MINUTES
NORTHEAST OHIO REGIONAL SEWER DISTRICT
FINANCE COMMITTEE
MARCH 3, 2009

The meeting of the Finance Committee of the Northeast Ohio Regional Sewer District began at 9:06 a.m.

I. Roll Call

Present: R. Sulik
D. Brown
S. Kelly

W. O'Malley was also present.

Ms. Kelly informed the Chair that there was a quorum.

II. Approval of Minutes

MOTION – Mr. Brown moved and Ms. Kelly seconded that the minutes of the December 18, 2008 Finance Committee meeting be approved. Without objection, the motion carried unanimously.

III. 2009 Budget Review

Director of Finance, Jennifer Demmerle, advised that each budget center submitted a detailed line item budget to the Finance Department which were compiled into a working document. The Internal Budget Committee Review comprised of Executive Director Ciaccia, Deputy Executive, Michael Bucci, Human Resources Director, Douglas Dykes, and Ms. Demmerle reviewed all budget requests. The District operates on a "modified zero-based approach" which means the District starts at zero at the beginning of each year and does not carry-over any unspent dollars. The Internal Budget Review Committee also reviewed historical spending patterns.

Ms. Demmerle advised that the initial submitted requests of approximately $106 million were reduced to $100 million. Staff will provide the Finance Committee a budget overview, incorporate any of the Committee's recommendations into the budget, provide budget overview to the full Board at its March 5th meeting, and then bring the budget to the Board for adoption at its March 19th meeting.

Ms. Demmerle referred to a table depicting the 2009 staff budget in comparison to the rate study, and the total revenue was slightly higher than the rate study resulting from watershed grant reimbursements of approximately $1.9 million. The budget was "kept tight" due to the current economic conditions and reduced the budget below what was projected in the rate study. The

debt service remains the same compared to the rate study, and the District does not anticipate any new bond issues for 2009.

Ms. Demmerle referred to a chart comparing the 2009 and 2008 budgets. For 2009, there is a 2% increase in operating expenses and 3% increase in revenues resulting from the continuous decline in consumption, increase in delinquencies and an interest rate deduction on the District's investments.

Ms. Demmerle advised that an increase in budgeted personnel resulted from the creation of the Contract Compliance Office, and three (3) new positions were added for the Watershed Department.

Ms. Demmerle advised that, for 2009, there are no capital or operating expenses for the Stormwater Management Program (hereinafter "SMP"). SMP will be incorporated into the 2010 budget, once the funding is available. Conversely, funds were allocated for SMP outreach.

Ms. Demmerle advised that billed consumption is considered when reviewing the annual revenue forecast and she referred to a chart depicting an annual consumption decrease of 2%.

Ms. Demmerle advised that 96% of the District's revenue is obtained through user fees. The District's revenue increased 3% in 2008 when averaging the 9% rate increase with 2% decrease in consumption and 4% in uncollectibles.

Ms. Demmerle advised that the 2009 investment income is around $8.3 million compared to almost $12 million earned in 2008 resulting from the investment interest rates being below 1% as compared to 5% in 2008.

The majority of the District's budget is operations at 57% followed by Finance, Watershed and Engineering.

Salaries, benefits and utilities are 70% of the District's budget, professional contractual services is 20%. Ms. Demmerle referred to a chart depicting the District's actual salaries and benefits over the last four years as well as 2009 projections. In 2009, the projected increase in wages is 2% and every staff member is budgeted at 2080 hours and not considering any employees on disability for the year. There was no significant increase in benefits and the District's premium with Medical Mutual decreased.

Gas costs over the last four years remained the same and there was a small decrease in the 2009 rate. An increase in electric costs resulted from the electric usage and rates increase. The District has a 10-year contract with Cleveland Public Power (hereinafter "CPP") for the Easterly and Westerly plants whereas Southerly's yearly contract is with First Energy.

Ms. Demmerle advised that the large increase in professional services for 2008 resulted from a $3 million contract with AMEC for providing consulting services and assisting in the establishment of the SMP, therefore, there is a slight decrease in 2009. The District expects to spend $7.3 million in 2009 for professional services resulting from a new Governmental Accounting Standards Board pronouncement (GASB-51) that requires all studies to be paid for through operating expenses. Studies produced through engineering are reflected in the operating budget which is $2.3 million.

Ms. Demmerle advised that the increase in 2009 for other contractual services results from the West Creek Stream Restoration Project of $1.3 million as well as other water resources restoration projects. The District will receive reimbursement for said projects, but the District has to list them as "expensed" and are depicted in the operating budget because the District cannot capitalize stream restoration projects.

The District expects to spend $500,000 in ash-hauling at Southerly to clean out the ash lagoons which was not a 2008 expenditure.

Public outreach efforts are expected to increase due to the SMP.

Ms. Demmerle advised that District expects to spend $132 million in 2009 for its Capital Improvement Program (hereinafter "CIP"). Funding will come from the remaining 2007 bond proceeds of $78 million, and the District will utilize $100 million in low-interest loans. Projects were submitted to receive the $100 million in loans, and due to the District being on a cash-flow basis, it expects to spend and reimburse $47 million.

Ms. Demmerle advised that the District intends to cash finance its minor capital purchases of $3.7 million using pay-go dollars.

Mr. Sulik inquired if the District expects to receive any stimulus funds in 2009. Ms. Demmerle advised that of the $4 billion allocated for clean water projects, the state of Ohio will receive about $220 million, and the Environmental Protection Agency (hereinafter "EPA") decides how these monies will be dispersed throughout the entire state. The District submitted $260 million worth of eligible projects. Executive Director Ciaccia added that the District expects to receive some money, however, this was not factored into the budget because the District is not certain of the amount, if any, will be received.

Mr. Sulik inquired if the stimulus money will be used to fund additional capital projects or replace the dollars the District anticipates spending. Executive Director Ciaccia advised that this would offset money the District plans to spend for its CIP.

Ms. Demmerle referred to a slide depicting the first 5-years of the District's CIP. Of the $263 million the District anticipates awarding in 2009 as well as the $124 million of outstanding 2008 contracts, the District's expects to spend $132 million in 2009. The philosophy changed to a

cash-flow based program whereas, in the past, the District would present an award-based CIP. This focus was changed to assist the District in determining how much and when it will finance its projects.

Ms. Demmerle advised that District anticipates spending $1 billion over the next five years. Of this $1 billion, $92 million is allocated for stormwater projects which will commence in 2010.

CAPITAL PROJECTS & ENGINEERING & CONSTRUCTION
Greg Binder, Planning Manager

Mr. Binder advised that the District is focusing on cash flow, or how much the District spends on projects on a yearly basis, in addition to an award basis. Mr. Binder referred to a slide depicting the cash flow for CIP and non-CIP, not including stormwater projects, over the next five years and indicated that the plants make up a significant portion of the work. In 2011 and going forward, the CIP increases significantly due to the Combined Sewer Overflow Long-Term Control Plan (hereinafter "CSO LTCP"). In 2009, 52% of the cash flow will go towards the plants resulting from the fluidized bed incineration project.

Cash flow for non-CIP projects is expected to increase and these projects are not related to a specific asset and cannot be capitalized. The CIP projects include general engineering services, asset management, communications and automated studies from IT, and Watershed stream restoration and ecological work.

Mr. Binder advised that cash outflows for treatment plant construction is expected to increase in 2010, 2011 and 2012 due to the fluidized bed incineration project, and the District expects heavy cash flows for those improvements. This will decrease after 2012, or when the fluidized bed incineration project is completed.

Mr. Binder provided a brief overview of the scheduled 2009 plant projects. The Aeration Tank Replacement Project at Easterly is holding pending discussion on the use of Minority Business Enterprises (hereinafter "MBE") and Women Business Enterprises (hereinafter "WBE") on said project. Substation replacement work at Easterly is 80% design and is expected to be advertised in April. While the District replaces incinerators at Southerly, Easterly and Westerly incinerators need to be maintained to ensure proper operation. The Aeration Tank replacement is an in-house design project estimated to cost $12 million and will be advertised in July. The CVI lift station improvements at Southerly are on hold pending Board discussion with the contractor regarding MBE/WBE participation on said project. Substations at Southerly will be replaced with 15 new substations and this project is expected to be advertised in the summer of 2009. Miscellaneous electrical repair work is expected to be completed at Southerly and will be advertised in the spring of 2009.

Mr. Binder discussed Southerly's Renewable Energy Facility (hereinafter "REF") project, formerly referred to as the fluidized bed incineration or biosolids handling and incineration

project. The District will burn biosolids and utilize waste heat to run the incinerators and generate electricity. The REF project is divided into six contracts and three are under construction. The first project involved the removal of existing piping under the complex to ensure plant operation during construction. The incinerators were purchased in the fall of 2008. It costs the District approximately $7,000 per day to burn natural gas for the operation of the existing incinerators, and it was determined that moving this project along expeditiously will benefit the District long-term. The anticipated start-up date of the incinerators was moved from 2014 to 2012. The incinerator equipment will be delivered in approximately two years.

