

MINUTES
NORTHEAST OHIO REGIONAL SEWER DISTRICT
FINANCE COMMITTEE
MARCH 1, 2011

The meeting of the Finance Committee of the Northeast Ohio Regional Sewer District began at 9:05 a.m.

I. Roll Call

Present: R. Sulik
D. Brown
S. Kelly

A quorum was in attendance.

II. Approval of Minutes

MOTION – Mr. Brown moved and Mr. Sulik seconded that the minutes of the July 1, 2010 Finance Committee meeting be approved. Without objection, the motion carried unanimously.

III. 2011 Budget Review

BUDGET PREPARATION PROCESS
Jennifer Demmerle, Director of Finance

Ms. Demmerle stated that she would discuss the budget process for this year as well as provide a high-level overview of the operating capital budgets and debt service. She advised that representatives from various budget centers will make presentations today and that this meeting will focus attention on the larger departments that comprise about 72% of the District's budget.

Mr. Sulik indicated Ms. Kelly was present.

Ms. Demmerle advised that a kickoff meeting was held in November during which budget expectations for the next year were discussed and budget center heads were asked to keep a flat budget. The budget center heads subsequently submit detailed line-item budgets which are compiled into a working document for the Internal Budget Committee, which consists of Ms. Demmerle, Executive Director Ciaccia, Deputy Executive Director Bucci and Director of Human Resources, Douglas Dykes.

FINANCE COMMITTEE

March 1, 2011

Page 2 of 31

The Committee reviews the budgets line-by-line and makes any necessary reductions, after the Board is presented an overview. The proposed budget is then presented to the Finance Committee for its recommendations and finally the amended budget will be considered by the Board during its March 17 meeting.

OPERATING BUDGET OVERVIEW

Jennifer Demmerle, Director of Finance

Ms. Demmerle advised that the 2011 District budget is mostly lower than 2010 except for the capital budget, which is largely due to awarded projects and timing delays; she stated that Director of Engineering & Construction, Kellie Rotunno, will discuss the capital budget in greater detail later during the meeting.

Moving to District staffing levels, Ms. Demmerle stated that 680 positions are budgeted for 2011 – an increase of 1 over 2010. However, as of February 11 only 616 positions had been filled and the District plans to keep staffing levels at 640.

Ms. Demmerle stated that bill consumption is a key component when projecting District revenue. She advised that consumption has historically decreased by 2 to 3% annually, but during the last three years consumption in Cleveland has decreased by 5% to 7.5%. To determine the cause of this decrease and whether that trend will continue, a demand analysis was conducted by the analysts at Cleveland State University in conjunction with the rate study. The analysis projects demand based on patterns of growth and decline and factors such as population, household size, conservation, price elasticity and the overall economy.

The results of the analysis were consistent with a study conducted by the Cleveland Division of Water (hereinafter “CDW”) which projected a 3.1% decrease in consumption for 2011, indicating the last three years were anomalies and that the annual decreases should stabilize. However, for this budget period Ms. Demmerle advised that staff was uncomfortable projecting a 3.1% decline in consumption and are instead projecting decline of 6% for Cleveland and 2% to 3% for the suburbs.

Based on those assumptions and maintaining the 5% uncollectible rate, the District is projecting District revenue of \$169.2 million – a 4% increase from 2010. The revenue figure factors in a 9% rate increase and the projected decrease in consumption.

Ms. Demmerle advised that operating expenses will increase by 4.5% to \$106.2 million. A 2% wage increase has been allocated for all staff. Salaries and benefits comprise 52% of the budget. All positions are budgeted for 2,080 hours, knowing some will go on disability. Benefits are consistent and will increase by 4% from 2010.

Utilities comprise 17% of the budget. Gas and power is at about the same level as last year.

FINANCE COMMITTEE

March 1, 2011

Page 3 of 31

Ms. Demmerle advised that budgeting for professional services is slightly decreasing under the proposed 2011 budget. The bulk of such services comes from program management at \$2.9 million. Costs cannot be capitalized against projects such as developing processes and procedures. Ms. Demmerle will meet with program management throughout the year to determine if any more of those costs can be capitalized.

The other half of the professional services budget is for the stormwater management program. Costs associated with the program include litigation fees, \$1 million for implementing the billing system with CWD and updating the master account file for billing.

Contractual services costs will decrease in 2011; ash hauling was budgeted for \$1.5 million last year; the lagoons were cleaned as much as possible, so there is no expense this year.

The last 9% of the budget is for material and supplies – the majority of which are for chemicals. The small increase is due to increased cost of chemicals.

Moving to the capital budget, Ms. Demmerle advised that she projects a \$227 million cash flow - - 52% of which is for plant improvements and the Renewable Energy Facility (hereinafter "REF"). Combined Sewer Overflow Long-Term Control Plan (hereinafter "CSO LTCP") expenditures will comprise 28% of the capital budget, which are mainly for the Euclid Creek Tunnel. To fund that program the District issued a bond last year and are supporting the program by utilizing money from it, a \$35 million low-interest loan and some remaining capital funds.

Ms. Demmerle noted that capital program spending has increased in 2010 and 2011 as the District has awarded over \$200 million in contracts. The District intends to spend \$1.5 billion over the next 6 years -- 57% of which is for the CSO LTCP. Those cash flows are gradually building up and will peak in 2014. The projects associated have already been awarded; new projects will emerge in 2016. Plant improvements relating to the REF will occur mostly in 2011.

Ms. Demmerle explained that debt service is the principle and interest on bonds and loans and is driven by the size of the capital program. The District anticipates going to the bond market again in 2013 and 2016. She noted a chart displaying increases in debt service.

A key benchmark is to maintain debt service coverage. Ms. Demmerle advised that the District is just above the target of 105% on all debt coverage for bonds and loans based on the upcoming proposed rate increases and the timing of going to the bond market. To maintain this level, operating costs need to be reduced while maintaining the District's commitment to the CSO program; however, while reducing operating costs where possible, an increase in revenue is needed.

At that time, Ms. Demmerle inquired if the Committee had any questions.

FINANCE COMMITTEE

March 1, 2011

Page 4 of 31

Mr. Sulik inquired if the District is looking at a proposed debt of \$100 million by 2016. Ms. Demmerle affirmed and advised that at this time last year the debt was double, but debt was restructured over the next rate period to minimize impact on the rates by deferring principle and capitalizing interest.

CAPITAL PROJECTS, ENGINEERING & CONSTRUCTION

Kellie Rotunno, Director of Engineering & Construction

Ms. Rotunno stated that the CSO LTCP comprises more than 50% of the department cash flow, followed by investment in treatment plants, collection systems and miscellaneous projects.

Cash flow for treatment plants in 2011 will exceed that for the CSO LTCP due to the REF and other construction. Mr. Sulik inquired regarding the annual totals. Ms. Rotunno advised that cash flow was \$100 million in 2010 and \$205 million is proposed in 2011.

The 2011 budget proposes awarding 23 construction projects accounting for \$155 million during the year and 17 design projects in the amount of \$50 million.

Ms. Rotunno advised that plant program expenditures over the next six years will peak in 2011 with a total of \$118 million. Significant projects will include aerated grit improvements at Easterly, sludge pump and building renovation at Easterly, gravity thickening improvements at Southerly and steam generation and distribution system at Southerly.

The biggest construction project is scheduled at Easterly which is \$11 million in screening improvement project and \$9 million in the code and safety improvements and \$6 million in aeration blowers and improvements.

Ms. Rotunno advised that while the REF is under construction at Southerly, the bulk of construction at the facility in 2011 encompass the exterior wall restoration and filter improvements – each in the amount of about \$3 million.

Ms. Rotunno advised that \$31 million will be spent in 2011 for the collection systems program, which will be the second highest total for the next five years. She noted that expenditure will be slightly higher in 2012. The various design projects during this period include rehabbing the interceptors and evaluating their conditions. The biggest construction project will be a relining and replacement project and service area cleaning agreements.

