

MINUTES
NORTHEAST OHIO REGIONAL SEWER DISTRICT
BOARD OF TRUSTEES MEETING
FEBRUARY 17, 2022

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

I. Roll Call

Present: Darnell Brown
Ronald Sulik
Jack Bacci
Samuel Alai
Timothy DeGeeter
Sharon Dumas

Absent: Terence Joyce

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

II. Approval of Minutes

MOTION – Mayor Bacci moved, and Ms. Dumas seconded to approve the Minutes of the February 3, 2022 Board Meeting. Without objection, the motion carried unanimously.

III. Public Session

There were no items.

IV. Chief Executive Officer's Report

Kyle Dreyfuss-Wells, Chief Executive Officer, provided an update regarding NEORS's ongoing COVID-19 pandemic response and informed the Board that NEORS staff has one active COVID-19 case, and one employee with COVID-19-like symptoms awaiting test results. There are no employees remaining at home because a member of their household tested positive. There has been a total of 206 employees with confirmed diagnoses since the beginning of the pandemic, 205 of whom have recovered and returned to work.

On January 28, staff from the Allegheny County Sewer Authority (ALCOSAN) which serves Pittsburgh and the surrounding area, visited the Westerly and Shoreline Storage Tunnel construction sites. ALCOSAN has commenced the design of their Ohio River Tunnel, which is one

of three Combined Sewer Overflow (CSO) tunnels that they will build under their Clean Water Plan. They visited the NEORSD construction sites to gain understanding of how the mining and shaft sites were used during construction as well as to see the large diversion structure which is under construction and will convey flow from the Walworth Run Outfall to the Westerly Storage Tunnel.

Ms. Dreyfuss-Wells expressed her appreciation to Doug Gabriel, Deputy Director of Engineering and Construction, for leading the site visits along with Buck DePew, Construction Supervisor, Eric Zarobila, Construction Technician, and Ryan Sullivan, Construction Supervisor. ALCOSAN is interested in future discussions with NEORSD regarding lessons learned during the construction and operation of its CSO tunnels, as they are just beginning their design process. This is a testament to the work of Devona Marshall, Director of Engineering and Construction, and her team that people are coming to learn from their efforts and see how the sites are run.

V. Action Items

Authorization to Issue Request for Proposal (RFP)

Resolution No. 61-22 Authorization to issue an RFP, in accordance with Ohio Revised Code Chapter 6119, for crane operator qualification safety training.

MOTION – Mayor Bacci moved, and Mr. Sulik seconded to adopt Resolution No. 61-22. Without objection, the motion carried unanimously.

Authorization to Advertise

Resolution No. 62-22 Authorization to publish notice calling for bids, in accordance with Ohio Revised Code Section 6119.10, for a one-year requirement contract for rooftop fall prevention equipment with an anticipated expenditure of \$200,000.00.

MOTION – Ms. Dumas moved, and Mr. Sulik seconded to adopt Resolution No. 62-22. Without objection, the motion carried unanimously.

Authorization to Enter Into Agreement

Resolution No. 63-22 Authorization to enter into a professional services agreement with Wade Trim, Inc. for Stormwater Model Data Management and Supporting Services, on an as-needed basis, in an amount not-to-exceed \$2,000,000.00.

Resolution No. 64-22 Authorization to enter into a professional services agreement with the Cleveland Clinic Foundation for the Executive Health Program for the 2022 calendar year, in an amount not-to-exceed \$60,000.00.

Resolution No. 65-22 Authorization to enter into professional services agreements for Testing and Construction Inspection Services (TCIS), on an as-needed basis, for the term 2022-2026, with Terracon Consultants, Inc. in an amount not-to-exceed \$3,500,000.00; with Resource International, Inc. in an amount not-to-exceed \$3,500,000.00; with Professional Service Industries in an amount not-to-exceed \$2,500,000.00; with ECS Midwest, LLC in an amount not-to-exceed \$2,500,000.00; and with CTL Engineering, Inc. in an amount not-to-exceed \$2,000,000.00, for a combined total amount not-to-exceed \$14,000,000.00 for all agreements.

MOTION – Mayor Alai moved, and Mayor Bacci seconded to adopt Resolution Nos. 63-22 through 65-22. After the following discussion, without objection, the motion carried unanimously.

President Brown asked, regarding Resolution No. 63-22, for an explanation as to why there was only one proposal received for such a large project.