The incinerators are being built in the location of the existing digesters that were abandoned for at least 30 years. The steel domes on the digester tanks must be removed as well as cleaning out the existing digesters. District Contract 28-C is for the digester dome removal and recycling of this material.

District Contract 28-F is to prepare the site, demolish the digesters and prepare a lay down area for the steel piling purchased under District Contract 28-G. All Southerly facilities are required to be built upon piling due to the subsurface conditions. Engineering is working with a technical buyer, in the purchasing department familiar with the steel industry, to determine the most advantageous time to purchase the steel piles.

District Contract 28 or the construction of the incinerators is expected to commence early 2010 and will be advertised in August 2009.

Mr. Binder showed the Board a visual image depicting the proposed REF facility including the incineration complex and dewatering pump station from I-77 South. The building is one acre and, at its highest point, will be 50 feet tall.

Mr. Brown inquired about the name of the REF facility. Mr. Binder stated that the incinerators burn at about 1500 degrees Fahrenheit which must be disposed. The REF facility will burn biosolids, capture waste heat and run it through the waste heat boilers which produce steam. The steam produces energy needed to drive the turbines which will generate 25% of the electricity used at the Southerly plant. Executive Director Ciaccia added that REF "sounds better than incineration" and, strategically, there are "funding reasons" for choosing this name. There are funding opportunities for sustainable energy projects in which the District is hopeful that the REF project meets those guidelines. Mr. Binder added that in addition to the $225 million stimulus funding for State of Ohio wastewater projects, there is also funding for re-energy facilities. The District submitted the REF project and is hopeful that a portion of this project is eligible for funding.

Ms. Kelly inquired if the REF will reduce the District's energy costs. Mr. Binder advised there will be a reduction in the District's power consumption of 25% and natural gas consumption by about $1 million per year. The District's existing incinerators and thermal conditioning unit are powered by natural gas whereas the new incinerators will mostly be self-sustaining and use very

little natural gas to burn the incinerator's biosolids resulting in significant savings in natural gas consumption. Executive Director Ciaccia added that the REF facility will substantially reduce the District's air emissions which will be a financial benefit as well. Ms. Kelly commented that "that sounds pretty green."

Mr. Binder advised that incineration with energy recovery results in green power and will also be a carbon neutral facility in terms of the greenhouse gasses including carbon dioxide, nitrous oxide and methane, or the emissions produced by the incinerator will be offset by reduced power consumption.

Mr. Sulik inquired if Mr. Binder could speculate as to the District's savings over a 10-year period. Mr. Binder replied that the District will save approximately $1 million annually for the decrease in natural gas consumption. The turbine and waste heat portion of the boiler for the REF facility will cost approximately $25 million. At the current electric rate of about $.07 per kilowatt hour, the District anticipates the payback period to be about 15 years. Electric rates are expected to increase and the payback period will be less than 10 years.

Mr. Binder stated that on March 9, 2008, *The Plain Dealer* featured an article identifying the major sources of air pollutants in Cuyahoga County wherein the Southerly plant was listed as #9 primarily because of its incinerators. With the reduced air emissions from the incinerator, it is projected that by 2013, the District will no longer be in the top 20. The Cleveland Air Agency has been very cooperative with the permitting process and encourages the District to continue moving forward with the REF project.

The REF project will be showcased as the District seeks certification for building in Leadership in Energy and Environmental Design (hereinafter "LEED"). Sustainability initiatives include the use of an existing site, construction on an energy efficient building, capturing roof runoff, landscaping, irrigation, recycling concrete and steel, installation of low flow fixtures in the restrooms, using low emitting materials (paints, adhesives, carpeting) and utilizing green housekeeping activities.

ENGINEERING & CONSTRUCTION – COLLECTION SYSTEM
Richard Switalski, Sewer Design Manager

Discussion was turned over to Mr. Switalski who provided an overview of the District's Collection Systems Program. Mr. Switalski advised that there are two (2) types of collection systems including the rehabilitation interceptor section and the CSO LTCP, which is much larger. The rehabilitation items are expected to be a $20 million expenditure over the next five years. The District inspected over a million feet of interceptors and established a rehabilitation program to complete necessary repairs and maintenance, the District is entering into its final design stage and plans to issue a Request for Proposal (hereinafter "RFP"). Next year, the District intends to inspect "the entire million feet" of its interceptors and establish a rehabilitation project from that point forward on an annual basis.

There are 14 projects currently in the rehabilitation interceptor category whereas several are under construction. The Huntington Garage Project is located on West 3rd Street and Lakeside Avenue. Cuyahoga County informed that there was a sinkhole located in the garage which is owned by the City of Cleveland. The interceptor collapsed due to a water main break and the District discovered that 500 feet of pipe deteriorated due to acid in the discharge. The District needs to reline an approximate 500 foot section with a "cured in-place pipe" located in the sub-basement of the Huntington Garage. The Huntington Garage project is estimated to cost $2 million.

Mr. Brown inquired about the entrance off West 3rd Street. Mr. Switalski confirmed that the entranceway off of West 3rd Street will be blocked for a short period of time and the District is working with the City of Cleveland's Traffic Department, Cuyahoga County and the Huntington Garage attendants regarding the proposed traffic plan. Mr. Switalski advised that people utilizing the Huntington Garage will be informed of the construction as well as alternate entranceways.

Mr. Brown inquired whether "traffic to and from the bridge" will be affected. Mr. Switalski stated that he did not expect that the bridge traffic would be impacted. Lakeside Avenue may be impacted due to increased traffic desiring to access the garage. Mr. Brown suggested that Mr. Switalski verify whether the bridge will be impacted for the reason that if the project is underway during the summer or fall, this could impact stadium traffic.

Mr. Switalski moved discussion to the Big Creek Interceptor 3D Lining Repair (hereinafter "BCI-3D-LR") project. BCI-3D-LR resulted from the failure of a lining at the BCI-3D project. This project is located in Cuyahoga Heights between the Ohio Erie Canal and the Southerly plant. Approximately 2100 feet of the interceptor has to be redone. Alternate remedies include slip-lining, re-coating or re-lining this section which previously failed. Mr. Switalski stated that the District expects "to come out sometime this summer" with the BCI-3D-LR project. BCI-3D-LR is estimated to cost $3.2 million.

Mr. Switalski moved discussion to the Mill Creek Interceptor Main Branch Contract (hereinafter "MCI-MB") resulting from a failure of an interceptor at the landfill, adjacent to I-77 across from the Southerly plant. A gravity bypass takes Mill Creek interceptor's flow to the tunnel, but all flow is not captured. MCI-MB will directly connect to the Mill Creek Tunnel capturing all flow. The design is ready and the District is waiting for property acquisition. MCI-MB project entails building a large shaft where the Mill Creek Interceptor crosses over the Mill Creek Tunnel making a direct connection. MCI-MB is estimated to cost $8.2 million to $8.4 million. Executive Director Ciaccia informed the Board that the BCI-3D-LR and MCI-MB projects are both subject to major litigation resulting from actions taken by the contractors.

Mr. Sulik inquired if the MCI-MB project will eliminate "going through that landfill area completely." Mr. Switalski replied that when "this is on-line" the District will "decommission

that entire section of the Mill Creek Interceptor that goes through that landfill" and that will "all be filled in." The flow will be routed directly to Southerly through the tunnel.

Mr. Switalski moved discussion to the CSO LTCP. The Euclid Creek Tunnel (hereinafter "ECT") is currently in the design phase, and the District received permission from the EPA to move forward with construction of the ECT. Design completion will be in 2010. The ECT is a large tunnel that will be constructed in the City of Cleveland and Bratenahl travelling under Lake Erie through the Easterly plant ending at Nine Mile Creek. Initially, the ECT was estimated to be a 15,000 foot tunnel; however, it is now expected to be 18,000 feet long and 24 feet in diameter. The tunnel was extended due to a desired staging location at Nine Mile Creek. The ECT project is estimated to cost $188 million and is expected to be awarded in July 2010.

Mr. Brown inquired as to the "service impact" of the ECT project to this area. Mr. Switalski stated that the Easterly area has the most overflow and the ECT shafts will capture this flow bringing the total CSO level of control from four to one or zero. Director of Watershed, Frank Greenland, added that the District agreed to upsize the pipes bringing CSOs from the CSO location to the tunnel "so that we can pass all the peak rates of flow" and level of control will be no more than three overflows per year. Discussions held with the government are flexible and include the District striving to achieve "higher levels of control, down the road, if warranted."

Mr. Sulik inquired as to the current level of control at this site. Mr. Greenland replied "40, 50, 60 times per year" and the "worst ones in the system are 70 or 80 times per year." Mr. Sulik replied that the it seems the ECT will significantly reduce CSOs especially overflows at the beach and Lake Erie.

Mr. Brown stated that, in the City of Cleveland, this area is one of two areas having significant basement flooding, and he inquired how the ECT will impact this flooding issue. Mr. Greenland stated that the District has an interceptor at Lakeshore heading east, and that a separate project feeding into the ECT addressing capacity issues along this interceptor which will help alleviate the flooding issues in this location. Mr. Switalski advised that he will look into Mr. Brown's concerns and provide the Board with exact information.

