

MINUTES
NORTHEAST OHIO REGIONAL SEWER DISTRICT
BOARD OF TRUSTEES MEETING
FEBRUARY 18, 2016

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
J. Bacci
T. DeGeeter
R. Stefanik

ABSENT: S. Dumas

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

II. Approval of Minutes

MOTION – Mayor Bacci moved and Mr. Sulik seconded to approve the minutes of the February 4, 2016, Board Meeting. Without objection, the motion carried unanimously.

III. Public Session

Chief Executive Officer (CEO) Ciaccia advised that no one signed up to speak about a specific agenda topic.

IV. Chief Executive Officer's Report

CEO Ciaccia reported that Moody's and Standard & Poor's maintained the District's excellent bond ratings prior to the District going back to the bond market to refinance a portion of its debt, citing good debt coverage ratio and organizational liquidity. Both rating agencies cited management strength and recognized the Board's previous willingness to approve a multi-year rate increase.

Yesterday the District sold \$23.7 million of the refinanced bonds, reducing the interest on them from 4.51% to 3% -- a net present value savings of \$3.2 million.

Moving to the next topic, CEO Ciaccia advised that staff continues to perform the rate study for the years 2017 through 2021. The study will be complete in March and will be discussed with the Board in earnest in April. The study is largely driven by capital needs to comply with the District's consent order for combined sewer overflow (CSO) elimination and the need for rate increases for those years. Staff is plugging in additional Operations & Maintenance costs as a part of that analysis due to \$1 billion worth of new assets that are coming on line through that period of time. Consumption projections are assumed to decline at 2%.

CEO Ciaccia explained that the District has emphasized affordability and determining what types of programs to develop for customers that truly experience affordability issues.

Congresswoman Marcia Fudge introduced H.R.4542, which is the Low-Income Sewer and Water Assessment Program Act of 2016. This is a LIHEAP-type of program in which the federal government would assist sewer and water customers similar to the energy sector. The bill calls for ten pilot communities and could be funded from the existing EPA budget.

Mr. Brown inquired whether there was any indication as to what criteria will be used for the selection of the utilities. CEO Ciaccia explained that it has not gotten that far yet and hoped for bipartisan support.

Mr. Brown questioned whether the District should provide Rep. Fudge with insight regarding appropriate criteria. CEO Ciaccia agreed that staff should do so and indicated that they are happy she introduced the bill.

At that time, Mr. Brown presented to a resolution to Marlene Sundheimer, Chief Legal Officer & General Counsel, who is retiring.

Resolution No. 62-16

Resolution of acknowledgment and appreciation to Marlene Sundheimer in recognition of her eight (8) years of outstanding service and noteworthy contributions to the Northeast Ohio Regional Sewer District.

MOTION – Mr. Sulik moved and Mayor DeGeeter seconded to adopt Resolution No. 62-16. After discussion and without objection, the motion carried unanimously.

V. Action Items

Authorization to Advertise

Resolution No. 50-16

One-Year Requirement Contract for Grounds
Maintenance Services for District Facilities.
Anticipated Expenditure: \$508,880.00.

MOTION – Mayor Bacci moved and Mayor DeGeeter seconded to adopt Resolution No. 50-16 through 21-16. After discussion and without objection, the motion carried unanimously.

Authorization to Issue Request for Proposals (RFPs)

Resolution No. 51-16

RFPs for the Cuyahoga River South Stormwater
Master Plan Project.

MOTION – Mayor Stefanik moved and Mr. Sulik seconded to adopt Resolution No. 51-16 and 23-16. After discussion and without objection, the motion carried unanimously.

Mr. Brown inquired how long will the process would take. James Bunsey, Director of Engineering & Construction, advised that the project is estimated to take 24 months.

Mr. Brown sought to clarify that staff already has a list of projects as part of the Stormwater Program and this will further refine that, add additional projects and prioritize them. Mr. Bunsey confirmed and elaborated that this will be similar to an advanced facilities plan.

Authorization to Enter Into Agreement

Resolution No. 52-16

Agreement with LAND Studio to Procure Design
Services and Installation Assistance for Public Art
– Funded through Grants from the St. Luke’s
Foundation and the National Endowment for the
Arts at the District’s Buckeye Road Green
Infrastructure Project Site.

MOTION – Mr. O’Malley moved and Mayor Bacci seconded to adopt Resolution No. 52-16 through 26-16. After discussion and without objection, the motion carried unanimously.