Mr. Brown inquired regarding the condition of the District's interceptor system. Ms. Rotunno replied by stating that staff is in the midst of transitioning how the District approaches the rehabilitation of the collection system -- moving from a scheduled inspection process to an asset-management-based philosophy. She explained that in the past, as much as 10 years could elapse between the inspection and rehabilitation of an interceptor. Going forward, interceptors will be

FINANCE COMMITTEE

March 1, 2011

Page 5 of 31

addressed in terms of criticality and condition. When this management philosophy is fully implemented there will be a recurring annual investment.

Ms. Rotunno stated that the inspection and rehabilitation of the last round of interceptors is concluding and the data is between 10 to 16 years old. Using that data, the pipes that were in marginal condition will be re-inspected and fixed.

Mr. Brown asked Ms. Rotunno how she would grade the District's overall system. Ms. Rotunno replied by stating some pipes are in "C" condition and some recently repaired are in "A" shape but a solid "B" grade for the majority of the system would be a fair assessment.

Mr. Brown inquired why some downtown Cleveland interceptors build up large quantities of silt. He believes the silt buildup decreases carrying capacity which results in tremendous maintenance contracts for cleaning. Ms. Rotunno advised that runoff associated with non-point source stormwater and sediment through overland flow stormwater accumulates in the system. She indicated that Frank Greenland, Director of Watershed Programs, was prepared to provide his opinion on why that sedimentation and level of maintenance is necessary.

Mr. Greenland advised that the Easterly interceptor is flat and there is not much grade in the downtown area. The District undertook a major effort in recent years to clean major portions of that that interceptor. He explained that the District's must be vigilant of cleaning issues and examining sediment re-accumulation. Mr. Greenland indicated there will be additional maintenance needs in the future and did not recall a cleaning of the Easterly interceptor before a few years ago. He stated that he was not aware of its current condition but the District needs to keep on top of this going forward.

Ms. Rotunno advised that Ron Czerski, Deputy Director of Operation and Maintenance, is responsible for the maintenance of the pipes after they are fixed. She asked Mr. Czerski to comment on that process.

Mr. Czerski thanked the Committee for the opportunity to speak. He advised that in his 25 years with the District the Easterly interceptor has not normally been cleaned; the cleaning process "is a one-time shot" and it will probably not be cleaned for a number of years afterwards.

Mr. Czerski stated that overall the interceptors are in decent shape. A lot of new equipment will be taking over from other areas -- and not just the interceptors. A number of regulators and much of the Maintenance Program is focused on over 500 regulators and a number of pump stations.

When considering the overall condition of the collection system, Mr. Czerski explained that 80% of the system can be in very good shape, but 20% of it will need a higher level of maintenance. He advised that the Maintenance Program for the collection system is in coordination with the District's operational plan which is based on nine minimum controls for CSOs. Interceptors

FINANCE COMMITTEE

March 1, 2011

Page 6 of 31

other than low-level ones are not cleaned frequently and diminish in capacity over a long period of time.

Ms. Rotunno advised that cash flow for the CSO LTCP will peak in 2014 when the Euclid Creek Tunnel and the Tunnel Dewatering Pump Station will be under construction. The design process of the program is underway and she advised that the District is close to awarding the construction management core services contract -- which will be in the amount of nearly \$5 million -- to assist District staff in managing all activity on the Nine Mile site for the next 10 years.

Ms. Rotunno indicated the District must proceed quickly to upgrade the Easterly secondary capacity to 400 MGD per the Consent Decree. She noted that the design contract upgrade is expected to cost \$11.5 million. Two other projects in the design phase associated with the CSO LTCP include the Dugway West interceptor relief sewer and the Euclid Creek Pump Station, which she stated are not to be confused with the Tunnel Dewatering Pump Station.

Construction activities in 2011 include the bidding of the Tunnel Dewatering Pump Station -- which is currently estimated at \$87 million -- and staff intends to advertise that project in late summer of 2011.

Mr. Brown inquired when the large-scale projects are estimated to be completed. Ms. Rotunno replied that the District is preparing to break ground in April 2011 and the Tunnel Dewatering Pump Station and Euclid Creek Tunnel are scheduled to go online in 2014.

Moving on in her report, Ms. Rotunno stated that a \$1.2 million increase in labor and benefits is projected for 2011. Professional services funding will be flat and the contracted services are slightly decreasing, but maintaining the completion of projects budgeted for 2010 that are carrying over into this year. The net result is about a \$2 million increase into the department's budget.

Ms. Rotunno explained that prior to 2008, the year in which the most construction projects were awarded was 2005 with a total of 18 projects. In 2009 more than 35 projects were awarded and 32 more were awarded in 2010. She advised that she is projecting the award of another 40 projects in 2011.

Ms. Rotunno advised that staff's ability to manage projects is related to the number of ongoing projects. As the number of projects increases, either the number of projects managed by each individual will increase or additional help will be needed. She explained the District started getting help with Program Management. Staff can manage a certain number of capital dollars which can be changed based on the number of projects and dollars of the Capital Program; one can determine how much staff will be needed to support it.

The Engineering & Construction Department staffing peaked in 2005 and with 2016 staffing estimated at nearly 70, the dollar value being delivered was its lowest point. Ms. Rotunno stated

FINANCE COMMITTEE

March 1, 2011

Page 7 of 31

that there was some attrition in staffing levels between 2006 and 2008 due to retirements, which lowered the number of staff in the department at a time when awarded projects were quadrupling historic levels. She stated that the department is at a crossroads when looking at the staffing needed to support the Capital Program.

Ms. Rotunno indicated that between 2010 and 2015 it is projected that the department will need roughly 100 people to manage the Capital Program, which includes consultants and Program Management. She noted that includes inspection contracts for resources in the field monitoring construction inspection. The total staff necessary to deliver a program of this magnitude is more than 100 people by 2012.

The current Engineering staff is fewer than 60. That gap must be closed by utilizing outside resources or adding District staff. The cost associated with outside resources is double that of District staff.

Ms. Rotunno advised there is a cost benefit to adding District staff but the District does not want to add staff beyond a sustainable level; the peaks in 2011 and 2014 are expected to be augmented with outside resources. However, we are projecting an increase in staff of 10 in the department between 2010 and 2011. She believes that is a sustainable staffing level that is under the total number needed to deliver the program, but gives the District more resources with which to deliver this enormous Capital Program.

Ms. Rotunno stated that the District is looking to add 1 construction manager, 3 design managers, 1 Capital Program process manager – a “cop internal” to Engineering and Construction to ensure we are adhering to District procedures and policies – 3 construction supervisors and 2 project engineers for a total of 10 additional staff in 2011. Those additions will return the department to previous staffing levels but swell short of the ultimate goal needed to deliver this program. She believes the Program Management contract and other augmentation contracts are a step in the right direction.

Program Management will cease in 2013 and when it does Ms. Rotunno advised that the District wants to be more self-sufficient than before. We want to “take the reins” of the Capital Program from Program Management at that time but the augmentation it provides may still be necessary in afterwards.

Mr. Brown stated that he believes Program Management may be a knowledge transfer from the consultant to the staff rather than augmentation. He inquired if there is an evaluation tool to understand where the gaps are in terms of skills and competencies before and afterwards so in 2013 there will be a good idea of what the continuing resource beyond staffing should be.

Ms. Rotunno replied by stating we have a “good read on that” at this point in time. Program Management delivers a monthly report with data that provides a “snapshot” into our program. She explained that we must develop the capability to produce similar data internally and to track

FINANCE COMMITTEE

March 1, 2011

Page 8 of 31

and maintain it -- that will be the biggest knowledge transfer challenge. Through key additions to staffing and investments made in 2010, we have the critical knowledge in place to lead the Capital Program better than any consultant. However, more staffing is needed.

Executive Director Ciaccia advised that the District has been successful acquiring new staff from the private sector with program management experience. He advised that they were program managers he had worked with at CWD and they have the skill sets the District needs in-house and come at a huge savings versus using external resources. He indicated he expected additional hiring of people with that type of experience.

Mr. Brown stated that Executive Director Ciaccia mentioned a key word -- savings. He continued to advise that if the District is able to quantify savings it would add credibility to the organization because when the District is challenged in tough economic times over the amount of money it spends, it would demonstrate the value of the initiatives and how the ratepayers' money is being optimized. Mr. Brown advocated doing more in terms of quantifying what is saved by these strategic initiatives.

