

FINANCE AND AUDIT COMMITTEE
McHenry County Government Center – Administration Building
667 Ware Road
Woodstock IL 60098

MINUTES OF TUESDAY, NOVEMBER 8, 2011

Mr. Breeden, Chairman called the meeting to order at 9:30 a.m. The following Committee members were present: Scott Breeden; John Hammerand; Jim Heisler; Mary Donner; Bob Bless; Mary McCann and Tina Hill. Also in attendance: Pete Austin, County Administrator; Ralph Sarbaugh, Associate County Administrator-Finance; John Labaj, Deputy County Administrator; Chairman Ken Koehler, Nick Provenzano, Ersel Schuster, County Board Members; Darrell Moore, Planning and Development; Cassandra McKinney, Water Resource Manager; Adam Lehmann, Assistant to the County Administrator; Dan Wallis, Court Administrator; Phil Dailing, Court Services; Judge Michael Sullivan; Tom Annarella, Valley Hi; Pam Palmer, Auditor; Pam Cumpata, EDC; Jeff Young, Division of Transportation; Eric Anderson, Harris Bank, BMO-Capital Markets; interested public and the press.

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|-------------------------|----------------|
| Scott Breeden, Chairman | |
| Bob Bless | Mary L. Donner |
| John Hammerand | James Heisler |
| Tina Hill | Mary McCann |

MINUTES

Committee members reviewed the committee minutes of October 17, 2011 and October 25, 2011. Ms. Hill made a motion, seconded by Ms. McCann to recommend approval of the above minutes as presented. The motion carried with all members present voting aye on a voice vote.

PUBLIC COMMENT

None.

PRESENTATION

Review of County Debt: Mr. Eric Anderson, Mr. Ralph Sarbaugh and Mr. Pete Austin joined committee members to review options to be considered for the future. The FY2012 budget is done. No decisions are needed for the options being presented today. This presentation will set the table for future considerations.

The Financial Model is a tool that has been used by the County for at least a decade. This has been the key to the building of the financial success seen by this County today. The success we have also helps to be proactive in the future. The model continues to be the County's tool to make a financial decision.

Mr. Austin informed committee members that he found a model, dated May 2008 that shows that the County's finances were not out of control. This model shows the variables and when they saw these variables slide they were able to respond and delay some of the projects.

The current model shows the reserves sliding down. This model will be updated when 2011 has finished. Mr. Sarbaugh noted that if you review the projections, you can see these projections were hit, though this occurred one year earlier than expected. At the end of December, beginning of January, the Board will be able to see an updated model that takes the current economic conditions into consideration.

Mr. Sarbaugh stated that while building the model there were a few assumptions used. Projecting for 2012, \$1 million will be placed in the reserves. The information Mr. Anderson will present will be slightly different. Mr. Sarbaugh noted that he included taking \$750,000 out of the reserve to pay for the branch court. He stated that he is being conservative on this issue.

He has included \$1 million for the Business Continuity Program. They are working on a location for continued service in case of emergencies. He has included \$200,000 for Agenda Management and \$1.5 million dollars for a possible expansion to the County's future campus plan. He informed committee members that they have been approached by staff about the possible purchase of property on Russel Court. If all of the above is approved, the County will end the year with a 6.41 month reserve. He stated if the Integrated Justice Software is approved, there is an assumption that the annual maintenance cost of \$150,000 would come from the reserve as well. Broadband services are also being discussed at a cost of approximately \$350,000. This is a guess of what the County's contribution costs will be for this project. They do have a significant study that has been completed by NIU that stated it will cost millions to connect all the County facilities. Mr. Sarbaugh noted that these amounts are just an earmark for some of the reserve.

Approved 11 22 11

FINANCE AND AUDIT COMMITTEE

November 8, 2011

Page 2

Committee members were informed that the Sheriff has also requested for the past seven years, a security fence to be placed around the gun range. The County would also like to purchase some of the property adjacent to this property. Committee members questioned Mr. Labaj on the risks at the facility. He responded that as more development occurs in this area it could become more of a concern.

