

MINUTES  
NORTHEAST OHIO REGIONAL SEWER DISTRICT  
BOARD OF TRUSTEES MEETING  
FEBRUARY 20, 2014

Meeting of the Board of Trustees of the Northeast Ohio Regional Sewer District was called to order at 12:35 p.m. by Darnell Brown.

I. Roll Call

PRESENT: D. Brown  
R. Sulik  
S. Kelly  
J. Bacci  
T. DeGeeter  
W. O'Malley

ABSENT: G. Starr

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

II. Approval of Minutes

**MOTION** – Mr. O'Malley moved and Mr. Sulik seconded to approve the minutes of the February 6, 2014, Board Meeting. Without objection, the motion carried unanimously.

III. Public Session

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

IV. Executive Director's Report

Executive Director Ciaccia reported that the Ohio Supreme Court elected to hear the District's appeal of the Regional Stormwater Management (hereinafter "SMP") case.

Three propositions of law were put forth to the Supreme Court: the District's jurisdiction under Ohio Revised Code Section 6119, which the appellate court did not agree with; the District's authority under its plan of operations, which the appellate court did not agree with; and whether

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the SMP fee was for services or an unvoted tax. Executive Director Ciaccia advised that the Supreme Court has chosen to take the first two propositions of law, but decided to not take the third proposition. He speculated that the Supreme Court did not take it because the appellate court did not rule on that particular issue.

The Court of Appeals has 20 days to transmit the records to the Supreme Court, after which the District will have 40 days to file its brief relative to the merits of the case. The appellees have 30 days after the District's merit brief is filed and then 20 days until the appellee's brief is due. The District then has 20 days to reply to the appellee's brief.

There will likely be briefs and records exchanges for the next four months. A hearing may occur in late summer with a ruling perhaps later this year. Executive Director Ciaccia stated that while the matter is in litigation and discussion of some strategies must take place in Executive Session, he will try to keep as much public as possible.

Moving to the next topic of his report, he advised that *The Plain Dealer* is doing a series of three articles on the Combined Sewer Overflow (hereinafter "CSO") consent order and whether it is "green enough" in terms of green infrastructure. The first two installments have been run, which he thought were objective. There were some attempts at historical revisions, but they have been from internal sources, not anything for which the reporters are responsible. The final installment will examine the approach Philadelphia has taken and it may follow with an editorial. He was very confident the District made the right decision to enter the consent decree; articles and comparisons from around the country has not changed his opinion.

One of the articles asserted that the District left themselves open to critics because green infrastructure was not evaluated enough prior to accepting the consent decree. Executive Director Ciaccia stated that ample money could have been spent on an academic exercise to prove to a few critics that a totally green approach was not appropriate for the District's service area, but we did not pursue this route with good reason. District staff knew that Philadelphia-style green infrastructure was absolutely not an option to reach the level of CSO control it was mandated to reach. Additionally, the commissioner of water for the City of Philadelphia told him their approach would not be the solution as well.

Executive Director Ciaccia explained that District staff made a conscious effort to engage *The Plain Dealer* and those commenting on the story at Cleveland.com. Some graphics and additional information was supplied to the reporters to assist them making it as educational as possible. John Gonzalez and the CCR staff engaged in the comments on a factual basis. The approach helped foster good conversation and kept some negativity away. Executive Director Ciaccia indicated the District would continue to pursue such engagement from a media strategy standpoint -- it gets the story out and helps the public and media keep it in context.

Lastly, Executive Director Ciaccia referenced the 1-month financial report that indicated the District is slightly ahead of projections on revenues and below on expenses.

Mr. Brown stated that the subject of green-for-gray infrastructure is interesting and much of it seems to be looking in the rear-view mirror. A number of comments have been attributed to one Board Trustee, Mayor Starr. However, the collective opinions the Board have not been voiced. Mr. Brown stated that he was strongly considering writing a letter to the editor which would set in place the Board's consensus position. He would not send anything that represented the opinions of the Board without having it reviewed. The Board cannot be silent on this important issue or allow the comments of one Board member to characterize what our engagement or role in the process has been, because it has been anything but how it has been characterized.

The District was the first organization in on the green infrastructure issue. Terms and conditions were put it in the consent decree, and then we left ourselves a reopener. The initial phase of green infrastructure must be completed in the first 8 years, which leaves another 17 years for swapping green for gray if it demonstrates it is practical and cost-effective.

Mr. Brown stated that *The Plain Dealer's* articles have not yet included the comments the City of Cleveland made on the issue. The City of Cleveland believes that the process the District went through was open and deliberate. The outcome was in the best interest of the ratepayers and the green-for-gray discussion presumes that green infrastructure will be constructed somewhere in the City of Cleveland. To represent that every vacant parcel in Cleveland should be useful for green infrastructure suggests they are in favor of it. Mr. Brown stated that comparing apples to oranges is frustrating. The District's service area and Philadelphia's service area are an apple and an orange.