Mr. Switalski moved discussion to the Dugway East Interceptor Relief Sewer (hereinafter "DEIRS") project which will be advertised on March 18th and is the first of the Easterly CSO LTCP projects. Mr. Switalski stated that the project "has lot of unique features" and "challenges." The Easterly interceptor runs along I-90 and, in order to make the connection, the District will be working in the berm of I-90 near the Bratenahl exit. Ohio Department of Transportation (hereinafter "ODOT") will shrink the off ramp for about 140 days. Workers will be present 24 hours each day, seven days a week to make this connection. Connections will be made in the City of Cleveland's park system, Glenville High School's parking lot and East Cleveland. Bids will open on March 18th and ground breaking will take place three to four months thereafter. The DEIRS is a relief sewer which will pick up overflow going into the

creek, and this project will eliminate approximately 10-12 overflows. DEIRS is estimated to cost $23 million.

Mr. Switalski moved discussion to the Lee Road Relief Sewer (hereinafter "LRRS") project, and he advised that the design phase is almost complete. LRRS is the last project for the southwest interceptor and is located on Lee Road at Miles Avenue near I-480. Mr. Switalski referred to a slide depicting the LRRS project and he advised that LRRS is an open-cut project that will tie into Shaft 14, the Mill Creek Tunnel and an overflow area. Mr. Switalski stated that LRRS is a beneficial project "that will tie up the Mill Creek Tunnel Project" bringing flow into "Contract 3", or MCT-3. MCT-3 resulted from default with the original contractor, is the remaining portion project which will be advertised in summer 2009, and will cost approximately $8 - $10 million to finish Shaft 14.

Mr. Sulik inquired as to the timeframe of the LRRS. Mr. Switalski advised that LRRS will be advertised this summer and is a 30 – 36 month project.

Mr. Brown stated that LRRS goes through the Keruish Park area and inquired if the construction will take place in an "active part of the park." Mr. Switalski indicated that LRRS will follow "the same alignment" used to access Shaft 14. District staff is scheduled to meet with Keruish Park representatives to inform of the project status. Keruish Park is "outside the active area of the park" and is "alongside the roadway" the District used for the Mill Creek Tunnel work.

Mr. Switalski moved discussion to the Tunnel Dewatering Pump Station (hereinafter "TDPS") project which is part of the Easterly CSO LTCP. The TDPS "lifts all flow up to the plant" and is a large-scale project. The project location has not yet been determined. TDPS is designed to be 150 feet wide, 220 feet deep, in ground hole with a 50 foot well in the middle. TDPS is designed to move 160 million gallons of flow each day; however, due to government negotiations, this may increase to 230 million gallons. TDPS is estimated to cost $155 million.

Three areas are being considered for the location of the TDPS including White City Park, Nine Mile Creek and the Easterly plant. The most advantageous location will be determined by the end of March or early April. TDPS completion "will dovetail in with the completion of the Euclid Creek Tunnel" and have completion dates of October 2014. The Dugway Tunnel will be staged from this site at Nine Mile Creek and is another 11,000 – 12,000 foot tunnel to be constructed.

Executive Director Ciaccia added that included in the capital budget on an ongoing basis is the program management (hereinafter "PM") services which are needed in order to carry out the entire program. The District needs to increase its commitment substantially, bring in more resources, and revamp its project delivery. The CIP is moving from an award basis to cash flow basis. The District is negotiating its contract with CH2MHill and intends to bring this to the Board for consideration at the March 19th meeting.

OPERATIONS & MAINTENANCE
Dave McNeeley, Director of Operations & Maintenance

Mr. McNeeley introduced budget center heads, Terry Meister, Superintendent of Southerly, Larry Cinadr, Superintendent of Westerly, Bob Bonnett, Superintendent of Easterly and Ron Czerski, Superintendent of Environmental and Maintenance Services Center (hereinafter "EMSC"). Mr. McNeely advised that the budget center head reduced the Operations and Maintenance (hereinafter "O&M") budget from 2008 2.1%.

Mr. McNeeley stated that there was a reduction of personnel through attrition. There were four equipment operators and the last one retired. Mr. McNeeley advised that a Utility Maintenance Technician (hereinafter "UMT") position was created which is a mechanic's helper and equipment operator. The District reduced its number of UMT equipment operators and these salaries are less than past equipment operators.

Mr. McNeeley provided an overview of Southerly's 2009 initiatives. Four of the second stage returns sludge pumps at Southerly will be rebuilt by a vendor and installed by plant personnel. Two effluent filters will be rebuilt. Flight and chains for the primary settling tanks will be replaced which is an ongoing project and two tanks are completed each year. Four 30-year old gravity thickener pumps will be replaced with a more energy efficient model.

Mr. McNeeley advised that four of the eight ferric chloride fiberglass tanks are expected to be replaced, and these tanks are 25 years old. The District utilizes these tanks; however, some can only be filled halfway because of their condition. The tanks will be demolished in-house, and the District will need to advertise bids for the tanks due to their size.

Mr. McNeeley advised that Southerly evaluates polymer usage at its second stage aeration facility. Polymer usage allows the capture of more suspended solids and reduces the binding of the effluent filters. Flow passes though second stage during wet weather events and solids carried over get into the effluent filters affecting the polishing capability. The quality of the effluent will improve by capturing solids at the second stage aeration with the effective utilization of polymer.

Mr. McNeeley advised that each ash lagoon holds 60,000 cubic yards of material totaling 180,000 cubic yards. Throughout the country and state of Ohio, ash from biosolids is reused. The District is pursuing to have its ash classified for beneficial reuse. Biosolid beneficial reuses include agriculture soil amendments, asphalt or cement additives, cover, capping material at other solid waste facilities, clean fill material at land reclamation sites, and replacement for foundry sand. The District currently discussed potential beneficiary reuse options for both Southerly and Westerly ash. The anticipated cost of land filling is $60 per ton, and at 25,000 to 30,000 wet tons of ash generated each year, this would cost approximately $1.5 - $1.8 million annually. This would require the District hauling its ash offsite whereas the District currently stores its ash at its south fill and north fill areas. A closure was scheduled for the south lagoon

area, and the District packed its lagoons as tightly as possible in an effort to minimize economic impact. Mr. McNeeley stated that the City of Columbus received a beneficial reuse of ash price from a vendor of about $30 per wet ton. The District anticipates cutting its cost in half; therefore, if the ash is reclassified, Southerly wet ash will save the District $750,000 to $900,000 annually.

Executive Director Ciaccia stated ash hauling was incorporated into the 2008 budget and the District decided to continue storing its ash. The District is hopeful that the State of Ohio will change its regulations to allow for the beneficial reuse of the District's ash and the cost would be cut in half. Executive Director Ciaccia stated that although ash hauling was incorporated into the 2009 budget, the District continues holding the ash until the designation is changed.

Mr. McNeeley referred to a photo image of the Southerly ash lagoon and advised that a contractor trenched the lagoon in an effort to utilize lower areas of the facility which provided additional time.

Ms. Kelly inquired if after the designation is changed, would the ash be a revenue generating opportunity. Mr. McNeeley stated that there will be significant trenching, pulling and hauling costs; however, hauling costs will be reduced by half because it will not be taken to a landfill. Executive Director Ciaccia explained that revenue opportunities for the company hauling the ash reduce the District's hauling costs. Mr. McNeeley advised that after the ash is reclassified, the hauling will be put out for bid. Someone may pay the District to haul the ash; however, Mr. McNeeley advised that this is unlikely.

Mr. McNeeley moved discussion and advised that Westerly reduced its budget by 1.3%. The Westerly staff was reduced by one and the Electrical Instrument Tech (hereinafter "EIT") position was separated into an Instrument Tech and Electrical Tech position.

Westerly's strategic initiatives include the in-house installation of new sodium hypochlorite tanks, and the piping and pumping for the upgrade of this system. Mr. McNeeley stated that "they'll be taking in-house odor control system to the grease tanks," installing new polymer tanks and rebuilding the centrifuge, which needs to be provided from external sources.

Easterly's budget was reduced by 4% from 2009. Mr. McNeeley advised that some training employees were transitioned from "plant utility maintenance person in training to pumps." The position of Pump Utility Maintenance Person/Welder was added. Instrument Tech replaced the former position of EIT. A Utility Maintenance Technician retired which was replaced with a Utility Maintenance Mechanical person which is a training position for the Plant Utility Maintenance position.

Easterly's initiatives include the installation of sodium hydroxide storage tanks and pumps. Mr. McNeeley stated that "they are investigating automating the chemical addition to safely and effectively meet the permit to ensure our compliance." The District will replace "a couple of

sodium bisulfite pumps to ensure permit compliance. Ferric chloride solution will be installed to the secondary treatment for phosphate removal to reduce chemical usage and costs. Mr. McNeeley advised that the District continues to work closely with the vendor in an effort to optimize the heating system.