Authorization to Enter Into Contract

Resolution No. 53-16

Professional Services Contract with Martin
Technical, Inc. to Provide Lockout and Tagout
Program Services. Contract Amount: Not-to-
Exceed \$825,000.00.

Resolution No. 54-16

Construction Contract with Fabrizi Trucking & Paving Company, Inc. for the Fairmount Boulevard SSO Relief Sewer Project. Contract Amount: \$2,338,597.40.

Resolution No. 55-16

Professional Services contract with Wade Trim for the Heights Hilltop Interceptor Local Sewer System Evaluation Study Project. Contract Amount: \$10,497,083.00.

MOTION – Mayor Stefanik moved and Mayor DeGeeter seconded to adopt Resolution Nos. 53-16 through 55-16. After discussion and without objection, the motion carried unanimously.

Regarding Resolution No. 55-16, Mr. Sulik questioned whether this information will go back to communities to help them implement their storm sewer programs. Mr. Bunsey advised that the information is for the District's own purposes and to support the Community Cost Share Program. The communities may do projects on their own, but the District may contribute depending on the priority of the project.

Mr. Brown stated that there are local sewer challenges and it will help frame communities' compliance requirements for federal regulations and compliance with the community discharge permits. CEO Ciaccia explained that Sewer System Evaluation Study (SSES) studies are critical toward making the case with the US EPA regarding integrated planning as we continue to discuss the ongoing terms of our consent order. Staff has maintained that there are broader needs in the community from an environmental standpoint than merely CSO.

CEO Ciaccia advised that to advance an argument for integrated planning requires looking deeper into the systems in communities and show data regarding the environmental issues to try to get a longer period of time to deal with them and the CSO issues together. It might allow the District to prioritize monies towards the communities in a program they would also be expected to participate in financially. There are three more SSES studies to be conducted.

Mr. Brown stated that this might become a tool that allows staff to identify at the local level some projects that should be done. Should the projects be a benefit to the District and be eligible for funding, from the District's perspective it gets the project done and helps meet requirements under the terms of the consent decree. CEO Ciaccia stated that the goal is to eventually modify the consent decree to move in that direction.

Moving to Resolution No. 53-16, Mr. Brown questioned why lockout/tagout program services were so expensive. Ray Weeden, Director of Operations & Maintenance, advised that staff is in catch-up mode with new assets being built. Staff negotiated the flexibility to include additional assets.

CEO Ciaccia stated that the District is substantially behind in this regard and is opting to ramp this up because of how important it is.

Authorization of Contract Modification

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| Resolution No. 56-16 | Modify Contract No. 14001154 with Great Lakes Petroleum Company for Fuel Management Services. Cost: A One-Year Time Extension Only with No Change in the Contract Price. |
| Resolution No. 57-16 | Authorize the Modification of Contract No. 13029 with O.C.I. Construction, Inc. and Contract No. 13030 with Star Concrete & Construction for the Stream Sediment and Debris Removal Project. Cost: A Six Month Time Extension with No Change in the Contract Price. |

MOTION – Mr. O’Malley moved and Mayor Bacci seconded to adopt Resolution Nos. 56-16 through 57-16. After discussion and without objection, the motion carried unanimously.

Property-Related Transaction

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| Resolution No. 58-16 | Authorize the Payment of Relocation Moving Benefits Associated with the District’s Permanent Acquisition of Property in the City of Cleveland Necessary for Construction of the Union/Buckeye Green Infrastructure Project. Consideration: \$22,707.78. |
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MOTION – Mayor Stefanik moved and Mr. Sulik seconded to adopt Resolution No. 58-16. After discussion and without objection, the motion carried unanimously.

VI. Information Items

1. Chief Executive Officer’s Performance Report for 2015

CEO Ciaccia advised that the report was included in the Board’s packet for informational purposes.

2. Chief Executive Officer's Performance Goals for 2016

Regarding 2015 accomplishments, Mr. Brown noted the enhancement of the District's involvement with member communities to enforce the community discharge permit. Some communities invest a lot of time and energy applying for community discharge permits and others know they have issues but are not as aggressive addressing them. He stated that some of the programs discussed earlier will help address enforcement.

Another key area to address is everyone doing their part in terms of District-related issues and municipal-related issues as it relates to compliance.

Mr. Brown further stated that automation of the plants is a critical issue in terms of systems that need to be upgraded over time because it impacts future rate structures.

