

MINUTES  
NORTHEAST OHIO REGIONAL SEWER DISTRICT  
BOARD OF TRUSTEES  
SPECIAL MEETING  
APRIL 7, 2021

A Special Meeting of the Board of Trustees of the Northeast Ohio Regional Sewer District was called to order at 10:00 a.m. by Darnell Brown.

President Brown opened the meeting by addressing the COVID-19 pandemic, and read the following statement:

Due to the COVID emergency, we are again conducting our Board meeting via live stream video conference using the Zoom Video Communications tool and pursuant to continuing authority of House Bill 404.

Members of the public may observe and hear the meeting using the Zoom login link found on the top of the District website, and those who wished to address the Board were able to make that request through the Zoom system prior to the start of the meeting.

I. Roll Call

PRESENT: Darnell Brown  
Ronald Sulik  
Samuel Alai  
Jack Bacci  
Timothy DeGeeter  
Sharon Dumas  
Terence Joyce

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

II. Comprehensive Cost-of-Service, Rate Study/Rate Adjustments and Affordability Analysis Presentation and Discussion

Kyle Dreyfuss-Wells, Chief Operating Officer, thanked the Board for their time and attention to the District's presentation of the rate study and the proposed rate schedule for the years 2022 to 2026. Ms. Dreyfuss-Wells introduced Ken Duplay, Chief Financial Officer, to begin the presentation.

Mr. Duplay advised the Board that the rate study process began in August 2020, when Stantec was selected as the District's consultant for the project. There was a series of virtual workshops with senior staff and other subject matter experts from around the District, and other consultants. The focus throughout the process has been the impact that the rates will have on District customers,

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the opportunities to expand the Affordability Programs to help customers in need and continuing overall efforts to reduce and control costs to keep rates as low as possible.

This is the first of two special meetings to discuss the proposed rates. There will be a second meeting on May 3, 2021 to address any outstanding questions or additional analysis requested by the Board.

The timeline for the process will include a meeting with the Suburban Council of Governments (SCOG) on April 13 to share the preliminary results. There will be a second meeting with the District's industrial customers on April 26. Additionally, there will be a series of virtual public meetings to share the rate information with customers.

Mr. Duplay introduced the District's consultants in attendance, Carol Malesky and Bill Zieburtz, both from Stantec, and Janet Clements from Corona Environmental Consulting, and invited Ms. Malesky to begin her portion of the presentation.

Ms. Malesky indicated that she would provide an overview of all of the work that went into the Comprehensive Cost-of-Service Rate Study and Affordability Analysis from the financial analyses, through cost-of-service and rate development, and affordability analysis. Ms. Malesky noted that there was a significant amount of work done in the process and thanked District staff for their assistance.

There is a proposed 4.7% increase to stormwater and sewer rates. The proposal is based on a series of driving assumptions: financial planning, rate elements, and affordability programs, assessing detailed financing for the Capital Improvement Program, impacts of the COVID-19 pandemic, and collection rates including customer trends. Additionally, there was a thorough analysis of the different rate alternatives, attempting to achieve minimal impact on customers. The consultants worked with District staff to refine cost allocations.

There is a proposal to maintain the currently surcharged pollutants of biochemical oxygen demand (BOD), chemical oxygen demand (COD), and total suspended solids (TSS).

There was a thorough review of the current affordability programs and potential for expanding program eligibility.

There is a proposal to maintain the current Summer Residential Sprinkling User Charge Program as it stands.

Ms. Malesky explained that all of the assumptions led to the proposal for the rate schedule from 2022 through 2026, and provided a chart reflecting the current rate schedule and the equalization of the rates next year between Cleveland and the suburbs. As of 2021, there are two different rates, which will be equalized in 2022. The current regular Subdistrict 1 (Cleveland) rate per MCF is \$106.50, and the Affordability and Homestead discounts are at a 40% discount.

President Brown asked for clarification as to the history of the different rate structures for Subdistricts 1 and 2.