Mr. McNeeley advised that three positions were added and two positions were eliminated at the EMSC. As EMSC supervisor, Mr. Czerski oversees several budget centers. Thomas Madej, Manager of Sewer System Maintenance and Operations (hereinafter "SSMO"), manages the largest budget center under Mr. Czerski. Ernest Bertok is the Manager of Fleet Services. Robert Scherma is the Manager of Building Maintenance. Lisa Francisco is the Manager of Administrative Services for the GJM Building.

Mr. McNeeley advised that the presentation slide contained some inaccuracies, and that the EMSC budget was actually reduced by 11.3% and Administrative Services was actually reduced by 10.3%.

EMSC initiatives include the implementation of continuous web-based monitoring at CSO locations having two or more events, and crafting a portable flow monitoring program that provides accurate indication of collection system performance. SSMO continues to work on data collection at outlying facilities in an effort to alleviate communication errors. In the interim, SSMO staff, Instrumentation Control and Processing, IT and Engineering designed a stop-gap solution and placed memory modules in the field to capture data. In the event of communication loss, SSMO personnel can physically retract data and enter it into the system. An Inspection and Maintenance Program will be created, and Mr. McNeely advised that the District will look at Doan Brook, MLK and the Stickney Branch on Big Creek.

Mr. McNeeley advised that the Mr. Czerski and the SSMO group worked closely with the Engineering GIS Group on the asset hierarchy issue. The District is anticipating restructuring the EMSC to integrate stormwater management.

The District's initiatives include automating the HVAC systems at all District facilities, evaluating alternative fuel sources and vehicles using alternative fuel, changing the light bars on some of the District vehicles, increased reporting capabilities, and evaluating HMI or automation software, which will be upgraded this year.

WATERSHED PROGRAMS
Frank Greenland, Director of Watershed Programs

Mr. Greenland advised that in 2008 individuals throughout the District were moved to the Watershed budget center. Betsy Yingling transferred from Engineering to Watershed and manages the SMP. Kyle Dreyfuss-Wells manages the Environmental Programs. Environmental Assessment Analytical Services merged strengthening the District's environmental focus within the community in preparation for the SMP. Ms. Dreyfuss-Wells is handling the external

watershed work with the watershed groups and member communities to drive the SMP at the community level. Mr. Greenland advised that additional resources will be needed, and the position for Watershed Team Leader will guide and drive the SMP.

Ms. Yingling handles the technical aspects of driving the SMP internally and externally. Staff will be shifted to assist Ms. Yingling with the technical aspects including the Watershed Plan development and Stormwater Master Plan.

Mr. Greenland advised that the District's internal Green Team has done a lot of great things, and that a position of Manager of Sustainability is needed to continue driving this effort across the District. The Manager of Sustainability position will be advertised this year.

Mr. Greenland advised that under professional services, $250,000 will be allocated for the identification of stormwater projects, guiding potential watershed projects and providing resources for District and community partnership projects.

Mr. Greenland stated that the District is very active in the Water Resource Restoration Partnership Program which provides funding through the Ohio EPA for stream restoration or stream preservation projects. The District allocated $150,000 to provide the resources needed to work with communities and watershed groups to ensure that "well thought out and well-structured" projects are submitted to the Ohio EPA in an effort to receive priority funding from the state.

Mr. Greenland advised that $200,000 was allocated for support grants for qualifying watershed organizations, and that community based watershed organizations are vital to the District and watershed problems in the stormwater area. The District desires a competitive program that provides support grants to watershed groups in an effort to build and grow their capabilities.

Mr. Greenland moved discussion to Analytical Services and informed the Board that the laboratory, established in 2007, received an Accredited Laboratory Certificate in recognition of their good work, rigid quality assurance and quality control procedures. Mr. Greenland advised that the Analytical Services laboratory is the only public sector laboratory in the state of Ohio that received this accreditation which is a significant accomplishment.

Mr. Greenland advised that Analytical Services conducts metal, organic and inorganic analyses, biological work and toxicity testing. Analytical Services is the quality analysis and quality control (hereinafter "QA/QC") arm of the department and producing quality data is important. Mr. Greenland advised that much QA/QC work is needed to maintain the accreditation.

Mr. Greenland stated that investigators of the Environmental Program of Water Quality and Industrial Surveillance (hereinafter "WQIS") are "level three certified". Good training and data is needed to support the data supplied to the Ohio EPA, and Analytical Services assist with collecting this data.

Mr. Greenland advised that the District is desirous of increasing Analytical Services' testing capability. The District was awarded a three year contract for $210,000 to complete analytical work for the Cuyahoga County Board of Health including the illicit discharge detection program which supports stormwater permit-related work.

The District works with the United States Geological Society (hereinafter "USGS") to assist with beach research including identifying rapid testing methods to inform the public of high bacteria levels at the beaches. Mr. Greenland advised that there are no staff increases in this area for 2009.

Mr. Greenland moved discussion to WQIS and he advised that WQIS staff conducts investigations within the community to support billing related issues and pretreatment regulations for this region. WQIS also regulates industry across the service area.

The Cuyahoga River's health improved and is experiencing an increase in fish communities and macro-invertebrates, or bugs. WQIS Environmental Assessment collects data from the streams and rivers by electro-shocking fish and collecting bugs, and this data is used when assessing the region's streams and rivers.

A huge issue facing the nation is increased mercury in the environment, and the biggest mercury polluters are dental facilities. Mercury is located in amalgam for dental fillings. The District is crafting a program to work with dental facilities to ensure that we fully capture the dental amalgam.

The District desires to enhance its environmental monitoring program to gauge the environmental benefits of District or community projects as well as determining the health of the region's streams, rivers and Lake Erie.

Mr. Greenland advised that the District intends to re-establish a committee in an effort to address pharmaceutical disposal and driving this plan forward. Furthermore, there is a lot planned for stormwater management and water quality for 2009.

Mr. Brown inquired whether the District's pretreatment program is effective in encouraging people not to violate the discharge limits for sewage. According to Mr. Greenland, the pretreatment program is very effective, and that pollutants decreased over the years resulting from the District's enforcement as well as industries meeting the District's regulations. Certain industries may fail to meet the District's guidelines, but there are administrative procedures in place to deal with those issues.

Mr. Brown inquired if the inspections are announced. He was advised that typically the inspections are unannounced, but industries are aware that these inspections will be conducted. General inspections conducted on industries, not covered by treatment standards, take place

every five years, and these industries do not know when the inspections will be conducted. Generally, the inspections are unannounced but there are times when an industrial facility discharges on a "batch basis", and the District schedules an inspection to sample the discharge.

Mr. Greenland advised that WQIS proposes to add one full-time investigator for its mercury program to assist with introducing the District's program to over 500 dental facilities in the service area.

ADMINISTRATION & EXTERNAL AFFAIRS
Constance Haqq, Director of Administration & External Affairs

Ms. Haqq informed the Board that Administration and External Affairs include overseeing Executive Administration, Organization and Employee Development (hereinafter "OED") and Communications and Community Relations (hereinafter "CCR").

Executive Administration team is led by Nancy Custard, program manager. Three staff members provide administrative support to the Executive Director Ciaccia, Deputy Executive Director, Michael Bucci, and the executive team. Executive Administration manages Board relations and assists other department to ensure that Board meetings are conducted efficiently.

The OED department was formed in 2008 and is led by Dr. Karen Gilliam. Ms. Haqq advised that the 2009 budget for OED is $779,459. OED's responsibilities include employee training, administration of the Tuition Assistance Program (hereinafter "TAP"), and implementation of the Diversity Inclusion Program and the five-year Strategic Plan. Executive Director Ciaccia indicated that implementation of the Strategic Plan includes performance planning as well. Ms. Haqq advised that performance planning is handled through OED and the Human Resources Department.

CCR was formed in 2005, includes eights staff members and is led by Kim Jones. CCR handles community outreach and education, media relations, government affairs which was implemented in 2008, and internal communications. The "Where Does It Go" campaign was initiated in 2008 and will continue through 2009. The District is making significant media buys in order to increase it public presence. CCR continues to educate the public on stormwater initiatives. Ms. Haqq referred to portable signs located in the Public Meeting Room, and she informed the Committee that these signs are taken to different organizations, events and community groups to communicate the District's message. Ms. Haqq advised that CCR continues working on student programs and general outreach.

This is the anniversary of the burning of the Cuyahoga River and the District's intent is to have significant presence in the celebration of improved water quality and the environment of this region.

CCR is working with the City of Cleveland to ensure the public's receptiveness and understanding of the proposed combined sewer and water billing system. Mr. Sulik referred to a presentation given to the Board last year regarding the combined billing system, and he inquired if Ms. Haqq had a progress update. Humberto Sanchez, Director of Information Technology, informed Mr. Sulik that this will be addressed during his presentation.

Ms. Haqq informed the Committee that the District's media presence will increase, and a short video was shown regarding the "Channel 3 Weather Days" which reaches 25,000 young people. Ms. Haqq advised that the District has an opportunity to be included in the preparation work that teachers receive and is planning to provide the teachers with information pertaining to the District, watersheds and stormwater which will be taught to young students.