CEO Ciaccia explained that staff has increased its involvement with the community discharge permits over the last few years; understanding that they are member communities and the District has relationships with them to maintain. Furthermore, automation is a big initiative.

Mr. Brown stated that integrated planning has a significant impact on the capital program. Knowing the opportunities and whether that creates a good argument for mitigating some of the programming translates to cost passed on to the customers. The point of affordability and the environmental benefit to capturing those last few percentages of CSO versus the expense of doing is an ongoing discussion.

The District needs to understand the value added of passing these rates on to a region that struggles. Mr. Brown stated that the last round of rate increases were difficult and painful for the community and the Board and they need to make sure they are on the path with the right tools, model and funding strategy. That is an issue he does not take lightly.

CEO Ciaccia stated that being under a federal mandate puts the District in a tough position. Integrated planning was not in the District's 2016 goals because it will be an ongoing process.

In 2015, staff engaged the federal government in the context of the consent decree as it relates to Appendix 1, which spells out the projects the District must conduct. Staff believes modifications to that list could save a substantial amount of money but progress will be slow.

They also engaged the federal government regarding Appendix 3, which is Green Infrastructure Projects. CEO Ciaccia stated that District staff believes there is a better way to do that and to dive deeply into integrated planning, which is why they need SSES studies.

Mr. Brown stated that his concern is timing and urgency. Akron is struggling with their consent decree and they engaged a consulting firm that pivoted and took them to an integrated planning process with the promise that it will be much cheaper.

Since the District already has a consent decree and significant costs in that program. If there is a better or cheaper way to do it, they must find indicators as to whether it is promising so we have a good rate structure or off-ramps if something new is found that allows for modifying the approach.

CEO Ciaccia advised that staff is looking ahead. They have already saved \$300 million from the \$3 billion program through good program delivery. They believe another \$300 million could be shaved off and that is what they are negotiating with the EPA. The consent decree is a long-term agreement and it should be recognized that things are going to change.

CEO Ciaccia advised that through the analysis they hope to change the discussion on affordability nationally to get away from the fixed 2% of median household income. Many factors go into the affordability issue and they will be flushed out in our study and hopefully help the EPA become real on that issue. He stated that the District is not seeking to get out of complying with the Clean Water Act and consent decree, but perhaps some things can be done better.

Mr. Brown stated that the path the District has been on was the right one. The savings achieved so far speak to the professionalization of staff and a good contracting process. However, as it moves forward they still need to look at models for delivery and to be expedient, flexible and agile.

3. Program Management Status Report and Update – January 2016

Mr. Bunsey announced that he expects to maintain schedule in 2016 and conduct 66 transactions contractually, excluding non-CIP such as stormwater. There are over \$290 million in planned awards, which is by far the largest in District history. Expected cash flow is \$216 million and will surpass all previous years.

2016 cash flow is estimated at 60% of cash flow because three projects are significantly behind schedule.

Mr. Bunsey advised that there are 12 Key Performance Indicators (KPIs) this year, many of which are similar to last year but are more stringent.

A new KPI is baseline professional services and contract management costs as a function of construction. Staff will look at the overhead of the products produced in terms of construction and report that to the Board.

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KPIs include procuring all 2016 planned sewer evaluation studies and Stormwater Master Plans; meeting the 11 required 2016 CSO consent decree reporting milestones; completing designs within 60 days on average; identifying value engineering at 5% of the overall contracting; awarding construction contracts within 60 days on average of planned; obtaining construction substantial completion within 90 days; and trend what work orders are as a percentage of construction in all categories.

Mr. Bunsey stated that staff submitted in January the semiannual progress report number 8 towards the required milestones.

Moving to value engineering (VE) savings, modifications to the Dugway West and Easterly Secondary System Improvements projects were a total of \$4.7 million.

The Doan Valley Storage Tunnel is at 30% design and will go out for bids in early 2017.

Mr. Bunsey advised that the Contract Compliance Department, supported by Engineering & Construction, hosted a contractor connection event with over 100 in attendance. Staff discussed the Capital Improvement Program and the next ten projects.

The Southerly First Stage Improvements Project is lagging in terms of cash flow although the project is not behind schedule by contract terms. This is significant and has added to the District's programmatically low cash flow programmatically.

The Southerly Maximum Control Technology Project is on schedule.

The Collection System Asset Renewal Project had a water main break on East 55th Street last month which was repaired under an emergency work order.

