

MINUTES
NORTHEAST OHIO REGIONAL SEWER DISTRICT
BOARD OF TRUSTEES MEETING
MARCH 5, 2015

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
W. O'Malley
J. Bacci
S. Dumas
T. DeGeeter
R. Stefanik

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 19, 2015, 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 began his report by stating that he accepted an invitation to speak yesterday to the board of The Greater Cleveland Partnership (hereafter CGP) board to brief them on what District is doing and its obligations.

CEO Ciaccia advised the CGP board of the District's strong financial profile, the combined sewer overflow (CSO) consent order and the projects associated with it -- in particular, capital

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spending -- and the District's value of the region. He also spoke to them about the obligation to raise revenues to deal with the big Capital Program and federal mandates.

CEO Ciaccia explained that the CGP board asked good questions that focused primarily on the Toledo algae bloom issue and events in Akron; there did not seem to be any major concern about the District's program. He thought it was a useful meeting and he hopes to continue the dialogue.

CEO Ciaccia advised the Board that yesterday he also met with new County Executive Armond Budish and his staff. Similar to his briefing with CGP, he provided an overview of what the District does, its stormwater program and how the County may play a role.

The conversation also pertained to the consent order and the big commitments in terms of the Capital Program and CSOs, potential green infrastructure program partnerships, brownfields, integrated planning and a potential community grants program. The intention was to get them up to speed and see where they might be of assistance.

CEO Ciaccia explained that County Executive Budish had issues he wished to express, such as the District moving towards a "Buy Cuyahoga County" approach to construction jobs and workforce issues.

CEO Ciaccia expressed interest in establishing a baseline for such a program if the District were to consider this further. The District is supporting a good portion of the economy in Cuyahoga County with the amount of buying necessary to implement its Capital Program.

The District already monitors workforce issues and employment metrics are tracked on construction jobs. District contractors are obligated to pay prevailing wages and submit certified payrolls. Over the past two years of tracking data, staff is able to extract how many contractor employees are working on a monthly basis, how many live in Cleveland, inside or outside Cuyahoga County, and any self-reported demographics data. Even without a program the District consistently has over 20% Cleveland residents working on projects every month.

Cuyahoga County maintains a goal of 40% County residents on all of their contracts. CEO Ciaccia explained that the District is already at 40%, so while it may not be necessary to establish a specific program to meet those goals, he would gladly work with County Executive Budish on it going forward.

V. Action Items

Authorization to Advertise

Resolution No. 52-15

Two-Year Requirement Contract for Skimmings

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Removal at All Wastewater Treatment Plants.
Anticipated Expenditure: \$72,200.00.

MOTION – Mayor Bacci moved and Mr. O’Malley seconded to adopt Resolution No. 52-15. After discussion and without objection, the motion carried unanimously.

Authorization to Issue Request for Proposals (RFP)

Resolution No. 53-15
RFPs for SharePoint Supplemental Support Services.

MOTION – Mayor Stefanik moved and Mayor DeGeeter seconded to adopt Resolution No. 53-15. After discussion and without objection, the motion carried unanimously.

Authorization to Purchase

Resolution No. 54-15
Direct Purchase Three Mercury Scrubbers from EnviroCare International for the Southerly Maximum Achievable Technology Compliance and Operations Improvement Project. Anticipated Expenditure: \$2,560,000.00.

MOTION – Mayor Bacci moved and Ms. Dumas seconded to adopt Resolution No. 54-15. After discussion and without objection, the motion carried unanimously.

Authorization to Enter into Contract

Resolution No. 44-15
Ratify Contract Renewal Option Two and Exercise Contract Renewal Options Three and Four With Boyd Watterson Asset Management, LLC to Provide Investment Advisory Services and Assistance with Security Purchases. Cost: Not-to-Exceed \$120,000.00.

Resolution No. 55-15
One-Year Requirement Contract with Polydyne, Inc. for Final Clarifier Polymer for Use at the Southerly Wastewater Treatment Plant. Cost: \$135,000.00.

