



## AGENDA

### SOUTHWESTERN ILLINOIS FLOOD PREVENTION DISTRICT COUNCIL BOARD OF DIRECTORS MEETING

**July 21, 7:30 a.m.**

Metro-East Park and Recreation District Office  
104 United Drive, Collinsville, Illinois 62234

1. Call to Order  
*Jim Pennekamp, President*
2. Approval of Minutes of June 16, 2010
3. Program Status Report and Budget Update  
*Les Sterman, Chief Supervisor*
4. Annual Budget October 1, 2010 – September 30, 2011
5. Annual Report to the County Boards
6. Selection of Bond Underwriter's Counsel
7. Selection of Bond Underwriters
8. Request for Economic Recovery Zone Bond Allocation from St. Clair County
9. Authorization for Husch Blackwell Sanders to Extend Contract with AMEC Earth & Environmental for Levee Certification Inspection
10. Report from the U.S. Army Corps of Engineers
11. Election of Officers of the Board of Directors
12. Other Business
13. Adjournment

**Next Meeting: August 18, 2010**

*A regional partnership to rebuild Mississippi River flood protection*





## MINUTES

### SOUTHWESTERN ILLINOIS FLOOD PREVENTION DISTRICT COUNCIL BOARD OF DIRECTORS MEETING June 16, 2010, 2010

The regular meeting of the Board of Directors was held at the Metro-East Park and Recreation District Office at 7:30 a.m. on Wednesday, June 16, 2010.

#### Members in Attendance

James Pennekamp, President (Chair, Madison County Flood Prevention District)  
Dan Maher, Vice President (Chair, St. Clair County Flood Prevention District)  
Tom Long, Madison County Flood Prevention District  
John Conrad, Secretary/Treasurer (Chair, Monroe County Flood Prevention District)  
Ron Motil, Madison County Flood Prevention District  
Bruce Brinkmann, Monroe County Flood Prevention District  
Dave Baxmeyer, Monroe County Flood Prevention District  
Paul Bergkoetter, St. Clair County Flood Prevention District  
Alvin Parks, Jr., St. Clair County Flood Prevention District

#### Members Absent

None

#### Others in Attendance

Alan Dunstan, Madison County Board Chair  
Mark Kern, St. Clair County Board Chair  
Les Sterman, SW Illinois FPD Council  
Joe Parente, Madison County  
Terry Liefer, Commissioner, Monroe County  
Kevin Koenigstein, Monroe County Treasurer  
Linda Lehr, Monroe County  
Kevin Hutchinson, Mayor, City of Columbia  
Rich Sauget, Mayor, Village of Sauget  
Bruce Munholand, U.S. Army Corps of Engineers  
Maggie Hales, East-West Gateway Council of Governments  
Kathy Andria, American Bottom Conservancy  
Randy Bolle, Prairie Dupont Levee District  
Matt Brandmeier, Madison County  
Craig Brauer, TWM  
Joseph Clayborne, Stifel Nicolaus  
Dave Diestelkamp, Jacobs Engineering  
Darryl Elbe, Hoelscher Engineering  
Walter Greathouse, MESD  
Mark Harms, SCI Inc.  
Julie Hauser, Hauser Group  
John Herzog, Madison County  
Terry Hillig, St. Louis Post-Dispatch  
Pam Hobbs, Geotechnology

Kevin Hoecker, Scott-Balice Strategies  
Gary Hoelscher, Hoelscher Engineering  
Mike Huber, KdG  
David Human, Husch Blackwell Sanders  
David Human, Husch Blackwell Sanders  
Charles Juneau, Juneau Associates, Inc. P.C.  
Mary Kane, Stifel, Nicolaus, Inc  
Brian Kelly, KMOX  
Erika Kennett, Alliance of Edwardsville-Glen Carbon  
Jule Levin, Prairie DuPont Levee District  
Mike Lundy, SW Illinois Development Authority  
Patrick McKeehan, Leadership Council Southwestern Illinois  
Sam McShane, Tri-City Regional Port District  
Greg Mudge, Mudge Professional Services  
Dick Murray, Morgan Keegan  
Stephen Noe, AMEC  
Jack Norman  
Jon Omvig, AMEC  
Alan Ortals, Southern Illinois Business Journal  
Ronda Sauget, Archview  
Bob Shipley, Metro-East Sanitary District  
Bill Stahlman, Tri-City Regional Port District  
Mike Sullivan, Prairie DuPont Levee District  
Steve Tomaszewski, Congressman Shimkus  
Chuck Unger, The Bank of Edwardsville  
Dennis Wilmsmeyer, Tri-City Regional Port District  
Marybeth Wilson, Tetra Tech

### **Call to order**

President Jim Pennekamp called the meeting to order.

### **Approval of minutes of May 19, 2010**

Motion was made by Paul Bergkoetter, seconded by Dan Maher, to approve the minutes of the May 19, 2010 meeting. Motion approved, all voting aye.

### **Program Status Report and Budget Update**

Les Serman described progress four principal areas: developing a financing plan, securing a conceptual design and cost estimate, completing the certification inspection and meeting our legislative and regulatory goals to reduce short-term economic hardship during the period when the project is under construction and accreditation is sought.

Proposals were received on May 21 from three design teams who were chosen to submit conceptual design proposals and cost estimates. Interviews with each of the teams were held on June 3. A recommendation from the selection advisory committee will be discussed in more detail later in the agenda.

The levee inspection is ongoing, with results due to be reported in July, unless continuing high water prevents access to critical areas.

Financing strategies were presented to the Board at the May meeting and a specific recommendation will be made later in the agenda. Decisions will be needed in order to move ahead with financing.

Mr. Sterman reported on legislation of interest to the Council, specifically HR 3415 and HR 5114 in the U.S. House of Representative, each of which could provide relief from mandatory flood insurance while the levees are being improved. Several bills were approved by the Illinois General Assembly that would serve our interests as well. SB 2556 reduces the impact of the Governor's Executive Order on Floodplains that would impose severe restrictions on building and development should new flood insurance rate maps go into effect. SB 2520 would give MESD the authority to annex property that is now protected by the District, but not taxed.

FEMA finally responded to the Council's FOIA request, but the response contained no data or analysis that supports the deaccreditation decision. Discussions with the three counties are underway regarding the various legal options that might be pursued to delay the issuance of new flood insurance rate maps for our area.

### **Consultant Selection for Levee System Design and Construction Management Services**

Mr. Pennekamp noted that the Council has received very comprehensive and well done proposals for improving the levee systems from three consultant teams. He asked Mr. Sterman to describe the selection process.

Mr. Sterman summarized the report of the Consultant Selection Advisory Committee. He noted that several members of the committee were present at the meeting and encouraged them to add their thoughts. This is an important part of the plan that we put in place last September to move the project forward independently of the Corps of Engineers. This is a particularly important decision because we will be relying on the selected firm to carry the project through from the beginning of design through the completion of construction, certification and accreditation.

Mr. Sterman then recounted the sequence of events leading to the recommendation. On November 3, 2009, the Council issued a Request-for-Qualifications for Levee System Design Services. We received four responses: Tetra Tech, Jacobs Engineering, AMEC Earth & Environmental, and Stantec Consulting. Each was a team involving a number of consultants, both local and national. We required the consultants to agree to certify the levee systems when work was completed. Stantec did not agree to that condition. On December 16, the Board voted to ask Tetra Tech, AMEC and Jacobs to submit a formal proposal including a conceptual design and cost estimate. A stipend of \$75,000 was offered to respondents that submitted a responsive proposal.

The *Invitation to Submit a Proposal for Levee System Design Services* was issued on February 4, 2010, with a deadline to submit a proposal of April 30, 2010. The deadline was subsequently extended to May 21, 2010 to allow for additional data to be provided to the respondents by the Corps of Engineers. Respondents were required to submit a technical evaluation of the problem, a description and evaluation of alternative design solutions, and construction strategies to produce the most cost-effective project. Respondents were asked to consider a wide range of design solutions to achieve the result desired by the Council – certification of the levee systems in accordance with FEMA requirements (44CFR 65.10) in a reasonable time frame of 5 years or

less. Proposals also needed to include an estimate of costs to achieve the proposed design solution.

A pre-proposal conference was held on March 6 and a subsequent technical briefing was held by the Corps of Engineers on March 15. In addition, I met individually with each design team to answer questions and discuss the content of proposals. The three teams submitted proposals on May 21, 2010.

At the Board meeting last month you authorized a selection process consisting of the following elements:

1. A written review of the proposals to be prepared by the Chief Supervisor.
2. The appointment of a consultant selection advisory committee to make a recommendation to the Board. The committee will consist of:
  - a. Minimum three members of the Board of Directors
  - b. The Chief Supervisor
  - c. One representative each from St. Clair, Madison, and Monroe counties
  - d. Three external ex-officio (non-voting) members: David Human (Husch Blackwell Sanders), and Maggie Hales (East-West Gateway Council of Governments)
3. Interviews with each design team to be conducted by the selection advisory committee.
4. Review and comment on the written proposal by major stakeholders including the affected levee districts and others.

Mr. Sterman noted that the following members of the selection committee were appointed by each County: David Cornell from St. Clair County, Joe Parente from Madison County and George Andres from Monroe County. From the Board of Directors the following members joined the panel: Dan Maher, Jim Pennekamp, John Conrad and Paul Bergkoetter.

Copies of the proposal were made available electronically to the Board of Directors, the levee districts and the members of the selection advisory committee.

Mr. Sterman prepared an analysis of the proposals and provided it to the selection advisory committee. The committee interviewed the three consulting teams on June 3, 2010. Each team was given 90 minutes to present their proposal and to answer questions from committee members. At the conclusion of the interview, the committee discussed the proposals and agreed on a general conclusion. The members also agreed to submit an evaluation form to score each proposal using criteria described in the invitation to propose and asked Mr. Sterman to draft a memo documenting the selection process and the committee's recommendation.