Mr. Duplay addressed the issue explaining that this has been a long-standing process to equalize the rates. The reason that there have historically been two different rates for Subdistrict 1 and Subdistrict 2 was associated with the formation of the District. There were projects being implemented that were specific to the suburbs. Those specific project costs were allocated to the suburbs and over time the rates have been equalizing every year with the schedule intended to have equal rates beginning in 2022.

Ms. Malesky continued her presentation and provided a graph to demonstrate a 4.7% rate increase for stormwater and sewer billing. Currently, a residential customer's usage of .5 MCF results in a monthly bill just under \$70.00, and that will increase by 4.7%. Customers who qualify for affordability programs receive a 40% discount.

There is a separate 2022 through 2026 billing schedule for industrial customers. Industries are charged the regular monthly fixed cost recovery fee and a base charge for base unit of flow, or MCF, with a base domestic strength pollutant loading. When discussing pollutant cost per MCF per milligram per liter, that is a concentration at the domestic limits and anything greater than those domestic limits are assessed the surcharge. This includes the BOD, COD and TSS surcharges. The pollutant cost is projected to increase at an average of 3.5%.

The District is exemplary in following or exceeding best practices in its affordability programs. The discounts provided to customers are meaningful. The possibility of extending the program to renters and increasing the income threshold is under evaluation. District staff continues its work with CHN Housing Partners and efforts to target specific customers to increase participation in the affordability programs.

Ms. Malesky provided graphs and discussed different areas that were evaluated within the rate study.

The Operation and Maintenance (O&M) expenses, annual debt service payments for previous funds borrowed, and cash-funded capital improvements are all approximately 1/3 of the revenue requirements.

Regarding wastewater, there is a forecasted decrease in revenue over time, due to a 2% per year decrease in usage. Additionally, the collection rate is stable at 96%.

There were specific assumptions made regarding the borrowing terms. The Water Pollution Control Loan Fund (WPCLF) loans are currently very favorable with an interest rate of .75%. There was an evaluation of the difference between assets that are 20-year useful life versus 30-year useful life. Additionally, there was an accounting for the design loans that have a 0% interest rate for a 5-year term.

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Stantec worked with District staff to evaluate cash-funded projects, operating under the assumption that projects costing \$35 million or less would be paid for with cash.

There was care taken to ensure that funds to cover three months of operating expenses, a \$100 million capital reserve balance, is maintained each year, as well as greater than 400 days of cash-on-hand.

There is an assumption that the affordability program participation will increase by approximately 10,000 new accounts over the next five years.

The Member Community Infrastructure Program (MCIP) is anticipated to maintain funding of \$15 million per year through 2026, then slowly increase to \$30 million by 2031.

The Green Infrastructure Grant Program is funded at \$1.5 million each year.

Along with these assumptions are responsible maintenance of the reserves, including rate stabilization reserves, insurance, capital, and equipment and infrastructure repair and replacement reserves, which were accounted for when forecasting revenue needs.

Stormwater continues to be a cash-funded program, funded entirely through revenue rates.

President Brown noted that the revenue financing and policies are based on assumptions and historically, there has been a 2% annual decrease in consumption. President Brown asked whether that variable is still accurate. Ms. Malesky explained that a 2% annual decline has been projected through 2030.

President Brown added that the WPCLF loans have historically been a very strategic tool utilized by the District that has resulted in significant savings to its rate payers and encouraged further discussion on the matter. President Brown indicated that he would also like further discussion regarding District policies, in terms of the District's ability to raise capital, fund projects and ensure that funds are being spent at a level that allows for variables in things like engineering construction estimates. President Brown noted the importance of the assessing the accountability of these policies to ensure proper fund raising and spending.

Mr. Duplay explained that 2020 and 2021 were outlier years in terms of consumption and the District budgeted conservatively in response. Historically, for the past twenty years, the District has seen a 2% per year decline in consumption. Accordingly, the District used that historical data to inform that assumption in terms of consumption billed water usage decline over time.

Mr. Duplay further explained, regarding capital financing and capital projections within the model, that the Engineering Department provides a CIP to the Finance Department that is very well vetted through their process to ensure that the priority projects beyond the Consent Decree requirements are able to be completed.