MOTION – Mr. O’Malley moved and Mr. Sulik seconded to adopt Resolution Nos. 44-15 and 55-15. After discussion and without objection, the motion carried unanimously.

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Authorization of Contract Modification

Resolution No. 56-15

Final Adjustment of Contract No. 13003715 with Nerone & Sons, Inc. for the CSO-063 Relief/Consolidation Sewer Project. Cost: A Decrease in the Amount of \$221,339.24 Bringing the Total Contract Price to \$1,855,660.76.

MOTION – Mayor DeGeeter moved and Mr. O’Malley seconded to adopt Resolution No. 56-15. After discussion and without objection, the motion carried unanimously.

Authorization to Amend Resolution

Resolution No. 57-15

Amend Resolution No. 144-14 and Adopt 2015 Operating and Capital Budgets (Subject to Change per Review at Finance Committee Meeting)

MOTION – Ms. Dumas moved and Mr. Sulik seconded to adopt Resolution No. 57-15. After discussion and without objection, the motion carried unanimously.

Ms. Dumas stated that the Finance Committee met on Monday, March 2 to perform a review of the proposed District operating budget and capital budget. The committee members in attendance were Mr. Brown, Mayor Stefanik and Ms. Dumas. A presentation was given by Chief Financial Officer (CFO) Jennifer Demmerle, and key staff members were in attendance.

The Committee was provided with substantial detail to support the proposed budgets; however, a review by Board members is not an in-depth analysis. It is not a testament to the methodology, work papers, historical reporting or validate the proposed business model or operating structure. It does not involve external professionals in the review process.

The Committee examined for reasonableness the financial information and compliance with the responsibilities and obligations of the organization for fiscal 2015 as they understand them and as presented by management.

The anticipated revenue for 2015 is \$242.7 million -- a 12.5% increase over the 2014 budget and includes the approved rate increases and an allowance for decreased consumption.

Operating expenses for 2015 are projected at \$111.5 million -- a 1.8% increase over the 2014 budget and supports staffing at 750 as compared to 730 in 2014.

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Ms. Dumas stated that CFO Demmerle detailed the participation of budget centers in the budget process and the vetting process used for new hire requests. Assumptions of a 4% overall increase were used -- 2% of which is wage increase.

Capital expenditures are projected at \$263.9 million -- a 23.6% increase. Debt service will be \$90.2 million, which is a 15.2 percent increase.

Five-year trends were included but were not limited to salary, benefits, power, natural gas, professional services and contractual services.

Professional services included \$800,000 for the Renewable Energy initiative, \$250,000 for the rate study and \$114,000 for review of the Information Technology (IT) governance committee.

Contractual services included \$8 million for collection fees and \$2 million for green infrastructure projects.

Expenses will continue to be impacted by the nuances and complexities and sustaining of aggressive massive required capital projects. Funding currently available for capital projects is \$612.9 million and 2015 capital project disbursement is estimated at \$263.9 million.

A large debt issuance of \$300 million occurred in December 2014 and the next issuance is anticipated in 2017.

Ms. Dumas advised that during the meeting Mr. Brown questioned the prioritization of capital projects and the reliability or efficiency of some imposed or chosen technology and suggested an ongoing review of same, some of which will be accomplished through the planned enhancements to the IT governance committee.

Ms. Dumas stated that both the operating and capital budgets were reasonable requests and the Committee recommends approval of both.

Ms. Dumas additionally requested that the 10-year long-term financial plan for the period 2015 to 2024 be carefully considered and evaluated by the Board and organization.

Ms. Dumas further mentioned that during the meeting Mayor Stefanik raised affordability issues, customer impact concerns and the possibility of federal financial support or intervention. There is no approval or consensus required from the Board on the plan at this time, but the federally-mandated requirement to invest \$2.4 billion in the wastewater system over the next ten years will require substantial debt issuance and simultaneous rate increases to support and sustain the investment.

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The projections are staggering and must receive critical thought by the Board and organization, as funding options appear to be currently limited and the improvements essential to the system.

