MINUTES
NORTHEAST OHIO REGIONAL SEWER DISTRICT
BOARD OF TRUSTEES MEETING
JULY 3, 2014

Meeting of the Board of Trustees of the Northeast Ohio Regional Sewer District was called to order at 12:30 p.m. by Darnell Brown.

I. Roll Call

PRESENT:  D. Brown
          R. Sulik
          W. O’Malley
          T. DeGeeter
          S. Dumas
          R. Stefanik

ABSENT:    J. Bacci

The Secretary informed the President that a quorum was in attendance.

II. Approval of Minutes

MOTION – Mr. O’Malley moved and Mayor Stefanik seconded to approve the minutes of the June 19, 2014, Board Meeting. Without objection, the motion carried unanimously.

III. Installation of Officers

Marlene Sundheimer, Director of Law, swore in the new officers of the Board of Trustees.

                      President:  Darnell Brown
                      Vice President:  Ronald Sulik
                      Secretary:  Walter O’Malley

Mr. Brown thanked his colleagues for their support and stated that there are many more issues to continue to work on such as Green Infrastructure and getting closure on the stormwater program. He further commented that the District will continue to do good work and to sustain its regional and national reputation.
IV. **Public Session**

Executive Director Ciaccia informed the Board that no one signed up to speak about a specific agenda topic.

V. **Executive Director’s Report**

Executive Director Ciaccia reported that the District is continuing with its Appendix 3 Green Infrastructure projects and that almost all of them are located on brownfields in one way or another. The District has to deal with brownfield issues and associated cleanup costs which weren’t fully recognized initially. One of the things we are doing with assistance from Lou McMahon of McMahon & DeGulis is to work with Cuyahoga County to see if some program can be developed to bring additional funding to make these projects economically viable so that it doesn’t have to be paid for entirely with District funding. The District is also looking at its discretionary Appendix 4 Green Infrastructure projects, where it would be trading off gray for green, and where the economics is even more important to get additional money on the table. Mr. Ciaccia reported that the District had an initial meeting this week with some County folks who are interested in partnering with the District on some aspects. They indicated that they are willing to look at alternative funding possibilities.

With the leadership transition at the County, the District intends to approach both County Executive candidates to brief them on the brownfields funding issues as well as the District’s Integrated Planning approach.

Ironically, one of the properties we are acquiring has been recently raided for illegal dumping and keeping malnourished livestock on the property. The property is a brownfield with significant costs associated with it.

Another Green Infrastructure project involves partnering with the City of Cleveland on a parking lot redevelopment at the West Side Market. The District is working with the City to incorporate Green Infrastructure into the two parking lot design and construction projects, and we will be bringing the proposal to the Board for approval as it develops. Currently, the City has a $500,000 grant from US EPA for Green Infrastructure, and the District could bring another $500,000 to close the funding gap on the project. We think this project presents a great opportunity for the District to get involved just as it did with the Marriott Hotel in University Circle.

The District is ramping up on activity on the 25-year, $3 billion consent decree program, and we have an opportunity to engage in what the US EPA calls Integrated Planning. We were very instrumental in pushing for this approach through NACWA and other associations, with the US Conference of Mayors really pushing it over the finish line. US EPA is now allowing
engagement in Integrated Planning to get all regional Clean Water Act obligations and issues on the table, not just CSO. This includes obligations that are not necessarily just the District’s obligations, such as the obligations associated with the collection systems of the 60 communities within the District. The District manages 300 miles of pipe. In comparison, there is another 5000 miles of pipe out there being managed (or not) by the communities that are contributing to Clean Water Act issues not covered by our consent order. Therefore, the District is now looking at its consent order from a regional perspective and is asking if it should be reworked to incorporate these other issues. Some communities’ leaders have been challenging the affordability of our $3 billion program, so now they have an opportunity to get in the game with us to reopen the consent order to either redistribute some of the $3 billion and/or buy more time to carry out both our program and whatever additional Clean Water Act needs the communities have identified. We are working on a strategy that incorporates the 60 communities in this discussion.

Executive Director Ciaccia advised that he met with Mayor Greg Kurtz from Independence, who is President of the Mayors and Managers Association, and the District sent out letters to the 60 communities advising them of Integrated Planning opportunities. So far, the District only received one response. However, the District will continue to carry out its approach with engineering assessments and by developing public outreach through elected officials. It will be a huge undertaking, but at the end of the day this is a no-lose situation for the District because we have to carry out the $3 billion consent order over the next 25 years. If the communities choose not to participate, then they should not be heard to complain when it is time to talk about rate increases to support this $3 billion program. The Board will be given a formal presentation at a future meeting when the strategy is finalized.

As a final example, Executive Director Ciaccia informed the Board of the results of the Mill Creek Tunnel assessment. As a preface, Mr. Ciaccia stated that 60 percent of the water that is treated at the plants is not from water that passes through a customer’s meter. That 60 percent comes from stormwater inflow and infiltration (I & I), cross-connections, and other sources. The District invested over $300 million in a tunnel for Mill Creek under the consent order; however, Mill Creek is not in good shape due to illicit connections, over and under pipes, same trench sewers—all kinds of problems still polluting the Mill Creek that are not from CSO.

