MINUTES OF A SPECIAL MEETING OF THE COMMITTEE OF THE WHOLE OF THE DuPAGE WATER COMMISSION HELD ON THURSDAY, DECEMBER 14, 2006 600 E. BUTTERFIELD ROAD ELMHURST, ILLINOIS

The meeting was called to order by Chairman Rathje at 6:11 P.M.

Commissioners in attendance: E. Chaplin, R. Ferraro, L. Hartwig, W. Maio, W. Murphy, A. Poole, J. Vrdolyak, G. Wilcox, D. Zeilenga (as of 7:03 P.M.), and L. Rathje

Commissioners Absent: T. Feltes, G. Mathews, and W. Mueller

Also in attendance: Treasurer R. Thorn, R. Martin, M. Richter, M. Crowley, C. Johnson, T. McGhee, F. Frelka, J. Schori, R. C. Bostick, and E. Kazmierczak

Chairman Rathje noted four major policy issues to be discussed: Defeasance; Reserves; Rates; and the Five Year Capital Improvement Plan. Due to scheduling conflicts, Chairman Rathje indicated the policy of whether to defease the Commission's outstanding bonds would be discussed first.

General Manager Martin introduced Tom Coomes of UBS Securities LLC to explain the financial implications of defeasing the Commission's outstanding bonds. Mr. Coomes explained that there is no economic advantage to defeasance in light of current market conditions and the yield restrictions that would be imposed by the Internal Revenue Code on any funds set aside for such defeasance. In Mr. Coomes' estimation, the forgone interest earnings would amount to approximately $13 Million—$6 Million on the General Obligation Bonds and $7 Million on the Revenue Bonds. Mr. Coomes concluded his remarks by noting that while there could be non-economic reasons for defeasing the Commission's outstanding bonds, the policies underlying those reasons were outside the realm of Mr. Coomes' expertise.

Commissioner Wilcox inquired whether the Commission could buy a Treasury Note to pay off the outstanding bonds, without legally defeasing them, to avoid yield restrictions. Staff Attorney Crowley cautioned that such an arrangement could still subject the Commission to the Internal Revenue Code yield restrictions and that Bond Counsel would have to be consulted before embarking on such a course of action.

Chairman Rathje then asked the Board if anyone was in favor of defeasing the bonds. Commissioners Ferraro, Hartwig, and Wilcox indicated they were not in favor of defeasing the Commission's outstanding bonds.

Commissioner Poole commented that he was in favor of defeasing the bonds because it would bring down the Commission's cash balance and thereby minimize the Commission's exposure to another legislatively-mandated diversion of Commission funds. Commissioner Poole further stated that lowering the water rate or offering a rebate back to the customers were other viable options.

Commissioner Chaplin stated that she is also in favor of defeasing the bonds and/or offering a rebate back to the customers so long as any such rebate were used for water purposes such as enhancing maintenance of customer wells and increasing the storage capacity of customer systems.

Commissioner Hartwig stated that he agreed with keeping the monies for water purposes, but stated that different customers have different needs and, therefore, he would rather implement a rate reduction instead of a rebate.

Commissioner Wilcox stated that he disliked the term rebate and it seemed more like a grant. That being the case, Commissioner Wilcox suggested consideration of a grant program or a combination of a water rate reduction and grant program.

Commissioner Murphy stated that defeasing the bonds was not in the best economic interests of the Commission and that he was not in favor of a rebate because of the adverse public perception of rebates and because rebates would be a less stable and short-term solution. Commissioner Murphy stated that he was therefore more in favor of a stable water rate reduction.

In response to Commissioner Murphy's question concerning the Commission's authority to use reserves in the manner suggested by the different Commissioners, Staff Attorney Crowley advised that the Commission was authorized to make rebates as it has in the past, as well as the authority to implement rate reductions. Ms. Crowley explained that authority for a grant program was less clear and, in any event, would have to be limited to funding infrastructure improvements to governmental customer water systems in unincorporated areas.