Frank Greenland, Director of Watershed Programs, provided a graphic of the region depicting the four distinct Master Planning Study areas, and explained that models were developed for each of the areas utilizing its own engineering consultants to lead the project with their subconsultants. The pre-proposal meeting was well attended. Wade Trim led one of the Master Planning studies. Stantec, who was a lead consultant on one of the Master Planning studies, is one of their key subconsultants which will also manage a piece of the modeling activities. The other consultants chose not to propose for this project.

President Brown indicated that, regarding Resolution No. 65-22, it appears to have three tiers of dollar amounts for what will be task-order based pursuant to the competencies of each firm over a five-year period, to oversee \$1.2 billion in construction. President Brown requested an explanation as to how it will be determined to whom the work should be allocated.

Ms. Marshall explained that President Brown's assessment of the contract structures is correct. There is \$14 million to be awarded between the five contracts. NEORSD selected five consultants from the nine that proposed based on the firms' qualifications and the needs of the upcoming projects. NEORSD has experience working with each of the firms. These are each not-to-exceed contracts, meaning that the amount requested is not guaranteed and the assignments will be task-order based. Upcoming projects will be assessed for what is needed from an inspection or testing standpoint and the consultants will be selected based on those needs to assist NEORSD staff on a project-by-project basis.

Authorization to Enter Into Contract

- Resolution No. 66-22 Authorization to enter into a construction contract with Northstar Contracting, Inc. for the Blodgett Creek Bank Stabilization project in an amount not-to-exceed \$389,360.00.
- Resolution No. 67-22 Authorization to enter into a 3-year contract with ConvergeOne, Inc. for Avaya software and phone system maintenance, in an amount not-to-exceed \$218,629.08.

MOTION – Mr. Sulik moved, and Mayor Bacci seconded to adopt Resolution Nos. 66-22 through 67-22. Without objection, the motion carried unanimously.

Authorization of Contract Modification

- Resolution No. 68-22 Authorizing final adjusting change order for Contract No. 17002285 with McNally/Kiewit DVT JV for the Doan Valley Storage Tunnel project by decreasing the contract amount by \$5,776,044.43, thereby bringing the total contract amount to \$136,543,955.57.

MOTION – Ms. Dumas moved, and Mayor Bacci seconded to adopt Resolution No. 68-22. After the following discussion, without objection, the motion carried unanimously.

President Brown asked if the reduction of the contract total is due to unperformed tasks. Ms. Marshall explained that \$4.6 million is coming from the unused general allowance and approximately \$1 million is from unused specific allowances.

President Brown asked when the Doan Valley Tunnel System was activated and what impact it has on the area. Ms. Marshall explained that the system was activated in July 2021 and will control 363 million gallons of CSO from the Doan Brook area annually.

President Brown asked whether it would prevent sewage from discharging to the creek despite weather conditions. Ms. Marshall explained that during wet weather, the tunnel will divert a lot of the CSO that previously went into the creek; however, there is other stormwater input that Watershed Programs is evaluating.

President Brown asked whether there would also be a reduction of odors coming from the area during summer months. Mr. Greenland explained that the 350 million gallons of CSO control is a significant portion of the CSO and much of that occurs during significant weather events. There are a number of other issues along Doan Brook including sanitary sewer overflows that are being addressed, illicit discharges from time to time, and stagnation with low flows.

Property Related Transactions

- Resolution No. 69-22 Authorization to acquire one temporary easement for an additional six months at the property known as PPNs 004-27-009 and 004-27-011, located at 2111 Scranton Road, in the City of Cleveland, owned by 2151 Scranton Acquisition, LLC necessary for the construction of the Westerly Storage Tunnel project and authorizing a holdover payment for the same with total consideration of \$90,000.00.
- Resolution No. 70-22 Authorization to acquire three permanent sewer easements and one temporary easement at the property known as PPN 104-01-022A, located at 1150 East 49th Street, in the City of Cleveland, owned by the City of Cleveland, necessary for the construction and maintenance of the Shoreline Consolidation Sewer project with total consideration of \$48,734.00.
- Resolution No. 71-22 Authorization to acquire two permanent sewer easements and one temporary easement at the property known as PPNs 104-02-010, 104-02-016, and 104-02-017, located at 4901 South Marginal Road, in the City of Cleveland, owned by the City of Cleveland, necessary for the construction and maintenance of the Shoreline Consolidation Sewer project with total consideration of \$55,900.00.
- Resolution No. 72-22 Authorization to acquire three permanent sewer easements and one temporary easement at the property known as PPN 104-01-001, located at 1159 East 40th Street, in the City of Cleveland, owned by the City of Cleveland, necessary for the construction and maintenance of the Shoreline Consolidation Sewer project with total consideration of \$45,800.00.
- Resolution No. 73-22 Authorization to acquire one permanent stormwater easement and two temporary easements at the property known as PPN 581-07-049, located at 2728 Oakview Circle, in the City of Broadview Heights, owned by William T. Eden III, Richard G. Eden, Jr., and Sharon Kay Eden, necessary for the construction and maintenance of the Chippewa Creek Flood Reduction Project Near Echo Lane with total consideration of \$18,950.00.
- Resolution No. 74-22 Authorization to acquire one permanent stormwater easement and one temporary easement at the property known as PPN 771-10-003, located at 4750 Derbyshire Drive, in the Village of North Randall, owned by Lebron and Peggy Bell, necessary for the construction and