For long-term forecasting purposes, the District is aware of the fact that there are estimates involved. There are also contingencies in those numbers for general and specific allowances. The District accounts for inflation over time to the CIP within the rate model being used and takes 90% of that number, which becomes the target to fund, be it through debt or cash-funding. Given fluctuations in bids, usage of reserves and allowances over time, there is not a need to fund 100% of the engineering estimate that goes into the CIP.

Mr. Sulik asked whether the District has received any assurances that the WPCLF loans will continue to be available for the next five years. Mr. Duplay responded affirmatively.

Ms. Dumas asked whether the design loans repayment can extend beyond five years and whether they would begin to acquire interest. Mr. Duplay explained that they do not, they are strictly five-year, 0% interest terms.

Ms. Dumas asked for additional information regarding the \$100 million reserve. Mr. Duplay explained that is the minimum amount that the District maintains in its capital account. The capital account is used to pay debt service and ongoing construction. Payouts any month may range from \$15 million to \$25 million. The District keeps liquidity in that account to maintain the balance between paying contractors and being reimbursed as well as the debt service payments. As timed investments mature, they go into the capital account to pay debt service.

Ms. Malesky continued her presentation of the financial model with a graph depicting the Wastewater Baseline Rate Plan. Ms. Malesky explained that although the rate plan is focused on 2022 through 2026, the full model is a ten-year projection from 2021 through 2030. The proposed rate increase of 4.7% annually drops to 4.2% after 2026, with today's current assumptions. Total debt service coverage (DSC) is a constraint for the District in order to collect sufficient revenues and meet debt service requirements. The proposed 4.7% increase is the minimum rate increase per year that will achieve all of the targets and financial policies, as well as the minimum debt services coverage requirement.

Ms. Malesky provided more graphs demonstrating the District's operating projections over time, and how the conclusions were reached. The projected cash on hand declines over time. There was a 3% inflation per year factor applied to the CIP planning and includes the allowance for contingencies and scheduling that Mr. Duplay previously described, reducing the total amount by 10% from the original budget. The CIP will primarily be funded by WPCLF loans over the next five years. The O&M portion will primarily increase at an inflationary rate over time.

The previous rate study projected a 9.6% rate increase for 2022 through 2026. The currently proposed lesser rate increase of 4.7% is due primarily to debt refinancing for and annual savings of \$20 million, value engineering reducing project costs, savings in salaries and benefits, and utility cost savings.

The proposed stormwater rate increase is also 4.7% per year, then increasing to 5% over time. This will be the first stormwater rate increase since the initiation of the program. Ms. Malesky provided graphs demonstrating the various considerations involved in the planning and analysis.

The stormwater team has identified all of the necessary projects that are forecasted for the next ten years and prioritized them in order of need. The goal was to assess the top priority projects and determine how they could be funded over time. The increase accounts for multiple large projects including the Big Creek Stream Restoration at a cost of \$16 million, flood and erosion reductions near York and Pleasant Valley Roads at a cost of \$14 million, as well as including allowances for future unknown urgent projects that arise. The financial planning process provides the amount of revenues that need to be collected from rates every year before moving on to the next step, which is cost of service and rates.

President Brown asked if the need for increased rates in stormwater is the result of more studies being completed or the number of design projects, and whether there is an assumption that there will be more projects to be completed. Frank Greenland, Director of Watershed Programs, explained that over time, stormwater spending began to increase and in 2019, there was concern that spending was approaching the annual budget limit. Also, a purposeful reduction of \$6 million in capital was instituted in 2020 due to COVID-related revenue concerns. Going forward, the difference going into the next rate period is that the three of the four Master Plans are complete. The District has moved from legacy erosion problems into flood control with erosion elements projects, which tend to be much larger projects requiring more revenue. Whereas in the past the projects would be divided into smaller subprojects due to revenue constraints, the plan is to have increased cashflow to allow for more expeditious completion of the larger-scale projects. Three of the four Master Plans are complete with a total projection in excess of \$1 billion for stormwater solutions and the Lake Erie Tributaries Master Plan, which will be complete in 2021, will contribute to that amount.