Regarding findings and conclusions, Mr. Sterman noted that all of the proposals were responsive and each of the consultant teams was well qualified. He noted that all of the proposals pointed out that the Corps of Engineers had effectively overdesigned underseepage controls by a too-conservative interpretation of FEMA requirements for certification. Nor did the Corps include existing underseepage controls, particularly relief wells in their analysis, even though they may be functioning (albeit at a lower efficiency). These facilities might be rebuilt long-term, but they may function adequately now to contribute to certification of the levee systems. Taking these issues into account reduced the Corps' cost estimates by 30-40%.

For the most part, all of the respondents proposed traditional methods for reducing underseepage -- seepage control berms, relief wells, and cutoff walls. While each proposal described and examined alternative seepage controls most came to the conclusion that the Council's cost and time goals could be met by using relatively traditional measures and smart construction techniques, making it generally unnecessary to try less traditional, but potentially riskier alternatives.

Two of the consultants, AMEC and Tetra Tech, proposed to undertake design, program administration and construction management. In essence, these firms would act as the Council's staff during the entire duration of the project. Jacobs proposed to provide design services only, but included some construction oversight to assure that the project was built according to plans.

All three teams generally felt that traditional design-bid-build procurement methods were most cost-effective for the project, although AMEC proposes to use design-build for cutoff wall sections to allow contractors to determine the most cost-effective construction methods. Jacobs similarly proposes the use of a performance specification in bidding cutoff walls, effectively achieving a similar result.

The most significant differences in the proposals come in the outcomes that will matter most to the Council – time and cost. Mr. Sterman noted that cost estimates should be used cautiously, since this is a very early stage of design and we used the estimates in the proposals more as a means of determining the consultant's approach to the project, rather than to take the figure as gospel at this time. It is very likely that these estimates will change as the project moves forward. Exhibit 1 in the memo describes the cost estimates and the Board can note some significant differences in cost estimates.

There were also some significant differences in schedule. Tetra Tech has proposed a five year schedule, with construction in each levee district proceeding sequentially from north to south. AMEC has proposed a more aggressive 2.5 year schedule, with work proceeding simultaneously on all four levee districts. Jacobs proposed a four year schedule, also with work done simultaneously in all of the levee districts.

There are also some very significant differences in the cost of professional services (design, program administration, construction management) for the project. While this is a qualifications-based procurement, we did ask for an estimate of professional fees as one indication of the consultants' approach to the assignment. AMEC provided a detailed manpower breakdown to support their estimate of about \$11.9 million in professional fees, while Tetra Tech has summarized fees by task to come up with an estimate of \$25.5 million. This is a large difference in professional fees for accomplishing what should be identical tasks, although final negotiated costs once the full scope of work is developed may not show such wide variance. Jacobs estimates a fee of about \$10.3 million, but this does not include program administration and construction management, two functions that would be the responsibility of the Council to provide.

Mr. Sterman described the interview process and noted that all but one (*an ex-officio member*) of the committee members submitted an evaluation score sheet.

All of the teams are well-qualified and led by a national or multinational, multidisciplinary design firm that can cite extensive experience in levee and floodwall design and construction, hydrology and hydraulics and other skills needed for the job. Each team is led by a capable and experienced project manager. The decision comes down to a judgment about the quality and credibility of the conceptual design and cost estimate, and our evaluation of the team and project manager most likely to achieve the project outcome sought by the Council -- levee accreditation, accomplished for a cost that is affordable and completed in the shortest time possible.

Of a possible total of 135 points that could be achieved on the proposal, rated according to the criteria shown on the score sheet shown in Exhibit 2, AMEC accumulated an average rating by committee members of 129 points, Tetra Tech 116 points, and Jacobs 114 points. AMEC's proposal was rated highest by every committee member (one member rated AMEC tied for first with Jacobs, and both ahead of Tetra Tech). Tetra Tech was rated second by four members and Jacobs was rated second or first by four members.

The committee was unanimous that AMEC had the best understanding of the problem, the best overall design concept, and would be the strongest and most aggressive advocate for a cost-effective and optimal design. Both Tetra Tech and Jacobs produced thorough, robust proposals, and Tetra Tech clearly had the most extensive and meaningful participation by local firms, but the committee did not have quite as much confidence in the ability of these teams to deliver the project outcomes desired by the Council.

Of a possible total of 135 points that could be achieved on the proposal, rated according to the criteria shown on the score sheet shown in Exhibit 2, AMEC accumulated an average rating by committee members of 129 points, Tetra Tech 116 points, and Jacobs 114 points. AMEC's proposal was rated highest by every committee member (one member rated AMEC tied for first with Jacobs, and both ahead of Tetra Tech). Tetra Tech was rated second by four members and Jacobs was rated second or first by four members.

The consensus of the committee is that AMEC had the best understanding of the problem, the best overall design concept, and would be the strongest and most aggressive advocate for a cost-effective and optimal design. Both Tetra Tech and Jacobs produced thorough, robust proposals, and Tetra Tech clearly had the most extensive and meaningful participation by local firms, but the committee did not have quite as much confidence in the ability of these teams to deliver the project outcomes desired by the Council

The Consultant Selection Advisory Committee recommends that the Council's Board of Directors authorize the Chief Supervisor to enter into negotiation with the consulting team led by AMEC Earth & Environmental to perform levee system design, program administration and construction management for the levee improvement project. The committee urges that the Council request that local design firms be included on the AMEC team in a substantial role. In the event that the Council is unable to agree on contract terms with AMEC, negotiations should proceed with the second highest rated firm, Tetra Tech, to accomplish the work.

Mr. Long commented that the proposals were very well done and a lot of work had been put into them. He indicated that he had read all of the proposals prior to seeing the committee's recommendation and that he had independently come to the same conclusion as the committee.



Mr. Long made a motion to approve the recommendation of the consultant selection advisory committee as described by Mr. Sterman. The motion was seconded by Mr. Parks and was approved, all voting aye.

### **Adoption of Project Financing Strategy**

Mr. Sterman noted that the financial analysis has been going on for several months and a recommendation was made by our financial advisor at the May Board meeting. There are essentially three major choices to be made by the Board. The first choice is the type of bond to be issued. The choices are a general obligation bond issued by the counties called an alternate revenue bond or a sales tax revenue bond issued by the Council. The second choice is related to financing enhancements made available through the federal economic stimulus legislation. These mechanisms would include Build America Bonds and Economic Recovery Zone bonds, which are taxable bonds for which the federal government will provide a subsidy to the issuer that is calculated as a percentage of interest payments. These bonds could provide some significant financial benefit to the Council. The last choice is whether to use a conduit issuer, such as the Southwestern Illinois Development Authority. The advantage is that, for a fee, these agencies can provide an exemption from Illinois state income taxes, which can also provide a financial benefit to the Council.

The recommendation that our financial advisor made last month is that we should do an initial sales tax revenue bond issue followed in the next couple of years by an alternate revenue bond issue by the counties.

There is an additional wrinkle that has developed in the last month. There is a possibility that we may be able to use unused authority from nearby counties to issue Economic Recovery Zone bonds. In order to do that, we may need to issue those bonds by August 16, so there is a certain amount of urgency in our decision-making process.

The staff recommends that the Board of Directors adopt a financing strategy consisting of the following elements:

1. Issuance of an initial sales tax revenue bond by the Council with the size and structure to be determined by future Board action.
2. Maximize the use of Build America Bond and Economic Recovery Zone Bonds to increase the proceeds available for construction.
3. Use of the Southwestern Illinois Development Authority as a conduit issuer for the sales tax revenue bonds.

Mr. Sterman asked Kevin Hoecker, our financial advisor, to make a few comments.

Mr. Maher noted that the possibility of extending the authority for STAR bonds to our area creates added financial pressure on the counties and makes it unlikely that the counties can agree to alternate revenue bonds in the future. He asked whether the Council would still be able to raise the money that we need if we can only issue sales tax revenue bonds. Mr. Hoecker responded affirmatively. Mr. Long followed up on that question and Mr. Hoecker explained how we can proceed successfully based on current cost estimates for the project, but we won't be able to raise quite as much as we might if we could make use of alternate revenue bonds.

Mr. Long asked about the marketability of the sales tax bonds. Mr. Hoecker indicated that he thought the bonds would get a great reception and sell extremely well. He emphasize that this would be a consideration in selecting underwriters.

Mr. Pennekamp asked for a motion on this item and Mr. Motil moved to authorize the Chief Supervisor to take action to implement a financial strategy consisting of the following elements:

1. Issuance of an initial sales tax revenue bond by the Council with the size and structure to be determined by future Board action.
2. Maximize the use of Build America Bond and Economic Recovery Zone Bonds to increase the proceeds available for construction.
3. Use of the Southwestern Illinois Development Authority as a conduit issuer for the sales tax revenue bonds.

Mr. Baxmeyer seconded the motion. Motion passed, all voting aye.

### **Request for Economic Recovery Zone Bond Allocation from Madison and Monroe Counties**

Mr. Sterman indicated that a formal request to Madison and Monroe counties is needed to acquire the authority to issue economic recovery zone bonds.

Mr. Pennekamp described the staff recommendation to authorize the Chief Supervisor to request authority from Madison and Monroe counties to issue Economic Recovery Zone Bonds and to execute the necessary agreements to effect this transaction. He asked for a motion to approve the staff recommendation.

Motion by Mr. Parks, second by Mr. Brinkmann to approve the staff recommendation. The motion was approved, all voting aye.

### **Authorization to Issue Requests for Proposal for Bond Underwriting Services and Underwriter's Counsel**

Mr. Sterman informed the Board that the memo that was in the mailing has been amended to include solicitation for a bond underwriter's counsel, which is required in a bond transaction like we will be pursuing in the near future. He described the role of the underwriter and the importance of the decision in maximizing proceeds from the sale of bonds.

Because of the tight time schedules it is important to proceed expeditiously with these solicitations.

