

Lost Lake Utility District Special Meeting
Guest – Betsy Young
June 13, 2006 7:00pm

I. Call To Order and Roll Call Joe Olliges called the meeting to order at 7:02pm. Trustees present: Bill Weronko, Nadine Portner, Ron Berger, Jerry Pohlman, George Kersten, and Roger Asplund.

II. Pledge of Allegiance

III. Questions Asked of Betsy Young

What is your background? She said that she was raised in the Peru area, is a CPA, received Masters at U of C, has worked in the Debt Finance field, has been an Auditor, has worked in the Energy field, Sewage and Wastewater, and has been on the board of the CFA Society of Chicago.

What is the cost to own or cost to acquire the utility? Betsy indicated that there is long list of improvements in addition to the purchase price and start up costs. There was discussion about the total cost to finance. Her figures from the handout provided via email indicated that the total cost is approximately \$1.7 million. She characterized the work she had done to date as the “feasibility stage” or “best guess-timate”. She took the Fehr-Graham study, the Willett-Hofmann study and spoke to other engineers who confirmed her results. Her numbers re: the sewer system are an estimate to improve the plant, not replace it. The only thing not included in her financial assumptions is the water tower contract.

What rates are you assuming? Existing rates. Those rates recently approved by the ICC in 2005 with a couple of modifications. The current hook-up fees don't cover actual reasonable and competitive costs. Betsy used \$1500 each for water and sewer. She also indicated that she used 65,000 gallons of water per day divided by the number of homes for water usage. This information was pulled from NLU's Annual Report. IRWA is billing 3,000 gallons per month. Betsy added that none of this information has been confirmed, and that Frank Dunmire (IRWA) is willing to review all of these numbers, determine capital costs, including replacement of all meters, and develop a variety of scenarios.

Will there be a minimum charge? Yes, but for the purposes of the financial model, we are just concerned about total cost. Betsy added that water Availability Charges for unimproved lots in LN are currently not being charged, but for the purposes of the model, she used \$6.19 per month per unimproved lot. Joe added that the District must charge enough, i.e., what it costs to run the system. Betsy said that we would be required to pass a referendum to set rates at an adequate level to repay debt.

What is Debt Service Coverage Ratio? It is the most Important figure. It is cash after expenses, that is available to pay annual debt. The Illinois Finance Authority (IFA) likes to see certain numbers – the lower the number the closer you are to not servicing the debt. 1.25 is ‘highly debted’. *(Note: A DSCR of less than 1 would mean a negative cash flow. A DSCR of say .95 would mean that there is only enough net operating income to cover 95% of annual debt payments. For example, in the context of personal finance, this would mean the borrower would have to delve into their personal funds every month to keep the project afloat. Generally, lenders frown on a negative cash flow, but some allow it if the borrower has strong outside income. Source: Financial Dictionary)*

Where are the Liabilities in these financials? As this is not a balance sheet, and does not reflect a rate of return concept, the 1.7 million is all debt.

What is the asset value? This is obtained by appraising the Fair Market Value of the assets.

What if he (Gene Armstrong) files Bankruptcy? If in full bankruptcy, the Judge will require an appraisal. You will pay more than should you go to a bank. It would be a negotiated transaction – not optimum.

How did you get involved? Betsy said she has been a 12-year property owner with a weekend home. She stepped up about a year ago to offer her services. She said that this situation is not unusual. There is something wrong that is motivating the seller to sell. It's the small guy running into trouble. There is always an opportunity.

Buying Assets vs. buying the Company? We would be buying the assets, not the liabilities. You never look to buy the company. Get an environmental assessment before to establish a baseline for responsibilities. We are not “under the gun” to start making required upgrades. In fact the IEPA is willing to enter into a consent decree to make this work as long as there is a viable engineering report.

Regular Maintenance and Repair - \$5000? That is normal maintenance. Required upgrades would fall under the Capital Expense Reserve, Use of Cash Flow. You will need a 10-year Capital Plan.

According to Fehr-Graham, there are only 3 things in the sewer plant that don't need replacing – the cement tanks, some piping and the building. IRWA is doing “band-aid” repairs now. Rick Leber, Manhard Consulting, indicated that he would do an engineering study for at or under \$10,000.

Would the sewer plant have to shut down? According to the people Betsy's talked to – no.

Is it feasible to get another study? Can we get Fehr-Graham to revisit their last study? Typically, you would get an independent engineering report. Armstrong is required to do a full engineering study. If he doesn't, the receiver could do it and the utility would have to pay for it, but the buyer could do it.

What about liens? You wouldn't get assets until they're lien-free.

ICC approval? The ICC approves sales only to companies, not Utility districts.

EPA Revolving Loans? There would be 2 – one for water and one for wastewater. The rate is about 2.5%. We would need a full application. 15% of federal funds must be allotted to small systems.

What about attorney expertise? You need someone familiar with community-owned systems and someone with acquisition experience. You don't necessarily need someone with experience in rate structure. This might be 2 different attorneys – someone familiar with community –owned systems and an approve Bond Consul. IFA has a group of approved Bond Consuls. Or find a law firm that has both.

Without cash in hand? It's common for service professionals to undertake something like this with the hope that the transaction would close and payment would be made. The dilemma we have is that we don't own anything. Our odds would be better if we had a letter of intent and/or right of first refusal (with Armstrong). IRWA and Rural Community Partnership are familiar with companies that do that.

If the District acquires, who would run the system under your model? We can explore different avenues. IRWA and State have Operator Training Programs. You can hire a Manhard Consulting or IRWA, or like NLU, hire a certified operator. It wouldn't be hard to find operators – there's plenty of work for full time operator. If you get a skilled operator (IRWA or Manhard) they can oversee and sign off on improvements as they occur. An advantage you may explore is cost-sharing certain items with the POAs, like bulldozers or trucks. There is precedent.

What would you do? Betsy said that she would enter into an agreement with Gene Armstrong immediately. He has offered to help. She recommended a fairly loose agreement. His situation won't get better. She added that she would be concerned about bankruptcy. She doesn't think Armstrong's prospects of selling to another

regulated entity are great, but there may be other private buyers. Gene is probably willing to cooperate with the community.

Why did you use \$500,000? Gene wants to net enough money to pay fines. He was going to fight the state about whether they had anything to say about where the money went. "That's not our issue – we don't care." She went on to say that she cared "in a way, that we don't want him to get money." She is confident that the AG is not going to let him walk away with a dime. He wants to net \$300,000 after fines - his bottom line.

The \$500,000 in the model – was that at the same time he sent the letter to New Landing POA referring to \$750,000? That was a year ago. When she started model, it was January–February. He had had a deal with Aqua Illinois since September-October. This model was roughly based on the Aqua deal. She had seen the letter but stated that 750K and all those conditions were "pie in the sky."

Are their any updated Financial Projection Assumptions to be considered? Yes. Rate is now 4.5% over 40 years

Are their any Contingencies included in your figures? Yes. Items like Trustee salaries, electricity, etc. - 10-15 %. The changes are good figures for less than 1000 people.

IV. Adjourn

The motion to adjourn the meeting was made by George and seconded by Jerry. **The motion was unanimously approved by roll call vote (06-13-06-01).** The meeting adjourned at 8:40pm.

Motions:

06-13-06-01 – Motion to Adjourn