maintenance of the Bear Creek Culvert Improvements project with total consideration of \$9,500.00.

Resolution No. 75-22 Authorization to acquire one temporary easement at the property known as PPN 771-12-063, located at 4905 North Randall Drive, in the Village of North Randall, owned by Arthur Timmons, necessary for the construction of the Bear Creek Culvert Improvements project with total consideration of \$300.00.

Resolution No. 76-22 Authorization to acquire one permanent stormwater easement and one temporary easement at the property known as PPN 551-20-059, located at 6100 Lombardo Center South, in the City of Seven Hills, owned by Omni SLF Seven Hills, LLC, necessary for the construction and maintenance of the West Creek Debris Rack Maintenance project in Seven Hills with total consideration of \$1.00.

MOTION – Mr. Sulik moved, and Mayor Bacci seconded to adopt Resolution Nos. 69-22 through 76-22. Without objection, the motion carried unanimously.

Authorization to Grant Credit

Resolution No. 77-22 Authorizing the District to issue a credit adjustment in the total amount of \$64,453.80 against sewer charges on the NEORS account ending in 5685 for Margaret Cassidy at 8963 Brecksville Road, Brecksville.

MOTION – Mayor Alai moved, and Mayor Bacci seconded to adopt Resolution No. 77-22. After the following discussion, without objection, the motion carried unanimously.

President Brown asked whether Cleveland Water also provided a credit to the account holder. Ken Duplay, Chief Financial Officer, explained that they provided a similar credit of approximately \$36,000 to the customer's water bill.

Authorization of Appointment

Resolution No. 78-22 Appointing William Chorba to the Board of Trustees Audit Committee, joining continuing members Ronald Sulik and Kenneth Koncilja, for a two-year term beginning February 1, 2022 through January 31, 2024.

Resolution No. 79-22 Appointing Mayor Jack Bacci to the Board of Trustees Finance Committee, joining continuing members Darnell Brown and Mayor Samuel J. Alai.

MOTION –Mr. Sulik moved, and Ms. Dumas seconded to adopt Resolution Nos. 78-22 through 79-22. After the following discussion, without objection, the motion carried unanimously.

Mr. Sulik advised the Board that he and Mr. Koncilja, NEORSD’s independent Audit Committee Member, have conducted interviews over the past two months to fill the vacancy left by Mr. Oleksa on the Committee for the period of February 1, 2022, through January 31, 2024. Mr. Chorba is the Vice President of Finance for CBIZ, Inc., in Independence, Ohio, a payroll company with over 5,000 employees. He is the former CFO of the Cleveland Metroparks, with a background in public accounting, risk management, and finance in the public and private sectors and is familiar with NEORSD’s mission through his work with the Metroparks.

The Board thanked Mayor Bacci for filling the vacant position on the Finance Committee.

Resolution of Acknowledgement

Resolution No. 80-22 Resolution of Acknowledgement presented to Terence P. Joyce in recognition of his years of outstanding service on the District Board and noteworthy contributions to the Northeast Ohio Regional Sewer District.

MOTION –President Brown moved, and Ms. Dumas seconded to adopt Resolution No. 80-22. After the following discussion, without objection, the motion carried unanimously.

President Brown advised that Mr. Joyce had a business conflict and was unable to attend the Board meeting. President Brown read a letter that Mr. Joyce provided to be read in his absence as follows:

“To my NEORSD family, I would like to express sincere appreciation to the entire team for the honor it was to sit on the Board of this great District for the past few years. I was immediately impressed by the level of dedication and devotion shown by everyone in the building across all departments. While the names are too many to mention, know that I had and will continue to sing your praises across the community. And it saddens me that a previous work commitment out of town keeps me from you today. I wish my successor nothing but the best. I will always keep an extended hand out to her and the District, if there is anything I can do to assist. Sincerely, Terence P. Joyce, Business Manager.”