Mr. Pennekamp asked about the schedule to get bonds actually on the street for sale. Mr. Hoecker indicated that once the underwriter and underwriter's counsel are on board, we could have an issue in six weeks. He also described various market considerations that would weigh on the timing of issuance. Best case, we could be selling bonds by August.

Motion by Mr. Maher, second by Mr. Bergkoetter to authorize the Chief Supervisor to issue a request for proposal for bond underwriters and underwriter's counsel for sales tax revenue bonds to be issued by the Council. Motion approved, all voting aye.

### **Report from the U.S. Army Corps of Engineers**

Mr. Sterman introduced Bruce Munholand of the U.S. Army Corps of Engineers. Mr. Munholand proceeded to give a report on Corps activities in each of the levee districts and cooperative programmatic activities with the FPD Council. He described the use of accelerated and advance funding as a means to speed up the implementation of projects prior to federal funds being available.

### **Election of Officers of the Board of Directors**

Mr. Pennekamp described the requirement of the bylaws regarding the election of officers at the annual meeting to serve one-year terms. Since the one-year term of the current officers is now complete, there are a couple of alternatives moving forward. The first is to extend the terms of the current officers for one month and then elect new officers for a full one-year term at the annual meeting in July. The second would be to elect new officers at this meeting and then affirm that election at the annual meeting next month. Mr. Pennekamp asked for discussion among the Board members.

Mr. Parks indicated his preference for the first approach.

Motion by Mr. Baxmeyer, second by Mr. Parks to extend the terms of the current officers for one month. The motion was approved, all voting aye.

### **Other Business**

Mr. Dunstan thanked the Board for the work in moving the project forward. For the first time in a while, it seemed like there are hopeful signs that we can reach our goal.

Tom Long indicated that he would be on vacation for the next Board meeting on July 21.

Mr. Pennekamp cautioned the members that there is a lot of hard work ahead and this is a lot like “halftime” in a sporting event, and if we blink we lose. We will continue to be aggressive in getting this job done.

### **Adjournment**

There being no other business, a motion by was made by Mr. Maher, seconded by Mr. Bergkoetter to adjourn the meeting. Motion approved, all voting aye.

Respectfully submitted

John Conrad,  
Secretary/Treasurer, Board of Directors





Memo to: Board of Directors  
From: Les Sterman  
Subject: Program Status Report  
Date: July 19, 2010

#### Design

Negotiations with AMEC Earth & Environmental on a contract for design, program administration and construction management are ongoing. AMEC is reworking their team to include additional local participation as directed by the Board's action at the June meeting. A key issue for the Council is maintaining a meaningful oversight role in the ongoing work of the consultants and contractors and establishing adequate accountability for work progress, accurate invoicing, etc. We want to establish an effective mechanism to recognize and solve problems quickly. I have identified an individual who may be able to help in putting the contract documents together that will meet our goals. Barring unforeseen problems, it is likely that a contract can be approved at the August Board meeting.

#### Inspection

The levee certification inspection being conducted by a team led by AMEC Earth & Environmental has experienced delays because of continuing high water levels in the Mississippi River. In particular, video inspection of gravity drains and closure structures is not possible when they are under water. I will be recommending a no-cost contract extension to allow adequate time to complete the inspection.

#### Financing

Requests for proposals for underwriter and underwriter's counsel were issued following the June Board meeting. Proposals have been received and recommendations for selections will be made at the July Board meeting.

We have been monitoring the availability of unused Economic Recovery Zone bond authority, usage of which would reduce the Council's cost of financing. Recently signed state legislation could return unused authority from counties around the state to the Illinois Finance Authority. While the Council previously designated the SW Illinois Development Authority as a conduit issuer for sales tax revenue bonds, it may be necessary to pursue a relationship with the IFA to take advantage of the benefits afforded by the more favorable recovery zone bonds.

## Legislation

The Council has advocated for legislation and regulatory action to limit the temporary, but severe, economic consequences of levee deaccreditation including mandatory high cost flood insurance and constraints on building and development.

The House approved flood insurance reform legislation, HB 5114, co-sponsored by Congressman Costello, that provides for a five year moratorium on mandatory flood insurance. It does not prevent the issuance of new flood insurance rate maps. The prospects in the Senate are uncertain, but we will continue to work with our senators to support this important legislation.

I am continuing to pursue, with the assistance of the Corps of Engineers and Sen. Durbin's and Congressman Costello's offices, federal legislation that would allow us to maximize the benefit of local expenditures on levee improvements. Possibilities would include direct federal reimbursement for expenditures or defining local expenditures as in-kind cost-share for future federal projects to provide the 500-year or "authorized" level of protection. Additionally, it would be beneficial for the Corps to be able to shift federal funds between projects in a more optimal manner. Under current law, federal funds can only go to the specified "projects" identified in our area, as directed in the latest federal appropriations. In our case, however, there are five ongoing projects that are in various stages of development. In order to achieve both equity and greater effectiveness it would be useful to be able to shift the appropriation among the five authorized projects so they could all advance at a similar pace.

At the state level, SB 2556 that would mitigate the unintended impacts of a Governor's Executive Order issued in 2006 that would limit development even more severely than required by the federal flood insurance program remains on the Governor's desk awaiting signature. Similarly, SB 2520, legislation that would provide the Metro-East Sanitary District with the authority to annex areas now protected by the District's levee system, but who are not now part of the District, is also awaiting signature by Governor Quinn.

## Legal

FEMA has not yet ruled on the DFIRM appeals, despite an earlier commitment to do so by June 1. There is a 60-day period following the release of those appeals to file suit to stop the issuance of the new DFIRMS.

We continue to work with legal counsel to develop the elements of a potential claim against FEMA to stop the issuance of new DFIRMS. Madison and St. Clair counties have agreed to provide financial support to pursue a claim, with the state's attorneys from the three counties directing outside counsel, Husch Blackwell Sanders.

## Construction

The Corps is continuing construction activities on the Wood River levees, primarily using economic stimulus monies.

### Project Administration

I am reviewing possible strategies to manage the project once design and construction begin. One possibility is pursuing the management strategy developed in 2008 that provides for a cooperative relationship with the Corps of Engineers. The advantage of this approach would be to facilitate timely Corps approvals of project documents, recognition of Council-built projects as meeting standards to potentially be used as in-kind contributions for the larger federal project, and providing for a more effective transition to the second stage of the project to achieve the authorized level of protection.







Memo to: Board of Directors  
From: Les Sterman  
Subject: Budget Report through June 30, 2010  
Date: July 19, 2010

Attached is the budget report for June 2010. Total expenditures since the inception of the Council's activities have been \$10,479,338. The majority of those expenditures, \$10,284,770, or more than 98%, have been for program costs. Of those program costs, a large majority has been spent on cost-share for federal projects in the Wood River and Prairie DuPont/Fish Lake levee districts. Costs for legal services and engineering design have significantly exceeded our budget due to developments that were unforeseen at the time the budget was adopted. Legal costs have been higher due to our continued pursuit of documentation of the deaccreditation decision from FEMA and the USACE and for exploring our legal options to reverse that decision. However, Madison and St. Clair counties have now agreed to cover the future costs for potentially litigating a claim against FEMA. Engineering design costs are higher than anticipated because of our decision to seek an independent levee certification inspection, something that was not anticipated in the budget.

In 2009, an estimated \$10.3 million was collected in FPD sales taxes in the three counties, a total slightly higher than projected earlier in the year. For the first four months of 2010, sales tax collections are almost 12% higher than the same period in 2009. Total sales tax collections remitted to the counties thus far have been \$13.8 million. Total sales tax collections, including for the months of April and May 2010 for which totals have not yet been reported, should be about \$ 15.8 million.

We do not anticipate significant additional cost-share payment to the Corps except to complete the Limited Reevaluation Report in Prairie DuPont, which we anticipate will be about \$600,000 and to match 2011 federal appropriations, which will likely be relatively small. We will, however, have increasing expenditures for consultants, particularly as the design process begins.

In the near future, a timely bond issue will be critical to maintaining progress on the project while satisfying our obligations to repay the counties.

Southwestern Illinois Flood Protection District Council  
 Comparison of Budget to Actual (accrual basis)  
 June 30, 2010

	Budget Period October 2009 - September 2010			Cumulative Totals		
	Approved Budget	October 1, 2009 thru June 30, 2010	Balance Remaining	Approved Budget	Inception thru June 30, 2010	Balance Remaining
<b><u>Budget Summary</u></b>						
Resources						
Flood Prevention Tax	\$37,007,652	\$6,902,844	\$30,104,808	\$40,753,673	\$10,334,552	\$30,419,121
Proceeds from Borrowing	\$110,000,000	\$0	\$110,000,000	\$110,000,000	\$0	\$110,000,000
Interest Income	\$1,200,000	\$1,652	\$1,198,348	\$1,200,000	\$1,873	\$1,198,127
Other Contributions	\$80,000	\$75,963	\$4,037	\$215,000	\$142,913	\$72,087
Total Resources	<u>\$148,287,652</u>	<u>\$6,980,459</u>	<u>\$141,307,193</u>	<u>\$152,168,673</u>	<u>\$10,479,338</u>	<u>\$141,689,335</u>
Expenditures						
Program Costs	\$35,490,889	\$6,833,811	\$28,657,078	\$39,211,779	\$10,284,770	\$28,927,009
General and Administrative Costs	\$228,345	\$146,648	\$81,697	\$287,042	\$194,568	\$92,474
Contingency	\$1,368,417	\$0	\$1,368,417	\$1,469,852	\$0	\$1,469,852
Total Expenditures	<u>\$37,087,652</u>	<u>\$6,980,459</u>	<u>\$30,107,193</u>	<u>\$40,968,673</u>	<u>\$10,479,338</u>	<u>\$30,489,335</u>
Excess/Deficit	<u>\$111,200,000</u>	<u>\$0</u>	<u>\$111,200,000</u>	<u>\$111,200,000</u>	<u>\$0</u>	<u>\$111,200,000</u>

