MINUTES OF A MEETING OF THE
FINANCE COMMITTEE
OF THE DUPAGE WATER COMMISSION
HELD ON THURSDAY, DECEMBER 20, 2012
600 EAST BUTTERFIELD ROAD
ELMHURST, ILLINOIS

The meeting was called to order at 6:00 P.M.

Committee members in attendance: P. Suess, J. Pruyn, D. Russo, C. Janc (arrived at 6:13PM) and J. Zay

Committee members absent: None

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

Minutes

Commissioner Russo moved to approve the minutes of the Regular Committee Meeting of November 15, 2012 and Special Meeting of November 8, 2012 of the Finance Committee. Seconded by Commissioner Pruyn and unanimously approved by a Voice Vote. Motion carried.

Approval of Reconciliations

Treasurer Ellsworth stated that he had reviewed the reconciliations and they were proper.

Treasurer's Report – November 2012

Treasurer Ellsworth provided the Committee with a summary of the November Treasurer's Report. He noted on page 1 of the report that cash and investments increased by $2.8M in the month. He also discussed the movement between a couple of the investment accounts that reflected the transfer of funds from BMO Harris to the Illinois Funds account, the movement of funds from IIIT money market accounts longer term investments to further diversify the portfolio, and the payment of the 2003 Revenue Bond's November 1st interest payment. Treasurer Ellsworth stated that the diversification of the portfolio was in line with the Commission's investment policy.

Treasurer Ellsworth discussed the detailed investment schedules and noted that market yield on the portfolio had declined compared to prior month. However, the decline was due to an incorrect market yield being reported by one of the investment companies on three of the investments. Commissioner Pruyn asked if the market value on the statements had been correct and Treasurer Ellsworth confirmed that it was.

Treasurer Ellsworth noted that net cash flow from operations was a positive number for the first time in the current fiscal year. The timing of receivables collected contributed to the positive net effect for the current month and year-to-date results. Sales tax collections are just under $19M in the current year. Up over 3% compared to the prior year collections.

Treasurer Ellsworth stated the level of unrestricted cash at month end was approximately $22M and all targeted reserve levels were met. He then explained that the balance shown for the revenue bond reserves decreased in the current month due to the interest payment made on November 1st more than offsetting the principal and interest payments to the reserve accounts in November. Debt balances remained at $95M.

Financial Statements – November 2012

Financial Administrator Peterson provided the Committee with a summary of the November Financial Statements. Revenue over expenditures increased to $14.6M as of November 30, 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 but still greater than budget.

Financial Administrator Peterson noted that the all the reserve accounts are fully funded and compliant. Chairman Suess asked what the impact of the higher water rates being charged by the City of Chicago will have on the reserve levels. Financial Administrator Peterson estimated that payables to Chicago could increase by approximately $800,000 if water levels remain consistent with prior year levels in January 2013. It was noted that the General Account balance is currently $13.5M higher than the required $13M.

Financial Administrator Peterson discussed the improvement of cash on the balance sheet compared to the prior year. However, it was noted that this balance would decline if the Commission Board approved Resolution R-46-12 related to debt certificate principal payments.

Financial Administrator Peterson discussed the consistency in results for the first seven months of the year. She noted that certain accounts are near budgeted levels and those accounts will be monitored closely. Financial Administrator Peterson also stated that certain accounts that are currently well below budget may change later in the year, including personnel benefits and repair and maintenance accounts. Interest Expense remains favorable due to rates and principal payments made earlier in the year.

Chairman Suess requested that Commission staff put together a report that shows the current operating activities of the Commission compared to prior years' actual and projected results. General Manager Spatz discussed that the Commission could use an updated and modified version of the rate model used when discussing rate increases in prior years. Commissioner Russo stated he would like it to have at least two years of actual results, along with the five year plan. General Manager Spatz recommended that this be done near the end of the current fiscal year.

Ordinance No. O-14-12

Financial Administrator Peterson stated this Ordinance allows for funds to be moved within the Appropriation Budget to account for the additional funds needed to cover bond counsel services, to meet additional costs as outlined in R-44-12 being presented to the Board in the General Meeting and to complete an existing agreement with Camp Dresser and McKee under R-11-09. Because of the delays related to the issues that needed to addressed, the project was previously appropriated and was not reappropriated in the current year's budget.

Commissioner Pruyn moved to recommend Ordinance No. O-14-12 to the General Board. Seconded by Commissioner Janc and unanimously approved by a Voice Vote. Motion carried.

Ordinance No. O-15-12

Financial Administrator Peterson noted that the ordinance included in the Finance Committee package was fairly complete. However, one of the exhibits is the loan agreement with BMO Harris, which is still in negotiation. The remaining points being discussed are considered by Commission staff to be minimal and the current draft is substantially complete.

