

**MINUTES OF A SPECIAL COMMITTEE OF THE WHOLE
MEETING OF THE DuPAGE WATER COMMISSION
HELD ON THURSDAY, FEBRUARY 20, 2020
600 E. BUTTERFIELD ROAD
ELMHURST, ILLINOIS**

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

Commissioners in attendance: D. Bouckaert, J. Broda, J. Fennell, R. Gans, J. Healy, D. Novotny, J. Pruyn, K. Rush, P. Suess, and J. Zay

Commissioners Absent: R. Obarski, D. Russo, and F. Saverino

Also in attendance: Treasurer W. Fates, J. Spatz, C. Johnson, C. Peterson, A. Stark, D. Cuvalo, J. Bonnema, J. Rodriguez, M. Weed, J. Schori, E. Kazmierczak, and P. Luetkehans of Luetkehans, Brady, Garner & Armstrong, LLC.

TENTATIVE DRAFT BUDGET FOR FISCAL YEAR 2020-2021

General Manager Spatz began his PowerPoint presentation on the Tentative Draft Budget for Fiscal Year 2020-2021 noting that he would be highlighting debt activity, investment activity, reserve activity, reserve requirements going forward, the new tentative budget and budget trends, comparisons to last year's budget, and the five-year capital improvement plan.

Before beginning the discussion on the Budget, General Manager Spatz noted that he start by discussing the Commission's Water Sales Trends and Water Rate Trends.

With the Water Sales Trends, General Manager Spatz presented a graph reflecting the Commission's water sales from 2011-2019. The trend showed that water sales continue to trend downwards. He then focused on highlighting water sales from 2015-2019. This trend showed that water sales were down 2.76% since 2015. However, without the additional water sales from Bartlett, water sales would have been down 5.59% since 2015. He noted that water sales for 2019 did not include Bartlett for the full year, since they started taking water in May of 2019.

With the Water Rate Trends, General Manager Spatz presented a slide which showed water rates from 2015-2019 for the City of Chicago, the Commission and each of the Commission's customers. He presented information showing the rate changes since 2015 for the City of Chicago, the Commission and the average of all the Commission's customers. Since 2015, the total water rate for Chicago increased by 17 cents, the Commission's total water rate increased by only 2 cents (absorbing 15 cents from Chicago), and the average total water rate of all Commission customers increased by 89 cents. General Manager Spatz stated that with the proposed FY2020-2021 budget and the assumptions based upon Consumer Price Index for the City of Chicago's water rate increase, since 2015, the total water rate changes from Chicago have increased by 27 cents with the Commission's water rate increases only at 2 cents (absorbing 25 cents from Chicago).

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General Manager Spatz then began his Budget presentation starting with the debt activity stating that the Commission continues to be completely debt free and operating mostly on water sales.

With regards to the Investment and Reserve Activity, General Manager Spatz noted that the Commission was actively investing with a diversified portfolio earning a market yield of about 2.04% with total investments of \$155.7M.

With regards to the new reserve requirements, General Manager Spatz noted that the Operating Reserve requirement increased by \$4.7M and the Capital Reserve increased by \$13.5M both due to a larger Capital Improvement Plan. He noted that the Capital Reserve does not include any reserves for any tollway projects. Long Term Capital Reserve will require the normal \$2.1M added each year and that the Commission, in the near future, will need to revisit the Commission's Reserve Policies and possibly lower the operating reserve from 180 days back down to 120 days.

With regards to the City of Chicago's expected water rate adjustment for 2020, General Manager Spatz noted that a water rate increase had been anticipated from the City of Chicago based on the increase in the Consumer Price Index from December 2018 to December 2019. The Commission has not received any official notice from the City, but based upon the 2.445% in the Index, the Commission anticipates a 10 cent increase per thousand gallons. The tentative budget for FY2020-2021 reflects the Commission's water rate beginning on May 1, 2020 would remain the same as the previous fiscal year at \$4.97 per thousand gallons. Discussion ensued regarding the possibility that the City of Chicago may be considering a lower water rate increase than the Consumer Price Index.