**Southwestern Illinois Flood Protection District Council**  
**Comparison of Budget to Actual (accrual basis)**  
**June 30, 2010**

	Budget Period October 2009 - September 2010			Cumulative Totals		
	Approved Budget	October 1, 2009 thru June 30, 2010	Balance Remaining	Approved Budget	Inception thru June 30, 2010	Balance Remaining
<b>RECEIPTS</b>						
<i>Flood Prevention Occupation Tax Proceeds</i>						
St. Clair	\$18,503,826	\$3,413,225	\$15,090,601	\$20,376,836	\$5,129,078	\$15,247,758
Madison	17,023,520	3,189,357	13,834,163	18,746,690	4,767,943	13,978,747
Monroe	1,480,306	300,262	1,180,044	1,630,147	437,531	1,192,616
Subtotal Tax Proceeds	<u>\$37,007,652</u>	<u>\$6,902,844</u>	<u>\$30,104,808</u>	<u>\$40,753,673</u>	<u>\$10,334,552</u>	<u>\$30,419,121</u>
<i>Proceeds from Borrowing</i>	\$110,000,000	\$0	\$110,000,000	\$110,000,000	\$0	\$110,000,000
<i>Interest Income</i>	1,200,000	1,652	1,198,348	1,200,000	1,873	1,198,127
<i>Other Contributions (1)</i>						
St. Clair	25,000	37,980	-12,980	75,000	71,455	3,545
Madison	25,000	34,944	-9,944	75,000	65,741	9,259
Monroe	5,000	3,039	1,961	15,000	5,717	9,283
Other Cash	12,500	0	12,500	25,000	0	25,000
Other In-kind	12,500	0	12,500	25,000	0	25,000
Subtotal Other Contributions	<u>\$80,000</u>	<u>\$75,963</u>	<u>\$4,037</u>	<u>\$215,000</u>	<u>\$142,913</u>	<u>\$72,087</u>
<b>Total Receipts</b>	<u><b>\$148,287,652</b></u>	<u><b>\$6,980,459</b></u>	<u><b>\$141,307,193</b></u>	<u><b>\$152,168,673</b></u>	<u><b>\$10,479,338</b></u>	<u><b>\$141,689,335</b></u>
<b>EXPENDITURES</b>						
<i>Program Costs</i>						
Financial Advisor	\$60,000	\$40,035	\$19,965	\$80,000	\$40,035	\$39,965
Legal Consulting	20,000	141,133	-121,133	35,000	147,708	-112,708
Engineering Design	75,000	207,334	-132,334	125,000	262,334	-137,334
East-West Gateway (2)	50,000	13,796	36,204	75,000	24,898	50,102
Design/Construction	20,000,000	225,000	19,775,000	20,000,000	225,000	19,775,000
<i>Federal Cost-Share and Construction</i>						
Wood River	6,935,000	6,066,846	868,154	8,245,000	9,415,461	-1,170,461
MESD (3)	0	0		0	0	0
Prairie DuPont/Fish Lake (4)	0	139,667	-139,667	550,000	169,334	380,666
<i>Reimbursement of Advance Funding</i>						
St. Clair	620,898	0	620,898	1,241,797	0	1,241,797
Madison	999,638	0	999,638	1,999,276	0	1,999,276
Monroe	130,353	0	130,353	260,706	0	260,706
Subtotal Reimbursement	1,750,889	0	1,750,889	3,501,779	0	3,501,779
Borrowing Repayments	<u>6,600,000</u>	<u>0</u>	<u>6,600,000</u>	<u>6,600,000</u>	<u>0</u>	<u>6,600,000</u>
Subtotal Program Costs	<u><b>\$35,490,889</b></u>	<u><b>\$6,833,811</b></u>	<u><b>\$28,657,078</b></u>	<u><b>\$39,211,779</b></u>	<u><b>\$10,284,770</b></u>	<u><b>\$28,927,009</b></u>

Southwestern Illinois Flood Protection District Council  
 Comparison of Budget to Actual (accrual basis)  
 June 30, 2010

	Budget Period October 2009 - September 2010			Cumulative Totals		
	Approved Budget	October 1, 2009 thru June 30, 2010	Balance Remaining	Approved Budget	Inception thru June 30, 2010	Balance Remaining
<b>General and Administrative Costs</b>						
Salaries, benefits	\$169,044	\$126,395	\$42,649	\$202,523	\$158,542	\$43,981
Advertising	630	0	630	840	0	840
Bank service charges	600	272	328	700	448	252
Conference registration	500	0	500	700	0	700
Equipment and software	1,000	958	42	8,000	9,130	-1,130
Fiscal agency services ( EWG)	11,367	5,192	6,175	15,638	8,105	7,533
Furniture	1,200	0	1,200	2,400	475	1,925
Meeting expenses	600	242	358	750	298	452
Miscellaneous startup expenses (5)	250	600	-350	2,210	600	1,610
Postage/delivery	180	246	-66	215	367	-153
Printing/photocopies	400	36	364	1,000	1,250	-250
Professional services	24,000	3,600	20,400	27,000	3,600	23,400
Publications/subscriptions	200	126	74	400	126	274
Supplies	250	843	-593	633	1,046	-413
Telecommunications/internet	2,660	2,619	41	3,624	3,668	-44
Travel	12,464	5,419	7,045	15,210	6,813	8,397
Other business expenses	1,000	100	900	1,200	100	1,100
Insurance	2,000	0	2,000	4,000	0	4,000
Subtotal G&A	<u>\$228,345</u>	<u>\$146,648</u>	<u>\$81,697</u>	<u>\$287,042</u>	<u>\$194,568</u>	<u>\$92,474</u>
Contingency (@5% of G&A, Design, Cost-Share, Construction)	\$1,368,417		\$1,368,417	\$1,469,852	\$0	\$1,469,852
Total Expenditures	<u>\$37,087,652</u>	<u>\$6,980,459</u>	<u>\$30,107,193</u>	<u>\$40,968,673</u>	<u>\$10,479,338</u>	<u>\$30,489,335</u>

Notes

- (1) To be used for DFIRM assessment/correction and community engagement process
- (2) For DFIRM assessment/correction and community engagement
- (3) Cost-share to be paid from MESD resources until exhausted;  
additional amounts to be determined
- (4) FY2010 amount to be determined
- (5) Primarily accounting system setup

**Southwestern Illinois Flood Prevention District Council**

Beginning Checking Account Balance @ 06/01/2010

\$ 1,958,009.60

**Cash Receipts-Checking Account**

		<b>Date Rec'd</b>	<b>Amount</b>
Madison County FPD	Inv. 27	06/16/10	110,546.13
Monroe County FPD	Inv. 26	06/24/10	103,122.61
Monroe County FPD	Inv. 27	06/24/10	10,858.91
Monroe County FPD	Inv. 28	06/24/10	4,870.91
Monroe County	Inv. 29	06/24/10	6.48
Madison County FPD	Inv. 28	06/28/10	49,586.94
Madison County	Inv. 29	06/28/10	65.99
The Bank-Checking Account	Interest Earned	06/30/10	486.31

**Total Receipts \$ 279,544.28**

**Disbursements-Checking Account**

<b>Paid To</b>	<b>Purpose</b>	<b>Date Paid</b>	<b>Amount</b>	<b>Ref #</b>
Walmart	Office supplies, beverages	06/02/2010	24.67	auto w/d
Renee's Gourmet Catering	Consultant selection cmte. lunches	06/03/2010	116.15	auto w/d
USACE	Wood River Project (approved by Board 04/21/10)	06/10/2010	867,184.62	wire
The Bank-Checking Account	Wire Transfer fees	06/10/2010	20.00	auto w/d
Walmart	Office supplies, beverages	06/16/2010	29.36	auto w/d
RoyalDiscount.com	MSoftware 2010 software upgrade	06/21/2010	339.00	auto w/d
Scott-Balice Strategies	Prof. Fees-Financial Svcs-Inv.1711, Rem. Bal..	06/22/2010	20,035.43	1022
Dorgan-McPike & Associates, Ltd.	Contracted svcs-govt. relations-Inv. June 2010	06/22/2010	3,000.00	1023
Husch Blackwell Sanders LLP	Legal fees-Inv 1726615, 1726616	06/22/2010	10,657.44	1024
Jacobs Engineering Group, Inc.	Stipend, Letter dated 02/04/10	06/22/2010	75,000.00	1025
Tetra Tech	Stipend, Letter dated 02/04/10	06/22/2010	75,000.00	1026
USACE	Wood River Project (approved by Board 05/19/10)	06/24/2010	1,042,000.00	wire
The Bank-Checking Account	Wire Transfer fees	06/24/2010	20.00	auto w/d
The Bank-Checking Account	Bank Service Fees	06/30/2010	16.16	