Mr. Sarbaugh stated in 2015, he added an additional \$1 million dollars to the reserve. He reminded committee members that the County has accounting software that has been used since 1996. At that time it cost the County \$6 million dollars to install. New accounting software may be needed in the near future. They have also pushed out the first debt service payment for a public safety building. This has been pushed out the last few years. It has been included as part of the County's capital program and by 2015 the County would be down to a 5.2 month cash reserve.

Ms. Hill stated that this information needs to be included as part of the Strategic Planning Session so the County Board Members can buy into these assumptions as well.

Mr. Austin stated that he is excited about reconnecting with the Board Members on the future of the County. With the Courthouse space analysis being done it will help with this planning process. Chairman Breeden stated that this information show what the County is doing with the reserves and highlights the County's obligation with the reserves.

It was noted that Mr. Anderson presented a different model at the previous meeting. There were questions asked in terms of the Judicial Center and Build Out Debt. They asked if these items should be paid out early since the investing rate is lower than it ever has been. At the end of FY2011, there should be approximately \$48,455,000 in the General Fund.

Committee members were reminded that Moody's did not move the County to a AAA rating until the County had four consecutive years with a six (6) month reserve. McHenry County is the only county in the United States with a AAA rating that pays its debts exclusively with its operating funds. With a 100% payout of these two debt certificates, the county will end up with a 5.7 month reserve.

Committee members were reminded that there is a Capital Project List that has not been adopted by the County Board which includes some midpoint estimates. There is approximately \$7.3 million dollars of capital projects that need to be considered. The annual investment of the Integrated Justice project has not been included in the projections.

Committee members reviewed what the impact to the budget would be with the drawdown of the reserves. This analysis is if there is a 100% payment for the A's and C's debt certificates and the County ends up paying for a capital project the result is a decline of the fund balance which could result in the County being below a five (5) month reserve. The County needs to be concerned with its rating at this point.

Another matter the committee needs to consider is that we are unsure where the legislators are heading on HB3793. This bill states that if you have a negative EAV, the County would not be entitled to extend the CPI. If there is a 2% CPI over the next couple of years, this would result in \$2.2 million dollars less to the levy fund. Over three years this would amount to \$4.7 million dollars lost. The County can adjust the levy's but the \$4.7 million dollar impact is real.

Chairman Breeden questioned if the five month reserve is valid. Should we as a county maintain a 6 month cash reserve since we don't know what the future rate will be? Should we maintain cash and maintain projects through the debt? Chairman Breeden stated based on the information reviewed he believes that the County should retain as much cash as it can.

Ms. Donner stated that she could not find any banker or economist that is recommending that we should pay off debt right now. She questioned if it would be better to borrow money at this time since the rate is lower. Committee members were informed that the bond rate is currently at .65% and in ten (10) years this will go up to 2.95%

FINANCE AND AUDIT COMMITTEE

November 8, 2011

Page 3

Mr. Bless stated that it may be prudent to buy down some of the debt as discussed and then finance some of the capital projects because of both the bargain costs for property and the rates to finance this expense. He stated it may be wise to look at purchases now because of where we stand with the County budget.

Mr. Austin stated that a decision will be needed on when to retire the debt of Valley Hi. The balance of these questions can be decided at a later date. The County Board can make these decisions when they feel more comfortable. This would allow time to provide a complete picture of the financial model for the County. It was suggested that this be done in December or January. They have some good ideas to kick around and committee members were asked to provide information to the County Board members to discuss this issue further at the next committee meeting.

It was suggested that this be done during the Strategic Planning session. There needs to be a decision by the whole County Board on whether some additional debt gets paid off. They all need to be on the same page for these financial decisions. There is also a question of whether the '03 debt should be refinanced at a lower rate. Mr. Austin stated that if they decide to refinance this debt, this is a decision to not pay off this debt.

It was suggested that staff bring forward three options for consideration. It was questioned if an additional meeting should be held by this committee on this issue prior to holding the Strategic Planning Session. It was stated there should be a consensus on this issue prior to holding the Strategic Planning Session. It was also stated that they need, in writing, exactly what is being considered. Committee members stated that they need to review the capital plan and hold a discussion on what projects and items to plan for in the future.