Ms. Rotunno stated that such figures are available and it is important to realize we want to bring in private-sector employees with their expertise and work ethic. She wants these employees to maintain their accustomed level of production. The goal of this practice is to extract the same production value from District employees versus an outsource consultant.

Mr. Brown stated that his other question relates specifically to the streets tied to the Lakeshore interceptor system or Euclid Creek, which got a lot of flooding yesterday. He thinks one of the worst flooding problems in the Cleveland area is due to a combination of separate sewer systems that tie directly to the creek taking on water from elevated levels and the small diameter of the interceptor system. Mr. Brown inquired how this system will be different once the Euclid Creek Tunnel and new pump station are completed.

Mr. Greenland stated that in conjunction with the pump station and tunnel there is a Lakeshore Boulevard Interceptor Relief Sewer Project. He is unsure of when design and construction will begin. He advised that in the near future work will be performed along Lakeshore Boulevard to provide interceptor relief and some benefit to the local system as well.

Mr. Brown inquired as to the timing of the Lakeshore Boulevard Interceptor Relief project. Mr. Greenland advised that he was not sure. Ms. Rotunno indicated she would provide the Committee with the date.

Ms. Kelly wished to return to the staffing issue. She noted that Ms. Rotunno stated the District needs an Engineering staff of about 100 and currently has 60, but then the District will transition towards Program Management. She inquired as to the effect of the additional staff after the transition. Ms. Rotunno clarified that the department is currently staffed at 60 but the Capital

FINANCE COMMITTEE

March 1, 2011

Page 9 of 31

Program is being delivered utilizing Program Management resources and others to achieve the level of roughly 100.

Ms. Rotunno continued that as the District projects towards 2015, the staff needed to sustain the program decreases to just over 80. She would not advocate staffing the District to 100 if in the future that we can foresee only needing 80. She suggests that adding 10 employees in 2011 is a good start, but she does not advocate staffing up to even 80 because that level would be unsustainable in the future. There are certain types of expertise for which the District will always rely upon outside resources.

Mr. Sulik noted the projects anticipated through 2015 and the estimated staffing of 50 and inquired if there will be new projects. Ms. Rotunno advised that there will be more projects but there will be \$110 million in cash flow projected for 2015, not that a staff level of 50 would be needed. She indicated staff considers historic department staffing levels plotted against cash flow and award value and the number of projects awarded to assess the staffing needed to deliver the program.

OPERATIONS & MAINTENANCE

Dave McNeeley, Director of Operations & Maintenance

Mr. McNeeley advised that his staff and the Engineering Department helped in working on the problem with the collection system.

Mr. McNeeley stated that there are several budget centers under the Department of Operations & Maintenance (hereinafter "O&M") and a representative from each will talk about their individual budgets.

Staffing levels will be flat for 2011 and the budget reduced from \$57.7 million in 2010 to \$56.1 million.

Southerly's budget was reduced by 6% overall and one of the reasons for the reduction was due to the work performed with the ash lagoons.

Mr. McNeeley advised that 2010 O&M accomplishments included achieving gold awards at all 3 of the wastewater facilities. This was accomplished through maintaining thousands of assets, monitoring tens of thousands of data points and adjusting plant parameters and operational controls accordingly.

The Water Quality Industrial Surveillance Group helps with the collections systems by making sure the plants can handle the District's influent. Mr. McNeeley stated that he is appreciative of their work and the work Analytical Services performs to provide a "window on our processes."

FINANCE COMMITTEE

March 1, 2011

Page 10 of 31

Mr. McNeeley stated that resources have been provided for outreach events. Tracking of infrastructure and related customer complaints has improved. He explained that through that a stormwater management system and information tracking system has been developed and several cost-savings initiatives have been implemented to reduce the costs in consumption of electricity, water and chemicals. The business and functional systems have improved and O&M enhanced the application of asset management principals through the establishment of maintenance key performance indicators.

Mr. McNeeley advised that O&M effectively utilized the work-asset management system and are tracking run times on equipment and performing maintenance based on run times, not dates passing. Regulatory compliance was maintained and enforced.

Plans and programs have been developed for new business. Infrastructure service representatives are tracking infrastructure-related issues and costs.

Mr. McNeeley stated that O&M is continuing to improve operational programming and is looking at providing additional oversight of the financial activities in O&M by monitoring and controlling its budgets.

Controls are being implemented to right size inventory levels. Mr. McNeeley explained that a process has been initiated in which the inventory levels are examined and the number of obsolete parts has been reduced. O&M is reviewing contract spare parts to determine if it is receiving the proper number under contract, and trying to ensure the inventory meets operational needs.

Mr. Sulik inquired as to the value of District inventory. Ms. Demmerle advised that the inventory is valued at \$5.5 to \$6 million.

Mr. McNeeley stated that O&M is responsible for developing the Maintenance Program for the Stormwater program. An emergency contracts procedure has been developed and several community meetings were conducted to discuss maintenance and emergency response concerns. Additionally, O&M has developed maintenance specification for the Stormwater program.

Mr. Sulik inquired if Mr. McNeeley had discussed the programs during community outreach events. Mr. Czerski advised that a total of 14 communities were visited, including Middleburg Heights, Walton Hills, Columbia Township, Warrensville Heights and Garfield Heights.

SOUTHERLY

John Augustine, Superintendent, Southerly

Mr. Augustine stated that Southerly is operating at full potential following yesterday's rain event.

FINANCE COMMITTEE

March 1, 2011

Page 11 of 31

In 2010, Southerly was approximately 8% below budget and is projected to be approximately 6% under budget for 2011. Mr. Augustine advised there is a reduction in utilities, contractual services, material and supplies. Equipment and repairs have increased slightly and wages and benefits went up approximately 2% to 3%. Staffing will remain flat in 2011.

Initiatives for 2011 include the link to Strategic Initiative No. 1, which is regional water quality improvement through effective conveyance and treatment of wastewater. Mr. Augustine advised that re-tubing of one of the waste heat boilers is underway; two are already complete and it is a tremendous payback. He stated that once the three are online a monthly savings of \$50,000 will be realized and the total payback will be realized in a year and a half.

One second stage return sludge screw will be replaced as well as rebuilding four 800-horsepower motors and replacing three ferric chloride tanks, which are already in place.

Mr. Augustine advised O&M will look at the beneficial reuse of the incinerator ash in the lagoons. At the end of 2010 O&M was able to dig out a lagoon to provide more time so ash does not have to be hauled in 2011, which will defer a \$1.5 million expense to 2012. He hopes to sell the ash and further reduce the cost.

The waste heat boilers were re-tubed, which will result in gas savings.

Mr. Augustine stated that a cracked return screw needs to be replaced. A return screw is a huge screw that returns sludge for second stage aeration tanks. The engineer estimates the job as a \$390,000 project but bids are expected to come in under that figure.

Three 15,000-gallon ferric chloride tanks were replaced with in-house staff; the District paid for the tanks and replaced them. They will be in service shortly.

Mr. Augustine stated that other 2011 initiatives include Strategic Initiative No. 14, which is piloting new technologies for effluent filter operation and installing a new effluent monitoring station, which will be in place for the beginning of chlorination season. He advised that staff intends to modify the Southerly seal water system to utilize non-potable water, which is hoped to result in a \$7,500 monthly savings in water costs.

Regarding effluent filter optimization, Mr. Augustine advised that O&M will move to a mono media as opposed to the triple media currently in use and that has been extremely problematic. The District will use the same kind of media as CWD.

Good returns are expected regarding filtration and ability to not blind during high flows. The District is looking at denitrification down the road, which will help the District as the permit tightens up.

FINANCE COMMITTEE

March 1, 2011

Page 12 of 31

The sodium bisulfite UPS is a failsafe for the pump when power is lost which allows us to continue to feed that chemical, eliminate residual chlorine and protect our permit for about an hour and a half, until issues can be resolved.