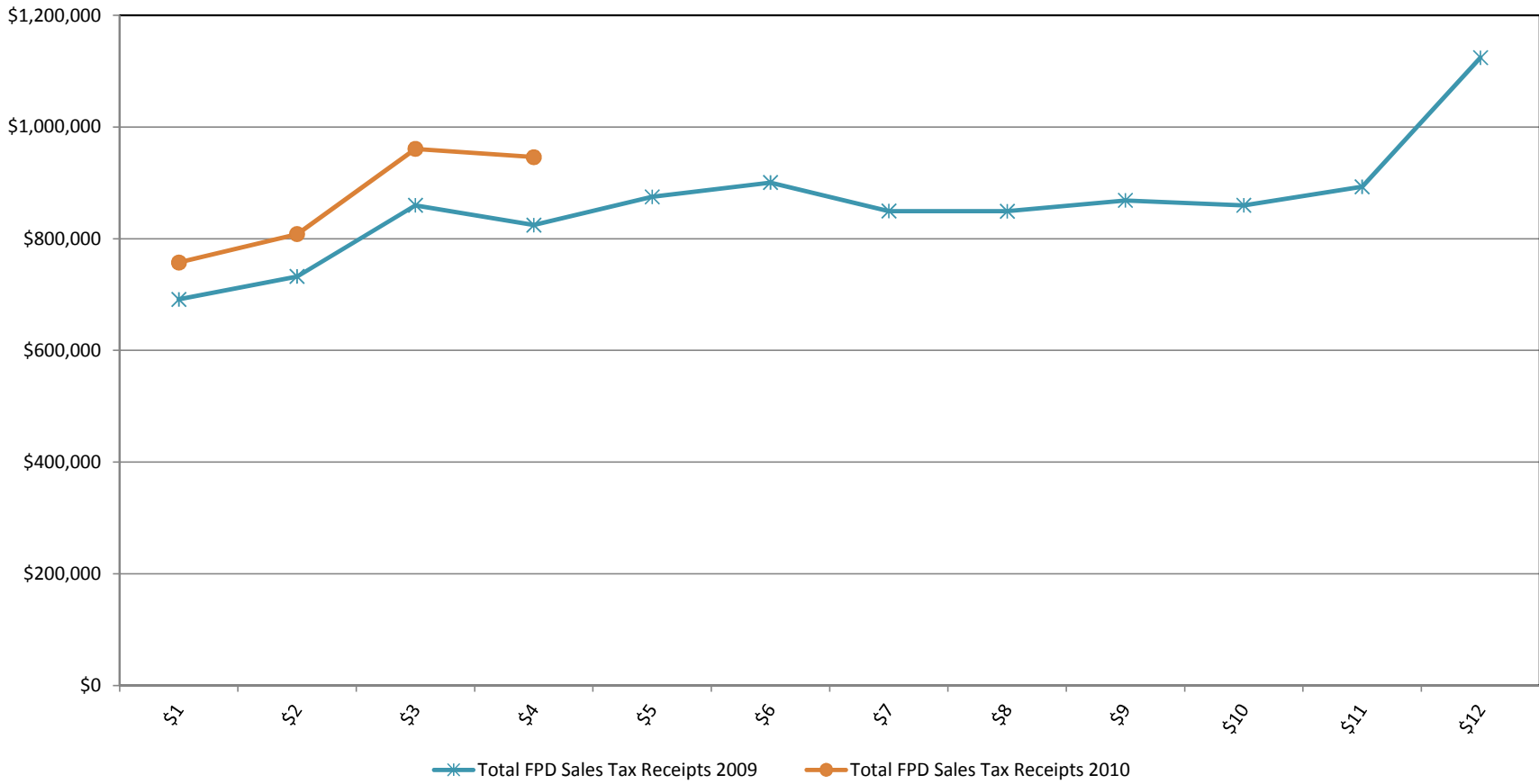
**Total Disbursements \$ 2,093,302.01**

Ending Account Balance @ 06/30/2010

\$ 144,251.87



FPD Sales Tax Trends  
Actual Receipts 2009-2010









Memo to: Board of Directors  
From: Les Sterman  
Subject: Proposed FY 2011 Budget  
Date: July 19, 2010

Attached is a proposed FPD Council budget for FY 2011. The budget was prepared with the assistance of the administrative staff of East-West Gateway. By law, the Council's budget must be adopted by August 31 of each year for the fiscal year beginning October 1. The budget must be submitted to the county boards for approval after which they have 30 days to act on it.

A number of assumptions were necessary to construct a budget for next year, particularly because the beginning of the fiscal year is still several months in the future. The most significant assumptions were made about project financing and the future rate of expenditures on design and construction. In general, expenditures have been estimated less conservatively and revenues more conservatively to account for the risk of advance budgeting.

Key assumptions are:

1. The initial bond issue, will be about \$73 million, of which proceeds to the project after the costs of issuance and reserve setaside will be about \$68 million. The bond issue will consist of some combination of tax exempt and Build America bonds yet to be determined and will be issued in the current fiscal year.
2. The supplemental reserve fund required as a credit enhancement will be about \$4.7 million, which will be funded from balances in the three county FPD sales tax funds.
3. Costs of issuance are amortized over the 25 year life of the bonds as required by accounting practice.
4. Construction will start in the third or fourth quarter of FY2011 and \$25 million has been budgeted for that purpose.
5. About half of the estimated costs for design costs were budgeted for next year.
6. The level of Council staffing does not change in FY2011, except that we would pay for half of the salary and benefit costs of a full-time Corps of Engineers employee who would assist in project management, construction oversight and facilitate necessary Corps design and construction approvals. Additional costs are budgeted for office space to accommodate the staffing from the Corps.
7. We will pay the counties back out of bond proceeds for the funds advanced to the project. That may not happen by October 1, so that expenditure is shown in FY2011.

There are some other, less significant assumptions that I will be able to explain at the meeting. I anticipate that the Board will simply discuss the budget at the July meeting and adopt it at the August meeting so that I will have an opportunity to accommodate your suggestions and amendments..

*A regional partnership to rebuild Mississippi River flood protection*

# Southwestern Illinois Flood Protection District Council

## Proposed Budget

October 1, 2010 - September 30, 2011

	Projected Expenditures October 1, 2009 thru September 30, 2010	Proposed Budget October 1, 2010 thru September 30, 2011
<b><u>Budget Summary</u></b>		
Resources:		
Flood Prevention Tax	\$12,268,448	\$10,510,886
Bond proceeds	68,164,542	0
Interest Income	1,952	335,060
Other Contributions	75,963	0
Total Resources	<u>\$80,510,905</u>	<u>\$10,845,946</u>
Expenditures:		
Design and Construction	\$7,031,910	\$33,098,265
Professional Services	442,546	360,460
Reimbursement of Advance Funding	0	3,501,778
Debt Service	4,660,837	4,055,719
General and Administrative Costs	211,070	245,355
Total Expenditures	<u>\$12,346,363</u>	<u>\$41,261,578</u>
Net change	\$68,164,542	-\$30,415,632
Funds available from prior period	<u>\$0</u>	<u>\$68,164,542</u>
Net funds available end of period	<u>\$68,164,542</u>	<u>\$37,748,910</u>

# Southwestern Illinois Flood Protection District Council

## Proposed Budget

October 1, 2010 - September 30, 2011

	Projected Expenditures October 1, 2009 thru September 30, 2010	Proposed Budget October 1, 2010 thru September 30, 2011
	<hr/>	<hr/>
<b><u>Resources</u></b>		
<i>Flood Prevention Occupation Tax Proceeds:</i>		
St. Clair	\$6,049,346	\$5,130,239
Madison	5,674,705	4,900,790
Monroe	544,397	479,857
Subtotal Tax Proceeds	<hr/> \$12,268,448	<hr/> \$10,510,886
<i>Bond Proceeds <sup>(1)</sup></i>	\$68,164,542	
<i>Interest Income</i>	1,952	335,060
<i>Other Contributions:</i>		
St. Clair	37,980	
Madison	34,944	
Monroe	3,039	
Subtotal Other Contributions	<hr/> \$75,963	<hr/> \$0
Total Resources	<hr/> \$80,510,905	<hr/> \$10,845,946
 <b><u>Expenditures</u></b>		
<b>Design and Construction</b>		
<i>Flood Prevention District Council Design and Construction Costs</i>		
Engineering Design & Construction Management	\$825,397	\$6,598,265
Construction		25,000,000
<i>Construction and design by US ACE - Federal Cost-Share</i>		
Wood River	6,066,846	450,000
MESD <sup>(2)</sup>	0	450,000
Prairie DuPont/Fish Lake <sup>(3)</sup>	139,667	600,000
	<hr/> 7,031,910	<hr/> 33,098,265
 <b>Professional Services</b>		
Legal & Legislative Consulting	250,650	126,000
Construction oversight		140,833
Impact Analysis/Research <sup>(4)</sup>	13,996	20,000
Financial Advisor	177,900	40,000
Bond underwriter/conduit issuer		33,627
	<hr/> 442,546	<hr/> 360,460

# Southwestern Illinois Flood Protection District Council

## Proposed Budget

October 1, 2010 - September 30, 2011

	Projected Expenditures October 1, 2009 thru September 30, 2010	Proposed Budget October 1, 2010 thru September 30, 2011
	<u>                    </u>	<u>                    </u>
<b>Reimbursement of Advance Funding</b>		
St. Clair	0	1,241,796
Madison	0	1,999,276
Monroe	0	260,706
	<u>0</u>	<u>3,501,778</u>
<b>Debt Service</b>		
Supplemental Bond Reserve Fund <sup>(5)</sup>	4,660,837	
Principal and Interest		5,096,566
Federal Interest Subsidy		-1,040,847
	<u>4,660,837</u>	<u>4,055,719</u>
Subtotal	<u>\$12,135,293</u>	<u>\$41,016,222</u>
<b>General and Administrative Costs</b>		
Salaries, benefits	\$176,605	\$183,885
Advertising	0	2,500
Bank service charges	400	420
Conference registration	0	700
Equipment and software	1,160	3,800
Fiscal agency services ( EWG)	7,995	16,500
Furniture	0	1,000
Meeting expenses	345	400
Miscellaneous startup expenses	600	0
Office rental		4,200
Postage/delivery	370	500
Printing/photocopies	220	1,350
Professional services	11,600	12,500
Publications/subscriptions	180	200
Supplies	1,220	1,260
Telecommunications/internet	3,030	3,190
Travel	7,220	8,200
Other business expenses	125	1,750
Insurance	0	3,000
Subtotal	<u>\$211,070</u>	<u>\$245,355</u>
Total Expenditures	<u>\$12,346,363</u>	<u>\$41,261,578</u>

**Notes**

- (1) Net proceeds from 2010 bond issuance
- (2) Share to be paid from MESD resources until exhausted
- (3) FY2011 amount to be determined
- (4) Various analysis and research efforts
- (5) Contractually required reserve trust funds held for the benefit of the bond issuer and bondholders

# Annual Report

## **Southwestern Illinois Flood Prevention District Council**

### **Introduction**

This report is furnished to the public and to county boards of St. Clair, Madison and Monroe counties in compliance with the provisions of 70 ILCS 750 Sec. 40. The statute requires that a report be submitted annually that details the activities of the district.