The Committee recommended the approval of the 2015 budgets as submitted.

Mr. Brown thanked Ms. Dumas for chairing the Committee and thoughtful review and comments. He further stated that the Board must be very deliberate about the responsibility placed on its shoulders and do what is right environmentally by the community, being cognizant of the financial implications. They cannot do it without borrowing the adequate cash flow to fund and support the projects and that will require ratepayers to step up in a major way.

Mr. Brown stated that to the extent that opportunities in the near- or long-term, to look at whether there are opportunities to help support the program in a major way so the District meets its requirements environmentally while keeping in mind affordability in the region for people, to do it in a way that does not financially bankrupt communities.

The District must be strategic in terms of who it speaks with and who is lobbying on its behalf so the public understands it is not easy to vote on double digital rate increases. The Board does not take that action lightly and it is incumbent upon them to determine if there are opportunities to mitigate or relieve the financial burden.

CEO Ciaccia stated that the serious conversation that began at the Committee meeting continued today and a rate study will be conducted in 2015 which will be the basis for rates during the years 2017 through 2021.

CEO Ciaccia stated that the minutes of the Finance Committee meeting and this Board Meeting will be available and posted online in the near future so that those who view them will know the Board is engaged on this issue.

Mayor Bacci requested a follow-up on Mr. Brown's point regarding who was asked for help and what was asked for -- whether they are elected officials and what their response was so the ratepayers can ask for their support and hold them accountable.

CEO Ciaccia advised that prior to the Finance Committee meeting a meeting was also held with the District's federal and state advocates. In terms of other assistance, Ohio Senator Sherrod Brown has been helpful trying to attach funding to bills. Congresswoman Marcia Fudge also co-signed a bill with a Congressman from the Cincinnati area with a limited amount of funding for green infrastructure. Staff will get that together and it will be a part of the strategy this year and next year.

VI. Information Items

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1. Update on Cleveland Heights Proposed Revenue Sharing Agreement

CEO Ciaccia advised that the City of Cleveland Heights approached the District with a plan to increase revenues for both parties. According to the projections, it would raise \$30 million over a 20-year period for the District, making it worth consideration.

Cleveland Heights has two options: (1) ask the City of Cleveland to go to direct service and not deal with the metering problems within their system, or (2) continue to be a master meter system to Cleveland and continue to do billing for the District and address their metering issues.

Addressing the metering issues will benefit the District, CEO Ciaccia explained. The District will pay a portion of it in some way or other because the costs would be reflected in the increased billing fee the District pays to Cleveland Water if they transfer to a direct service customer of Cleveland. This discussion is about the best outcome for the District.

Chief Financial Officer (CFO) Jennifer Demmerle advised Cleveland Heights faces annual deficits up to \$15 million by 2019, with 61% in apparent and real system losses. Apparent loss is through bad meters and billing errors and real systems losses are through distribution system leakage.

Cleveland Heights would like to invest \$20 million in improvements over the next 20 years, including replacing 600 residential meters for \$5.2 million, and installing 1,400 new commercial meters with an AMI data collection system for \$1.1 million.

The project also would include the installation of 10 pressure-regulating valve stations to regulate water pressure in the distribution system for \$2 million; leak detection and training for \$320,000; major infrastructure improvements to the distribution system of \$9.4 million; and various smaller projects, including implementation of GIS and development of hydraulic modeling for \$2 million.

CFO Demmerle advised that Cleveland Heights' proposed financing of the project would be a performance-based contract through Energy Systems Group (ESG) for \$20 million. \$8.3 million of the project is for meter and billing issues and \$11.7 million is distribution system project costs.

The contract would be set up much like a 20-year loan at 4.15% interest. The annual debt service payment to ESG would be \$1.5 million and ESG is guaranteeing up to the project cost for four years. The guarantee includes additional revenue to offset the debt service payment. Since the District would receive a benefit from the project, they have approached the District for some contribution towards the project.