President Brown offered his appreciation to Mr. Joyce for the letter and his service on the Board of Trustees.

President Brown introduced Ms. Marjorie Chambers, who will be sworn into the Board of Trustees at the March 3 Board meeting and welcomed her to the Board.

VI. Information Items

a. *Program Management Status Report and Update – January 2022*

Ms. Marshall provided the year-end update regarding the Capital Improvement Program (CIP) for 2021 beginning with contract management. The year ended with 91 active contracts with a combined value of over \$1.1 billion. Most of the costs, \$764 million, is in construction contracts, followed by \$320 million in design-level contracts, and the remaining \$30 million in planning-level contracts. The primary focus of the contracts is on collection systems, with \$813 million allocated, followed by \$175 million in wastewater treatment plant (WWTP) specific projects, and \$126 million in District-wide projects.

As for year-end actuals for 2021, there were four professional services contracts awarded with a total combined value of \$29.5 million. Of note, was the design of the Southerly Storage Tunnel for \$19.9 million, the design of the Southerly Second Stage Aeration Improvements for \$5.5 million, and the Southerly Enhanced Series Treatment Improvements for \$3.2 million.

There were 10 construction contracts awarded at a total combined value of \$253.2 million. These contracts include the Shoreline Storage Tunnel for \$201.6 million, the Pearl/Jennings Road Storage Tank and Pump Station Upgrades at \$21.7 million, the Southerly Building Demolition project for \$17.2 million, and the District-wide HVAC Equipment Upgrades for \$7.1 million.

There were twelve completed and closed out construction contracts with a total final value of \$77.61 million. These projects include the completion of the London Road Relief Sewer project for \$35.2 million, the Southerly Electrical Infrastructure Improvement for \$17.6 million, the Easterly/Westerly Low Voltage Equipment Replacement for \$10.3 million, and the Westerly PLC Replacement for \$4.3 million.

Ms. Marshall provided a table listing the twelve Key Performance Indicators (KPIs) with each category's goals and actuals. All KPIs were met or exceeded at the program level in 2021, including cash flow. The cash flow KPI is set at 85% of planned and closed at 93% of planned, equating to \$166 million.

All KPIs were met for Consent Decree compliance reporting and performance milestones. There were eight required milestones met in 2021.

The KPI for value engineering was set at \$8 million and the achieved actual exceeded the goal at \$13.6 million.

Regarding the Business Opportunity Program (BOP), the KPI goal is set around any construction contract that closes in a given year. Of the twelve contracts that closed at a total of \$77.61 million, \$27.03 million was paid to BOP firms for their work on the projects for a combined total

participation of 34.82%, which exceeded the cumulative goal of 15.05%. While there is not a KPI for BOP cash flow, the planned cash flow to BOP firms was \$30.1 million, and the actual was \$39.9 million of the \$166 million in cash flow overall.

As for work orders by change categories as a percent of construction, the total work orders for the twelve projects were 3.82%, equating to \$2.97 million of the \$77.6 million spent. The majority at over 50% of the change orders were categorized as Owner Requested Changes.

Under Project Clean Lake, there are 100 planned projects defined to specifically meet the requirements of the 25 Control Measures of the Consent Decree. Of those 100 planned projects, 67 are either completed or active and of the 25 Control Measures, 11 have achieved full operation. To date, \$1.78 billion (\$1.44 billion in 2009 dollars) has been awarded under Project Clean Lake. When NEORS D entered into Project Clean Lake, the total anticipated expenditure was \$3 billion. To date, there has been just over \$500 million (in 2009 dollars) in value engineering savings. As for environmental benefit, to date there has been a reduction of 1.7 billion gallons of CSO, and there is an additional 300 million gallons reduction planned by the end of 2023.

NEORS D is currently more than ten years into the Consent Decree and is realizing a higher level of control than was anticipated at the start of the process, due to conservative planning and optimizing CSO control through design and construction. At the onset, the estimated performance was 494 million gallons of remaining overflow in a typical year. The current estimate is that there will only be 252 million gallons of remaining overflow in a typical year. NEORS D continues to search out opportunities to provide a level of service beyond a typical year and has achieved this in many cases specifically the elimination of 14 CSO points.