The Board of Directors of the Southwestern Illinois Flood Prevention District Council met for the first time on June 11, 2009. Under the terms of an intergovernmental agreement, the Board consisted of three members each from St. Clair, Madison and Monroe counties. These members were also members of the flood prevention district boards in each of their respective counties. During that initial meeting, the Board elected officers, extended an employment offer to fill the position of Chief Supervisor of Construction and the Works, and approved a fiscal agency and administrative services agreement with the East-West Gateway Council of Governments.

The Board met twice a month for three months and every month thereafter during the course of the year. Meetings are held on the third Wednesday of every month at 7:30 am. The Council has established an office at the building owned by the Metro-East Park and Recreation District in Collinsville. The organization has one employee, whose salary and benefits are provided through the Council's fiscal agent, the East-West Council of Governments.

### **Background**

The Federal Emergency Management Agency (FEMA) is adopting new flood insurance rate maps across the country. As part of that process, FEMA, with the help of the U.S. Army Corps of Engineers (USACE), is assessing the condition and adequacy of existing levees to protect against a flood that has a 1% chance of being equaled or exceeded in any single year (commonly referred to as a 100-year flood or a base flood). Although the Illinois levees in question were federally authorized and built to protect against a 500-year flood, the USACE announced in August of 2007 that there were design deficiencies and reconstruction needs that prevented them from "certifying" that these levees could protect against a base flood. This conclusion by the USACE led to FEMA's decision announced August 2007 to deaccredit the levee systems in our area and show the entire American Bottom, an area of 174 square miles, 156,000 people and 60,000 jobs, as subject to flooding as if the levee system did not exist at all. For this area, which is the industrial core of the St. Louis region, the economic effects will be devastating.

While the levee systems were built by the USACE generally in the 1940s using design standards in place at the time, the current "design deficiencies" are measured relative to current engineering standards, so the issue is not a failure of adequate maintenance by local levee districts, but primarily a change in engineering standards and in the procedures

for measuring risk. Unfortunately, even though the levees were built by the federal government using standards in place at the time, rebuilding the levees is largely a local responsibility.

There are a variety of standards for which levee systems are typically designed. The U.S. Army Corps of Engineers originally designed and built the area's levee systems to a standard authorized by Congress in the 1040's and 1950's to achieve a level of protection from a Mississippi River water elevation of 52' plus 2' of freeboard – commonly known as the 500-year flood. This is the only benchmark that the Corps is authorized by Congress to use in design and construction of our levee systems. The Corps has a second set of standards, which are used to determine eligibility for emergency assistance by the Corps in the event of a flood under the provisions of Public Law 84-99. These standards primarily relate to maintenance of existing federal levee systems, which are inspected annually to determine compliance. However, the Federal Emergency Management Agency sets its own standards as part of the national flood insurance program for areas to qualify to identify areas as at lower risk of flooding and for providing low cost flood insurance. Failure to meet the FEMA standard subjects homeowners and businesses to mandatory and high-cost flood insurance and severe restrictions on building and development. The FEMA standard is defined in regulation, 44CFR 65.10, and is generally equivalent to the 100-year flood elevation.

While maintaining compliance with all of the above described standard is the ongoing goal of the Corps, of the levee districts, and the Council, the immediate goals are to demonstrate compliance with the FEMA standard and for the PL 84-99 program, so that the immediate economic threat to the region can be avoided.

### **Activities of the FPD Council 2009-2010**

The immediate mission of the Southwestern Illinois Flood Prevention District Council is twofold: To maintain FEMA accreditation to the levee systems in the area, and to reduce the economic hardship of area residents and businesses during any temporary period of deaccreditation. Over the last year there has been great progress in achieving two important near-term goals: developing a project plan, implementation strategy, and cost estimate, and; securing regulatory relief to reduce economic impacts during the period when the project is under construction and accreditation is sought.

After some extensive fact gathering, the Council concluded that following the traditional path for levee system improvements done through the U.S. Army Corps would be neither timely nor cost-effective. In a May, 2009 presentation by the Corps to area leaders, Col. Thomas O'Hara presented a project schedule showing project completion occurring in about 35 years, assuming typical levels of federal funding and following traditional federal processes of design and construction. The cost estimate for the Corps proposal was as much \$500 million, with the cost of inflation over the lengthy time period potentially increasing the project cost well beyond that estimate. The Council concluded that such an outcome would be disastrous for the area and not in keeping with the Council's mission.

In September 2009, the Chief Supervisor presented a proposal for achieving FEMA accreditation in a much shorter time and at a lower cost. This proposal called for the Council to undertake most levee improvements independently without relying on either federal funding or on the Corps for design and construction. The Board endorsed this approach and began the process of advancing the project that has unfolded this fiscal year. While elements of the plan have been adjusted during the year, the basic process has not changed. The following specific tasks were accomplished during the year to meet the first part of the mission of the Council, to maintain FEMA accreditation for the levee systems in the area:

1. Under contract to the Council, a consulting firm completed a comprehensive certification inspection of the levee system to provide information to document compliance with FEMA standards for flood protection systems. This is the first such inspection ever done by any agency for the metro-east levees and it will serve as a basis to define any problems that exist with the levee systems and to design improvements to those systems.
2. The Council conducted a competitive solicitation for private firms to design and manage construction of levee improvements and to provide certification documentation to FEMA. This was done through a two-stage solicitation. A request-for-qualifications was issued in November 2009 to identify firms that had the necessary technical qualifications for design and construction of levee systems and would agree to certify them once improvements are made. Three teams of firms were selected from the respondents to that RFQ to submit detailed proposals, including conceptual designs and cost estimates. These teams were paid a stipend to prepare their proposals and were charged with developing cost-effective design concepts, with the principal goal of achieving levee certification at the lowest cost and in the shortest time. The proposals were received in May 2009, after which the Council conducted a thorough review and interview process and, at the June meeting, selected a consulting team for the work. The proposals clearly demonstrated that significant improvements to the levee systems could be made to clearly demonstrate compliance with FEMA standards for an amount far less than suggested by the Corps of Engineers and in a time frame well within the Council's goal of five years. The Council will enter into contract with the selected team to design levee improvements and manage construction of those improvements.
3. A financial advisor was selected through a competitive process to advise the Council on the best strategy to leverage the FPD sales tax revenues to produce the greatest level of funding for construction of levee improvements. The advisor worked with the counties, the levee districts and the Council to develop a proposal to issue sales tax revenue bonds to support the Council's work. The initial bond issue will be for \$50-\$80 million and likely take place

in August, 2010, and will take advantage of some significant opportunities available under the federal American Recovery and Reinvestment Act. Current estimates are that the Council can raise about \$160 million for construction over a five-year period. The Council will continue to seek state and federal grants to supplement local sales tax funds. However, the events of the last year suggest that the immediate goal of levee accreditation by FEMA can be attained solely through funding derived from FPD sales tax revenues. Any additional funds will be used to further improve the levee systems to reach the 500-year standard and to provide for ongoing maintenance of the levee improvements made by the Council.

4. The Council has continued to work with the Corps of Engineers to develop the project development documents necessary to qualify all of the levee improvement projects in the area (described as “design deficiency corrections” by the Corps) for federal funding. While the immediate improvements to achieve FEMA standards will likely be done by the Council without the benefit of federal funding, longer term improvements to maintain the 500-year standard will more likely be federally funded. It is the Council’s objective to use the local investment in the levee systems as matching funds for future federal appropriations, so it is essential that the federal projects be authorized. The federal project will serve as a framework for long-term improvements to the levee systems that will maintain compliance with all applicable safety standards.

The Council’s financial advisors have been making preparations for a bond issue scheduled for sometime later this year. About \$10 million is collected annually from the flood prevention sales taxes. That sum, together with any revenues from the levee district should leverage about \$160 million that can be used for construction. The Council does not anticipate seeking any additional local funds for levee improvements.

There has been some success in securing legislative and regulatory relief from the negative economic and financial impacts of levee deaccreditation. The Illinois General Assembly has passed legislation that would reduce some of the development restrictions that are imposed by the Executive Order on Floodplain Management issued in 2006. FEMA has recently announced that homeowners and businesses in newly remapped special flood hazard areas would be eligible to receive preferred risk flood insurance policies at reduced rates for up to two years, and Congressman Costello continues to pursue legislation that would impose a moratorium on mandatory flood insurance in remapped areas for up to five years. Estimates prepared for the FPD Council indicate that flood insurance premiums could amount to \$50 million annually for the area if the American Bottom is classified as a special flood hazard area and we do not get any relief from mandatory flood insurance.



The Council continues to believe that the decision made by FEMA in 2007 to deaccredit the area's levee systems was not based on scientific or technical information as required by law, and neither the Corps of Engineers nor FEMA is able to produce any such information that was used in making this critical decision. The Council is exploring all legal options to overturn this decision and provide sufficient time to get the levee systems certified and accredited.

In summary, tremendous progress has been made in the last year to address the critical problem of flood protection in our area. Many challenges remain, but in the next few months the Council should have a realistic plan and schedule, with financing in place, to restore confidence in our flood protection systems and remove the uncertainty that is so damaging to the people who live, work, and do business in Southwestern Illinois.





Memo to: Board of Directors  
From: Les Sterman  
Subject: Selection of Bond Underwriter's Counsel  
Date: July 15, 2010

Over the last several weeks the Council has solicited competitive proposals from attorneys to serve as underwriter's counsel for Council bond issues. The Council's financial advisor and staff have now completed evaluations of these proposals. The purpose of this memo is to describe the selection process and the recommendation to the Board of Directors.