The Commission will be looking to borrow slightly over $42M, which would cover all principal payments due after February 2013 and interest due for February through April 2013. The Commission would only have nine months of principal and interest reserved as of February and the full amount would be needed for the defeasance of the bonds maturing May 1, 2013 as soon as possible. Financial Administrator Peterson explained that the first payment made on May 15, 2013 would be for the three months of principal and interest additionally borrowed and then the amortization schedule of the remaining principal balance would be identical to the 2003 Revenue Bonds scheduled payments.

Chairman Suess asked the Commission staff to walk through the general terms of the loan agreement, including what reserves would be released and the impact of possible changes in tax law. Financial Administrator Peterson stated that the covenants are fairly unchanged. All reserve accounts currently specified by the previous Bond Ordinance will be eliminated, which should move approximately $28M from restricted to unrestricted. However, the Commission will look into ways to reserve much of these balances to cover a certain number of days Operating & Maintenance Costs that are in line with industry best practices. General Manager Spatz noted that the Commission does have the ability to fund the principal account one month ahead of schedule.

Financial Administrator Peterson noted that additional quarterly reports will be provided to the bank and there are limitations to additional borrowings. General Manager Spatz noted that the limitations are similar to the language in the debt certificates the Commission currently has outstanding.

General Manager Spatz noted that there was much discussion regarding the issue of impact of possible tax law changes. The Commission negotiated that if the change in laws is significant enough to the Commission has the ability to fully repay the loan before the change occurs. Commissioner Janc noted that there is a prepayment penalty built into the deal. However, the penalty is only if the bank incurs costs. Chairman Zay then requested that the lawyers present from IceMiller LLP, Gorski & Good LLP and financial advisors from PFM state their opinions regarding the documents presented. Mr. Gerald Gorski noted that the documents were good and asked PFM to verify that the language regarding the tax law changes is customary and would be required by the bank. Mr. Brian LePenske from PFM did agree with Mr. Gorski, but noted that the final wording is still being negotiated and that this section is fairly usual. He also stated that since this is a fixed rate issue, it should not be that great of a risk to the Commission. Mr. James Snyder from IceMiller stated that this type language is more common in loan agreements then public deals. Commissioner Janc noted from his personal experience that this type of language is common on the commercial side, but has not really been focused on. Commissioner Russo also pointed out the affect of the change would not be retroactive.

Chairman Suess then requested clarification on the involvement of the rating agencies. General Manager Spatz noted that if the Commission needs ratings for future debt borrowings, then the rating would need to be investment grade to not affect the loan agreement. Financial Administrator Peterson stated that it is more beneficial to allow the ratings to be withdrawn once the bonds are repaid.

Chairman Suess asked if any of the professionals present had any concerns and all three said there were no issues and it was good to go. He then asked what next steps were. General Manager Spatz noted that the Commission would notify the bank that the Board had passed the ordinance and the Commission would be able to lock in a rate as soon as BMO Harris is ready. The all-in-rate should be around the 1.05% as discussed. General Manager Spatz and Chairman Zay noted that a discussion regarding new policies on how to reclassify the soon to be unrestricted funds to keep reserves in line with industry standards and plan for long-term capital needs should be done quickly. Recommendations will be presented at the January and February committee meetings.

Chairman Suess wanted to thank everyone involved in the debt refinancing and the Finance Committee Commissioners for working so hard to get this done in a short amount of time.

Commissioner Janc moved to recommend Ordinance No. O-15-12 to the General Board. Seconded by Commissioner Russo and unanimously approved by a Voice Vote. Motion carried.

Resolution No. R-46-12

Financial Administrator Peterson detailed Resolution No. R-46-12 authorizing and directing the use of General account balances for the payment of debt service. The amount would be for $12M. Chairman Zay requested clarification from staff that the recommendation was for the full amount available for debt repayment to be paid to West Suburban. General Manager Spatz and Financial Administrator Peterson both agreed the recommendation to the Committee was to pay the full amount to West Suburban.

Chairman Zay moved to recommend a payment of $12M to West Suburban Bank under Resolution No. R-46-12 to the General Board. Seconded by Commissioner Pruyn and unanimously approved by a Voice Vote. Motion carried.

Selection of Auditors

The Committee held a special meeting in December to interview the four candidates. Based upon the discussions held during that meeting the Finance Committee would be recommending to retain Sikich LLP as auditors for the Commission for another 2 years for an amount not to exceed $45,000 per year.

Commissioner Pruyn moved to recommend Sikich LLP to provide auditing services to the Commission for the next two years for an amount not to exceed $45,000 per year to the General Board. Seconded by Commissioner Russo and unanimously approved by a Voice Vote. Motion carried.

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. Chairman Suess asked that the six month LIBOR start being tracked as well.

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.

Nov 7, 2012 to Dec 11, 2012	$ 5,735,419.63
Estimated	$12,777,010.00
Total	$18,512,429.63

Other

No additional topics were discussed.

Adjournment

Commissioner Russo moved to adjourn the meeting at 6:51P.M. Seconded by Commissioner Pruyn and unanimously approved by a Voice Vote.