President Brown added that it is imperative that these large-scale projects are working with affected communities so that the development requirements are in line with the city planning for each of the member communities. President Brown further noted that because some of the flooding issues in the area are related to increased rainfall totals and some are due to poor development decisions years ago, it is important to ensure that repairs that the District performs are not later challenged by things like construction in floodplain areas. Mr. Greenland explained that the District reviews development plans and stormwater management plans for larger projects in the communities and offers comments to the communities to ensure that they are not negatively impacting the local and regional systems. Additionally, the District tracks state and federal stormwater regulations. Built into the Stormwater budget going forward, the District intends to utilize and extend its modeling capabilities into the local communities to help them solve more the locally based stormwater management problems. The District likewise ensures that communities are utilizing their Community Cost-Share funds wisely.

Mr. Duplay added that with the Stormwater Program being newer and cash-funded, the District has been diligent in ensuring that the program has never exceeded the budget in a given year. It does not have the accumulated reserves that the sewer program has so it is more sensitive to things like projected decreased revenue due to COVID-19. The Finance Department works closely with the Watershed Programs Department to monitor its budget. The slowing of activities in 2019 followed by the slowing due to COVID-19 is the reason for the fluctuations.

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President Brown added that because stormwater activities are cash-funded, it is also critical to align collections and spending to ensure that the District is not collecting significantly more revenue than it is spending and that the spending provides a regional benefit.

Ms. Dumas asked how a Stormwater Program deficit would be funded if it did overspend. Mr. Duplay explained that similar to sewer, stormwater has a target of a 90-day account reserve, which is estimated to be \$6 million to \$7 million. The current account balance is about \$15 million. In the projections, the plan is to spend down the surplus to get to the 90-day target balance. The surplus that is currently in the account would be spent down to pay for any deficits.

Ms. Malesky continued her presentation, focusing on annual revenue requirements for wastewater and stormwater.

Regarding wastewater, the cost-of-service process is a cost allocation process with two cost categories: the treatment component, which is the larger component, and cost allocations are allocated on a flow basis; the other is billing and administration, which is recovered from the fixed cost recovery fee.

With the help of District staff, Stantec analyzed all of the functions of the wastewater system for removing pollutants and treating flow to remove and treat BOD, COD and TSS, as well phosphorus and ammonia functions. The process that followed was to take all of the annual revenue requirements, and given a set of allocation percentages, divide the costs into the various categories to help determine the rates.

Part of the rate study was to perform an in-depth analysis of the industrial surcharges, including their history. Rate studies prior to 2016 did not recover the full cost of service for treating high strength waste. Since 1997, the District has made significant capital improvement investments in its system, particularly for solids handling, impacting the annual cost. Based on the 2016 rate study, the District implemented an alignment of its industrial surcharges with cost-of-service over a five-year period, and 2021 was the last adjustment of the cost-of-service basis.

Going forward, the surcharge projections are based on inflation in cost and the impacts of new projects directly related to pollutant removal.

An in-depth analysis of the cost-of-service associated with functions of treatment centers to remove pollutants such as ammonia and phosphorus was performed. Additionally, there are some customers that are possibly discharging higher than domestic strength waste that are not a part of the industrial surcharge program and are not monitored. The costs of monitored and non-monitored customers were analyzed.

For ammonia (NH<sub>3</sub>) and phosphorus, District staff assessed the treatment requirements. For phosphorus, it was determined that the costs of removing it are nominal, with a chemical cost of \$100,000 per year. Ammonia is more expensive, but not required at Easterly or Westerly. At Southerly, that treatment cost is approximately \$1.1 million of O&M each year. These costs were found to be small in relation to the remainder of the treatment costs.

Regarding non-monitored customers, who may include restaurants and other commercial customers that have higher than domestic strength waste, the possibility of adding a surcharge program for these customers was evaluated. While there are some higher dischargers, it was determined that it may warrant closer analysis of a larger sample size and District costs to determine if their flows and their discharges warrant adding a surcharge to them.