Ms. Haqq advised that CCR intends to conduct bi-monthly outreach presentations within the community increasing its presence from 2008.

School programs and partnerships are significant. The District is continuing into its second year of the Wastewater Prep Program which engages students within the Cleveland Metropolitan School system. The District worked with Collinwood last year and is increasing its participation by one school in 2009. Four students completed the pre-work for the Wastewater I licensure test and, after graduation, these students will be eligible for consideration for said position at the District.

The Aquabots program continues and the District works with the Carl and Louis Stokes Academy on a robotics program that engages sixth, seventh and eight grade students.

The District is partnered with Central State University and the Louis Stokes scholarship. A former District scholarship recipient recently graduated from Central State University and is employed part-time at the District. The District intends to utilize some of these scholarship funds for student summer help. The District expects to partner with the Great Lakes Science Center in an effort to provide additional opportunities within the community.

Ms. Haqq indicated that the District intends to have significant presence at Earth Fest 2009, the 40th Anniversary Celebration, and the upcoming Sports, Travel and Outdoor Show. The District also had a booth at the 2009 Home and Garden Show.

Ms. Haqq advised that the budget will increase for media sponsorships, student programs and government affairs. The goal of Administration and External Affairs is to increase customers' awareness and appreciation of District operations, and to educate customers as to why the District is a viable place to work and conduct business with.

Mr. Sulik inquired about the overall budget increase for the Administration and External Affairs Department. Ms. Haqq indicated that the 2009 budget increase of $300,000 is for public education.

Ms. Kelly inquired as to the amount allocated for public outreach for the Small Business Enterprise (hereinafter "SBE") program. Ms. Demmerle advised that, at the beginning of the budget process, $3,000 was allocated for the SBE program; however, discussions were held to increase the amount for SBE public outreach to $50,000. Executive Director Ciaccia added that between the documented budget proposal and budget presentation to the Committee, discussion was held to increase the allocation for SBE public outreach. Before the entire Board presentation, staff will revise its 2009 budget to incorporate $50,000 for SBE outreach.

Executive Director Ciaccia stressed that public education is critical in order increase customers' awareness of the upcoming rate changes and District's desire to move forward with the SMP. The District is a public utility, therefore, does not need to advertise, and part of the District's mission is to educate. The best way to educate is through these means because it is not practical to hold public meetings that receive very little participation and attendance. The District intends to be more proactive "in getting the word out" by necessary means including electronic media and print media. Executive Director Ciaccia emphasized that this education not advertising.

INFORMATION TECHNOLOGY
Humberto Sanchez, Director of Information Technology

Mr. Sanchez showed the Committee an organizational chart of the Information Technology (hereinafter "IT") Department. IT is divided into five areas including infrastructure, project management services, end user services, application development and general department administration.

Scott Horvath is manager of the infrastructure unit which oversees business network, telecommunications, hardware and software procurement and deployment, and desktop networking support with SARCOMM. This unit also implements and supports the second data network at the plants.

Donice Bell is manager of project management services which oversees technology systems and upgrades for the major enterprise systems and provides IT project management services support to all District departments.

Judy Himes is manager of end user services which provides support and management for enterprise applications including Oracle, Oracle E-Business, Oracle Work Asset Management and LABLynx. This unit also provides, business analysis, IT training, and administrative and management support for all databases underlying the different District systems. IT trainers are heavily involved with the implementation of the proposed new combined billing system. Application and Development is a new unit for 2009. IT is attempting to reorganize the end user services unit to provide "more focused technical leadership" of internal application development.

Allan Velez is supervisor of the IT Help Desk which provides backup support for telecommunications, IT procurement and general administrative support for the IT Department.

Mr. Sanchez referred to a pie-graph depicting IT's operational budget, and he advised that 70% of IT's operational budget is infrastructure which includes telecommunications, general communications, maintenance, support agreements related to hardware and the outsourcer contract. Mr. Sanchez advised that 5% of the operational budget is for project management services which is responsible for large project implementations which will be reflected in IT's capital plan.

Mr. Sanchez advised that IT has 22 permanent employees and is requesting two staffing changes for 2009 including the addition of one additional IT project manager. There has been an increase in IT's projects, and Mr. Sanchez advised that it needs to supplement its project manager capabilities to support District departments. IT is desirous of adding the position of Application Development Manager to provide technology leadership and mentorship to the programmers.

Strategic initiatives include getting more out of the District's internal applications including Oracle and Work Asset Management, formally known as SPL, which can be accomplished through internal programming, reporting and interfacing in those applications. Mr. Sanchez advised that it is necessary to have a group focus on technology and the ability to provide recommendations on the most current and feasible technologies for use at the District.

Mr. Sanchez divided the 2009 projects and initiatives into three areas including the District Strategic Plan, Stormwater Program and Billing Implementation and Technology Support and Evaluation. Mr. Sanchez advised IT's Strategic Plan is to provide a sound business strategy and use the District's Strategic Plan as a foundation in determining the projects that IT will support in order to reach the District's objectives.

Mr. Sanchez advised that IT will look at areas of governance when deciding which procurement technology will balance the internal resources with external strategic resource procurements and will provide technology direction considering the "changing pace of technology in the industry."

IT will support the implementation of the Program Management Information System which will utilize internal applications including Oracle and Work Asset Mangers to retrieve data to provide reports on PM's performance.

IT will work with the Finance Department to make the Oracle system more useful during the budget process as well as provide information support for centralizing customer service.

Mr. Sanchez advised that he is directly involved with a survey for Diversity and Inclusion that will be distributed in April, which is a Strategic Plan initiative.

Mr. Sanchez advised that IT "can be green" and plans to centralize more applications on a single server which allows the District to get more out its internal machines.

IT partnered with the Cleveland Water Department (hereinafter "CWD") to implement the billing system for the SMP. Mr. Sanchez addressed Mr. Sulik's prior question and he indicated that the District and CWD is looking to go live in July with the combined billing system, and that there have been many iterations as to the bill's appearance. The District, CWD and the City of Cleveland are working towards an advertising campaign in an effort to educate the public on the billing system and how to read the bill. Mr. Sanchez advised that there will be heavy communication in April from the CWD.

Mr. Sanchez advised that SMP implementation into the new billing system is complicated and IT plans to initiate an assessment project later in 2009 to address the issues within the CCMB system in order to support stormwater billing, which is expected to go live in 2010. Executive Director Ciaccia advised that CWD will implement the new combined bill in July 2009, and the bill will include a line item for stormwater demarcated "XXXX". Mr. Sanchez stated that during the initial stages of the combined bill, stormwater will not appear on the bill until requested, but language will be incorporated into the bill informing customers about the upcoming stormwater line item. Executive Director Ciaccia advised that his expectation is to include the stormwater line item as well as engaging in a communication plan with the customers. The District is working with CWD to amend the vendor contracts to provide development services to the District in order to incorporate stormwater fees into the new combined billing system. Provided the Board approves the SMP fees at the latter part of 2009 or early 2010, SMP fees will be incorporated into the billing system for June 2010.

Mr. Sulik inquired as to the status of changing the billing from quarterly to monthly. Executive Director Ciaccia advised that this is "down the road" and that CWD is looking into a Water Meter Replacement Program, an automated meter reading system which would provide for monthly billing. Mr. Brown stated that CWD could switch to monthly billing provided it no longer has estimated billing but actual readings. Executive Director Ciaccia indicated that implementing monthly billing now would be based off on "two months estimated and one month actual" which is not ideal. This is a "very large capital undertaking" and Executive Director Ciaccia and Commissioner Nielsen agreed to meet to discuss this matter further.

Executive Director Ciaccia advised that the District and CWD need to update their billing agreement and make it consistent with the combined billing system. An internal team was created in an effort to determine enhancements that can be made to the existing bill and ultimately incorporated into the new combined bill. Executive Director Ciaccia expressed that there are many services that CWD should provide with its billing system that he was not aware of when he was Commissioner of CWD.

Mr. Sanchez advised that the District will need to work with three additional billing agents in order to implement the SMP line item into the new combined bill. The GIS System, a key

component to support the SMP, will need application or database changes which IT will support for 2009 and 2010.

Mr. Sanchez moved discussion to the Technology Support and Evaluation, and he advised that the District is considering a District-wide document management system. IT plans to work closely with the PM initiative in order to determine the necessary elements needed in support of electronic document management. Mr. Sanchez advised that this has become a pressing issue for the District resulting from the volume of electronic documents it handles as well as the need to support E-discovery for litigation and the legal process altogether.

Mr. Sanchez advised that IT will conduct telecommunication assessments in an effort to identify opportunities for improvement.

Mr. Sanchez advised that the District's ODMS application currently houses and processes information for the plants and collections system and is an old system which needs either replacements or enhancement in order to support the collections system.

Mr. Sanchez moved discussion to the 2009 Capital Projects which was divided into infrastructure and information systems. IT infrastructure provides a foundation for the District's growth and expansion to accommodate usage information, volume of information, and requirements needed for connectivity and network usage. There are four 2009 IT infrastructure projects, and the first project approved by the Board is the storage area network implementation which provides more capacity for the volume of the District's data. The second project is a network infrastructure upgrade of the CISCO equipment. The third project is the Southerly fiber rehabilitation to refinish the ends of the wires which is a standard process for those types of systems. The fourth project is the hardware replacement strategy which is an annual hardware purchase.