Committee members questioned what the time frame would be for the refinance. Mr. Anderson stated that he has already constructed these documents. He stated this is part of the annual process so the documents could be completed within 30 days. They questioned what the service fee would be. They were informed that the cost is 1.5%. Committee members thanked Mr. Anderson for attending today's meeting.

NEW BUSINESS

Chairman Breeden informed committee members that he is pulling item number 5.02 and will discuss this at the end of the agenda as this item could take additional time to discuss.

Resolution Authorizing Entering into a Contract with SourceHOV for Scanning, Microfilming and Destruction of Divorce Case Files Held by the Circuit Clerk's Office: Ms. Hill made a motion, seconded by Mr. Bless recommending approval of the above Resolution as presented. Committee members were informed that the Circuit Clerks office has a large volume of older court files that cannot be destroyed due to Illinois Supreme Court requirements. These records must be microfilmed prior to destruction. These older divorce files are the most frequently requested court files from the Archive facility. The office would like to scan and microfilm these files that predate the Circuit Clerk's 20+ years of document imaging. The vendor would convert these files to microfilm and will handle the destruction of these records after they have received the necessary Supreme Court approval. The motion carried with all members present voting aye on a roll call vote. (Bless, Donner, Hammerand, Heisler, Hill, McCann, Breeden)

Committee members requested the next two Resolutions be considered at the same time since they are both regarding Workers' Compensation Claim Settlements.

Resolution Authorizing Workers' Compensation Claim Settlement No. 10-3210-15 and Resolution Authorizing Workers' Compensation Claim Settlement Numbers 07-8200-03 and 09-8200-02: Ms. Hill made a motion, seconded by Ms. McCann to recommend approval of the above Resolutions as presented. Chairman Breeden informed committee members while attending the EDC dinner the President for Caterpillar Industries pointed out that Workers Compensation Claims in Illinois are seven times more expensive to settle than in Indiana. Committee members stated that something needs to be done in this State. Mr. Labaj stated that since the reform legislation passed, it will take two years to see if the changes made will help. He stated that two of the changes made is that a providers network can be used and they can now rely on doctor and medical information as part of the settlement amounts. They can ask, did they really lose 25% use of their hand. He reported that he has good news for the committee. They are at the end of their claims year for Workers' Compensation. They had estimated the County would pay out \$383,000 in claims for FY2011. They ended the year paying out \$289,000. They are

FINANCE AND AUDIT COMMITTEE

November 8, 2011

Page 4

under an 8 year average for settlements. They currently have twenty-two (22) active claims. Six (6) of these claims are being handled in-house. Of the sixteen remaining claims, they are contesting five of the claims. This means that there are only 11 remaining claims going into next year. That is a historic low for claims as far as the case load goes, for this county. We are in the best shape than we have been for years. Committee members suggested that we hire an outside firm to review the type of claims that we have to see if there is any areas that could be improved.

Committee members stated that they had heard that during the reform discussions that all of the arbitrators were dismissed. Mr. Labaj stated that was true but, all but three of the arbitrators were reappointed. Seven arbitrators currently have outstanding workers' compensations claims as well. There is a special process that now needs to be completed if an arbitrator should file a claim. There is also a rotation schedule that the arbitrators must follow so the same arbitrator is now reviewing the same claim.

The motion carried with all members present voting aye on a roll call vote (Bless, Donner, Hammerand, Heisler, Hill, McCann, Breeden)

Resolution Authorizing Transactions for the Delinquent Tax Program: Mr. Bless made a motion, seconded by Ms. Donner recommending approval of the above Resolution as presented. Mr. Hammerand questioned the properties listed for the MCCD. He requested that Mr. Labaj check on these parcels to find out why they are listed on the delinquent list. Mr. Labaj stated that he reviewed these last year for Mr. Hammerand and he believes these are remnant properties that the MCCD does not want. These are very small parcels that they cannot use. Mr. Labaj stated he would check on this for Mr. Hammerand and report back to the committee. The motion carried with all members present voting aye on a roll call vote. (Bless, Donner, Hammerand, Heisler, Hill, McCann, Breeden)