WESTERLY

Lawrence Cinadr, Superintendent, Westerly

Mr. Cinadr advised that the Westerly budget has been flat since 2010 and the only significant change is in chemical usage and savings. The staffing level is unchanged at 58; some positions were switched and offset.

Mr. Cinadr advised that in 2009, changes were made in the operation of the plant and process. Between 2009 and 2010, plant staff working together with the Automation Group lowered hypochlorite usage by 42% a day, which resulted in substantial of that chemical.

The Gorman Rupp sludge pumps were installed 12 years ago and the estimated cost of replacement today would be about \$100,000. Mr. Cinadr stated that the pumps did not work well at that application and were unused for many years. In 2010 the plant staff moved the pumps into another application and they will be put back in operation.

This was a two-fold accomplishment: abandoned equipment was re-utilized and District apprentice electricians and mechanics working with the journeymen were utilized as part of the vocational training program.

Mr. Cinadr advised that all plants put in effluent monitoring stations. The electrical, instrumentation and plumbing was also done in-house. He indicated that Westerly's station is operational and ready for disinfection season. He described the endeavor as "a good learning opportunity for the trainees as well as using up-to-date communication devices with our computer system."

Initiatives for 2011 include improving business and functional systems. Mr. Cinadr stated that staff will continue to work with the Automation Department to provide optimum efficiency of all process chemicals. We want to use the least amount necessary to meet our parameters.

Mr. Cinadr advised that Westerly will continue to move away from manual data entries towards the operational data management system. This initiative will save time and eliminate errors.

The application of the asset-management principles will be enhanced through the utilization of maintenance key performance indicators to track projects, improve wrench time and continue implementation of the run-time based preventive maintenance.

Mr. Cinadr stated that we are managing the PM on equipment based on run-time hours instead of a fixed calendar schedule.

FINANCE COMMITTEE

March 1, 2011

Page 13 of 31

Root cause analysis will be emphasized.

Permit and regulatory compliance will be maintained and enforced. Mr. Cinadr indicated that their goal is to earn the gold award again. He explained that Westerly will assist with the implementation of the CSO LTCP, improve safety to ensure compliance, safety training and safety audits will be conducted. Westerly has gone over 600 days without a lost time accident and has had only two in the last six years. Post-incident analysis procedures will be improved.

Mr. Cinadr explained that additional initiatives for 2011 include all managers obtaining a minimum of 16 hours of management training and supporting diversity and inclusion initiatives. Classroom and on-the-job training will be provided for individuals in the District Vocational Training Program. This program includes mechanics, electricians, instrument techs and cross-training with the Collection Systems Group. This will allow us to know how they affect our plant and how we affect what that they do in the field.

Mr. Cinadr continued to name upcoming 2011 projects. A local control panel will be installed on the primary effluent pumps. This new panel will feature updated communication and improve overall operation.

A new belt conveyor will be installed during spring at Headworks. A compacting device there has been labor intensive and blocked up during yesterday's rain.

A centrifuge polymer blending system will be installed. The new system will have up-to-date communications and tie in with the HMI machine interface, which are the plant computers.

The installation of new sodium bisulfite pumps, controls and piping will be completed. In 2010 we did the sodium hypochlorite. We are going to do the bisulfite in hopes of saving chemicals.

Mr. Cinadr stated that each year as part of preventative predictive maintenance we send out one of the centrifuges for repairs and will do so in 2011.

EASTERLY

Robert Bonnett, Superintendent, Easterly

Mr. Bonnett advised that in 2010 Easterly plant staff treated 84.5 million gallons a day on average and provided total treatment for 30.8 billion gallons of wastewater. He stated that his 2011 budget represents an increase of less than 2% over 2010, which contains an increase in wages and benefits and utilities.

A high percentage increase in the equipment repair -- about \$32,000 -- is mostly a result of the substation maintenance conducted at all plants. We are in the second year of the substation

FINANCE COMMITTEE

March 1, 2011

Page 14 of 31

maintenance contract. Mr. Bonnett stated that a lot of the activity will to occur at Easterly in 2011 -- up \$40,000 from 2010.

There will be no net change in the staffing of 58 employees.

Mr. Bonnett advised that through the District's Maintenance Training Program some individuals met milestones and became utility maintenance persons (hereinafter "UMPs"); we were able to implement them into our budget but reduce other classifications.

Mr. Sulik noted that wages and benefits increase by 1.7% while the other two plants are averaging 3.5% to 3.8% and inquired as to the discrepancy if personnel figures are not changing. Ms. Demmerle advised that wages include overtime budgeted for each plant and Southerly has more overtime than the other plants, which is why the increase appears to be a larger than Easterly's.

Mr. Bonnett advised that accomplishments in 2010 include improving the chemical delivery systems. These were in-plant projects to meet the National Pollutant Discharge Elimination System permits more efficiently. Sodium hydroxide solution pumps were purchased and installed and are nearing operational status. We installed and have put in operation replacement sodium bisulfite solution pumps and optimized the chemical feeds for sodium bisulfate, which could help reduce the chemical costs.

Mr. Bonnett stated that initiatives for the year are numerous but highlights include aligning with Strategic Initiative No. 1 to improve the effective treatment of wastewater and train staff and get operational the sodium hydroxide solution pump that was installed in 2010.

Easterly intends to align with Strategic Initiative No. 14 to implement technology and business process improvements to increase efficiently and reduce costs. Mr. Bonnett stated that staff has optimized the heating boiler system operation and maintenance to reduce natural gas usage and boiler treatment chemicals.

Mr. Bonnett advised that staff wishes to improve work practices for greater efficiency relating to protective maintenance, considering sending crews out to examine equipment based on run time and reduce labor costs.

SEWER SYSTEM MAINTENANCE & OPERATIONS

Brian Stapleton, Manager, SSMO

Mr. Stapleton stated that he has been manager for about a year but has been in the collection system for 21 years. He has worked with Ron Czerski during that time and stated that they share the same vision for the collection system and are working towards that end.

FINANCE COMMITTEE

March 1, 2011

Page 15 of 31

Mr. Stapleton stated that wages, benefits and utilities comprise about 84% of the budget and are somewhat fixed costs. That leaves 16% -- or about \$800,000 -- to perform all equipment repairs, maintenance, parts and materials for the entire collection system.

Some 2010 accomplishments include completing the monitoring of ten problem CSOs. These are the worst offenders that overflowed more than two or three times in the last three years. The sites have been electronically monitored up and down stream.

Mr. Stapleton advised that the root cause for most of the CSOs have been identified and two have been eliminated from the trouble spot list through maintenance repairs and post-monitoring so SSMO is confident they do not need to be maintained and inspected a weekly basis.

Staff has created both short- and long-term repairs for the other CSOs. Mr. Stapleton stated that short-term issues were put on a six-month PM to check and jet clean or run root cutters through. Long-term sites were turned over to Engineering which has worked with us to find long-term solutions, adding to capital projects.

Mr. Stapleton advised that the top 10 sites helped the District reduce dry weather overflows by 25%. He indicated SSMO worked with Engineering on the Easterly Tunnel and Tunnel Dewatering Project. He stated they did a good job and is confident the product put out is exactly what is needed.

In addition to reducing dry weather overflows by 25%, a Web-based monitoring and enterprise system was implemented. Web-based monitors were put on our top CSO offender and they monitor the flow. Mr. Stapleton stated that when flow gets higher it will automatically send an e-mail or a phone call to the flow monitors supervisor who will bring a crew and unblock or fix the problem, no matter the time of day. He advised that the District has experienced this often and eliminated the possibility of overflow or greatly reduced the time that overflowed. SSMO also worked with Watershed determine the requirements for CSO monitoring.

Moving to 2011 initiatives, Mr. Stapleton advised that SSMO will continue efforts to document all District regulators and structures. There is a five-year plan in place to clean and monitor all 500 fixed weir regulators. There are about a hundred per year and while a lofty goal, he thinks it can be done. He stated that SSMO also intends to field verify all the regulator measurements, get GPS coordinates in the field, develop 3-D models of each regulator and continue the Web-based monitoring of the top offender sites to try and eliminate them.