Information Systems and Applications 2009 Capital Projects include upgrading the purchasing system for the reason that the current purchasing system was resized and is not providing many features desired by the Purchasing Department. IT is researching its Oracle program to determine the capacity of providing more purchasing features, which would result in a system transfer. Mr. Sanchez advised that the District's email system needs upgrading or replacing and that Executive Director Ciaccia is supportive of this initiative. Mr. Sanchez advised that IT implemented an information system to support the SBE program, and the Board approved the vendor that will provide this information system at its February 19th meeting. Mr. Sanchez advised that enhancements to the LABLynx application are scheduled for 2009.

Ms. Kelly inquired as to the status of electronic bill payment for District vendors. Mr. Sanchez advised that the District has not yet implemented this capability, but is researching this ability through its Oracle program. Discussions were held between both Mr. Sanchez and Ms. Demmerle as to how this can be initiated in order to expedite vendor payments. Ms. Demmerle added that a component of Finance's green initiative is to implement vendor electronic invoicing wherein the District can submit electronic payments.

Mr. Brown inquired as to the benefits of the $670,000 capital outlay for the procurement system upgrade. Mr. Sanchez advised that although the existing purchasing system provides a base system for handling purchasing processes, it does not allow the District to move forward with Purchasing Department initiatives including electronic payment and electronic invoicing as well as providing a vendor database to improve the quoting and bidding processes.

Executive Director Ciaccia turned discussion over to Jackie Williams, Purchasing Manager, to address the purchasing system upgrade. Ms. Williams advised that the District's SPL system is used for purchases whereas the Oracle system is used for payments. The procurement system upgrade integrates the SPL and Oracle systems which would provide efficient data retrieval, eliminate double-entry of invoices, integrate all systems from requisition to payment, and be a permanent solution for the web-based vendor registration providing an expanded vendor database beneficial to the SBE program.

Mr. Brown inquired if this is "e-procurement" for the District and Ms. Williams stated "yes".

Mr. Bucci added that the current purchasing program "sits on a maintenance system" which is tied into the work order inventory rather than finance which is a downside to the current program.

Ms. Williams added that the District is desirous of on-line bidding and the procurement system upgrade will assist with this initiative. Ms. Williams stated that the Oracle purchase will benefit the District.

Mr. Brown inquired as to the timeline for the procurement system upgrade and Ms. Williams stated 12 to 18 months.

LEGAL DEPARTMENT
Marlene Sundheimer, Director of Law

Ms. Sundheimer referred to an organizational chart and advised that the Legal Department is at full staff and has six full-time attorneys, and that the departmental structure will be evaluated through 2009. One paralegal was budgeted for in 2009 which will remain an unfunded position unless there is increased activity in real estate and property acquisitions.

Ms. Sundheimer advised that 2009 initiatives include conducting the disparity study to support the new SBE Program, and the majority of this budgetary line item is for the $675,000 disparity study initiative. Legal will to engage outside counsel to assist with the revision of the District's general conditions which supports the PM initiative and will improve the District contracting processes. Legal intends to pursue Ohio Revised Code (hereinafter "ORC") revisions to assist with District operations, and engage a risk management consultant to assess the District's risk in

the insurance area. Through a competitive procurement process, Legal will engage a new insurance broker to secure its insurance needs.

Ms. Sundheimer advised that the District has five major litigation issues represented by outside legal counsel, and that some of those expenditures will be capitalized, therefore, reducing the overall Legal budget. Outside legal counsel is engaged for the District's labor negotiations, the ongoing federal investigation and the CSO LTCP.

HUMAN RESOURCES
Douglas Dykes, Director of Human Resources

Mr. Dykes stated that there are no full-time staff increases for the Human Resources ("hereinafter "HR") Department for 2009. HR moved from a "generalist organizational structure" to a "more functional organizational structure" which provides specialty areas including benefits and comp, employment and recruitment, the Human Resources Information System (hereinafter "HRIS"), employment and labor relations, occupational Worker's Compensation, and employee services center which handles harassment avoidance training, entering data into the HRIS and auditing the integrity of data.

Mr. Dykes indicated that there are two key strategic HR initiatives including the development of a performance management system incorporating a merit pay system to support the District's metrics and encourage a continuous learning environment.

Mr. Brown inquired if "merit pay" and "pay for performance" were being used interchangeably wherein Mr. Dykes stated "yes".

The second strategic HR initiative is to conduct a classification study to determine if the current job descriptions meet the District's initiatives as well as ensuring that the District has the "right mix of internal versus external people" when comparing contractors to regular staff.

Mr. Dykes advised that a cross-departmental team was formed to develop a District-wide Wellness Program which met twice to work on 2009 initiatives for said program.

Mr. Dykes stated that HR is overhauling its Employee Handbook for the reason that some are employee guidelines or employee policies conflict with other employee guidelines or policies, and also to ensure that this handbook meets present and future needs of the District.

Mr. Dykes advised that HR and OED are working to provide training to employees promoted to supervisory positions to prepare them for said position.

HR is reviewing the functional components of the HRIS. Mr. Dykes suggested that the Oracle HRIS be modified to streamline interfacing between the relational databases and the District plans to engage a consultant to address this issue. A self service module that allows employees

to access the HRIS and change data for life events such as children dependents or addresses is being considered as well.

Mr. Dykes advised that HR is desirous of the realignment of employee benefits to ensure that healthcare, wellness, tuition reimbursement and all other District benefits address the needs of the current employees as well as being a recruitment and retention tool for future employees.

INTERNAL AUDIT
F. Michael Bucci, Deputy Executive Director

Mr. Bucci advised that District Administration includes Executive Director Ciaccia, Deputy Executive Director, Board members and that Internal Audit and Safety and Security are the two budget centers. Internal Audit was designated as a separate budget center reducing District Administration's 2008 budget of $1.4 million by $550,000. According to Mr. Bucci, there "is no increase in TO" for District Administration and Safety and Security.

Mr. Bucci advised that Internal Audit, initiated seven years prior, was essentially a "one-man shop" and that auditing was conducted in the finance area. A couple of years ago, Calfee, Halter and Griswold, LLP (hereinafter "Calfee") audited the District's construction program and due to Calfee's finding, the District decided to increase its internal audit function. Two auditors were hired in January 2008 increasing staff from one to three, and the Board authorized the procurement of $270,000 to engage outside services in order to specialize in certain types of audits.

Internal Audit has 6,000 hours available of which 5,600 hours have already been allocated for 2009. Consequently, Internal Audit is close to exceeding the allotted time and, therefore, in an effort to free up the auditor's time; internal resources are being gathered to assist with clerical functions.

Mr. Bucci advised that some of the estimated $270,000 allocated for external audits was applied to the fourth quarter of 2008. Internal Audit conducted a physical inventory audit and audited seven construction projects related to the CIP and change orders.

Mr. Bucci advised that in June or July of 2009, Internal Audit proposes to hire one additional internal auditor and desires to have one auditor solely concentrates on the CIP and conduct audits on different construction projects. The District currently spends $70 million on utilities and personnel whereas $30 million is allocated as "other procurements". The District's future CIP is almost ten times the amount of operation expenses; therefore, Mr. Bucci stressed the importance of having a full time staff member conduct internal audits on the capital budget due to the magnitude of this program. Furthermore, hiring external audit firms to conduct the same audit would cost the District approximately $200 hour.

FINANCE DEPARTMENT
Jennifer Demmerle, Director of Finance

Ms. Demmerle advised that she oversees five budget centers including Contract Compliance, Customer Service, Inventory Control, Purchasing, Finance and Accounting. Contract Compliance is managed by Tiffany Jordan who oversees the SBE Program and there is a total of three staff members. Customer Service budgeted for six full-time staff members managed by Sheila Fantroy. Inventory Control has nine full-time staff managed by Kevin McCarthy. Purchasing has eight full-time staff managed by Jackie Williams. Finance and Accounting has 21 staff members and is managed by Monica Johnson, Ken Duplay and Brandon Knittle. The Finance Department has a total of 47 staff members. Ms. Demmerle advised that there are no new staffing requests for 2009; however, Finance staff was augmented in 2008 to develop the Contract Compliance Office.

Ms. Demmerle advised that the overall Finance budget increased 2% due to the creation of the Contract Compliance Office. The majority of the Finance budget is in Finance and Accounting due to the $5 million to $6 million spent on collection fees for billing agents.

Finance initiatives include creating a 10-year Financial Plan which is part of the District's 5-year Strategic Plan, implementing financial policies, applying "green" initiatives including electronic invoicing and electronic payments through the new Oracle purchasing module, and updating billing agreements.