Resolution Authorizing Acceptance of a Technical Assistance Grant from the Chicago Metropolitan Agency for Planning, a Contract with Camiros, Ltd for Developing a Neighborhood Subarea Plan, and an Emergency Appropriation to the FY2011 Planning and Development Budget: Ms. Hill made a motion, seconded by Ms. McCann made a second recommending approval of the above Resolution as presented. Ms. Hill informed the committee members that this Resolution was passed by the Planning and Development Committee. The motion carried with all members present voting aye on a roll call vote (Bless, Donner, Hammerand, Heisler, Hill, McCann, Breeden)

Committee members requested that the next two Resolutions be considered at the same time since it involves the same project.

Resolution Approving a Construction Engineering Services Agreement for the Illinois Route 31 at Virginia Road and Klasen Road Project and Resolution Approving an Intergovernmental Agreement with the State of Illinois for the Construction Engineering and Construction of the Illinois Route 31 at Virginia Road and Klasen Road Project: Ms. Hill made a motion, seconded by Ms. Donner to recommend approval of the above Resolutions as presented. The motion carried with all members present voting aye on a roll call vote (Bless, Donner, Hammerand, Heisler, Hill, McCann, Breeden)

Resolution Authorizing the Designation of the Office of the State's Attorneys Appellate Prosecutor: Mr. Bless made a motion, seconded by Ms. Hill recommending approval of the above Resolution as presented. Committee members were informed this is an annual renewal for this process. The motion carried with all members present voting aye on a roll call vote. (Bless, Donner, Hammerand, Heisler, Hill, McCann, Breeden)

Resolution Authorizing the Acceptance of a Bureau of Justice (BJA) Drug Court Implementation Grant and a Budget Adjustment to the Fiscal year 2012 Special Courts Budget: Mr. Bless made a motion, seconded by Ms. Hill recommending approval of the above Resolution as presented. Committee members were informed that this grant is to be used to implement the Drug Court Program in the County. They are mandated to provide this court. The grant requires a match. Mr. Block's salary will satisfy this requirement. The grant will be paid over a three year period. The motion carried with all members present voting aye on a roll call vote (Bless, Donner, Hammerand, Heisler, Hill, McCann, Breeden)

Resolution Authorizing Budget Line Item Transfers in the Law Library Fiscal Year 2011 Budget: Mr. Bless made a motion, seconded by Ms. McCann recommending approval of the above Resolution as presented. The motion Approved 11 22 11

FINANCE AND AUDIT COMMITTEE

November 8, 2011

Page 5

carried with all members present voting aye on a roll call vote. (Bless, Donner, Hammerand, Heisler, Hill, McCann, Breeden)

Ordinance Setting Juror Pay and Mileage Reimbursement Rate: Mr. Bless made a motion, seconded by Ms. Hill recommending approval of the above Resolution as presented. Mr. Wallis stated that over the past three years, the amount paid in per diem rates and mileage has increased steadily to more than \$280,000 per year. The 22nd Judicial Circuit is committed to the efficient use of jurors and have taken steps to lessen the number of jurors summoned and have decreased the days that jury trials are scheduled to start. This ordinance has not been updated since 1997. Ms. Hill questioned why they are making changes as it seems it would cost more staff time than what it costs to pay for the jurors. They were informed that they are trying to stream line the efficiencies in the office. They are making the changes as allowed by Statute. Committee members requested that this information be shared with the Management Services Committee. The motion carried with all members present voting aye on a roll call vote. (Bless, Donner, Hammerand, Heisler, Hill, McCann, Breeden)

Resolution Authorizing a Budget Line Item Transfer in the Emergency Management Agency's FY2011 Budget: Mr. Bless made a motion, seconded by Ms. Hill recommending approval of the above Resolution as presented. The motion carried with all members present voting aye on a roll call vote (Bless, Donner, Hammerand, Heisler, Hill, McCann, Breeden)

Resolution Authorizing the Purchase of Television/Satellite Equipment and a Budget Line Item Transfer in the Valley Hi Nursing Home FY2011 Budget: Mr. Heisler made a motion, seconded by Ms. Hill recommending approval of the above Resolution as presented. Mr. Annarella stated that this will give the Nursing Home the ability to broadcast their own movies. The motion carried with all members present voting aye on a roll call vote (Bless, Donner, Hammerand, Heisler, Hill, McCann, Breeden)

Resolution Authorizing the Redemption of the 2003B Debt Certificates (Valley Hi Nursing Home Facility) in January 2012 (not in packet): Mr. Bless made a motion, seconded by Ms. McCann recommending approval of the above Resolution as presented. Committee members were informed that this item will be pulled for consideration at the next committee meeting. This item was tabled for discussion until the next committee meeting.