Mr. Stapleton stated that the following were developed: maintenance and emergency contract specifications and work order templates. He advised that SSMO worked with Watershed and a larger District-wide group so that when the Stormwater program is ready to move forward the details are worked out.

FINANCE COMMITTEE

March 1, 2011

Page 16 of 31

Presentations were created for the watershed systems for each individual plant. The plants are working on programs to cross-train each other. Mr. Stapleton stated that Westerly is done and such presentations may become an annual event. An overview of the watersheds for Southerly and Easterly will be presented to the plants.

Mr. Sulik noted the increase in salary and wages and inquired if there is an increase in personnel. Mr. Stapleton advised that there is no increase in personnel. This salary and wages is projected assuming nobody is on disability and a few were last year. Some positions were not filled in 2010 as well, which skews the number.

Ms. Demmerle asked the Committee if it wished to take a five-minute break. The Committee agreed to proceed with the meeting.

AEA / CUSTOMER SERVICE

Constance Haqq, Director of Administration & External Affairs

Ms. Haqq advised that because her budget is very similar last year's, she will talk about two initiatives that might be of interest -- external communication with customers and the diversity and inclusion initiative.

Ms. Haqq stated that the District's diversity and inclusion initiative has received a great deal of attention even though it is only in the first year of the three-year strategic plan. She advised that Dr. Karen Gilliam has been asked to present at no less than four conferences on the initiative's progress thus far.

Ms. Haqq advised that staff is proud of its work but there is a long way to go and appreciate the fellow directors, superintendents and all budget center heads that helped make it possible.

The department has focused on community relations to the public for the last five years. She stated that the public should understand the District as an organization, what it does and why it is important.

Ms. Haqq stated that in 2011 staff will focus on customer contact -- not only through the customer service function, but through activities in Communication & Community Relations (hereinafter "CCR") to inform and educate the public and respond to their concerns.

Over the past two years Baldwin-Wallace College (hereinafter "BW") performed a study on the customer impact the District has as an organization. She explained that in 2009 the big surprise was that our customers really do appreciate the lake -- not only those who live near it, but throughout the service area -- and a small percentage were willing to pay more to make sure the lake was clean.

FINANCE COMMITTEE

March 1, 2011

Page 17 of 31

In 2010 her department asked BW to find out if our outreach messages were getting through to our customers -- and they were. Customers understood the PUP program, saw the rubber ducks on television, and saw our bus signs. They understood the messages, too.

However, Ms. Haqq advised that the connection between those messages and the District was not necessarily being made. Baldwin-Wallace recommended shortening our title when the District communicates; therefore, this year "Your Sewer District, Keeping Our Great Lake Great" will be seen in our media advertisements.

Ms. Haqq stated that her department is currently interviewing print, video, TV and all media to determine what our package will be. She advised that billboard advertisements were likely and it may have a similar message. She noted that all of the design and concepts are done internally; external resources are only utilized for printing.

Consistent with the customer contact focus, CCR will be doing a direct mailing to our customers. Ms. Haqq indicated the sewer rate increases will be discussed but also affordability programs and how they can engage those. Staff also intends to keep people updated on Project Clean Lake and the new MBE/WBE/SBE program called the Business Opportunity Program.

Ms. Haqq advised that there will be seven rate meetings throughout the community, including Summit County. She stated this year the superintendents will be asked if two of the meetings can be held at the plants on a Saturday so customers may not only hear about the increase, but have an opportunity to tour a plant and see where the money is going. These meetings would be in addition to the annual open-house as a way to increase contact with our customers.

Ms. Haqq advised that citizen information meetings are being instituted in 2011 and will continue if successful. The meetings will be held in April at GJM and in September at EMSC. She stated that these meetings present an opportunity for customers and residents to ask questions and find out the latest information about the District. She advised that the dates of the rate meetings are available and her department will talk to anyone who will let the District speak. Ms. Haqq stated that the District will have a presence at community groups, senior citizen homes, festivals, fairs, non-profit organizations and churches. Ms. Haqq reiterated that the outreach events intend to stress who the District is as an organization, what it does and why it is important.

Mr. Sulik advised that the Board would appreciate a recap of community groups Ms. Haqq speaks to -- not just the published meetings -- so it is aware she has reached across a spectrum of ratepayers in discussing our rates and benefits. Ms. Haqq replied that she would be happy to provide that information. She advised that a running tab is kept of all presentations and how many people attend in the Executive Director's monthly report, but she will provide a composite of them for 2010 and will keep the Board posted on it 2011.

FINANCE COMMITTEE

March 1, 2011

Page 18 of 31

Continuing her report, Ms. Haqq advised that the District maintains a number of sponsorships, including with the Cleveland Indians. She stated that Wally Waterdrop has spent time at Quicken Loans Arena for a number of events and is widely recognized.

A number of partnerships will continue in 2011, including Central State University, Cleveland State, the Carl and Louis Stokes Academy and the Great Lakes Science Center.

Ms. Haqq indicated that the Web is very important in communication and the District has increased its presence. Not only does the District have its own Web site where any resident and customer can find out about us, but the District and Wally Waterdrop both have Facebook pages. She also advised that the District is using Twitter and will continue to monitor appropriate use of the Web to disseminate information.

Ms. Haqq stated that the District will stay close to its state and federal legislators and regulatory bodies that support our work to make sure our concerns are represented. She expressed hope that at some point the District may be in receipt of funds as a result of our efforts.

In summary, Ms. Haqq stated that staff intends to increase customer contact, inform customers and respond to their concerns.

Ms. Kelly inquired if customers have the opportunity to pay their bills online, to which Ms. Haqq affirmed. Mr. Sanchez advised that customers can pay their bills online through the CWD billing system; they have a separate site and serve our customers as well. He continued to advise that the City of Cleveland Heights is another billing agent and have a separate Web site for online payment.

Ms. Haqq inquired if District customers will ultimately be able to apply for the summer sprinkling program online, which Mr. Sanchez confirmed.

Executive Director Ciaccia stated that an organizational change was made for this year's budget; Customer Service, which had reported to the Finance Department, is now part of Ms. Haqq's operation.

Executive Director Ciaccia stated that staff did a good job last year of educating our customers about our programs through media buys, and there was naturally some criticism over that.

This year a similar program is budgeted. He stated that there will be a "sensitivity check" on this because the District will be discussing billing rates. Executive Director Ciaccia advised that while a certain amount of funded has been budgeted it remains to be seen what level it will ultimately be. He advised that input from the Board will be helpful.

Mr. Brown stated that he thinks every outreach group struggles with how many events to plan and how to achieve larger turnouts. He cited an example of the Health Department doing more

FINANCE COMMITTEE

March 1, 2011

Page 19 of 31

outreach by going to fewer, more well attended events. He inquired as to Ms. Haqq's thinking on strategically targeting where to go for large turnout initiatives.

Ms. Haqq advised that staff takes into consideration past attendance, but also geography. The District wants to reach as many communities as possible -- not just in Cleveland, but all of the outlying communities as well.

Continuing her response, Ms. Haqq advised that her department takes into account the District's message and the nature of an event. The District would want to have a presence at an Earth Day event; however, if there is a community event the District wants to make sure its message is relevant to the people going there. The District brought flyers on "Ask me why your sewer bill is going up" to an event at Luke Easter Park last July. She stated that it was a fun event for the community and was a "downer" when people came to our table. Going forward our approach will be modified, but will be available to talk about what is going on at the District and how it relates to the individuals that come to our table. She stated that the District does not have a process quite as scientific as Mr. Brown is recommending, but representatives of her department get out quite a bit.

Mr. Brown empathized with the challenge Ms. Haqq faces; turnout at meetings can be mixed. He advised that the District needs to "keep at it" and find out what is the balance needed to raise awareness of the issues.

OED

Karen Gilliam, Organization and Employee Development Manager

Dr. Gilliam stated that the OED team is proud of its accomplishments of the past year and she is appreciative of the team members present, including Mary Ann Hogan.

Dr. Gilliam stated that the program describes diversity inclusion as not about a series of events or a program, but a journey. The vision of success is our commitment to diversity and inclusion. She wanted to focus on diversity inclusion as a long-term strategy and developing cultural competency.