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Cleveland Hts proposed revenue sharing agreement

- × 50% of increased revenue first 10 years
- × 25% of increased revenue second 10 years
- × Based upon projected rate increases,
District share of increased revenue in 20
years=\$12M.
- × 40% share of the total project cost of \$30M
and 100% share of the meter and billing
portion of project of \$12M.

ESG projected that the District will receive additional revenue of \$928,000 based on the 2014 billing rate, which equates to 14,390 additional MCFs of consumption -- or a 10% increase. CFO Demmerle explained that historically consumption decreased 2 to 3% per year. The total District benefit for this project would be 37% of the total benefits realized.

Cleveland Heights' proposal is a revenue-sharing agreement rather than including the cost of the project in their billing fee. They have proposed the District contribute 50% of any increased revenue for the first 10 years and 25% of increased revenue for the second 10 years. However, based on the District's projected rate increases for that period that could be upwards of \$12 million the District would be giving Cleveland Heights – well above the District's proportionate share of benefits from the project.

District proposal

- × Only consider sharing in cost of project relating to meter and billing of \$8.3M
- × Total debt service =\$12.3M
- × 100% of revenue generated above the baseline for the next four years.
 - + Baseline is the 2014 consumption (147,881 MCF)
 - + Increase estimated to be 14,390 MCF annually
 - + Estimated additional revenue in four years is \$4.2M (34% share of project)

The District would like to consider sharing the cost of the billing and metering part of the project, which is \$8.3 million. In the District's proposal, Cleveland Heights would receive any increased revenue above a baseline consumption year for the next 4 years, because that is the guarantee period that ESG is giving them. The baseline year would be the 2014 consumption, and Cleveland Heights would keep any revenue generated from consumption above the baseline number, which they are projecting to be 14,390 MCFs annually.

Current District consumption projections include a 2 to 2.5% decrease in consumption annually. In order to get to the baseline of 147,000 MCFs, the District would have to see an increase in consumption and realize an additional \$3.2 million of unplanned revenue that we would not otherwise expect.

Once the baseline consumption of 147,000 MCFs per year is reached, Cleveland Heights would receive any revenue above that baseline. The District proposes a cap at 14,390 MCFs above the baseline. Ms. Demmerle stated that Cleveland Heights may not reach the baseline. Should consumption total 146,000 MCFs in any year, the District would get all revenue from that consumption and Cleveland Heights would not get anything.

CFO Demmerle reiterated that this would be a 4-year agreement. After 2018, projected increased revenue for the District could be \$35 million over the 20-year period.

Ms. Dumas inquired whether Cleveland Heights booked their water operation as an enterprise fund, which CFO Demmerle affirmed. Ms. Dumas inquired whether Cleveland Heights provided financial information that demonstrated a \$15 million deficit in the enterprise fund, which CFO Demmerle affirmed.

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Ms. Dumas questioned whether they provided statements of their operating government and unencumbered funds, because they have the ability to transfer funds. CFO Demmerle advised that Cleveland Heights provided their 20-year projections for the water fund. CEO Ciaccia stated that they have the ability to raise rates as well, which has not been done in a few years.

CFO Demmerle stated that their projections showed a 1.5% increase starting in 2019.

Ms. Dumas inquired how Cleveland Heights' planned improvements of changing meters and encoders addresses the 50% leaks in their system. CEO Ciaccia advised that it does not; the District declined to pay for repairs to the leaks because it is Cleveland Heights' issue solely.

CFO Demmerle explained that over half the project cost is for infrastructure improvements for their leaks, for which the District will not participate.

Ms. Dumas questioned how the proposed project would be impacted if you Cleveland Heights were to go to the direct billing. CEO Ciaccia explained that it would not be an issue for them anymore but would for the District because a study said there is revenue to be gained from the metering system.

CEO Ciaccia continued by stating the District is not affected by the system leaks in Cleveland Heights, but it is losing revenue opportunities because of metering issues. He stated that he had a discussion with Alex Margevicius, the Commissioner of Cleveland Water, regarding the need for a bigger program in the entire Cleveland system.