Ms. Demmerle advised that complete inventory was taken at all store locations in 2008. The District intends to utilize a process known as "cycle counts" which is a management tool used to count a small subset of inventory periodically to provide an ongoing measure of the District's inventory accuracy. The District has approximately $6 million in inventory of which $2 million is considered obsolete items. Finance is working with Operations, Engineering and Purchasing on the development of policies and procedures for the removal of obsolete items, and that Inventory and Purchasing are developing requirement contracts for inventoried items.

Purchasing's main initiative is to work with Finance and IT to review and analyze the Oracle purchasing module which will assist with vendor-based registration, electronic payments, and streamline the District's overall payment process.

Contract Compliance continues developing the SBE Program, SBE policies and procedures, and a SBE application which will be mailed to all vendors. The SBE software program is scheduled for June 1st, and SBE goals will be set for District projects.

IT and Finance are working towards centralizing customer service calls. The phonebook lists approximately 20 numbers for the District. Consequently, the District desires creating one contact number for all customer calls for a more efficient tracking and logging system to

determine the progress of calls and resolutions which will better serve the customers. This centralized number will be important as the District moves forward with the SMP.

This completes the departmental reviews of the 2009 budget and Ms. Demmerle advised that she would be willing to entertain any budget questions from the Committee.

Mr. Brown advised that his question was not directly related to the budget; however, he wanted to comment on Contract Compliance, the disparity study and the SBE program. Mr. Brown advised that the Board is desirous of obtaining a better understanding as to its right with respect to the contracting community and is requested advice from the Law Director. The District set previous goals of 15% MBE and 5% WBE participation on construction contracts; however, the Board was advised that the MBE/WBE goals are not legally defensible resulting in contractors "thumbing their nose at us" and not complying with District MBE/WBE goals. Mr. Brown indicated that "people are so brazen", do not intend to comply with MBE/WBE goals and "put nothing in our bids."

Mr. Brown advised that the District is a significant procurer of goods and services to the contracting community and businesses, and its attitude on what it will or will not do helps create an environment that businesses will either "flourish or not in this area."

Mr. Brown stated that the Board does not want to be in a position where contractors intentionally decide not to comply with District goals, and specifically indicate in their bids that they choose not to comply with District goals.

Mr. Brown was unsure whether contractors were "brazen" or "bold" or implying that they are "trying" outreach mechanisms to partner with subcontractors on projects. Mr. Brown stated that he did not know the "truth". Prime contractors may suggest that a subcontractor was paid a certain amount, and maybe the subcontractor completed some work, but "somebody got a check."

Mr. Brown stressed that the District needs to convey its message, but it has to "stand for something." Mr. Brown stated that "legal statutes of limitations" versus where we should and can be is a discussion he desires to hold which overlaps a number of 2009 programming areas.

Mr. Brown stated that funding these programs is beneficial to ensure that staff is conducting its due diligence; however, outcomes satisfying the intent as to why the District funds these initiatives is also necessary.

Mr. Brown emphasized to Executive Director Ciaccia and District staff that "this is the issue of the day" because the District is expecting to spend approximately $200 million annually for its upcoming CIP projects which are not goods and services.

According to Executive Director Ciaccia, the past MBE/WBE program "was not a real program" and no resources were allocated to properly and efficiently run this program. The District basically threw out the numbers 15% MBE and 5% WBE. Nobody monitored whether the MBE/WBE goals were being met. Contractors may have complied with the 15% and 5% on construction contracts; however, when contractors failed to meet the MBE/WBE goals, staff would sometimes make recommendation to the Board to reject all bids and rebid the project, if this was convenient.

Executive Director Ciaccia stated that another issue is the definition of what constitutes a good faith effort. In the past, it was at the discretion of someone on the executive team to make recommendation to the Board as to whether or not all bids would be rejected.

Executive Director Ciaccia advised that nobody monitored projects after the District entered into contracts with the contractor, and he questioned if the contractors actually met the District's goals. After piecing the program together, it was evident that those goals were not met. Executive Director Ciaccia advised that he spoke with some of the subcontractors in which he was advised that these subcontractors were not even aware of being on District contracts. The past MBE/WBE program did not require MBEs to sign an affidavit to be submitted by the prime contractors with its bid proposal which would have informed subcontractors whether they were included on the written bid or not.

After Executive Director Ciaccia joined the District, staff reviewed the laws as it relates to the subcontracting program, it was determined that the District would expose itself to significant risk if it continued running its MBE/WBE program without conducting a disparity study. The District engaged in a disparity study and is moving towards putting together a race- and gender-neutral SBE program. Executive Director Ciaccia advised that this process is taking longer than he desired, but the District wants to cross its T's and dot its I's and develop a manageable program. There has been much debate as to what "preserves lowest and best bid".

Executive Director Ciaccia advised that it was recommended to "shut down the current MBE/WBE Program" and he made the decision "to take the risk and continue to run the program" because he "felt that some program was better than no program in the interim." Executive Director Ciaccia stated that he was fearful of having to prematurely implement the SBE Program before it was ready and a fully functional program.

Executive Director Ciaccia advised that he made a commitment to himself and the District that he "was not going to be an individual who was going to look the other way on anything." Executive Director Ciaccia advised that in "his previous career," the subcontracting program was not his program, and he did not have the authority to address any concerns about administering the program. However, the District's program is his program, and Executive Director Ciaccia assured that he will report any discrepancies to the Board or the authorities, if necessary.

Executive Director Ciaccia stated that he agreed with Mr. Edwards' allegation that the District's past MBE/WBE program was filled with "fronts" and "pass-throughs" which reduced the engagement of various contractors on District projects. As long as the numbers were met, everybody seemed happy; however, Executive Director Ciaccia advised that he was not happy because it puts the District at risk and himself at personal risk.

Executive Director Ciaccia informed contractors that if they choose to bid on District projects, then they only identify the subcontractors in their bids that are actually going to work on the projects and not front companies or pass-throughs. Executive Director Ciaccia assured that although the District's numbers may seem low, they are real. The District encourages the contracting community to enhance legitimate subcontracting participation which results in subcontractors being added throughout the project, subsequent to the bid. The District continues to encourage prime contractors to engage MBE and WBE firms on District projects.

Executive Director Ciaccia advised that significant costs are associated with a race- and gender-neutral or race- and gender- SBE program which he fully accepts, and becoming more progressive will cost the District money up front.

Executive Director Ciaccia suggested "penning down some of the criteria" as it pertains to revenue levels as the District diligently moves forward with the disparity study. The District's hands are tied until it receives the disparity study results.

Executive Director Ciaccia stated that he was not sure if the contractors were "thumbing their nose" at the District; however, they are aware that the District's current MBE/WBE program is not legally defensible. Executive Director Ciaccia speculated that by forcing contractors to meet District goals could possibly result in compliance; however, he questioned whether those numbers would be real. This would take the District right back to where it started was and this is a dilemma.

Executive Director Ciaccia advised that this puts him in a "somewhat precarious position" because the numbers are low, but he is confident that there is some realty. Executive Director Ciaccia indicated that he will further discuss where the District is going with its SBE program in June when they implement said program, and he assured that this will be a "totally honest" SBE program. Additional monies were allocated to SBE outreach, and he speculated that, moving forward, more resources will go the Ms. Jordan's Contract Compliance Office to support SBE program administration.

Mr. Sulik agreed with Mr. Brown's previous comments, and indicated that he understood that past 15% MBE and 5% WBE goals may or may not have been met. Mr. Sulik stated that, according to the upcoming Board resolution, "these are not estimates," but "are something they should shoot for" on "new contracts and new bids." These numbers must be "obtained or shot for" and should be "good numbers" not fictitious and set in the contracts. Mr. Sulik agreed that follow-up is necessary to ensure that the provisions are met. The District is

"putting a lot of money into this SBE program" and wants to ensure its success. Mr. Sulik advised that District operations cannot be "shut down" over contracts, and he suggested that future contracts require "a real hard look" by staff to ensure that reasonable MBE and WBE goals are met.

Executive Director Ciaccia commented that this discussion is extremely important and will continue at the next Board meeting, and he advised that he supported the Board's resolution and indicated that it is a "great idea". Executive Director Ciaccia advised that the contracting community was aware of the staff's standpoint, but also needed to "hear strongly from the Board" on this issue.

Ms. Kelly inquired if it is incumbent upon the District to define "good faith effort" when obtaining MBE and WBE participation. Ms. Sundheimer advised that the District depends on what is actually written in its "front-end documents" of the bidding process and bid evaluation, which are being reviewed with the development of the new SBE program. Ms. Sundheimer advised that "good faith effort" and the requirements all bidders must submit with their bid proposal will be fully defined in order to subjectively evaluate and make the determination of the lowest and best bid. Staff can refer to the policy during bid evaluation, and if the lowest bidder does not meet participation goals, the District can "legally feel on solid ground" that it can reject the lowest bid as not being the best bid and move to the next lowest bidder. Ms. Sundheimer advised that the existing documents do not provide "clear guidance" and is subjective. Evaluating the bids in order to determine the lowest and best bidder is significant. In the event the District is taken to court by the lowest bidder that does not receive the award, strong policies and guidelines will ensure firm ground that the District has the discretion to determine the lowest and best bid under Ohio law.