She defined cultural competency as raising the level of awareness and appreciation and an understanding for diversity and inclusionary workplace practices. That involves skill-building as well.

Dr. Gilliam advised that in 2009 an employee diversity & inclusion (hereinafter "D&I") survey was conducted and additional data was collected to establish a baseline. A three-year strategic plan with goals, timelines and action items, action plans was developed at the end of that year and in 2011 the District will implement the second year of that strategic plan.

FINANCE COMMITTEE

March 1, 2011

Page 20 of 31

The District will continue to share its story and host diversity dialogues. Dr. Gilliam advised that the District has implemented diversity and inclusion bulletin boards at every location.

Dr. Gilliam advised that 107 managers have been trained so far this year with D&I managers workshops. Some employees will be trained and certified by an external consultant as D&I workshop facilitators and will facilitate workshops for all employees beginning in June.

The District plans to design and develop two additional modules -- one specifically around award and recognition, and another on generational differences.

Dr. Gilliam stated that the D&I leadership team intends to guide us to sustained success. Quarterly meetings will be held and employee resource groups -- or affinity groups -- will be created. She advised that the usage of eCards will be encouraged and Spanish versions are available.

Dr. Gilliam stated that employee involvement is ensuring diverse representation and involvement in workgroups and community events. The available options include the speakers' bureau and the District-sponsored Diversity Center Walk, Rock and Run which will be held in May.

Last year a diversity and inclusion dashboard was drafted to provide important metrics. The dashboard will be finalized and there will be a formal mid-year review of the 2011 work plan. She advised that the District will continue to participate in the commission on economic inclusion survey, and though the District has been recognized for supplier diversity, the District is striving to be recognized in other areas as well.

INFORMATION TECHNOLOGY

Humberto Sanchez, Director of Information Technology

Mr. Sanchez advised that the Information Technology Department (hereinafter "IT") is currently staffed with 19 full-time employees distributed as follows: five in Administration; three in Infrastructure; eight in Technology Services; and three in IT project management services.

IT began 2010 with a staff of 21 and two departed during the year. One of those positions was eliminated by combining it with a position in OED. Overall, staffing is flat going into 2011.

Mr. Sanchez moved to significant accomplishments in 2010.

Much effort was put towards managing the billing and revenue project that led to the reporting and billing enhancements with the CWD. Along that process, much effort was put into making sure the errors last year with the Summer Sprinkling Discount Program were adjusted by the end of the year, and those adjustments were successfully posted the first weekend of 2011.

FINANCE COMMITTEE

March 1, 2011

Page 21 of 31

The District's strategic technology initiatives included the development of a five-year capital plan and processes for continuously managing technology's change and budgetary impact.

A billing system for stormwater was designed and tested and will be based on the CWD system; however, the District paused until litigation is completed.

Mr. Sanchez advised that the Information Tracking Log System is a small application designed in-house collaboratively between IT, Engineering, Customer Service, Operations and Maintenance. The application was originally designed to track stormwater inquiries and has grown into broader tool that assists those departments in tracking inquiries through completion, including those that require maintenance.

The District relies on a number of devices throughout the area to maintain the collection system, regulators, rain gauges and other systems. He advised that in 2010 IT successfully tested a pilot using wireless technology and transitioning to that technology is expected to increase reliability and reduce maintenance costs on some of the lines.

Moving into the budget, Mr. Sanchez advised that personnel and benefits is the largest component, but he wanted to discuss the next largest items.

\$2.1 million is budgeted for professional services in 2011, 79% of which will be dedicated to stormwater billing system implementation, year one of the automation organizational assessment and the last year of the three-year contract for network and desktop support.

Mr. Sanchez advised that \$820,000 is budgeted for communications. Communications for IT includes all networking, telephone and cellular and the monitoring of the collection systems.

Equipment and repair maintenance is budgeted at \$790,000, which includes all maintenance and support agreements for all the licenses, software, hardware and other components.

Mr. Sanchez stated that \$100,000 is budgeted for software and \$69,000 for minor equipment, respectively. He explained that significant effort was made last year with the constrained budget but his department expects to fulfill most of the requests it received at the end of last year.

The overall budget of \$5.9 million is a small increase of about 3% from 2010 and the bulk of the increase is due to stormwater billing system implementation.

Moving to significant projects and initiatives for 2011, Mr. Sanchez advised that IT will continue to focus on finance and revenue through implementing the stormwater billing system. As the District proceeds with the proposed new billing structure -- which will be presented to the Board later this year -- upon approval the rate structure changes will be implemented in the billing system in coordination with CWD.

FINANCE COMMITTEE

March 1, 2011

Page 22 of 31

Mr. Sanchez stated that IT is correcting problems within the system regarding the Summer Sprinkling Program that generated incorrect accounts and that is expected to be completed by the end of April, before the start of the next summer sprinkling season.

The automation organizational assessment, working with Engineering, IT and Operations, will determine the best way to organize District resources around plant automation activities. He explained that part of the scope of the work includes providing support to current plant automation activities.

Mr. Sanchez advised that IT has an Operational Data Management System which was implemented in 1998 and is showing some signs of age. Staff is looking to begin the process of upgrading that system with new requirements from both the plants and collection system.

Mr. Sanchez stated that IT intends to implement a stormwater inspection database that will assist Operations and Maintenance in gathering data from the field and conducting asset inspections once the District takes over some stormwater assets.

IT continues to work on the information tracking log system. That system will assist the Customer Service, Operations and Administration and External Affairs departments.

Enhancements to GIS related to stormwater will provide individualized application to help Customer Service. Mr. Sanchez indicated a prevailing wages monitoring module will be implemented to assist the Office of Compliance. Additionally, IT will continue supporting the Asset Management Program as it moves into implementation tasks.

Mr. Sanchez stated that initiating the process to implement a practice for business process management was a goal in order to use IT to drive performance improvements in various business processes throughout the District.

Mr. Sanchez advised that IT incorporated a five-year capital budget projection in 2010 and through an ongoing planning process intends to consistently maintain a five-year horizon.

The budget for 2011 is \$3.8 million and is broken down into \$1.7 million for hardware-related investments and \$2.1 million for software-related investments.

Significant projects for the capital budget include upgrading the WAM system, which supports Operations and Maintenance to manage work orders and implementing the iRecruitment module in Oracle HR to streamline the recruiting and hiring process. Mr. Sanchez indicated he is working with both Analytical Services and WQIS to enhance the electronic process WQIS uses to report compliance at the plants to the Ohio EPA.

Mr. Sanchez stated that IT would like to upgrade the District e-mail system to maximize productivity and resources. This project was suspended in 2010 because of other priorities but

IT hopes to move to a more robust platform that addresses the current limitations and allows more complex communication scheduling and future collaboration needs.

IT plans to implement SharePoint infrastructure, which will set up a platform so employees can develop applications to help with information management workflow. Such an implementation would decrease reliance on professional resources to develop applications.

Mr. Sanchez advised that in support of the District and business and operations, IT will begin to design an enterprise wide content management system that would manage all the electronic records and the increasing number of documents as well as support e-discovery regarding litigation and investigations.

Mr. Sanchez stated that network telecommunications infrastructure is much like water or sewer infrastructure; it is like a set of pipes that conducts data and voice. These systems require consistent maintenance, repair and renewal. He advised that IT will conduct Phase 2 of its network infrastructure upgrade -- essentially replacing components that are becoming obsolete or require higher performance and replacing uninterruptible power supplies at the plants. This process includes rehabilitation of the optic fiber at Easterly.

Mr. Sanchez stated that the collection system wireless upgrade will bring wireless technology to our remote devices and IT will begin to upgrade the phone system to digital. The department will focus on upgrading control systems before moving to digital units next year. There will also be upgrades on audiovisual equipment both at GJM and EMSC.

Ms. Kelly noted that the 2011 budget contains a \$100,000 reduction in software. She inquired how IT will manage that since software becomes obsolete quickly. Mr. Sanchez replied by advising that the budget item refers to desktop software. IT policy has been to maximize the period within which to keep a specific version of software, but in a manner to not fall behind and become incompatible with other organizations the District works with.