Frank Greenland, Director of Watershed Programs, stated that staff walked Mill Creek looking for infrastructure-related issues and illicit discharges. At least 15-20 district-wide discharges were found. On Mill Creek alone, every color of the rainbow was coming out of pipes — black/gray sanitary illicit discharges and white, yellow, red – all kinds of colors. So, we are trying to figure out where this stuff is coming from.

Mr. Brown commented that this is certainly at minimum a violation of the District’s sewer use code, and also a violation of a community’s code and of NPDES permits. Mr. Greenland agreed, and responded that the District has ramped up its inspections and are being more aggressive with
communities about remediation. We also talked to Ohio EPA because several NPDES permit programs cover illicit damages depending on whether they occur in the combined or separate sewer areas.

Mr. Ciaccia made the point that this is where Integrated Planning comes into play. He stated that the $300 million spent on the Mill Creek tunnel was money well spent, but asked which money should have been spent first — money to remediate illicit discharges and local separate sanitary and storm sewer discharges, or money for reduction of CSO. President Brown replied “both.” Mr. Ciaccia summarized by stating that the EPA is eventually going to get around to forcing communities to do something with these issues and they’re going to spend money on top of the money we are spending when we should be spreading this entire program over a longer period of time and allocating the money to the right places at the right time.

Mr. Brown observed that many of these communities have contracts with the County to maintain their systems, so the District should be talking with them, too. Mr. Ciaccia responded that the County is a key stakeholder in the whole discussion and that is why we want to talk to both candidates to get this on the County’s radar screen.

Continuing on to the next topic, Executive Director Ciaccia pointed out the Moody’s Report in the Board packets. Moody’s reported that most US sewer utilities can weather costs of federal EPA consent decrees without impacting their bond ratings. The District was listed as third on the list as a very creditworthy utility that has a major consent decree, of which we should be proud. On the graph on page 3, the dark blue line represents the 2 percent household median income level for each utility, and the District, listed with its Aa1 rating, is not quite halfway to its 2 percent household median. That number is based only on the average annual rate the District charges and bills we collect. In negotiations on the consent decree, the District included other costs that our ratepayers pay, including the local cost they pay to their communities.

On page 5, the debt to fixed asset ratio is listed. The median ratio is 46 percent of debt to fixed assets, and the District is just a little above that percentage. Our financial goal is being under 60 percent, and our 10-year financial plan projects it will continue to be under 60 percent, so we are in good shape. Mr. Ciaccia raised these points to inform the Board of serious discussions coming up in 2016 about where rates need to be from 2017 through 2021, all stemming from the financial implications of our $3 billion program.

Moving to the last subject, Mr. Ciaccia reported in the stormwater litigation, the opposition communities, which are now down to 8, (Olmsted Falls and Cleveland Heights dropped out), filed their merit brief on July 1st. The property owners also filed their merit brief. The District has until July 21 to file its response brief. After that, we wait for the Supreme Court to schedule oral arguments.

VI.  Action Items
Authorization to Advertise

Resolution No. 141-14
Advertise for Boiler Feed Water Treatment and Cooling Tower Service at All Wastewater Treatment Plants and the George J. McMonagle Building. Anticipated Expenditure: $300,000.00.

Resolution No. 142-14
Advertise for Centrifuge Polymer for Use at the Westerly Wastewater Treatment Plant. Anticipated Expenditure: $177,000.00.

Resolution No. 143-14
Advertise for Two E350 Ford Utility Trucks for Use by the Sewer System Maintenance and Operations Department and the Building Maintenance Department. Anticipated Expenditure: $94,000.00.

Mr. O’Malley moved and Mayor DeGeeter seconded the motion to adopt Resolution Nos. 141-14 through 143-14. Without discussion and without objections the motion was adopted unanimously.

Authorization to Adopt Budget

Resolution No. 144-14
Adopt 2015 Operating Budget.

Mayor Stefanik moved and Ms. Dumas seconded the motion to adopt Resolution No. 144-14. Without discussion and without objections the motion was adopted unanimously.

Authorization to Grant Credit

Resolution No. 145-14
Grant a Sewer Account Credit to BOXit Corporation for an Underground Leak. Amount: $225,088.07.

Mr. Sulik moved and Mayor DeGeeter seconded the motion to adopt Resolution No. 145-14. After discussion and without objection the motion adopted unanimously.

Jennifer Demmerle, Director of Finance, explained that the adjustment was the result of an undetected underground leak which accumulated over 3 billing periods in 2013. In October 2013 the customer was billed for 7000 MCFs when their average prior usage was only around 70 MCFs. They already received half of their credit from the Cleveland Water Division, and they now are seeking the other half of the adjustment from the Sewer District. Mr. Ciaccia added that the District is working with Cleveland Water to get all of the large customers on AMR.
Authorization of Property Related Transaction
Resolution No. 146-14  Authorize the Payment of Acquisition and Relocation Benefits for Mark I. Archer Associated with the District’s Permanent Acquisition of Property in the City of Cleveland Necessary for Construction of the Dugway West Interceptor Relief Sewer Project. Total Consideration: $65,000.00.

