O-4-12

Manager of Operations stated that this is the budget ordinance and staff is asking the committee to approve for recommendation the management budget as presented. He added that the questions from some Commissioners were answered in the board packet.

Commissioner Janc asked if there were any significant changes from this version compared to the older version. General Manager Spatz replied that there is a minor salary adjustments based on the discussion at the last executive session. He added that when he adjusted the salaries he added money to the legal account for legal services.

Chairman Suess asked if the operating costs excluding the cost of water is \$3M less than last year. General Manager Spatz responded that it is \$3.2-\$3.3M less than last year. Chairman Suess stated that this is a point that needs to be made in the main meeting.

Ordinance O-5-12

Manager of Operations McGhee stated that this ordinance establishes fixed cost for the fiscal year May 1, 2012-April 30, 2013. He added that normally the Commission does everything together with the operating and maintenance rate and the fixed cost rate but the operating and maintenance rate increase was shifted to adjust on January 1 and the fixed cost is staying the same at the beginning of each fiscal year. He added that the Commission is staying with the policy of paying 50% of the fixed cost and the customers paying the other half which is roughly \$7M which has an equivalency rate of \$0.26 per 1,000 gallons.

Chairman Suess asked what the rate was last year. General Manager Spatz responded that last year's amount is the same as this year's and it will increase next fiscal year to \$0.27 based on the assumption that water sales will decrease.

Resolution R-13-12

Manager of Operations McGhee stated that this resolution is an amendment to the agreement with Baker Tilly for financial services that was to end at the end of the 2012 fiscal year. He stated that staff is asking to extend the contract another five months at the cost of \$22,000 per month for a total of \$110,000. He added that Baker Tilly might not stay the entire five months since it depends on the learning curve of the new Financial Administrator and they will be able to stay on through the audit.

General Manager Spatz stated that if Baker Tilly does not stay on for five months the Commission has the flexibility of bringing Baker Tilly back for another project.

Update on the Financial Administrator Search

General Manager Spatz informed the committee that Cheryl Peterson and he had agreed on a salary. He added that she still needed to go to DuPage County's board meeting possibly on May 8th for approval after she is approved by the Commission later on that night.

Update on the Legal Review of Financial Contracts

Manager of Operations McGhee stated that General Manager Spatz had spoken with Holland & Knight this past week and they have had conversations with Harris Bank's legal service and they are finishing up a handful of items and everything should be approved in the next week.

At this time, General Manager Spatz left the meeting.

Approval of Capital Asset Policy

Manager of Operations McGhee stated that the Commission never had a formalized policy for capital assets and the Commissioner’s auditors wanted it in place so Mr. Lux drafted this policy.

Commissioner Janc asked if the policy is in compliance with GAAP. Mr. Lux responded in the affirmative and added that most of this policy was taken from the fixed asset footnote.

Discussion of Refinancing Outstanding Bond Debt

Manager of Operations McGhee stated that at the special finance meeting the week prior there was a presentation and discussion on refinancing the outstanding bond debt and that Commissioner Janc brought up a good point regarding the fact that The PFM Group has a branch that does this kind of refinancing. He added that General Manager Spatz has contacted The PFM Group and he’s waiting to hear back from them. Mr. Lux added that General Manager Spatz had asked for the Commissioners to send any recommendations that they had for Financial Advisors.

Chairman Suess stated that as a point of policy staff should put together a Request for Proposals to hire a Financial Advisor and send this to The PFM Group; Speer Financial, Inc.; Ehlers, Inc; and others. Commissioner Janc stated that he had spoken with someone from the municipal investment bank recently about The PFM Group and he will ask the banker what other Financial Advisors that they recommend.

Commissioner Russo stated that there should be a concrete three to five year plan, similar to the rate model, that this is the direction that the Commission is going to run the finances. Chairman Suess agreed with Commissioner Russo’s suggestion and added that a plan is better than figuring out how to react to something when it emerges. He added that the Commission has made good progress so far and this is the next issue.

Commissioner Russo asked about the cost of hiring a Financial Advisor. Manager of Operations McGhee stated that a cap or a not-to-exceed amount could be decided on prior to the hire.

Accounts Payable

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

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|--------------------------------|-----------------------|
| March 7, 2012 – April 10, 2012 | \$5,296,632.18 |
| <u>Estimated</u> | <u>\$6,360,985.00</u> |
| Total | \$11,657,617.18 |

Other

Chairman Suess stated that the Finance Committee meeting start time is going to remain at 6:00 P.M. since one of the items on the forensic audit was that the Finance Committee was always rushed and it enables General Manager Spatz to attend other meetings.

Manager of Operations McGhee added that the problem is that the time was originally set by the full board and if the time needs to be changed the whole board needs to approve it. He added that there is no stipulation that states that the Finance Committee has to meet before the board meeting and that they can meet on another night or more than once a month.

Commissioner Suess stated that for now to keep the meeting at 6:00 P.M. then around November or December the committee can revisit it since that is when the meeting dates are published for the next year.

Adjournment

Commissioner Russo moved to adjourn the meeting at 6:54 P.M. Seconded by Commissioner Janc and unanimously approved by a Voice Vote.