Commissioner Vrdolyak asked if customer rebates could be conditioned to require customers to use the rebated funds for water purposes. Staff Attorney Crowley advised that attaching conditions would be questionable, appearing less like a rebate which, by definition, is paying back or returning money, for example, because customers were overcharged/overpaid.

Commissioner Hartwig suggested that the Board establish a reserve policy first. Commissioner Hartwig reminded the Board that the water system is 20 years old, and with that comes the possibility of expensive replacement issues which the reserves would cover.

Chairman Rathje then opened the discussion on the reserve policy, noting staff had recommended a one-year operations reserve.

Commissioner Murphy stated that a one-year operations reserve was practically unheard of and, possibly, imprudent. Commissioner Murphy suggested instead a 3 or 6-month reserve with a $1.20 water rate (or lower as needed to achieve the desired reserve level).

Commissioner Poole stated that a 6-month operations reserve would be acceptable so long as the reserve did not include water purchases. In his estimation, that would amount to an approximately $20 Million reserve, which seemed reasonable to Commissioner Poole.

Commissioner Wilcox stated that he could agree with such a 6-month reserve, but also suggested that the Commission could limit itself to the reserves already required under the Commission's bond ordinances, which were conservatively developed by professionals. Commissioner Wilcox questioned the necessity of having a $20 Million unrestricted reserve in addition to the approximately $35 Million already required by the bond ordinances and set aside in a restricted account.

Commissioners Ferraro and Hartwig both suggested a 3-month operations reserve, which is what the Villages of Carol Stream and Addison have in place. General Manager Martin stated that a full 3-month reserve, including water purchases—or, $20 Million—could be adequate after completion of all or a substantial portion of the Five Year Capital Improvement Plan projects.

Commissioner Vrdolyak expressed his discomfort with simply picking a number at random and asked if there is an industry standard regarding replacement issues. General Manager Martin stated that, due to the age of the Commission's system, a replacement fund study would not be necessary for approximately three more years. General Manager Martin did, however, believe that $20 million for an unrestricted reserve was adequate.

Commissioner Wilcox suggested hiring an engineering firm, every four years, to evaluate the system and provide replacement funding recommendations.

Commissioner Poole advised that the financial projections were replete with additional reserves, citing the $5 Million per year in unidentified new construction, the $25-$30 Million construction reserve based upon 2% of the ENR adjusted cost of the initial system; and the restricted reserves required by the bond ordinances. Commission Poole then distributed materials that he prepared detailing Unrestricted Cash Balance - DuPage Water Commission; Wholesale Water Rate w/ and w/out $20M Cash Rebate.

Commissioner Maio suggested that the Board needed time to thoroughly digest all options presented in order to make an appropriate decision, including the materials prepared by Commissioner Poole.

Chairman Rathje then opened the discussion on the rate policy.

Commissioner Murphy noted that with the proposed new $20 Million unrestricted reserve, the water rate needed to be further reduced or a rebate needed to be declared to be consistent.

General Manager Martin stated that he would like to recalculate the water rate reduction from $1.30 to $1.20 to be presented at the January 2007 Commission meeting.

Commissioner Zeilenga arrived at 7:03 P.M.

Commissioner Wilcox stated his preference for an initial rate reduction with an intended and gradual rate increase (e.g. 2% per year) to wean customers off the historically low, flat rate.

After General Manager Martin stated that the customers need to know what the projected water rate is in order to set their budgets accordingly, it was further stated that the City of Chicago's water rate has increased annually by 3%, and the General Manager offered to prepare various charts to show the effect of various rate changes.

Chairman Rathje then opened the discussion on the Five Year Capital Improvement Plan.

General Manager Martin introduced Cuneyt Feizoulof from Camp Dresser & McKee to address any questions regarding the Value Engineering Study in relation to the proposed electrical generation facilities at the Lexington Pumping Station.