Ms. Sundheimer advised that the District will review the bid documents submitted by contractors which will include affidavits and will be signed by both the prime and subcontractors indicating the commitment to the specified amount of subcontracting work. Staff needs training to ensure they are evaluating the bid documents correctly and the Board needs to familiarize itself with the bid processes to ensure better understanding when determining whether staff followed the proper bid processes. Ms. Sundheimer advised as the SBE program develops, these issues are being considered to ensure the program's compliance.

Mr. Brown commented that "those are all good suggestions" and that he appreciated the dialogue. The District can do many things to provide a "level of confidence" that contractors are complying with their commitments. Subcontracting work can be verified through certified payrolls and invoices for equipment and material. Mr. Brown indicated that the District must keep a "trained eye" on contracts because people always find "workarounds" and contractors need to understand that the District is monitoring its projects with merit-based criteria.

Mr. Sulik thanked staff members for their time and effort in preparation of the 2009 budget, and he indicated that the budget is "very workable" and that staff kept "costs down as much as

possible." There are no "real significant increases over the 2008 budget", and Mr. Sulik stated that staff should be congratulated on a "terrific job". Mr. Sulik turned discussion back to Ms. Demmerle to address the remaining agenda items.

Ms. Demmerle thanked the budget center heads on their "tight" budgets and she appreciated the work completed in order to accommodate the needs for 2009. Ms. Demmerle acknowledged Finance staff for preparation of the budget documents, especially Dawn Sparks, Ms. Demmerle's Executive Assistant, Kerry McCullough, Budget Analyst, and Arman Ochoa, Financial Analyst.

Ms. Demmerle stated that, with the Committee's consent, she would like to present the 2009 budget to the entire Board at its March 5th meeting incorporating additional public outreach for the SBE Program as well as the possibility of adding one staff member to the Contract Compliance Office. Staff will recommend adoption of the 2009 budget at the March 19th Board meeting. Without objection, the Committee agreed to present the 2009 budget including the aforementioned modifications to the Board at its March 5th meeting.

IV. Reserve Policy

Ms. Demmerle advised that reserves are established; however, there is no formal policy on how to use these reserves. Ms. Demmerle developed a Reserve Policy and added a rate stabilization component to this policy, and she stated that "one of the most critical factors in providing financial health for the District is to maintain an appropriate level of reserves," and the rating agencies consider these reserves to "strong fiscal management". Reserves provide emergency funds, seed money for new initiatives or unexpected occurrences not budgeted for, debt service, funding mechanism for asset management, and minimize future rate impacts.

Ms. Demmerle advised that when establishing reserves, there is certain priority on how revenues are used per the District's bond trust agreement. Revenues collected must first pay operating expenses. Bond payments and deposits are then required to be put on reserve per the trust agreements. A working capital or operating reserve account should be established and then loans must be paid. Money left over, after we pay expenses and reserves are paid, can be applied to a rate stabilization account. After the funding requirements are met, excess revenues over expenses or surpluses can be used for any District needs.

Ms. Demmerle stated that the Reserve Policy components include an operating reserve or working capital reserve which is discretionary. The current reserve is set at 45 days and Ms. Demmerle proposed to increase the recommended standard of 90 days for the operating reserve. Per the District's trust agreement, it cannot exceed 25% of the preceding fiscal year expenses; therefore, it could be less than 90 days. The operating reserve can be used for operating expenses, for example, the District can use operating reserves to cover unforeseen conditions that were not budgeted for.

Ms. Demmerle advised, per the bond agreement, a debt service reserve is required, and at the end of 2008, $19 million was deposited into this account which funds bond principal and interest payments.

Ms. Demmerle advised that the new component established for 2009 is the rate stabilization account which is a mechanism for the District to diminish or shorten net revenues in a year where the District's actual revenues were more than what is budgeted, and is used to meet the compliance on rate covenant in future years. It is important to establish this account due to the magnitude of the upcoming CSO LTCP. The District needs to put money away now; therefore, when the CSO LTCP hits, the District has money to meet its rate covenant lessening the rate increases. Ms. Demmerle explained that the rate stabilization account can be used to strictly meet rate covenant for those years.

Ms. Demmerle stated that deposits into this fund occur at the end of the year after the District analyzes its budgeted revenues to actual revenues. Ms. Demmerle set a limit of up to 5% of the District's rate revenue which is approximately $8 million that will be transferred from the operating account to the rate stabilization account. The money will stay in this account and be "used as extra revenue for those years."

Mr. Sulik inquired if those monies will offset rate increases or pay for capital projects. Ms. Demmerle stated "it will be used more to offset a rate increase" and applied to rate covenants. The District may have to issue millions of dollars worth of bonds to fund the CSO LTCP, and she advised against having net revenues, revenues less expenses, not supporting rate coverage which is 105% per the bond agreement. The rate stabilization account is used as additional revenue to meet rate covenants. Ms. Demmerle advised that this will also help lower rate increases to maybe 10% to 12% rather than 15%which is based on the amount accumulated in said account.

Mr. Sulik inquired if you "draw down" on the account wherein Ms. Demmerle stated "yes".

Ms. Demmerle moved discussion to the existing equipment replacement and repair reserve, and she indicated that, at the conclusion of 2008, said fund had $51 million and is a discretionary reserve. In the past, the District would allocate $1 million from the operating account to fund this reserve. Staff proposes wrapping this reserve into its capital program to fund rehabilitation projects, emergencies that may arise which may not be budgeted for, and the repair and renewal of aging infrastructure which will be identified through the Asset Management Program.

Mr. Sulik inquired if the District has "drawn on this reserve". Ms. Demmerle stated that the District has not. Mr. Bucci added that transferring this to capital will lessen requirements for additional financing which keeps the District's costs down getting to the next rate increase cycle.

Ms. Demmerle moved discussion to the insurance reserve, a discretionary reserve established because the District is self-insured and all assets are not insured. Interest earnings are

accumulated into this account. The District does not allocate any funds from the operating account into the insurance reserve, and it used for catastrophic losses that insurance does not cover. Mr. Bucci explained that sewer emergencies are sometimes capitalized and if a sewer section needs replacing it would come from the equipment replacement fund. Conversely, emergency situations similar to the 2008 Public Square incident cost the District $600,000 to $700,000 to clean the sewer, and the money to fund this cleanout came from the operating budget. Discussion was held amongst staff to allow emergency projects similar to the 2008 Public Square situation be funded from the insurance reserve rather than the operating budget. Insurance claims are made under these circumstances, and since the District has an insurance reserve, this money could be applied to remedy these types of situations.

Ms. Demmerle advised that after all reserves are funded anything left is considered as surplus. Currently, surplus is transferred to the capital account to offset any future borrowings for the CIP.

Mr. Sulik requested that the Committee have an opportunity to review the Reserve Policy and will provide their comments to staff. He inquired if a resolution is needed for the adoption of said policy wherein Executive Director Ciaccia replied "eventually, yes, once we are all comfortable." The Committee will review the policy and provide comments to Ms. Demmerle prior to presenting it to the entire Board.

V. Discussion on Budget Transfers

Ms. Demmerle advised that, historically, staff would present line item transfers in May or June to the Board for budget approval. In 2005, the Board adopted a resolution requiring that "any line item transfers within the budget over $100,000 needed Board approval prior to being made." Ms. Demmerle requested that the authority to make transfers throughout the year be given back to the Finance Director. Ms. Demmerle advised that these are specifically line item transfers and that they do not exceed the overall budget. Ms. Demmerle will report line item transfers to the Committee on a quarterly basis. Salaries or benefits transfers initially require Executive Director Ciaccia's approval before it can be transferred.

Executive Director Ciaccia described this as a perfunctory task, and he informed the Committee that the Board approved budget transfers six months to one year after they occurred.

Mr. Sulik did not have a problem with this authority being given back to the Finance Director. Ms. Demmerle will provide an overview to the Committee at its quarterly meeting of line item transfers. Mr. Sulik suggested that Ms. Demmerle prepare a resolution for authorization wherein Ms. Demmerle advised that a resolution will be prepared for the March 19th meeting, and the Committee was in agreement. Ms. Demmerle inquired if this authority can be retroactive for the 2008 fiscal year; therefore, she can make the necessary line items transfers. Mr. Sulik consented.

VI. Fourth Quarter 2008 Investment Advisory Report

Ms. Demmerle provided the Committee with the Fourth Quarter 2008 Investment Advisory Report, and she advised that the Comprehensive Annual Financial Report will be available later this year.

VII. Adjournment

Mr. Sulik thanked Mr. O'Malley for attending the Finance Committee Meeting and participating in the review process of the 2009 budget. He advised that "there is a lot that goes into running this operation." Mr. O'Malley stated that "it is a privilege to be here."

MOTION – Mr. Sulik stated business having been concluded, he would entertain a motion to adjourn. Ms. Kelly moved and Mr. Brown seconded the motion to adjourn the meeting at 12:06 p.m. Without objection, the motion carried unanimously.

Ronald D. Sulik, Chair
Finance Committee
Northeast Ohio Regional Sewer District