Mr. Bunsey stated that the Dugway South Tunnel is the second of the three projects experiencing cash flow issues. The Board is aware of Shaft 1 excavation issues. The remediation plan the contractor employed was not successful. Unfortunately, this has caused a five-month delay on the project. He explained that there will be a schedule concern with this project and will be discussed during executive session.

Mr. Brown inquired whether the site conditions were unexpected. Mr. Bunsey advised that the contractor's and District's interpretations of what was encountered are slightly different.

Moving along in the report, Mr. Bunsey stated that the Dugway West Interceptor Relief Sewer Project is ahead of schedule.

The Easterly Secondary System Improvements Project piping is completed. The consent decree requirement has a milestone of 400 million gallons per day going through the plant by December 19 and that is attainable.

The Tunnel Dewatering Pump Station is the third project with cash flow issues. Mr. Bunsey advised that it is very important for the contractor to get the lids on the two shafts because the building extends over the shafts and the contractor has to get that closed to open additional work. They remain steadfast that they will meet the construction completion date. District staff is less confident that the project will be completed according to the contractor's current schedule.

The Euclid Creek Pump Station Lakeshore Boulevard Relief Sewer Project obtained substantial completion within 59 days of target, meeting the KPI.

The Easterly Aerated Grit Project also had substantial completion on January 27, which was 50 days within the target date.

The Non-Potable Southerly Water Pump Rehabilitation Project did not meet the new KPI and was delivered 99 days late of substantial completion.

4. Investment Advisor Performance through December 31, 2015

Ken Duplay, Controller, stated that financial objectives under which the District operates includes operating within the budget adopted by the Board, meeting all debt service requirements, reserve requirements and all financial metrics in the parameters of the rate study, which is in its final year.

The 2015 preliminary actuals are favorable in comparison to the rate study. Operating revenue was \$254.2 million as opposed to \$241.4 million from the plan, in part due to the benefits of the AMR implementation by the Cleveland Water Department and the accounts added to the billing systems.

Gross operating expenses were below budget and debt service is also below the projections from the rate study. The 2015 operating budget for revenue was \$242.7 million with a 3% decrease in consumption. Actual consumption decrease was 2%, which resulted in additional revenue.

Mr. Duplay explained that 98% of revenue comes from billing customers. The majority is billed by billing agents --\$232.4 million. \$216 million is the City of Cleveland as the billing agent. \$16.6 million is directly billed by the District to large industrial customers and Rural Lorain customers and \$5.2 million to others.

Net operating expenses after capitalized labor was 5% under budget. The historical operating budget has been steady around \$100 million. Operations represent \$60 million of the \$114.5

million. Other large categories include Finance at \$11.8 million; Human Resources at \$11.9 million and utilities and contractual services comprising the majority of the rest of the budget.

Mr. Duplay stated that the total capital budget was \$272.9 million. The majority of capital disbursements are CSO-related projects. Major projects this year in terms of actual expenditures include the Easterly Secondary System Improvements at \$46 million, the Dugway West Interceptor at \$24 million and Easterly Tunnel Dewatering Pump Station at \$23 million.

The District utilized \$57 million from the WPCLF loan program. \$17.5 million was used by District funds from current year revenues and the capital project's cash earned about \$1.2 million in interest that can be used to fund capital projects. The debt service budget for 2015 was \$90.2 million, slightly higher than \$94.1 due to the timing of WPCLF loans.

The District has a total of \$515 million in reserves. The majority is in a capital and bond account – the latter of which has \$208 million remaining of the 2014 bond issue.

Mr. Duplay indicated that as of December 31, 2015, the District had \$494 million invested, mainly in various government obligations, and year-to-date rate of return on the investments was 0.4%.

Mr. Duplay stated that the District is meeting all of its key financial metrics ratios except one, which will become positive in the near future.

Moving to the proposed 2016 budget versus the 2016 rate study, Mr. Duplay advised that revenues were higher than the rate study due to changes in consumption over time. The gross budget is projected to be \$139.2 million, which is higher than operating expenses from the original rate study. All of the numbers are within 5% of the planning number developed over five years ago.

CEO Ciaccia indicated that healthcare is \$4 million more and the SSES study had not been anticipated when the rate study was conducted.

Mr. Duplay advised that the 2016 proposed budget with the revenue operating expenses and debt service will support the required coverages. There is a significant increase in operating revenue in 2016 versus 2015. Staff previously used 3% decline in consumption rate as a planning number. However, for several years the decline was 2%, resulting in significantly increased operating revenue.