Ms. Marshall turned her attention to 2021 highlights beginning with the activation of the Doan Valley Tunnel System, satisfying Control Measure 8 of the Consent Decree. This project resulted in 363 million gallons of annual CSO control. With the final adjustment in the change order approved today, the final cost of the contract was \$136.5 million. The project site is located in the heart of University Circle. It included over 19,000 linear feet of tunnel with an 18-foot diameter main line tunnel and two 8.5-foot diameter consolidation tunnels. It also includes five near-surface structures, including four large gate structures. Of the seven tunnels being constructed, it is the only one that is an inline storage tunnel, meaning that it has flow during dry and wet weather. The remaining systems are offline storage tunnels that only have flow during wet weather.

Given the location of the Doan Valley Tunnel, it required significant coordination with the community and stakeholders in the area. It was a joint effort through the planning, design, and construction phase with Engineering and Construction staff as well as Constance Haqq, Chief Administrative Officer, and her team. Additionally, the project was met with significant construction hurdles, including two major flooding events at the mining site at Ambler Park. Despite the challenges, the project was delivered ahead of the critical milestone in the Consent Decree to achieve full operation. Ms. Marshall noted that completion of the construction of the

project is not achievement of full operation. Following construction, Operation and Maintenance (O&M) assumed operation of the tunnel, and only then could it be reported to the EPA as completion of the Control Measure. This required collaboration by Engineering and Construction (E&C), the contractor, design consultant, O&M, and Kevin Zebrowski, Superintendent of Maintenance Services, and his team to achieve full operation.

Construction of the Shoreline Storage Tunnel commenced in 2021. The tunnel will provide an estimated 300 million gallons of annual CSO control. Design of the Southerly Storage Tunnel commenced as well and will provide an estimated 750 million gallons of annual CSO control. Also of note, was a successful modification of the Consent Decree resulting in an estimated \$90 million of savings without negative environmental impacts.

Upcoming projects in 2022 will include the design of the Kingsbury Run Consolidation Sewer, which is part of the Southerly Tunnel System. Construction of the Westerly Chemically Enhanced High-Rate Treatment and Disinfection Facility will begin, which will provide 260 million gallons of annual CSO control. Lastly, construction of the Westerly Tunnel will be completed, allowing for 285 million gallons of annual CSO control.

President Brown noted that there has been a lot of progress made with significant environmental benefit to the community. The work has been performed quietly in the community. There are occasional bumps in the road, for example the difficulties encountered at Doan Brook, that will continue to happen as there will continue to be large storm events at construction sites.

President Brown noted that each community is supposed to perform maintenance to eliminate identifiable problems and may do so with the assistance of NEORS by way of programs like the Member Community Infrastructure Program (MCIP). President Brown asked how often NEORS evaluates community compliance and the communities' utilization of funding provided by NEORS to address longstanding problems.

Mr. Greenland explained that since the early 1980's, NEORS has had the Community Discharge Permit Program in place and Titles 3 and 4 of the Code of Regulations outline those requirements. Under the program, communities are required to submit annual checklists outlining progress and expenditures. NEORS tracks capital and operating expenses and addresses illicit discharges with the communities. The issues across the service area as identified by the Sanitary Sewer Evaluation Studies (SSES) are significant. While NEORS will continue to utilize the community reporting mechanisms, there will likely be some restructuring of Titles 3 and 4 and the Community Discharge Permit Program. The intent is to become more involved with the communities in utilizing the results of the SSES, the MCIP, and federal infrastructure dollars to address problems in the service area. The MCIP has accomplished much with more than \$100 million of District and matching community investment in recent years and will continue to do so.

b. Investment Advisor Performance Report for the Twelve-Month Period Ended December 31, 2021

There were printed materials provided in the Board packet. President Brown instructed the Board to direct any questions or comments to Mr. Duplay.

c. 2021 Year End Review and 2022 Budget Review

Mr. Duplay presented an overview of the 2021 financial results and indicated that it was a strong financial year.

Mr. Duplay reminded the Board that 2021 was the last year of the 2017 through 2021 rate study and noted that all the variances from the rate study amounts from five years ago are favorable. Operating revenue was about \$30 million above the projection. This was driven primarily by better-than-expected consumption in most years over the last five years, although 2020 saw a 5% decline in consumption due to the pandemic. Excluding 2020, the other four years were at or better than budgeted, including 2021. Additionally, NEORS's efforts to control costs related to salary, utility usage, and other operating expenses, primarily in O&M, culminated in operating expense savings. Lastly, debt service was lower than the rate study projection, achieved through a combination of E&C project management, better than expected bids on projects, and financial management of the debt and loan borrowings.