General Manager Spatz reported on the budget trends for the last seven years starting with total revenues noting that the fixed costs and sales tax revenues remain at zero. General Manager Spatz pointed out the total expenditures for the budget year. The total expenditures, minus water purchases and depreciation, equals the total operating expenditures. The total operating expenditures are budgeted to increase mainly due to increases in distribution cost, professional and personnel services.

General Manager Spatz briefly reviewed the total revenues and total expenditures noting that revenues reflected that water sales make up 96.7% and 3.3% make up other income. Total expenditures reflected direct water distribution cost make up 85.5%, depreciation is 7.9%, personnel services is 4.4%, professional services is 1.2%, insurance is 0.5% and administrative costs is 0.6%.

General Manager Spatz provided the following breakdown which compares the 2020-2021 Budget to the prior fiscal year:

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Revenues

- O&M payments decreased from \$127.6M to \$125.3M due to lower water sales
- Fixed Cost Payments – remain zero
- Subsequent Customer Differential – decreased from the prior year due to the adjustments needed related to the Village of Bartlett
- Emergency Water Sales – remain the same as prior year
- Sales Taxes – budgeted at zero
- Interest income – budgeted to increase based upon estimated at 50 basis points on the Commission's current investments and additional interest related to the Bartlett project
- Total Revenue – budgeted to decrease from \$131.6M to \$129.5

Expenses

- Personnel services – budgeted to increase due to salary adjustments, possible cost of living adjustments, additional IMRF costs, higher medical and healthcare benefits
- Professional services – budgeted to increase due to water conservation programs, corrosion protection services, cloud backup services, email archiving service, and telephone system maintenance
- Insurance costs - budgeted about the same as prior year
- Administrative costs – budgeted to increase due to document management services, additional cell services, training and standards references needed
- Direct Distribution costs – budgeted to increase because of Chicago's water rate increase, manhole repairs and adjustment, additional remote facilities maintenance, and meter test bench repairs and additional pipeline equipment needed
- Equipment, Land and Right-of-Way – budgeted to increase slightly due to additional machinery and equipment needed, computers and server racks
- Depreciation – budgeted to increase due to project completion and having more assets

Total Expenditures are budgeted to increase from \$128.9M to 130.9M and Net Operating Accounting Transactions are at a net loss of about \$1.46M.

General Manager Spatz pointed out that the Subsequent Customer Differential is \$2.9M based on the accrual basis. However, based on a cash flow basis, the Commission will only be collecting approximately \$399K. The difference between the accrual and cash basis is \$2.5M. The reason for this difference is that the Commission is accruing for revenues already received plus accruing for Bartlett's buy-in for a period of only 5 years (2024). On the expense side, depreciation is not a cash expense and the capital program for FY2019-2020 is a cash expense.

2020-2025 FIVE-YEAR CAPITAL IMPROVEMENT PLAN

General Manager Spatz began by pointing out that some of the projects from last year were pushed back in order to complete the Bartlett project on time. These projects are underway and some new projects have been added, such as

- Control Lab Renovation
- ROV and Large Valve Repairs
- Water Quality Monitoring System
- 90" and 72" Supply Line Upgrades (tollway)

General Manager Spatz concluded his report with the following:

- The Commission is a self-sustaining water utility
- The Commission continues to be completely debt free and no longer collecting any sales tax
- The Commission continues to hold the line on spending while maximizing efficiencies
- On May 1, 2020, the Commission will not be increasing its water rate and may also consider decreasing the water rate
- The Commission reserves and cash & equivalents will continue to decrease over time as we continue to hold water rate increase
- The Commission will continue to look into opportunities to add new customers, which will increase revenues and assist in keeping all customer rates lower
- The Commission continues to be a best in class model government agency and water utility

With no further discussion, Chairman Zay asked for a consensus to allow staff to distribute the Tentative Draft FY2020-2021 Management Budget to the Commission's customers to which all agreed.

After Chairman Zay thanked General Manager Spatz and staff for their hard work on the budget, Commissioner Broda moved to adjourn the meeting at 6:44 P.M. Seconded by Commissioner Gans and unanimously approved by a Voice Vote.

All voted aye. Motion carried.