District treatment plants take in a combined 240 million gallons per day (MGD). BOD and COD account for 28% of that flow, TSS accounts for 15% and phosphorus and ammonia each account for less than 5% of the total. In evaluating the costs of removing phosphorus, ammonia and total Kjeldahl nitrogen (TKN), which is not specifically sampled per industrial customer but assumed to account for 4-6%, it was determined that the cost to treat these contaminants does not warrant additional surcharges. The current surcharges are proposed to be adjusted separately from other rates, while continuing to allocate costs that are appropriate to BOD, COD, and TSS which are the currently surcharged pollutants. Those changes in costs are calculated year over year rather than applying an across-the-board increase.

In summary, the recommendation for 2022 through 2026, is to calculate the surcharges for industrial customers annually to account for inflation and other cost elements as well as a 4.7% increase each year in the fixed cost recovery charge, 4.7% increase per year in the volume charge per MCF, and industrial surcharges are proposed to increase at an average of 3.5% each year.

President Brown asked whether there are examples how the changes in the rate structure will impact the average industrial customer. Ms. Malesky advised that they would be presented.

Ms. Malesky further explained that the results of those cost-of-service allocations provide the justification and the support for District rates and charges. Typically, the rate design consists of a fixed cost recovery fee that recovers billing and administrative costs. The volume rates per MCF recover the remaining revenue requirements with the exception of the industrial surcharges. Those recover the cost for treating wastewater that is higher than normal domestic strength coming from industries. When calculating rates, it is important to understand customer characteristics.

Ms. Malesky provided a chart reflecting a proposal in the Affordability Program which assumes that eligible customers would sign up for the program and be identified as affordability customers rather than regular residential customers. For billable flow in MCFs, the 2% annual decline in flow combined with the shift of customers into the affordability and homestead programs drives the rate projections.

Under the current rate structure, the fixed cost for conveyance and treatment costs represents a large component of the costs. When assessing rate components and how to recover fixed costs, it is important to balance rate setting so that the appropriate amounts are recovered for the various rate components. The fixed cost recovery fee is approximately 10% of the total revenue recovered. The remaining fixed costs for treatment are recovered from industrial surcharges.



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Ms. Malesky explained that the current monthly fixed charge for wastewater for regular residential customers is \$9.70, and \$5.80 per month for affordability customers receiving the 40% discount.

For industrial customers, there is an additional BOD pollutant charge of \$0.02699 per MCF per milligram per liter.

With the proposed rate schedule of 4.7% increase to every component of the rates, the monthly fixed cost for regular residential customers increases in 2022 to \$10.20, per month. The typical residential customer uses .5 MCF per month at a cost of \$68.10 in 2021. The proposed rate increase would bring the average customer bill to \$71.29 next year, increasing by 4.7% each year through 2026. For the stormwater portion of the bill, assuming residential customers are in Tier 2 and currently receive a bill of \$5.15 per month for stormwater services, the monthly fee will increase to \$5.39 in 2022. Affordability customers will continue receiving the 40% discount. After 2026, the proposed annual increase decreases to 4.2% for sewer, given current assumptions.

Ms. Malesky provided visual representation of examples of how small, large, and very large industrial customers with varying amounts of BOD and TTS invoices would be impacted by the increased rates with surcharges appropriate for their amount of flow.

President Brown asked whether, similar to the Affordability Program for residential customers, there was any discussion involving what industrial customers could do for cost savings such as investing in pretreatment.

Additionally, President Brown asked, regarding the projected increase to 20% of eligible customer participation under the Affordability program, whether that is a target goal and how it compares to similar systems.

Ms. Dreyfuss-Wells indicated that both of President Brown's questions would be addressed at later points in the presentation.

Ms. Malesky advised that the stormwater billing is a tiered structure based on impervious area with a discount for Affordability and Homestead customers. There is also a proposed 4.7% increase each year on each tier. Stantec evaluated the appropriateness of the tier structure and determined that current data does not support the addition of a fourth tier, however, it could be reevaluated in the future.

Ms. Malesky introduced Janet Clements to discuss affordability.