Mr. Duplay continued by going into details for 2021 actuals versus budget. The sewer revenue budget was \$344.9 million and was set last spring based on the assumption of repeated COVID-19 impacts that were observed in 2020. At the March 11, 2021, Finance Committee meeting, a series of potential budget outcomes related to revenue were presented and the estimated budget was presented as \$360.1 million if 2021 was a return to a completely normal year based on the usual 2% consumption decline. In 2021, consumption was down 0.8%; therefore, the actual 2021 figure of \$374.9 million is above the projections for 2021.

Mr. Duplay next discussed how the revenue breaks down and indicated that a majority of revenue comes from user charges, while "Other" revenue includes about \$700,000 in septic fees., About 92% of revenue is billed and collected by our billing agents, Cleveland Water being the largest billing agent the Sewer District relies on.

As for operating expenses, Mr. Duplay noted that 2021 concluded at \$17.8 million under budget for sewer operating expenses, driven primarily by salaries and benefits coming in under budget by \$4.4 million and \$4.9 million, respectively. Traditionally, the Sewer District has open positions and employment vacancies due to employees on leave; however, like many entities this year, the Sewer District has seen higher turnover than in the past which has resulted in more open positions and contributed to the underutilization of the budget. The underutilization of benefits was in part due to lower-than-expected healthcare claims, accounting for \$4.2 million of the \$4.9 million total amount for benefits. Finally, the utility expenses were \$2.1 million under budget as well, due to a

\$1.3 million reduction in the electricity expense as a result of less consumption than anticipated in 2021.

Mr. Duplay displayed a graphic illustrating the breakdown of operating expenses by area of District operations with \$56.6 million allocated to Operations as the largest portion of the budget, as well as by expense category, with 58% allocated to salaries, wages, and benefits for a total of \$72.7 million, which is consistent with prior years. Other items of note in the operating expenses include healthcare expenses of \$10.6 million, utilities of \$11.4 million, and professional services of \$6.6 million, as well as contractual services which includes collection fees of \$9.4 million that billing agent charges.

Mr. Duplay provided a graphic with a historical look at the sewer operating expenses going back to 2015 and noted that since 2018, the budgets and actuals have either declined or been flat over the entire period of time from 2018 through 2021, which can be attributed to the work of the Sewer District staff, the CEO, COO, CFO, and O&M's respective teams and the effort to deliver the services needed with cost control, efficiencies in salaries, better use of utility management, electricity consumption and other sources of activities to control costs. The operating expenses were one of the major factors that allowed NEORS to deliver a lower-than-expected rate increase in the last rate study.

Moving to capital expenditures, Mr. Duplay noted that the figure was 18.5% under budget, which includes both the CIP and minor capital purchases such as vehicles and labor charged to the capital projects. This is primarily due to the Southerly Second Stage Settling Improvements project having a cash flow of \$9 million lower than expected, as well as some projects with bids that came in better than expected, and general and specific project allowances that were not spent such as with the Doan Valley Tunnel project. The \$172.1 million capital expense is typical and the majority of that is the \$91 million for the CSO Consent Decree projects as has been the case over the last five-year period.

Mr. Duplay noted that the majority of the capital plan is funded through Water Pollution Control Loan Fund (WPCLF) loans. The largest projects, in terms of spend for 2021, included the Shoreline Storage Tunnel at \$42.6 million, the Westerly Storage Tunnel at \$16.1 million, and the Morgana Run Relief Sewer at \$12.2 million, all of which were loan-funded Consent Decree projects. The 2021 CIP figure of \$172 million is the lowest since the Consent Decree's inception but still over double the usual spend in the years prior. There is still a significant portion of the Consent Decree to be completed.

Regarding debt service, the actuals are very close to budget, as is typical. There are some minor variances, depending on the timing of project close out and the commencement of loan repayments. The 2021 bond refinancing had an impact on the debt service for the year as well.

Mr. Duplay also noted that the 2017 to 2021 rate study intended to maximize the use of Ohio Water Development Authority (OWDA) loans versus bonds for capital funding. The utilization of those loans and other debt management, as well as the efforts to control cost factors contributed to the 4.2% rate increase for the 2022-2026 rate study. In 2021, NEORSO financed six projects in the amount of about \$37 million, all with interest rates below 1%, which fall below the 2016 planning rate of 3.2% and even the year-to-year planning rate of about 1% being used for 2021.

Looking back to 2017, it was the lowest year in terms of new loans, but the savings for the year of potential debt service, based on an analysis of a potential bond issue, in lieu of the loans that were taken, showed just under \$4 million of net present value savings associated with the debt service of those loans.