Resolution Authorizing Nunc Pro Tunc a Joint Agreement with the U.S. Department of the Interior/U.S. Geological Survey for Water Resources Investigations and an Emergency Appropriation to the Fiscal Year 2011 Ground Water Resource Division Budget: Ms. Hill made a motion, seconded by Ms. McCann recommending approval of the above Resolution as presented. Ms. McKinney stated that this will allow funding for the management of the wells. They will also download the data from the wells and review the information for accuracy. Ms. McKinney informed committee members that there will be a presentation on this tomorrow for those interested in attending. The motion carried with all members present voting aye on a roll call vote (Bless, Donner, Hammerand, Heisler, Hill, McCann, Breeden)

Resolution Identifying Work Contracts to Installment Purchase Agreements (not in packet): Committee members reviewed a Resolution Identifying Work Contracts to Installment Purchase Agreements that was not included in the committee packet. Mr. Bless made a motion, seconded by Ms. Hill recommending approval of the above Resolution as presented. Mr. Sarbaugh stated that this Resolution closes out the '08 debt certificates that were used for the purchase of the Klehm and Cardinal Bank properties. The motion carried with all members present voting aye on a roll call vote (Bless, Donner, Hammerand, Heisler, Hill, McCann, Breeden)

Mr. Sarbaugh informed committee members that he needs permission to pay for any invoices that may come in for payment during this last part of the year. He stated that Court Administration received an invoice for payment for an expert witness. His budget does not have enough funds to cover this expense. County Administration can only approve payments up to \$10,000. This is an invoice for \$12,250, which would be paid for from the contingency fund. He stated if not, this would require a resolution, with an emergency appropriation to pay for this invoice. The consensus of the committee was to go ahead and pay the invoice.

Resolution Authorizing a Contract with New Dawn Technologies, Inc. for Justware Case Management Software and an Emergency Appropriation to the Non-Departmental Fiscal Year 2011 Budget: Ms. Hill made a motion, seconded by Ms. Donner recommending approval of the above Resolution as presented. Chairman Breeden
Approved 11 22 11

FINANCE AND AUDIT COMMITTEE

November 8, 2011

Page 6

stated that he was concern one week ago, when this item was being reviewed at the COW. Hours have been spent reviewing and discussing this project, especially payment payouts. He stated he was happy to see they have included deliverables that must be met before payments can be made. Chairman Breeden stated that he has reviewed the contract and all of his reservations have been addressed. He stated that he now feels comfortable to move this item forward and feels they will be able to meet their expectations as outlined in the contract.

It is important to know that the County is entering new territory for integrated justice. All safeguards have been put into place.

The Law and Justice Committee reviewed this project thoroughly. When they did not think their questions were being answered appropriately they sent the project back for continued review. They knew if their questions were not answered they would not be answered for the County Board either. They placed a requirement on this project to make sure all of the issues were well thought out and they reviewed what the long term costs of the program would be.

The Governance Committee prioritized the project and costs against the twenty different projects. They provided an adequate level of detail and have a road map, with the terms and costs, for the program. This project moves in the right direction, which is much different from the previous project. It was stated that in the future, more decisions need to be made at the committee level.

Ms. Hill voiced concern as there seems to be a great diversity of opinion and there is no credence being given to the committee process. Transparency happens at the committee level too. Ms. Hill stated she feels this issue has been discussed enough.