Executive Director Ciaccia stated that 8 billion gallons of CSO was Philadelphia's reported figure in the newspaper today but he also heard 6 billion. The numbers are all over the place. The District is at 4.5 billion today. Mr. Brown stated that even when Philadelphia is finished with their program they will not be at the District's current level.

Mr. Brown stated that those in the wastewater business understand that the cost increases exponentially the higher the bar is raised in terms of what will be done to achieve the 98% goal. The Board and District staff has a very good understanding of the path the organization is on and it was not done, as reported, to push something through quickly. The process was very deliberate and there was a lot of public engagement. The Board and staff owe themselves the opportunity to be heard and be in a position to speak from a point of knowledge and advocacy.

Executive Director Ciaccia could not agree more and that was why he was confident the right choice was made. The staff did its due diligence and the Board was informed and made the right decisions as well.

At that time, Mr. Brown turned discussion to Ms. Kelly whose Board term has ended. He stated that Ms. Kelly has been instrumental in the growth and maturation of the District. It has been the collective efforts of the Board and staff, particularly in the past 8 to 10 years that set the organization on the path for success. Ms. Kelly has been very involved in the discussion regarding the revamping of the Small Business Program.

The Board participated in the collective effort to strengthen the District bylaws and created an ethics policy, which one Board member voted against. An internal auditing process was established and additional efforts made the organization more transparent as a staff and Board. He stated that they had significantly increased the oversight in those respects and significantly increased the oversight of a very expansive Capital Improvement Program.

Mr. Brown stated that the meeting was the last official Board meeting for Ms. Kelly. He presented a resolution from the Board as well as a certificate of recognition from Cleveland Mayor Frank Jackson.

Resolution No. 34-14

Resolution of acknowledgement and appreciation to Sheila J. Kelly in recognition of her twenty years of outstanding service and noteworthy contributions to the Northeast Ohio Regional Sewer District.

**MOTION** – Mr. O'Malley moved and Mr. Brown seconded to adopt Resolution No. 34-14. After discussion and without objection, the motion carried unanimously.

Ms. Kelly stated that she has served on many boards and the District is her favorite because she has never been engaged with people who are more dedicated than the people with the Northeast Ohio Regional Sewer District.

There have been a lot of challenges and positive changes. The biggest challenge was the shakeup of public trust. She stated that the dedicated staff has regained the public's trust through changes transparency, programming and the courage of leadership. She stated that the employees are second to none and are the most dedicated people she has ever worked with.

Ms. Kelly was proud to have been associated with the Board. While they have not always agreed, they have respected and understood the differences each member brought to the organization. That respect came as a direct result of the encouragement of President Darnell Brown. She stated that he has been the most effective leader she has worked with and that he taught her many lessons about leadership. Ms. Kelly stated that she admired Executive Director Ciaccia's courage to be a leader and make decisions that are not always popular.

Ms. Kelly was honored to have served with the Board and for the fine work the organization is doing. She seconded the previous comments made by Mr. Brown and stated that the things that have been done to make the District a better organization and regain the public's trust have been first class.

At that time, Mr. Brown stated that similarly there was a resolution of acknowledgment and appreciation for Mayor Gary Starr, who was also departing the Board after 20 years of service.

Resolution No. 35-14

Resolution of acknowledgement and appreciation to Gary W. Starr in recognition of his twenty years of outstanding service and noteworthy contributions to the Northeast Ohio Regional Sewer District.

**MOTION** – Mr. O'Malley moved and Mr. Brown seconded to adopt Resolution No. 35-14. After discussion and without objection, the motion carried unanimously.

Mr. Brown agreed with Ms. Kelly that one of the strengths of the Board has been the diversity of opinion and the ability to disagree but have a democratic process wherein they could have discussions and make decisions. The Board thanked Mayor Starr for his time and years of dedication to the organization.

Mr. Brown recognized Mayor Robert Stefanik from North Royalton, who was in the audience. Mayor Stefanik was elected by the Suburban Council of Governments to replace Mayor Starr on the Board. Additionally, Cleveland Mayor Jackson has appointed Sharon Dumas to replace Ms. Kelly. Both will be sworn in at the next Board meeting.

V. Action Items

Authorization to Advertise

Resolution No. 28-14

Easterly Chemical Storage and Feed Facility Project. Engineer's Opinion of Probable Construction Cost: \$7,100,000.00.

**MOTION** – Mayor DeGeeter moved and Mayor Bacci seconded to adopt Resolution No. 28-14. After discussion and without objection, the motion carried unanimously.