For the five-year period of 2017 through 2021, it is estimated that there was net present value savings of \$105 million in debt service through the use of loans to fund the capital program, as opposed to new bonds over that time. Similarly, NEORSO works with its financial advisors to capitalize on opportunities for savings for refunding associated with the bonds that are outstanding. There are approximately \$1 billion in bonds still outstanding and \$900 million in loans, with nearly \$2 billion in total debt outstanding. The 2021 advanced refunding was a \$114 million transaction that refunded some of the 2013 and 2014 bonds and resulted in just under \$10 million in net present value savings. Additionally, the December 2021 bond defeasance retired \$27 million of the 2014 bonds outstanding which netted \$18 million in savings. Ultimately, this debt management has saved customers approximately \$111.5 million in debt service.

Mr. Duplay explained that there were 39 transactions that included new loans and bond refinancing for a total of \$1.5 billion in principal and a total savings of \$223.2 million to ratepayers, which was one of the driving factors for the lower debt service this year and in the next five years of the current rate study.

As for current debt service coverages, total revenue is \$374.9 million minus operating expenses, which leaves \$259 million available for debt service. The senior debt service coverage will continue to get stronger over time as additional bonds will not be issued. The total debt service will move closer to the target over time as there are loans planned in the future; however, it is projected that all of the targets at 2 times senior coverage and 1.5 times total coverage will be met.

Mr. Duplay moved on to the stormwater operating results update. Stormwater operating revenue was slightly above budget in line with projections at \$44.3 million and operating expenses were \$12.4 million under budget at \$21.4 million. The main areas of budget variance for expenses were \$2 million in professional services and \$10.3 million in contractual services, with \$7.3 million attributable to project delays. The Chippewa Creek at Route 21 project was delayed due to a Dominion gas line relocation with \$1.5 million of project cost that was delayed, the \$900,000 Baldwin Creek at Abbey Road project had easement delays, and several other projects where the cash flow/operating expenses were impacted by outside factors. The Watershed Programs and

Finance departments continue to look at the ways to optimize spending project costs and this will be discussed further at the future budget presentation in terms of the plan going forward for stormwater project delivery.

Mr. Duplay further explained that the stormwater revenue is very similar to sewer in that it is primarily billed by the City of Cleveland at 98% of the revenue billed by the City. In reviewing the stormwater budget versus actual expenses, Mr. Duplay noted that stormwater activities are subject to outside factors and was impacted by pandemic slowdowns in 2020. A number of projects were delayed in 2021 and outside factors impacted the actuals for the year.

Regarding stormwater operating expenses, Mr. Duplay illustrated that the vast majority of expenses, \$14.3 million, are in the Watershed Programs department for the delivery of the stormwater projects and stormwater master plans in the contractual services and professional services categories.

Mr. Duplay displayed a historical look at the total receipts and disbursements District-wide. Since the District experienced higher than expected revenues and lower than expected expenses, resulting in a net surplus for the year, the District had a higher cash balance than the prior year. The current reserve balances as of December 31, 2021, were presented and Mr. Duplay explained that the operating revenue is the 90-day reserve required per the trust agreements with bondholders, the capital account is the account from which capital projects and debt service are paid, and the rate stabilization account is used to offset revenue shortfalls for debt service coverage purposes. To date, the rate stabilization account has never been used and it is not anticipated that any more will be added to that account this year. The stormwater account has \$23.4 million and is the Sewer District's stormwater funds, while the Community Cost-Share account has \$31.5 million and is used for community project reimbursements.

Ms. Dumas asked for clarification regarding presentation slide illustrating receipts, disbursements, and balances and whether the legend on the bottom indicated that the blue line reflected the cash balances. Mr. Duplay answered in the affirmative and added that the total balance right now, including both sewer and stormwater funds, is just over \$500 million.

Mr. Duplay continued the financial update with a summary of the investment portfolio and a breakdown of investments, a total of \$458.6 million. Of that total, \$266 million, primarily from the capital account used for capital payments and debt service, is in the State Treasury Asset Reserve (STAR Ohio). Most of the remainder is managed by the third-party investment advisor. Mr. Duplay further noted that the Investment Advisor Performance Report was provided in the Board packet.

Mr. Duplay further noted that there was a lower rate of portfolio return for the second straight year with a 2021 return of about 0.2% blended. As for wastewater ratio analysis, the major ratios that are associated with NEORSD's bond rating and other factors, are all favorable to the targets with a

strong comparison to last year. NEORS D is meeting all debt service coverage targets and has \$5,683 of debt principal outstanding per customer account, which is also similar to last year.