Committee members voiced concern with the process as well. A presentation was provided the first Monday of the month at the Law and Justice Committee meeting. The County Board members had four (4) weeks before the COW meeting in order to bring questions forward. These members had plenty of time to bring forward their concerns. Chairman Breeden stated that he also stated that any questions or concerns on this issue should be brought to him as well. Not one question or concern was received. On the previous contract the County Board had no authority to over ride the project of an elected official. Their role was for over site. The earlier project did not use any General Fund money, this project does. Committee members were reminded to look what happened in Kane County when their Clerk went off on her own and bought a product that does not work.

The Circuit Clerk's system is up and running. It is being maintained and is running well. It is currently a state of the art system. There were some project issues but, McHenry County now has one of the best systems out there. Committee members were told about a recent conversation that was held with a law enforcement officer. He had stated that the differences between the systems from Kane and McHenry County is like night and day.

The motion carried with a majority of members present voting aye on a roll call vote (Bless, Donner, Heisler, Hill, McCann, Breeden) nay (Hammerand)

OLD BUSINESS

None.

REPORTS TO COMMITTEE, AS APPLICABLE

Auditor's Report: None

Contingency Report: None.

Mr. Sarbaugh reminded committee members that the only budget adjustment he currently aware of is for the drug grant. He stated that in the rare event that any amendments will be made on the floor to let him know, if possible. Chairman Koehler stated that the biggest problem is when they start making amendments on the amendments.

Ms. McCann asked if on the reserve report they could change the wording where they say there is a \$1 million dollar surplus. She stated that this is just recognizing that they are not spending these funds if they don't have to. She stated that this is really a savings and not a surplus.

FUTURE TOPICS

Committee members again requested an update on the labor negotiations for the County.

EXECUTIVE SESSION

None

ADJOURNMENT

Noting no further business, Ms. Hill made a motion, seconded by Mr. Hammerand to adjourn the meeting 11:15a.m. The motion carried with all ayes on a voice vote.

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RECOMMENDED FOR BOARD/COMMITTEE ACTION:

- Resolution Authorizing Entering Into a Contract with SourceHOV for Scanning, Microfilming and Destruction of Divorce Case Files Held by the Circuit Clerk's Office
- Resolution Authorizing Workers' Compensation Claim Settlement No. 10-3210-15
- Resolution Authorizing Workers' Compensation Claim Settlement Numbers 07-8200-03 and 09-8200-02
- Resolution Authorizing Monthly Transactions for the Delinquent Tax Program
- Resolution Authorizing Acceptance of a Technical Assistance Grant from the Chicago Metropolitan Agency for Planning, a Contract with Camiros, Ltd for Development a Neighborhood Subarea Plan, and an Emergency Appropriation to the FY2011 Planning and Development Budget
- Resolution Approving a Construction Engineering Services Agreement for the Illinois Route 31 at Virginia Road and Klasen Road Project
- Resolution Approving an Intergovernmental Agreement with the State of Illinois for Construction Engineering and Construction of the Illinois Route 31 at Virginia Road and Klasen Road Project
- Resolution Authorizing the Designation of the Office of the State's Attorneys Appellate Prosecutor
- Resolution Authorizing the Acceptance of a Bureau of Justice (BJA) Drug Court Implementation Grant and a Budget Adjustment to the Fiscal Year 2012 Special Courts Budget
- Resolution Authorizing a Budget Line Item Transfers in the Law Library Fiscal Year 2011 Budget
- Ordinance Setting Juror Pay and Mileage Reimbursement Rate
- Resolution Authorizing a Budget Line Item Transfer in the Emergency Management Agency's FY2011 Budget
- Resolution Authorizing the Purchase of Television/Satellite Equipment and a Budget Line Item Transfer in the Valley Hi Nursing Home FY2011 Budget
- Resolution Authorizing Nunc Pro Tunc a Joint Agreement with the U.S. Department of the Interior/U.S. Geological Survey for Water Resources Investigations and an Emergency Appropriation to the Fiscal Year 2011 Ground Water Resource Division Budget
- Resolution Identifying Work Contracts to Installment Purchase Agreements
- Resolution Authorizing a Contract with New Dawn Technologies, Inc. for Justware Case Management Software and an Emergency Appropriation to the Non-Departmental Fiscal Year 2011 Budget

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