Authorization to Issue Request for Proposals (RFPs)

Resolution No. 29-14

RFPs for Design and Construction Administration/Resident Project Representation



Extension of 332 Days.

**MOTION** – Mayor DeGeeter moved and Mayor Bacci seconded to adopt Resolution No. 33-14. After discussion and without objection, the motion carried unanimously.

Mr. Brown asked for an explanation of what necessitated the increased amount and the time extension.

Kellie Rotunno, Director of Engineering & Construction, advised that the District would be undertaking the management and administration for this project on behalf of the City of Cleveland in response to mitigation of stream impacts incurred on the Cleveland Hopkins Airport expansion project.

The City had funding prescribed for this project that was to go towards the enhancement of the stream itself. At the time, the segment of stream that would be enhanced was running through an area where there was severe bank erosion, and the project aligned nicely with the District's plans to build slope stabilization along regional streams. This segment was part of the regional stream network. The District became a fiscal partner with the City in executing the project, which would be a blend of stream restoration and slope stabilization.

During construction, a slip plane formed further up the bank than the design anticipated during digging into the side slope. A heavy-duty retaining wall was subsequently required to mitigate the loss of the slope. The contract modification is to allow the funds, resources and time to install that retaining wall which was not anticipated at the time the job was bid.

## VII. Information Items

### 1. 2013 Year-End Review

Ken Duplay, Finance Department Controller, stated that he would focus on how 2013 ended financially, noting that all numbers are preliminary and unaudited, and would provide the Board a brief overview of the 2014 budget ahead of the Finance Committee meeting on March 4.

Mr. Duplay advised that the Finance Department has general financial objectives that guide decision-making. The District must operate within rate-study parameters that guide rates from 2012 to 2016 and stay within them because that is what can be funded. They must operate within the budget for the current year adopted by the Board, meet all debt-service obligations and coverages and are not in default on debt covenants. They also need to meet all reserve requirements, whether they are internally or externally funded, and operate within the financial metrics whether they are based on requirements through debt or internal metrics.

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Beginning with 2013, Mr. Duplay advised that operating revenue is slightly lower than the rate study projections due to higher decreases in consumption than anticipated. A 4% decrease was forecast while the actual figure was 4.4%. Operations & Maintenance costs and debt service are slightly lower due to differences in the timing of some debt issues.

The vast majority of revenue is from user charges to fund both Operations and debt service payments. The other income is septic income from haulers who dump at Southerly. The vast majority of revenue is collected by the billing agents of Cleveland, Cleveland Heights, Berea and North Royalton. Almost \$16 million is directly billed by the District, which is mostly large industrial, commercial, and Rural Lorain residential accounts taken over in 2013.

Operating expenses are about \$100,000 below budget because approximately \$2.5 million in SMP expenses was absorbed into the sewer budget.

The vast majority of operating expenses are Operations & Maintenance, the plants and Sewer System Maintenance and Operation. Salaries and benefits constitute over half of the operating budget with other categories like utilities, contractual services, professional services representing the largest chunks of the remainder.

Capital expenditures were slightly below the 2013 budget. The biggest factor were delays in the tunnel dewatering pump station project, which put that project about \$10 million behind where expected.

Mr. Duplay advised that in terms of capital spending in 2013, almost \$100 million of the projects were CSO and \$90 million were for plant improvement projects. The major projects were the Euclid Creek Tunnel, at about \$57.5 million; the tunnel dewatering pump station, at \$22.9 million; and the Southerly Primary Settling Tank project, at \$20.6 million.

During the first half of 2013 the last of the 2010 bond proceeds were exhausted, and bonds were issued again. The District has begun to utilize that money. \$37.4 million in capital projects was funded through the Water Pollution Control Loan Fund and \$14.5 million was funded through District cash operating funds.

Debt service was slightly below the budget. All the bond debt service is fixed, but year-to-year the amount of loans taken out can vary. Mr. Duplay stated that the District is meeting and far exceeding both of its goals for debt service.

The District has about \$389 million cash on hand but \$180 million is the 2013 bond funds. He anticipates about \$130 million of that being spent in the next year. The spike in 2013 was due to the inflow of funds from the bond issue for the year.



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The rest of the cash balance is constituted by reserves. The operating reserve represents the minimum of 90 days' operating cash on hand. No transfers into the reserves for 2013 are anticipated. There is more cash on hand than usual at the moment due to very low interest rates.

Mr. Duplay referenced debt service coverage from 2012 to 2013. The large drop in the senior debt service coverage from 5.63 in 2012 to 3.72 in 2013 was due to the \$250 million bond issue in 2013. As debt is issued that number will get closer to the target, but it is planned in the 10-year financial plan to meet minimum targets.

Mr. Duplay moved to a brief summary of the 2014 proposed budget.