Mr. Sanchez stated that customization of technology contributes to the trend of software and equipment becoming obsolete quickly; software devices are being driven by consumer demand and not business.

Mr. Bucci clarified that major software purchases and installations are included in the capital budget.

WATERSHED PROGRAMS

Frank Greenland, Director of Watershed Programs

Mr. Greenland stated that he will provide an overview of the Watershed Programs Department and talk about key initiatives.

FINANCE COMMITTEE

March 1, 2011

Page 24 of 31

The department was created in 2008 by combining existing District departments and staff members that cover broad watershed issues. He advised that Frank Foley oversees Water Quality, Industrial Surveillance and Analytical Services Group. Staff has been added to deal with watershed-related projects and there are a lot of community involvement projects on a watershed level -- primarily the Stormwater Program -- a host of initiatives interacting with groups on watershed issues.

Mr. Greenland stated that Kyle Dreyfus-Wells and Betsy Yingling manage staff working on stormwater and watershed issues. Robin Halperin manages regulatory compliance issues, including NPDES and other environmental permitting issues.

The department continues to refine strategies on interacting with the community on watershed related issues. There are watershed operating support grants and discussion with groups regarding the vacant housing issue and leveraging a bad situation into an opportunity.

The Watershed Programs Department is working with Engineering and community groups on green infrastructure and is looking for opportunities to broaden the District's role and service to the community. A lot of work was done on the Regional Stormwater Management Program last year and the department assisted in the consent decree negotiations.

The WQIS and Analytical Services groups will continue to look for opportunities to expand the environmental monitoring program and research efforts. The department is active in the Great Lakes Restoration Initiative research objectives and has garnered some funding for them. The regulatory compliance function was consolidated into Watershed Programs.

Mr. Greenland stated that in 2011 a lot of work will be done regarding litigation and implementation of the Stormwater Program. Additional resources will be needed to launch the initiative.

Work with Engineering and others will continue on the green infrastructure component of the CSO LTCP and the Watershed Programs Department is looking for sustainability practices and program improvements, both internal and external.

Mr. Greenland advised that the department wants to enhance the environmental monitoring effort and communication with the public. His department will be active in Great Lakes Restoration Initiative grants and much of that work deals with issues such as mercury or beach research, looking for ways to inform the public about beach bacteria levels more quickly.

Mr. Greenland stated that the Wastewater Treatment Plant and CSO NPDES permits are expired. After the consent decree is finalized staff will be active in the renegotiation of permits.

FINANCE COMMITTEE

March 1, 2011

Page 25 of 31

Mr. Brown inquired about the meaning. Mr. Greenland replied that staff thinks the District will get new three- or five-year wastewater treatment plant NPDES permits depending on what the Ohio EPA wants to do. There could be new permit limits and different requirements.

The CSO permit will be watched very closely as the District has significant requirements per the consent decree. Mr. Greenland stated that a state NPDES permit for CSOs will be issued and the District needs to make sure it is not deviating from the consent decree.

Mr. Greenland advised that the District has been successful at leveraging its state revolving loan fund to garner funds for the Water Resource Restoration Sponsor Program – a total of \$21 million over the last three to four years. He explained that figure accounts for significant revenue coming into the region for watershed groups to preserve land for purposes that help stormwater and watershed management initiatives or for restoration projects like the West Creek restoration initiative. A number of projects are in the pipeline and his department wants remain active in this area.

No personnel changes anticipated in the Watershed Programs Department. Mr. Greenland stated that significant resources will be needed when the Stormwater Program moves forward but that is not in this year's budget.

Mr. Greenland noted that there is \$1.3 million for general professional services. The line items under that category deal with continued development of the Stormwater Program.

The billing system has been put on hold. He advised that at some point in 2011 that effort will be reinstated because the data on parcels and stormwater fees is getting aging. With additional staff resources that work will be done internally. The District does not have the resources to execute that now.

A stormwater pilot master plan allows small projects to be conducted to understand “the hoops we're going to have to jump through” as the District-wide master plan for Stormwater Management is developed.

The District is going to have permit activities, wetland monitoring activities and the like, so the Watershed Programs Department introduced funds into that category for regulatory compliance.

Mr. Greenland advised that his department will continue the successful Watershed Operating Support Grant Program. His department is sponsoring seven watershed organizations, giving them grant assistance for operating support to accomplish things instead of seeking grants to stay alive.

There is funding in other contractual services for pilot maintenance efforts. Mr. Greenland stated that stormwater maintenance staff will go through training on things they will see in the field and

FINANCE COMMITTEE

March 1, 2011

Page 26 of 31

get a more experience, so as the program proceeds the District is better prepared for accomplishing significant O&M activities.

ENVIRONMENTAL SERVICES

Francis Foley, Superintendent, Environmental Services

Mr. Foley stated that during 2010 almost \$600,000 in grants were awarded from the Great Lakes Restoration Initiative and during 2011 significant efforts will be put towards executing the projects associated with those grants.

Neither Water Quality Industrial Surveillance nor Analytical Services is requesting any increase in full-time staff for the upcoming year.

Mr. Foley turned the meeting over to Scott Broski to discuss Water Quality Industrial Surveillance.

Mr. Broski stated discussed 2010 WQIS Department accomplishments. One of the most important is that there were no NPDES violations at any plant as the result of pass-through interference or inhibition from an industrial discharge.

A GRLI grant was obtained for the implementation of an amalgam separator program for dental facilities. He explained that program was launched in November and will be administered and operated through 2011. That program protects District facilities and provides a better opportunity to meet the expected permit limit for mercury in our effluent at the plants by reducing the amount of mercury that comes into the system.

Mr. Broski advised that WQIS hosted a pharmaceutical collection event as part of Operation Medicine Cabinet, which was in conjunction with the Drug Enforcement Administration's national Take Back Program. This program also reduces the amount of emerging pollutants coming into the waste treatment plants.

Staff expertise was expanded through continued education and training. Mr. Broski stated that a number of the environmental monitoring staff obtained qualified data collector status from the Ohio EPA in stream habitat evaluation and water chemistry. One of the staff members was certified as an Ohio EPA qualified data collector/trainer in macro invertebrate biology. This staff member is the first person in the state to hold such a certification.

An illicit discharge detection and elimination strategy was developed for the Stormwater Management Program.

Mr. Broski advised that in 2011 work will continue to protect the plants and collection system from harmful discharges and give the plants the best opportunity to comply with their NPDES permits.

FINANCE COMMITTEE

March 1, 2011

Page 27 of 31

Water quality conditions on area surface waters will be documented, looking for any sources of pollution and trying to eliminate them. Work associated with the GLRI grant will be administered and completed.

Mr. Broski stated that development of the Stormwater Management Program will continue. The District expects a mercury limit in the new NPDES permits and will be working with regulatory support to prepare a variance application for mercury.

Some documents relating to the enforcement response plan need to be revised, which are guidelines on responding to those violating code. Our code of regulations will also be examined to make sure it is up to date and appropriately regulating industrial users.

Staff education and training will be expanded by obtaining qualified data collector/trainers in fish biology, which would be the first in the state.

The table of organization will not change this year and there is no increase in staffing.

Mr. Broski advised that the department budget is reduced by 1.5% from 2010.

Key line items include a \$250,000 expense but all of that money will come back in a grant.

Mr. Broski stated that the contractual services budget was \$102,000 in 2010 but the actual budget was only \$24,000. WQIS is requesting \$55,500 for 2011 because a large portion of the contract laboratory services for macro invertebrate identifications were not completed in time to record against 2010 and are carrying over to 2011. Radiological oversight and radiological testing at Advanced Medical Systems was not as expensive or extensive as expected, which resulted in lower-than-expected cost.

Mr. Brown inquired as to the status of the site. Mr. Broski advised that the site is continuing to clean up; most of the equipment in the facility has been removed. The heavily contaminated area is "more or less entombed," sitting idle and the radiation is decaying over time.