Motion by Mr. O’Malley and second by Mr. Sulik to adopt Resolution No. 146-14. Without discussion and without objection, the motion was adopted unanimously.

Authorization of Contract Modification
Resolution No. 147-14  Extend Contract with Polydyne Inc. to Provide Final Clarifier Polymer for Use at the Southerly Wastewater Treatment Plant. Cost: A Contract Extension of Six Months with No Change in the Contract Price.

Mayor DeGeeter moved and Ms. Dumas seconded the motion to adopt Resolution No. 147-14. Without discussion and without objection, the motion was adopted unanimously.

Authorization to Enter Into Contract
Resolution No. 148-14  Two-Year Contract with HDR Engineering for the Support Services for Automation, SSA-1 Contract, for All District Facilities. Cost: Not-to-Exceed $550,000.00.

Resolution No. 149-14  Contract with Prism Municipal Advisors, LLC for Financial Advisory Services. Cost: A Transaction Fee of $0.25 per Thousand Dollars with a Maximum Fee of $75,000.00.

Mayor Stefanik moved and Ms. Dumas seconded the motion to adopt Resolution No. 149-14. After discussion and without objection, the motion was adopted unanimously.

Ms. Demmerle clarified that the fee is based on 50 cents per thousand dollars for long-term financing options such as a bond deal. The fee is 25 cents per thousand dollars if it is a short-term issuance such as a note.
VII. Information Items

There were no Information Items.

VIII. Public Session (any subject matter)

No members of the public registered to speak during Public Session.

IX. Open Session

Mr. Sulik reported on the status of the Board’s Audit Committee. He stated that the committee was reformed in January 2013 to include two independent, non-Board members from the public sector in addition to one Board member. The goal was to expose the District’s financial systems and management team to a higher level of internal control and scrutiny as found in the private sector, which is governed by the SEC in laws such as Sarbanes-Oxley and Dodd-Frank. The Audit Committee Charter adopted on July 18, 2013 stated the purpose of the committee is to assist the Board of Trustees, as consultants, in fulfilling the Board’s oversight responsibilities with respect to the following:

- The integrity of the Sewer District’s financial statements
- The District’s compliance with legal and regulatory requirements
- The independent auditors’ qualifications and independence
- The performance of the independent auditors and the District’s internal audit function
- To provide annual reporting on the committee’s activities, whether verbal or written, to the Board of Trustees

Pursuant to the Charter, the committee is to report its activities regularly to the Board in such manner and at such times as the committee and the Board deem appropriate, but in on event, less than once a year. Such report should include review of any issues that arise with respect to the quality or integrity of the District’s financial statements, the District’s compliance with legal and regulatory requirements, the effectiveness of internal controls, and the performance and independence of the District’s independent auditors or performance of the internal audit function.

In addition, the committee will conduct and review with the Board annually, an evaluation of the committee’s performance with respect to the requirement of its Charter.

Due to the new committee members’ unfamiliarity with the District and recent turnover of the Chair of the committee, the evaluation of the committee’s performance needs further study; however, the committee can provide a preliminary report on the effectiveness of internal controls and the performance of the internal audit function.
Mr. Sulik reported that while the 2013 comprehensive financial report and discussions with the issuing public accounting firm did not disclose any internal control weaknesses, the committee has informed management of their concerns regarding repetitive audit issues and the lack of effective remediation. Contributing to this issue are audit reports where management and the internal auditors have failed to come to understanding in both the nature of the problem and the corrective action plan. Management and the internal audit function have acknowledged these issues and have continued to work and make improvements. The committee will keep the Board informed of progress in future reports.

The committee stands ready to answer any question about this report and would like to remind the Board that committee minutes are available for their review.

X.  Executive Session

Mr. Sulik moved to go into executive session to discuss terms of a memorandum of understanding and agreement with the Village of Bratenahl. Discussions of these matters in executive session are permitted as specific exceptions to the public meeting act pursuant to Ohio Revised Code Section 121.22(G). Mr. Sulik specifically designated matters discussed in executive session to be protected from public disclosure in accordance with Ohio law and attorney-client privilege.

A roll call vote was taken and the Board members adjourned the meeting to go into executive session. The Board returned to public session and Mr. Brown stated that there is no action to be taken on the agenda item.

Resolution No. 150-14
WITHDRAWN
Authorization to Enter Into Memorandum of Understanding with the Village of Bratenahl.

XI.  Adjournment

MOTION – Mr. Brown stated business having been concluded, he would entertain a motion to adjourn. Mr. Sulik moved and Mayor DeGeeter seconded the motion to adjourn at 1:23 p.m. Without objection, the motion carried unanimously.

Walter O’Malley, Secretary
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Darnell Brown, President
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