In response to Commissioner Wilcox's questions regarding the total generating capacity of the proposed facilities, Mr. Feizoulof explained that the number of generators at the Lexington Pumping Station could not be reduced to the extent indicated in the Value Engineering Study because of the power needed to start the motors. Mr. Feizoulof explained that even though the design standard was to supply average critical winter demand only, approximately 80 MGD, the total capacity is approximately 100 MGD. Mr. Feizoulof noted, however, that cutting back to three generators would reduce capacity to approximately 70 MGD, which would be insufficient to supply average critical winter demand.

General Manager Martin added that staff intended for the Commission to purchase, on its own, a portable fifth generator for the DuPage Pumping Station and for deployment to the Lexington Pumping Station when one of the permanent generators is taken out of service for maintenance or repair.

Commissioner Maio questioned why staff is not considering going with several portable generators due to the cost savings stated in the Value Engineering Study. General Manager Martin advised that the City of Chicago was not in favor of portable generators for maintenance reasons. General Manager Martin further stated that the generators will be in a separate building and would be easier to maintain.

Commissioner Wilcox confirmed that the only change in the Capital Improvement Plan from last year was not to go forward with building another reservoir at the DuPage Pumping Station and the addition of the solar panels at the Lexington Pumping Station for the photovoltaic system. General Manager Martin confirmed the changes.

Commissioner Poole questioned why it was necessary to realign Cadwell Avenue if the reservoir was not being built. General Manager Martin explained the realignment was necessary to secure (fence) the site after relocating utilities from the interior roadway into the realigned Cadwell Avenue.

Commissioner Chaplin asked why the additional reservoir at the DuPage Pumping Station was removed from the plan. Commissioner Wilcox responded that the additional reservoir might make more sense in the future if and when off-peak discounted electrical rates were eliminated. Commissioner Poole suggested, and it was the consensus of the Commissioners present, to keep the additional reservoir in the plan but move the timing of it to FY 16-17 or FY 17-18.

Commissioner Chaplin asked who is responsible for the cost of installation and maintenance of the photovoltaic system. With respect to cost of installation, General Manager Martin responded that the Commission and the City will share equally in the first $8 Million, with the City picking up 100% of the cost over and above $8 Million. With respect to maintenance costs, General Manager Martin responded that the City of Chicago will be responsible for maintenance, with each party paying 50% of the cost of such maintenance as is the case with all other maintenance at the station.

In response to General Manager Martin's comment that the City will reimburse the Commission monthly for the City's share of the cost of the design and construction of the electrical generation facilities through a 10% credit against Commission water purchases from the City over an approximately four-year period, Commissioner Vrdolyak questioned if the City could raise its water rates to offset its share of the costs of the project. General Manager Martin advised that under the existing water supply contract with the City, the City cannot raise the Commission's rates unless the same rate increase is made for the City's own residents.

Commissioner Poole asked whether the Commission would obtain at least the same proportionate benefit from the installation of the photovoltaic system as its cost participation. General Manager Martin responded in the affirmative because the electricity generated by the photovoltaic system would be used solely for the operation of the Lexington Pumping Station, the Commission pays approximately 80% of the electrical costs to run the station (depending upon water levels in the tunnel) and, therefore, the Commission should obtain approximately 80% of the savings realized.

Commissioner Maio confirmed that the City of Chicago controls the maintenance costs and the Commission pays 50% of those costs.

With respect to the $5 Million per year in unidentified new construction contained in the financial projections prepared by staff, Commissioner Chaplin stated that that amount appears excessive. General Manager Martin stated that a $5 Million per year contingency for unidentified improvements to a ½ Billion dollar system seemed reasonable. Commissioner Chaplin then questioned why such expenditures could not be more specific. Commissioner Poole agreed with Commissioner Chaplin, at least with respect to the first five years covered in the financial projections.

Commissioner Wilcox asked staff to report back to the Board with some concrete numbers based upon the evenings discussions and the Board could then decide the best way to utilize Commission funds.

Commissioner Ferraro complimented staff on its preparation and reminded the Commissioners that it was the Board that needed to make the final decisions.

Commissioner Hartwig moved to adjourn the meeting at 7:32 P.M. Seconded by Commissioner Wilcox and unanimously approved by a Voice Vote.

All voted aye. Motion carried.

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