There used to be significant wastewater discharge from footer drains and rainwater that had to be brought into the building, filtered, tested and discharged. They have gone through a change in how they collect that water; rather than filtering and discharging it they have put in a large evaporator and are evaporating that water, reducing the amount of discharge and concentrating the cobalt waste for disposal. There is less risk to us in terms of their discharge; however, monitoring of the site continues and WQIS is working with them to make sure that there is no harmful discharge from that facility.

Mr. Brown asked if the site has been decommissioned for a while, to which Mr. Broski advised it has been decommissioned since the 1990s. The sewer has been disconnected from the facility

and there is no active connection. The site is controlled and monitored by the Ohio Department of Health and the NRC.

ANALYTICAL SERVICES

Mark Citriglia, Manager, Analytical Services

Mr. Citriglia stated that one of the major accomplishments for 2010 was becoming a certified laboratory for the Ohio EPA to analyze drinking water. The District is certified in metals, wet chemistry and microbiology. He stated that a lot of that work is conducted for the Cuyahoga County Board of Health.

Mr. Citriglia advised that the District maintained its NELAC accreditation and has been approved for two grants for the Great Lakes Restoration Initiative. One grant is for a rapid method comparison, which continues work on new methodologies for microbial identification.

The other grant is for a modeling project at Euclid and Villa Angela Beach. Mr. Citriglia hopes to have a predictive model similar to Nowcast developed in upcoming months.

The District is under contract with the Cuyahoga County Board of Health for three years to do sampling. Mr. Citriglia advised that the District has also entered into a contract with the sanitary engineers and some smaller companies to help with analytical work. He stated that the District analyzes about 30,000 samples a year and 260,000 different analyses on those samples.

Mr. Citriglia advised that initiatives for 2011 include ensuring the laboratory is compliant with a change in the NELAC standard. Analytical Services wants to manage funding for our Great Lakes Initiative grants. One is on the rapid methods, for which the District has started to purchase equipment.

Beach modeling is going to take more effort and require us to put in a weather station at Euclid and Villa Angela Beach, and flow monitoring equipment along Euclid Creek to get an understanding of what is going on there. In 2011 Analytical Services will have a Nowcast for Villa Angela Beach, which is going to be a big accomplishment for that beach.

Mr. Citriglia advised that a chief goal is to become more of a revenue source for the District. The department has taken on some contract work and sampling will increase with the CSO LTCP.

Mr. Citriglia stated that some reorganization has occurred within the department but overall staffing has remained flat.

The District will have an additional \$143,000 for reimbursable grant expenses. Analytical Services is putting flow monitoring equipment on Euclid Creek and putting one flow monitor on

FINANCE COMMITTEE

March 1, 2011

Page 29 of 31

the creek and one at the end of the creek so it can be aware of the impact of Euclid Creek on Villa Angela Beach.

Mr. Citriglia advised that predictive modeling work is ongoing. Chemicals, supplies and some minor equipment have to be purchased for the rapid methods grant. The majority of this account will be for the grant.

There was some toxicity at Southerly. WQIS are going to do identification on what was causing the toxicity. WQIS is going to implement an E-Learning system for online training. The laboratory has to do extensive training to keep our accreditation.

There has been an increase in chemicals mainly because WQIS has taken outside work from the Cuyahoga County Sanitary Engineers, the Cuyahoga County Board of Health and are expecting a lot of work from the CSO LTCP. Chemicals and supplies are expected to increase for the same reason.

CLOSING DISCUSSION

Jennifer Demmerle, Director of Finance

Ms. Demmerle advised that the next steps are a recommendation through the Committee to present the budget as is to the Board during the March 17th meeting. She asked if the Committee had any questions.

Mr. Sulik thanked the department heads and the people under them who have worked diligently in putting the budget together. He stated that it is not an easy task and he commended them for keeping costs down.

Mr. Sulik commended staff for "not going overboard or doing a lot of dreaming in this budget," keeping it to what is necessary to keep plants operating, construction projects going and maintaining the credibility the District has had over the last few years with expending its dollars.

Speaking for the Committee, he stated that they appreciate the hard work put into the budget to get the numbers down to where they are livable. He stated that he thinks the Committee will recommend the Board to approve the budget during its March 17th meeting.

Mr. Brown stated that in a time when there is a significant global economic challenge to be fiscally responsible, a lot of things could have been incorporated into the budget. He stated that it is important to be fiscally responsible as the District maintains and improves our infrastructure while being in compliance with regulatory agencies. It is a challenge to create a transparent and open process in how the organization is fiscally run. Doing so in the current environment while

trying to raise the profile of a well-run organization that needs to be better positioned so the public understands the value of what it does.

Mr. Brown stated that the District has done a good job over the last few years creating momentum. The District has to continue that but be sensitive to the other pressures the District needs to deal with. He thinks the proposed budget reflects that work and commended the staff for doing a good job of taking care of District's business.

Ms. Kelly stated that she has a tremendous amount of respect for the organization and its commitment. She stated that she has served on a lot of boards and can say the District is an organization that takes business very seriously and really cares about the community and environment. Ms. Kelly stated that she respects every member of the staff and appreciates the fine work they are doing.

Mr. Brown advised that he will probably ask for an opportunity to review certain aspects of the document before it is released to the entire Board. He suspects there are no surprises in it and he considers it all sensitive material. He stated that he wants to make sure the District is in a position to understand what could appear publicly so the District is in a position to comprehend and understand the assumptions that go with this process. Mr. Sulik agreed.

Executive Director Ciaccia stated that the March 17th Board meeting was targeted to incorporate it into the Board books. That would mean the books would go out March 10th.

IV. Discussion on Budget Transfers

Ms. Demmerle advised that a Board resolution requires bringing any line-item transfer of more than \$100,000 to the Finance Committee. She advised that it was not over budget but four individual line items were.

A \$138,000 transferred for Watershed's professional services, the majority of which was for the AMEC work for the Stormwater Billing Program. Ms. Demmerle stated that the contract amount was not exceeded; not enough was budgeted in that particular line item.

The second transfer is for Workers' Compensation payout. \$118,000 needs to be transferred into that account to cover an unanticipated payout incurred last year.

Ms. Demmerle made a correction, noting that the collection fees are a \$190,000 transfer, not \$600,000. There was an accrual that was not reversed.

Mr. Sulik sought to clarify that the correct figure is about halved, which Ms. Demmerle affirmed. She continued to advise that \$408,000 was spent on the Bricker & Eckler report, with which the District had a \$300,000 contract. That cost was not anticipated in last year's budget which is

why that cost exceeded the line item. Additionally, \$1 million was transferred from Watershed into IT for the IBM project the District said it would support for CWD and fiscal reporting.

Mr. Sulik inquired if those funds will return to the District, to which Ms. Demmerle replied that it would return through the collection fees.

VI. Preliminary Rate Study Report

Ms. Demmerle stated that the draft rate study report was provided to the Committee to read and provide any feedback or comments. She advised that she would like to finalize the report and present the Board with a rate recommendation during its March 17th meeting. She wanted to make sure the Committee had the report before it was finalized and distributed.

Executive Director Ciaccia stated that he wanted to draw attention particularly to Section 5.3 in the draft report, which includes rate-structure alternatives. He explained that there are three alternatives with various rate percentages with various yield in increases. He noted that Section 5.4 will be the recommended rate structure and where he thinks primarily where discussion will end up.

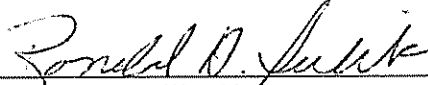
Ms. Kelly inquired which section Executive Director Ciaccia specifically mentioned in addition to 5.3, to which he advised the Committee to draw their attention to sections 5.3 and 5.4 but certainly to read it in entirety.

V. Fourth Quarter 2010 Investment Advisor Report

Ms. Demmerle stated that the portfolio returns about 1.84% and the District continues to try to maximize the yield in this economy.

VII. Adjournment

MOTION – Mr. Sulik stated business having been concluded, he would entertain a motion to adjourn. Mr. Brown moved and Ms. Kelly seconded the motion to adjourn the meeting at 11:26 a.m. Without objection, the motion carried unanimously.



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