The rate study estimated a 3% decrease in consumption every year but it has been between 4% and 6% the last several years. They are budgeting for a 4% decrease next year. Consequently, operating costs have to be lower than the rate study. Debt service is slightly lower because bonds were issued a year later than anticipated. The first was issued in 2009 and was anticipated every other year but the next did not occur until 2013.

Coverage for debt service continue to be met -- the senior at 3.81 and total debt at 1.38, both above targets.

Mr. Duplay advised that the 2014 operating revenue is anticipated to increase 4.5% compared to 2013. Operating expenses are projected to increase by 9.5%. The largest contributor is a \$4.7 million budget for sludge handling at Southerly related to the REF facility not being online. Should that facility go online during the year that item will be lower.

Capital expenditures for 2014 are projected to be \$213.5 million, slightly lower than last year due to natural fluctuations, old debt coming off the books and the timing of the next bond issue. There will be a slight decrease in debt service, although after 2014 that will pick up as deferred interest and principal on the 2010 and 2013 bonds.

Mr. Duplay advised that historically and capital expenditures were well below \$100 million most years from 2003 to 2009. A spike began in 2011 and has been at or near \$200 million since.

Mr. Duplay summarized the report by stating that staff currently meets all financial benchmarks. The 2014 budget is in-line with rate-study projections and operating expenses represent a 9.5% increase over the 2013 budget. Excluding \$4.7 million for sludge hauling, the operating budget is only a 4.8% increase. All debt service coverage and required reserve levels are met.

The Finance Committee review meeting will be held March 4 at 9:00 a.m., at which time there will be more detail on all the aspects of the 2014 budget. The Board is expected be asked to approve the budget during the March 6 meeting.

Mr. Sulik invited all Board members to attend the meeting, including Ms. Dumas and Mayor Stefanik.

2. Program Management: 2013 Year in Review and 2014 Look Ahead

Ms. Rotunno began the report with an update on the Euclid Creek Tunnel project, which was the first Project Clean Lake tunnel built. The project was bid, came in under the engineer's estimate, started on time and is ahead of schedule and under budget. Construction has been going well since the resolution of the additional work claim. They poured the concrete on the bottom of the pump station and put the permanent coating on the walls. The suction header is down in the pump station and the mechanical pieces of the project are coming together as they continue to pour and do the mechanical piping installation in the cavern.

The Easterly Secondary Improvement project is set to begin within the next month. The project is a \$74 million Project Clean Lake project mandated to increase secondary treatment capacity at Easterly to 400 MGD. There will be a lot of activity with the contractor coordinating utility work and preparing value engineering alternatives for consideration.

Ms. Rotunno stated that the \$4.7 million previously referenced by Mr. Duplay for sludge hauling will not be spent in 2014; the insinators at the Renewable Energy Facility will be working. There have been some setbacks; sludge has not been burned continuously for a long period of time. There is a polymer issue that plant staff is working hard to resolve. There do not seem to be any construction issues impeding starting train number 3.

Ms. Rotunno advised that \$750,000 in savings has been identified through value engineering on the Southerly screw pump project. Creative thinking on the part of the design consultant, HDR, and internal staff Gary Hoffman and Karrie Buxton, found a way to optimize the head and reduce the head requirement on the pumps with the VFDs to achieve energy savings. As a result of the change in the hydraulic lift that the pumps are expected to do, \$50,000 per year will be in electricity costs. Over 20 years that could save an estimated \$770,000.

No bids were opened and no projects were awarded in January; however, one project closed.

The Southerly Wastewater Treatment Plant code and safety project closed with a 179-day extension, which went beyond the original plan of 430 days. The project also closed within 90% of the original contract budget, which met its Key Performance Indicator (hereinafter "KPI"). She set a KPI for this year to complete construction projects within 180 days of the original planned completion date.

Ms. Rotunno advised that the contractor committed 13% at the time of bid in terms of business opportunity goals and closed at 13.81%, which fulfilled the goal on that single project. Cash

flow was running behind, but on some projects due to schedule extensions the cash flow will be rebaselined.

VII. Public Session (any subject matter)

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

VIII. Open Session


There were no items for discussion.

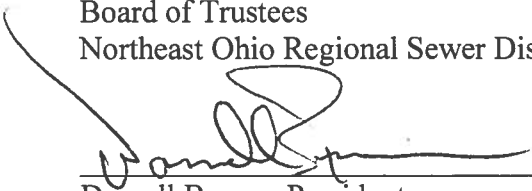
IX. Executive Session

Mr. Brown stated that there were no matters for discussion during Executive Session.

X. Adjournment

**MOTION** – Mr. Brown stated business having been concluded, he would entertain a motion to adjourn. Ms. Kelly moved and Mayor Bacci seconded the motion to adjourn at 1:38 p.m. Without objection, the motion carried unanimously.

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

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