Operating expenses increased 16.8% over the 2015 budget. The largest portions of which are due to a \$3 million projected increase in healthcare and the \$7.5 million budgeted for SSES programs. Without those, the budget increase is about 4%.

The capital expenditure budget is slightly lower than last year. Debt service increases 18.3% in 2016 because there will be a full year of interest payments on the 2014 bond issue.

Capital spending is similar to last year. The largest projected expenditures for 2016 include the Dugway Storage Tunnel at \$45 million, First Stage 1-10 Improvements at \$25 million, and Easterly Secondary System Improvements of \$22 million from the CIP.

Summarizing the presentation, Mr. Duplay stated that in 2015 staff met all financial benchmarks and the 2016 budget is supported by revenue projections that meet all financial metrics and is within a reasonable variation from the original rate study.

The 2016 budget does represent a 16.8% increase over the 2015 budget, significantly driven by the specific items that we've mentioned, and we continue to meet all our debt service coverage and reserve levels for 2015 and project to in 2016 as well.

The budget will be presented in more detail at the Finance Committee Review Meeting on March 8 and we anticipate asking for Board approval of the budget at the March 17 meeting.

5. Focus Group Discussion

CEO Ciaccia stated that focus groups will be a part of the rate study analysis.

Jason Mumm, director of financial services for Hawksley Consulting, which is a division of MWH Global, stated that the purpose of the focus group is to answer important questions regarding affordability.

The EPA has at least two measures for what affordability means, ranging from the simplistic 2% of median household income -- which they have argued does not match well with community demographics -- to more complex measurements they apply to the Safe Water Drinking Act versus the Clean Water Act.

Mr. Mumm stated that it is difficult to determine what a public agency should use to evaluate its affordability programs and to know the value of its services to customers relative to their income. The CSO program's cost will put a lot of pressure on future rates. Knowing what "affordable" means will help the District create and manage future costs and form policies through informed methodology.

The Consumer Expenditure Survey is conducted by the U.S. Census Bureau each year. One of the approaches previously used to determine what affordability means is called "revealed preference." Revealed preference is one of the methods the EPA has used to establish different affordability thresholds, but it leads to odd conclusions.

Mr. Mumm explained that by that standard one would conclude that entertainment is more important than water service, but that is actually “revealed spending.” Water has a certain cost that is not necessarily its value. Better questions need to be asked to get an idea of where District services fit within the array.

John Guilfoyle explained that various community members will be professionally surveyed and evaluate topics in a budgetary sense to determine what is more important to them on a monthly basis.

Mr. Mumm advised that that will determine at what point of household income, by raising rates, these customers make difficult choices about prioritizing expenditures for more important things, which would be sewer services. They will peg their threshold to what matters to customers and customers relative to their income, not relative to an invisible, created standard that is not relevant to this area.

The focus groups are going to start taking place in March. So by April we should have those results.

That focus group will be followed by a larger, written survey, which will not be coordinated in time for the rate study and will be performed by Abt Environmental or Stratus Consulting. They are working on the Value of Water Coalition so there are scientific results.

VII. Open Session

There were no items.

VIII. Public Session (any subject matter)

There were no items.

IX. Executive Session

MOTION – Mayor Bacci moved to go into Executive Session to discuss personnel matters and a potential litigation matter. After discussion and without objection, the motion carried unanimously.

The Board met in Executive Session from 1:56 p.m. to 2:26 p.m.

X. Approval of Items from Executive Session

Resolution No. 59-16

Authorize the Appointment of Chief Legal Officer.

MOTION – Mayor Bacci moved and Mayor DeGeeter seconded to adopt Resolution No. 59-16. After discussion and without objection, the motion carried unanimously.


Resolution No. 60-16

Authorize the Retention of Barry Miller and the Law Firm of Benesch, Friedlander, Coplan and Aronoff, LLP, as Legal Counsel to Represent the District Relative to the Dugway Storage Tunnel Project Claims.


MOTION – Mayor Bacci moved and Mr. O'Malley seconded to adopt Resolution No. 60-16. After discussion and without objection, the motion carried unanimously.

IX. 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 2:27 p.m. Without objection, the motion carried unanimously.



Walter O'Malley, Secretary
Board of Trustees
Northeast Ohio Regional Sewer District



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