## **I. Introduction**

As part of the financing strategy adopted by the Board at the June meeting, the Council is preparing to issue \$50-\$80 million in sales tax revenue bonds. This bond issue will likely take advantage of certain programs created by the federal American Recovery and Reinvestment Act, specifically Build America Bonds and Economic Recovery Zone Bonds. The use of these programs requires that the issuing process move along quickly, since it appears that some of them may require bonds to be issued as soon as August 16.

Underwriter's counsel represents the underwriters in a negotiated issue. The task of underwriter's counsel is to do a due diligence review of the issuer. The underwriter's counsel ensures that the issuer's financial condition and plans and other matters that are important for an investor to know are accurately disclosed. This disclosure is written in an Official Statement, and important document that is sent to all potential investors of the Council's bonds. Underwriter's counsel also prepares the bond purchase agreement, which is a contract for selling the debt to the underwriter. At closing, underwriter's counsel gives a 10-b-5 certificate to the underwriter. The 10-b-5 certificate states that everything material to making an investment decision has been included and that nothing material has been omitted from the disclosure process.

## **II. Description of the Solicitation Process**

Following the authorization of the Board of Directors at the June 2010 meeting a request-for-proposal was circulated to a list of firms that were potentially qualified for the assignment. Proposals were received on June 30 from 5 firms:

Gilmore & Bell PC  
Armstrong Teasdale LLP

Thompson Coburn LLP  
Miller, Canfield, Paddock and Stone PLC  
Ungaretti & Harris LLP

Copies of the proposals were sent in electronic form to the Council's financial advisor and to all Board members. The chief supervisor and financial advisor independently reviewed the proposals and followed up with additional inquiries to the respondents. Because of the short time schedule and the completeness of the proposals, no interviews were held and the evaluation was done based on the written proposals and responses to follow-up questions.

### **III. Findings and Recommendations**

All of the proposals were responsive to the requirements in the invitation to propose for the work.

Particular emphasis was given in the review to the following evaluation factors that were specified in the RFP:

- A. *The qualifications and experience of the firm with regard to the application of provisions of Build American Bond and tax-exempt transactions, as well as qualifications of personnel and resources committed to the Council.*
- B. *Demonstrated understanding of all facets of the assignment and of the Council's needs and objectives as outlined in this RFP.*
- C. *Evidence of a high degree of professional competence and timeliness in the preparation of drafts and redrafts of documents.*

**Gilmore & Bell** (St. Louis, MO) has extensive and varied experience in public finance, including the issuance of Build America Bonds. "In 2009, the firm acted as bond counsel and underwriter's counsel on over 500 long-term municipal issues totaling \$6.0 billion." The firm has done significant work for local municipalities including Belleville, Fairview Heights and Edwardsville. Proposed fee: \$60,000 for a principal amount up to \$50 million plus \$0.90 per \$1,000 over \$50 million.

**Armstrong Teasdale** (St. Louis, MO) has served as underwriter's counsel in a number of local financings, mostly in Missouri, but including several for bonds issued by SWIDA in Illinois. Currently, they are underwriter's counsel for a \$50 million financing involving BABs. Proposed fee: \$37,500 for a principal amount up to \$50 million plus \$1.00 per \$1,000 above \$50 million; \$42,000 for a principal amount of \$61 million plus \$0.75 per \$1,000 above \$60 million; \$46,500 for a principal amount of \$71 million plus \$0.50 per \$1,000 above \$70 million.

**Thompson Coburn** (St. Louis, MO) has a large public finance practice including "serving as borrower's counsel or issuer's counsel in transactions involving in excess of \$20 billion." Almost all of the cited experience is in Missouri, with a couple of projects in Illinois. Several involve BABs. Proposed fee: \$1.95 per \$1,000 in bonds up to a principal amount of \$50 million

(\$97,500 for a \$50 million issue) plus \$1.75 per \$1,000 between \$50 million and \$75 million plus \$1.50 per \$1,000 over \$75 million.

**Miller, Canfield, Paddock and Stone** (Chicago, IL) has a very extensive practice in public finance, including as underwriter's counsel for billions of dollars of bonds in the upper Midwest. That experience includes a significant number of BABs. Proposed fee: for Build America Bonds \$72,500; for tax-exempt revenue bonds \$65,000.

**Ungaretti & Harris** (Chicago, IL) has "served as counsel with respect to tens of billions of dollars of tax-exempt and taxable debt issues." Cited experience includes a number BAB issues nationwide, including many in Illinois. Proposed fee: estimated at \$60,000 - \$70,000.

Three of the firms (Gilmore & Bell; Miller, Canfield; and Ungaretti and Harris) clearly focus on public finance and have a national practice in that area. Each demonstrated a clear understanding of the issues related to BABs and of the Council's situation. These firms will be more readily prepared to deal with the Council's situation as a first issuer involving Build America Bonds. Since this issue will likely be the first of several, it is particularly important to prepare an authoritative and accurate set of bond documents that can be used for future issues. For the foregoing reasons, the firms that have a deeper practice in public finance may better suit the Council's needs. Among those firms, only Gilmore and Bell has a strong local presence, including work with area local governments and bond underwriters.

**Recommendation:** Authorize the Chief Supervisor, with the assistance of the Council's financial advisor, to negotiate fees and other terms and conditions with Gilmore and Bell PC to serve as the underwriter's counsel for Council bond issues.





Memo to: Board of Directors  
From: Les Sterman  
Subject: Selection of Bond Underwriters  
Date: July 19, 2010

Over the last several weeks the Council has taken the necessary steps to solicit competitive proposals from qualified investment banking firms to serve as underwriters for Council bond issues. The Council's financial advisor and staff have now completed evaluations of these proposals. The purpose of this memo is to describe the selection process and the recommendation to the Board of Directors.

## **I. Introduction**

As part of the financing strategy adopted by the Board at the June meeting, the Council is preparing to issue \$50-\$80 million in sales tax revenue bonds. This bond issue will likely take advantage of certain programs created by the federal American Recovery and Reinvestment Act, specifically Build America Bonds and Economic Recovery Zone Bonds.

An underwriter is a securities dealer who helps government entities bring bond issues to market. The key role it plays is to buy the bonds from the issuer and then resell them to investors. In doing so it assumes a financial risk and thus expects to make a profit on the transaction. The difference between the purchase price paid by the underwriter to the issuer and the price at which the bonds are resold to investors represents the underwriter's profit or discount. The underwriter's discount depends on factors such as the interest rate and accurate pricing of the bonds.

The underwriter's discount potentially includes up to three components: the management fee, takedown, and expenses. Takedown is the "sales commission" of the transaction. The takedown is the principal component of the potential profit to an underwriter in a bond sale. There is an impact of takedown on the resulting true interest cost to the bond issuer. An inadequate takedown may result in less aggressive marketing of the bonds and a higher interest cost to the issuer. A fair takedown will incentivize the sales persons at the investment banks to sell a Council issuance with sufficient time to secure the lowest cost of financing.

In general, the Council should choose underwriters who will likely offer the potential to realize the greatest proceeds that we can use to build levee improvements. It will be important,

therefore, to choose an underwriting team that can provide the best market exposure and will most aggressively price and market our bonds. Since Build America Bonds are taxable, the marketing strategy will be different than for tax exempt bonds, so the underwriter should have specific experience relevant to marketing taxable bonds. In addition, since the pricing of Build America Bond issues is recently coming under scrutiny from the Internal Revenue Service, we have particular interest in assuring that bonds are priced fairly and accurately.

## **II. Description of the Solicitation Process**

Following the authorization of the Board of Directors at the June 2010 meeting a request-for-proposal was circulated to a list of firms that were potentially qualified for the assignment. Proposals were received on July 2 from 13 firms:

Bank of America Merrill Lynch  
Blaylock Robert Van, LLC  
BMO Capital Markets GKST Inc.  
Cabrera Capital Markets, LLC  
Edward Jones  
Hutchinson, Shockey, Erley & Co.  
Loop Capital Markets, LLC  
Morgan Keegan & Co., Inc.  
Piper Jaffray  
Rockfleet Financial Services, Inc.  
Stern Brothers  
Stifel Nicolaus  
William Blair & Company

Copies of the proposals were sent in electronic form to the Council's financial advisor and to all Board members. The chief supervisor and financial advisor independently reviewed the proposals and followed up with additional inquiries to the respondents. Because of the short time schedule and the completeness of the proposals, no interviews were held and the evaluation was done based on the written proposals and responses to follow-up questions.

## **III. Findings and Recommendations**

All of the proposals were responsive to the requirements in the invitation to propose for the work. The proposals reflect a wide range of experience and sophistication, which is understandable considering that the respondents range from large national investment banks to smaller regional banks. The range of fees was also relatively large, although fees need to be considered in the context of bond pricing and other factors that will affect the overall proceeds of a bond issue to the Council. Quoted underwriters takedown and spread is not as important as an investment bank's ability to secure the lowest rates for the Council.

Particular emphasis was given in the review to the following evaluation factors that were specified in the RFP:



- A. *The qualifications and experience of the firm, primarily in experience with Build America Bond and Tax-Exempt transactions, qualifications of personnel, resources committed to the Council.* This factor was scored based on the number and size of recent BAB transactions and the demonstrated qualifications of the assigned staff.
- B. *Demonstrated understanding of all facets of the assignment and of the Council's needs and objectives as outlined in this RFP.* The level, type and credibility of the analysis in the proposal and specific applicability to the Council's situation was evaluated and scored.
- C. *Pricing and Fees.* This is the takedown per bond for a \$50 million BAB issue.
- D. *The proposer's ability to manage, structure, implement, and provide the financing services with a high degree of professional competence on the terms most advantageous to the Council's overall operational and financing structure in a manner which is compliant with applicable law.*

The relative experience of the firm in senior managing BAB transactions was evaluated and scored, as well as the ability to market retail in Illinois, which is likely to produce the best financial outcome for the Council. We also considered the amount of net excess capital as an indicator of the ability to successfully complete the sale of bonds, even under adverse circumstances.