CEO Ciaccia advised that a Cleveland Water study was conducted in 1998 that identified oversized meters as an issue to be addressed. The dilemma now is having an established plan with Cleveland Heights that would likely generate additional revenue for the District, as opposed to, Cleveland Heights going towards direct service with Cleveland Water and no plan for additional District revenue.

Mayor Stefanik, referencing the possibility of Cleveland Heights moving towards direct service with Cleveland, wanted to know if the District would still realize the increased revenue.

CEO Ciaccia advised that the District would realize the same revenue because of its rates. If Cleveland took over they would be billing the District's rates to Cleveland Heights' customers. However, there would be the question of when and how quickly we would gain the new realized revenues based on what Cleveland would place on a project to "right-size" its larger meters.

Mr. Brown stated that the question is whether Cleveland would still perform the meter replacement, which should be done anyways. If they did that there would be a benefit to the District because meters would register flows correctly. CEO Ciaccia agreed but stated that it is

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not a foregone conclusion that Cleveland would spend that money on right-sizing meters. He said he is waiting for a response back from them.

Ms. Dumas questioned whether the improvements would become part of the AMR project. CEO Ciaccia stated that the small meters would but large meters need to be right-sized. Some large turbine meters do not register low flows. CFO Demmerle added that the majority of increased benefits would be from large meters.

Mr. Brown inquired what would occur if the District took no action -- would they do the improvements anyways. CEO Ciaccia advised that they might, which is the dilemma. Even if they make the improvements we would assume they will pass the costs of the project on to the District through the billing fee they charge us.

Mr. Brown stated that the discussion sounds more palatable than it did initially. While some questions still need to be answered the meters and commercial accounts impact the District's bottom line. He was concerned how they are different from other customers since Cleveland has a similar issue. He questioned whether the District would consider participating if Cleveland approached the District.

CEO Ciaccia explained that Cleveland did approach the District when they were implementing their AMR system. However, they chose, ultimately, that they did not need the District's contribution to do the project, and like their upgraded billing system, passed on the costs to the District in the billing rates.

Mr. Brown stated that the concern is what makes Cleveland Heights distinctly different from any other part of our system that provides a reason why we should do this. CEO Ciaccia advised that in this context the customers we have to compare ourselves to are Cleveland Heights, Cleveland, Berea and North Royalton. Those are the customers that do billing and provide services to the District.

Mr. Sulik questioned whether there would be no out-of-pocket expenses -- just reduced revenue. CFO Demmerle affirmed that the District would avoid out-of-pocket costs and the project would provide additional revenue.

The other option is that Cleveland Heights would include the costs into the billing fee calculation over the next 20 years, which would increase out-of-pocket costs. However, staff is proposing to narrow the length of time to pay them the additional revenue.

Mayor Bacci questioned whether current revenue would stay flat and the District would not receive additional revenue. CFO Demmerle affirmed. She elaborated that the District would have flat consumption, which is still a benefit over a 2% decline. Staff would request flat

consumption over those 4 years and Cleveland Heights would receive any revenue above that point.

VII. Open Session

There were no items.

VIII. Public Session (any subject matter)

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

IX. Executive Session

MOTION – Mayor Bacci moved to enter into Executive Session to discuss the status of union negotiations. A roll call vote was taken and the motion carried unanimously to adjourn into Executive Session.

The Board met in Executive Session from 1:19 p.m. to 1:31 p.m.

X. Approval of Items from Executive Session


Resolution No. 58-15

Authorization to Enter into Contract with the
International Union of Operating Engineers Local
18S for the Period January 1, 2015, Through
December 31, 2017.

MOTION – Mayor Bacci moved and Mr. O'Malley seconded to adopt Resolution No. 58-15. 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. Mayor Bacci moved and Mayor Stefanik seconded the motion to adjourn at 1:32 p.m. Without objection, the motion carried unanimously.