Lastly, the days of operating cash on hand, 1,475, has increased from last year and is a function of the surplus from higher-than-expected revenues and lower expenses. Mr. Duplay advised that there is continuous monitoring of the best ways to utilize the cash on hand, exploring options with the long-term financial plan developed with the financial advisors, including opportunities for future bond defeasance and other options.

Ms. Dumas inquired about the plan for the 400-day target in 2020 versus 2021. Mr. Duplay explained that the 400-day target is the minimum desired, and it is associated with an entity of a bond rating of Aa1/AA+. The preference is to stay above that and the lowest figure in the last five to seven years has been around 750, which is the goal over the next five years. Mr. Duplay added that part of the financing plan in the 2022-2026 rate study is to only utilize loans for the largest projects going forward while using more available cash for debt financing. As a result, that number will stay steady this year and possibly into next year, however, as loan-funded projects conclude and new cash-funded projects begin, it is expected that the numbers will come down in 2023 and 2024.

President Brown noted that the 2021 results are consistent with the strategy, particularly, utilizing low interest loans with the anticipation of using more capital for cash.

Mr. Duplay continued the financial update with a brief summary of the current proposed 2022 budget numbers with a sewer operating revenue of \$385.3 million, factoring in a 2% consumption decline and a 4.2% rate increase for 2022; operating expense increase of just under \$1 million; capital expenditures, including projected total for CIP and other capital items, of just over \$260 million; and finally, debt service just under \$120 million. The stormwater budget, similarly, includes a 4.2% rate increase in 2022, a higher proposed budget of operating expenses of \$35.7 million, as well as \$7.5 million of capital expenditures for land acquisitions and stormwater capital projects.

NEORS D continues its conservative financial approach. The results discussed were achieved with no outside assistance of any kind and all the funds are the customers' funds with no federal assistance. All of the 2021 benchmarks were met and the 2022 proposed budgets are supported by the 2022-2026 Rate Study. The sewer budget is proposed to increase by 0.7% for 2022 and the stormwater budget is proposed to increase by 5.6%. It is expected that for this year, and looking forward, all the financial ratios and metrics will be met.

There will be a detailed budget presentation to the Finance Committee on March 8, 2022, and anticipated Board approval of the budget at the March 17, 2022, regular Board of Trustees meeting.

Mr. Brown thanked Mr. Duplay for the presentation and noted that it is helpful to see how the actuals align with the plan, how understanding the pandemic environment and the challenges such

as the instability of collections and moratoriums, as well as the interest in helping customers aligns with keeping an eye on the overall impact to NEORS. Mr. Brown further expressed surprise that the results of the year came out as well as they did and emphasized the criticality of the discussion around affordability during the budgeting process to the community.

President Brown emphasized the importance of NEORS's cost savings programs and the ability to connect with those who are eligible to enroll, referencing cities such as San Antonio, in which approximately half of those who are eligible to enroll are participating in the programs. It is crucial that NEORS maintain the balance between the ability to do what is necessary to be in compliance with the 25-year Consent Decree in such a way that is cognizant of who the ratepayers are as the affordability discussion continues. Additionally, President Brown stated that getting beyond a conversation point on support at the federal level could help to ease what will be the impacts on ratepayers, keeping in mind that the further NEORS gets into project delivery on the CIP, the less significant the return on investment will be than it was for projects completed early on. The conversation as to the feasibility and wisdom around completing some future projects, in lieu of other strategies that might be more helpful to the communities, needs to continue. Ms. Dreyfuss-Wells thanked Mr. Brown.

Open Session

There were no items.

VII. Public Session (any subject matter)

There were no items.

VIII. Executive Session

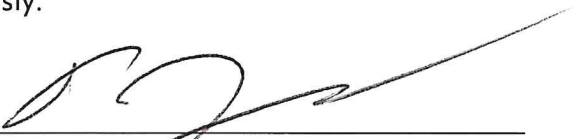
There were no items.

IX. Approval of Items from Executive Session

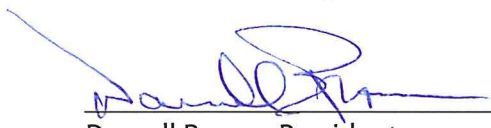
There were no items.

X. Adjournment

MOTION – President Brown stated business having been concluded, he would entertain a motion to adjourn. Mayor Bacci moved, and Ms. Dumas seconded the motion to adjourn at 1:53 p.m. Without objection, the motion carried unanimously.



Timothy J. DeGeeter, Secretary
Board of Trustees
Northeast Ohio Regional Sewer District



Darnell Brown, President
Board of Trustees
Northeast Ohio Regional Sewer District