The scoring of the proposals is shown in Table 1. In general, the larger national firms scored higher, simply because of their far greater experience and market reach. However, there are also a number of regional firms and at least one minority firm that are very active in the BAB market and also scored quite well. In forming a recommendation, we also considered local presence as an important factor in meeting our needs.

Morgan Keegan emerged as a strong national firm with great depth of experience, ranking nationally as 7<sup>th</sup> in terms of the total size of BABs underwritten in 2010. The firm also has a significant local presence, strong retail capacity, and demonstrated a very credible understanding of our situation. Among regional firms, Stifel Nicolaus has impressive experience, a high national ranking, and a deep reservoir of capital. Hutchinson, Shockey, Erley, also a strong regional firm, has a long history working successfully in our area and has reasonable BAB experience. Loop Capital, a national minority firm headquartered in Illinois, also scored very highly and is clearly active and capable in the BAB market.

The financial advisor also performed a sale analysis of BAB transactions led by Morgan Keegan, Stifel Nicolaus and Hutchinson, Shockey, Erley for transactions priced in March, April and May of this year. In this analysis similarly rated credits were compared based on the spread to Treasuries for similar maturities. While this is not an exact science, the advisor concluded that Morgan Keegan was generally more aggressive in pricing similarly rated credits, followed by Hutchinson and then Stifel.

While the national firms scored highest, the financial advisor and I believe that the most effective team for pricing and selling our bonds will be a combination of national and regional firms. Barring any performance issues, we believe that this team can serve the Council's needs through multiple bond issues as the project moves forward over the next few years.

Underwriters are commonly designated as senior managers, co-senior managers and co-managers to indicate their role on the underwriting team, or syndicate. The senior manager is the syndicate's most important member. The senior manager negotiates the underwriting discount, interest rates, and yields on behalf of the syndicate and determines the distribution of the bonds. Co-Senior managers do not run the process, but have a very important role in the transaction by providing insight into the market and selling bonds to investors that offer the best price for the bonds. Co-Senior managers and Co-managers are added to increase market penetration, and must also be willing to commit capital. Since the number of co-managers will determine the risk and sales opportunity of each firm in the syndicate, care must be taken not to expand the number of co-managers to the point that participation will be diluted beyond reasonable commercial interest.

The recommendation below identifies underwriters for the Council's transaction(s) and the share of the takedown, or fee, that will be allotted to each underwriter. This is an approach to allocating fees known as "group net," wherein a predetermined percentage allocation of the takedown is made to each member of the syndicate with the largest portion going to the senior manager, notwithstanding the orders generated by any firm or other support for the bond issue. This approach allows the Council to determine the exact amount of fees it wants to pay to each member of the underwriting syndicate. While it is customary for the senior manager to be allocated at least 50% of fees to compensate for the added work of managing the transaction, in our case we are recommending a smaller allocation to provide for the meaningful involvement of a wider variety of firms. To adequately compensate the senior manager, the Council would provide an additional fee of \$75,000.

***Recommendation:*** Authorize the Chief Supervisor, with the assistance of the Council's financial advisor, to negotiate fees and other terms and conditions with the following firms to serve as underwriters of Council bond issues:

Morgan Keegan: Senior Manager with 35% of takedown plus a management fee of \$75,000

Stifel Nicolaus: Co-Senior Manager with 27.5% of takedown

Hutchinson, Shockey, Erley & Co.: Co-Senior Manager with 27.5% of takedown

Loop Capital: Co-Manager with 10% of takedown

**SW Illinois Flood Prevention District Council  
Evaluation of Underwriter Proposals**

<b>Bank Name</b>	<b>Total Fee per Bond for \$50 million BAB <sup>1</sup></b>	<b>Fees Ranking (1-30)</b>	<b>Experience <b>Senior Managing</b> BAB transactions (1-30) <sup>2</sup></b>	<b>Understanding of Situation <sup>3</sup> (1-30)</b>	<b>Total Capital (\$ millions)</b>	<b>Ability to Market Retail in Illinois <sup>4</sup> (1-30)</b>	<b>Number/Size (\$millions) of Recent BAB Transactions (1st two quarters 2010) <sup>5</sup></b>	<b>National Rank (2Q 2010)</b>	<b>MBE/WBE?</b>	<b>Total Score</b>
<b>Bank of America</b>	\$5.14	28	29	28		25	34/7,536	2		<b>110</b>
<b>Blaylock Robert Van</b>	\$6.50	26	20	22	4.5	22	None		MBE	<b>90</b>
<b>BMO Capital Markets</b>	\$6.00	27	29	29	24,968	26	29/474	18		<b>111</b>
<b>Cabrera Capital</b>	\$6.05	27	27	20	9.5	25	NA		MBE	<b>99</b>
<b>Edward Jones</b>	\$17.00	21	22	24	1,426	30				<b>97</b>
<b>Hutchinson Shockey</b>	\$5.00	28	23	27	12.8	22	13/81.7	33		<b>100</b>
<b>Loop Capital</b>	\$4.68	29	22	27	95	25	3/443.9	19	MBE	<b>103</b>
<b>Morgan Keegan</b>	\$6.30	27	29	30	945	25	47/1842.5	7		<b>111</b>
<b>Piper Jaffray</b>	\$3.85	30	26	25	333.8	25	23/601.3	16		<b>106</b>
<b>Rockfleet</b>	\$5.50	27	0	20	0.028	25	NA		WBE	<b>72</b>
<b>Stern Brothers</b>	\$6.75	26	20	22	4.6	22	NA			<b>90</b>
<b>Stifel Nicolaus</b>	\$6.70	26	26	30	765	27	38/662.6	14		<b>109</b>
<b>William Blair</b>	\$8.00	23	26	25	102	25	6/769.3	12		<b>99</b>

(1) This is the quoted total underwriters takedown for each \$1000 bond in a \$50 million BAB transaction.

The underwriter also benefits from the discount i.e. the difference between the price paid for the bonds by the underwriter and the ultimate sales price.

(2) Build America Bond (taxable) transactions are much different than tax-exempt transactions involving different buyers and structuring. An underwriter with experience selling taxable bonds generally, and BABs specifically will likely get better prices for the bonds yielding more proceeds for the Council. Also, experience marketing similar size bond issues to buyers in Illinois will be helpful, assuming that bond interest will be exempt from Illinois taxes.

(3) A meaningful response demonstrating a well thought out approach to the complexity of the Council issuance, rather than a pro forma approach.

(4) Selling bonds at retail will generally produce a better price and lower interest rate. (5)

Source: Thomson Reuters 7/01/2010





Memo to: Board of Directors  
From: Les Sterman  
Subject: Request for Economic Recovery Zone Bond Allocation from Madison and Monroe Counties  
Date: July 19, 2010

Should the first Council bond issue be sales tax revenue bonds, we would like to take advantage of programs offered as part of the American Recovery and Reinvestment Act (the economic stimulus program) to increase the proceeds from that issue. Specifically, the Act authorizes the use of Build America Bonds and Economic Recovery Zone bonds. Build America Bonds are used to fund public infrastructure or facilities that promote economic activity. These bonds are taxable, but there is a 35% interest subsidy that is returned to the issuer. Recovery Zone Bonds are similar, except that the interest rate subsidy is 45%, and these bonds can only be issued for projects located in areas that are economically distressed and qualify as “recovery zones” under the law. The levee improvement project is an eligible project, and it is clearly to the Council’s benefit to maximize our acquisition of authority to issue these bonds. Bonds must be issued by December 31, 2010.

Recovery Zone bond authority is allocated to states based on 2008 job losses and states then allocate authority to counties based on relative job losses. Many counties have been unable to use their Recovery Zone bond authority on eligible projects. Last month, the Board authorized the acceptance of Recovery Zone Bond authority from Madison and Monroe counties (\$7.9 million and \$2.0 million respectively). St. Clair County has also offered authority for \$10,560,000 in recovery bonds, bringing the total from the three counties to \$20,460,000 in Economic Recovery Zone Bonds.

**Recommendation:** Authorize the Chief Supervisor to request authority from St. Clair counties to issue Economic Recovery Zone Bonds and to execute the necessary agreements to effect this transaction.





Memo to: Board of Directors  
From: Les Sterman  
Subject: Authorization for Extension of Levee Inspection Contract  
Date: July 15, 2010

Because of continuing high water on the Mississippi River, our contractor conducting the levee certification inspection, AMEC Earth & Environmental, has been unable to inspect some critical features of the levee system. Video inspections of gravity drains and inspection and verification of the operation of floodgates and other closure structure have not been possible since these features have been underwater for most of the last two months.

At the direction of the Board of Directors AMEC's contract for the inspection is with our special counsel, Husch Blackwell Sanders. I am therefore requesting that the Board authorize Husch to extend the contract with AMEC for three months, until October 31, 2010. This is a no-cost extension, and only involves amending the date for conclusion of the contract. This action does not affect the overall schedule for the project.

**Recommendation:** Authorize Husch Blackwell Sanders to execute an extension of the contract for levee system certification inspection with AMEC Earth & Environmental until October 31, 2010.







Memo to: Board of Directors

From: Jim Pennekamp  
Dan Maher  
John Conrad

Subject: Election of Officers

Date: July 15, 2010

Under the Council's bylaws, Board officers (President, Vice-President, and Secretary-Treasurer) serve for one year terms, must each be from a different county flood prevention district and are elected at the Council's Annual Meeting, which will be the July Board meeting. As the chairs of the county flood prevention commissions, we met as a nominating committee to recommend a slate of officers for 2010-2011. Our recommendation is as follows:

President: Dan Maher  
Vice-President: John Conrad  
Secretary: Jim Pennekamp

The election of officers will take place on July 21, 2010 at the Council's regular Board meeting.