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

**CLEVELAND HEIGHTS
REVENUE SHARING PROPOSAL**

Agenda

- ✦ Background
- ✦ Benefits to be Achieved
- ✦ Proposal

Background

- × Cleveland Hts. is facing annual deficits accumulating to \$15m by 2019
- × 61% in apparent and real system losses.
- × Spend \$20m in improvements over next 2 years.
 - + Projects include:
 - × Replace 600 residential meters and 14,500 encoders and transmitters (\$5.2m)
 - × Install 1400 new commercial meters including AMI data collection system (\$1.1m)
 - × Install 10 pressure regulating valve stations to regulate water pressure in the distribution system (\$2.0m)
 - × Leak detection and training (\$320k)
 - × Infrastructure improvements for leaks (\$9.4m)
 - × Implement GIS, development of hydraulic models (\$2.0m)

Financing of project

- × Financing of project through Energy Systems Group (ESG)
- × Total project cost = \$20M
 - + \$8.3M meter and billing issues
 - + \$11.7M distribution issues
- × Debt service @ 4.15% over 20 years
 - + \$1.5M annual debt service
 - + \$30M total debt service
- × Performance guarantee by ESG for four years
- × Support from District

Estimated benefits per esg

	Water Guaranteed Annual Savings or new Revenue	Local Sewer Annual Benefit	WERSD Annual Benefit
METER INACCURACIES	\$1,181,335	\$119,800	\$698,558
SYSTEMATIC DATA HANDLING ERRORS	\$249,786	\$3,950	\$230,035
TOTAL ANNUAL ESTIMATED	\$1,431,121	\$123,750	\$928,863

- \$928,863 equates to 14,390 MCF additional annual consumption, a 10% increase over 2014 consumption , historically its been a 2% decrease.
- District share is 37% of the benefit for meter and billing.

Cleveland Hts proposed revenue sharing agreement

- × 50% of increased revenue first 10 years**
- × 25% of increased revenue second 10 years**
- × Based upon projected rate increases, District share of increased revenue in 20 years=\$12M.**
- × 40% share of the total project cost of \$30M and 100% share of the meter and billing portion of project of \$12M.**

District proposal

- ✘ Only consider sharing in cost of project relating to meter and billing of \$8.3M
- ✘ Total debt service = \$12.3M
- ✘ 100% of revenue generated above the baseline for the next four years.
 - + Baseline is the 2014 consumption (147,881 MCF)
 - + Increase estimated to be 14,390 MCF annually
 - + Estimated additional revenue in four years is \$4.2M (34% share of project)

District Proposal

	7/2015	2016	2017	2018	TOTAL
PROJECTED RATE	\$71.75	\$79.85	\$85.75	\$92.15	
CURRENT PROJECTED CONSUMPTION (2%DECLINE)	144,036	140,391	136,644	133,091	
ADDITIONAL CONSUMPTION TO DISTRICT	<u>3,845</u>	<u>7,590</u>	<u>11,237</u>	<u>14,790</u>	
BASELINE CONSUMPTION (2014)	147,881	147,881	147,881	147,881	
INCREASED CONSUMPTION (MCF) ABOVE BASELINE TO CLEVELAND HTS.	7,195	14,390	14,390	14,390	
MAXIMUM ADDITIONAL REVENUE TO CLEV. HTS.	\$516,241	\$1,149,041	\$1,233,942	\$1,326,038	\$4,225,262
UNPLANNED ADDITIONAL REVENUE TO DISTRICT	\$275,879	\$606,061	\$963,573	\$1,362,898	\$3,208,411

Projected increased revenue

	2019	2020	2021	2022	2023
Current Projections	\$12,852,863	\$13,478,265	\$14,271,520	\$15,110,237	\$16,117,359
Revised projections	\$14,099,377	\$14,785,433	\$15,655,620	\$16,575,679	\$17,680,475
Increased Revenue	\$1,246,514	\$1,307,168	\$1,384,100	\$1,465,442	\$1,563,116

- Current projections based on 2% annual decrease in consumption
- Revised projections based on increased consumption of 14,390 MCF
- Projected additional revenue of \$35M over 20 years.