Ms. Clements noted that the affordability assessment of the rate study was conducted within the context of the District's long-standing history of affordability programs with a key objective of having an updated understanding of affordability challenges, and to identify potential areas of improvement or enhancement.

Ms. Clements indicated that the District's Affordability Programs are consistent with industry best practices in offering programs for a range of customer needs.

The Homestead Program is administered by The City of Cleveland, Division of Water and is available to senior and disabled households that meet certain income thresholds. The Affordability Program is administered by the District and expands the eligibility to include all homeowners who earn less than 200% of the federal poverty level. Both of the programs address long-term affordability challenges for District customers.

The District offers a Crisis Assistance Program which helps people experiencing temporary affordability challenges; there is a Plumbing and Sewer Repair Program for low-income homeowners; the Summer Sprinkling Program is available to all residential customers in the District and bases summer sewer bills on average winter consumption.

In light of the ongoing pandemic, there has been heightened affordability challenges in most areas of the U.S., and as a result of some federal funding allocated for utility assistance by Cuyahoga County, last year the District was able to provide relief to a number of households, providing more than \$550,000 to close to 900 households to help with affordability challenges. This required significant outreach and targeting of accounts that have found themselves in arrears.

The District provides about \$5.5 million in annual assistance programs. The District coordinates with CHN Housing Partners, which is a non-profit organization that administers several of the District's programs as well as other energy-related assistance programs.

The Affordability Program and Crisis Assistance Program were introduced in 2012, and the Plumbing Program was introduced in 2016. The Affordability Program also underwent changes at that time.

Ms. Clements provided graphs demonstrating average median household incomes within the District's service area versus nationwide averages. Overall, the median income within the service area is around \$47,000, which is less than the national average and Cleveland has an even lower median income of about 32,000 per year.

Ms. Clements provided additional visual aids and advised that income disparities between the elderly population, multifamily households, and renters versus homeowners within the geographical areas were analyzed to identify the vulnerable populations within the service area and how District programs can effectively reach them.

The United Way developed a metric called the ALICE Project which calculates the household survival budget, which includes the costs of basic needs such as food, housing, and transportation and compares that to household incomes within a county. The budget fluctuates dependent upon variants such as how many adults and children live within a household. The ALICE Project reports that in Cuyahoga County, 41% of households cannot afford the basic survival budget.

For lower income households, specifically those earning less than 200% of the poverty level, housing costs represent more than 50% of incomes, which is considered to be a severe housing

burden. For the lowest quintile income households, 30% of the households in the District, the basic costs for essential goods and services can exceed household incomes.

In addition to identifying affordability challenges across the District, it is necessary to understand how water and sewer bills impact low-income customers. Ms. Clements provided a graph demonstrating the standard metrics applied in the industry. What has been done in the past is to apply the cost of water and sewer charges to the median income to determine the percentage of household income. If the cost exceeds 2% of median household income within a service area, it is considered to be high impact in terms of affordability. Applying this metric in the District's service area using current rates, it is just below 2%. However, for households in Cleveland, it is higher, closer to 3%.

Because using median household income is not the most effective way to measure affordability challenges for lower income households, the EPA recently released a new metric which uses the lowest quintile income in the equation. When applied to the District's service area, the rates are nearly 4% of the household income.

A professor has developed two other indicators to better communicate the metrics. One of the methods applies the cost of sewer and water bills at a basic level of use of 50 gallons per capita, per day to discretionary income, meaning the income that is left over after paying for necessary expenses. When applied to the lowest quintile income households in the District's service area, water and sewer costs account for 25% of discretionary income.

The other metric translates water and sewer costs into hours worked at minimum wage. A threshold of eight hours was deemed to be affordable. It is a little higher than that in the District's service area and for a two-person household is closer to twelve hours.

The final metric presented was developed by Stantec and is called the Weighted Average Residential Indicator (WARI). It assesses average household water and sewer bills by census tract then compares that to the median household income of that census tract. The WARI metric for District customers is 3.62% for wastewater and stormwater costs and falls within the thresholds established for wastewater costs.

Ms. Clements provided a graphic demonstrating that the District's Affordability and Homestead Programs do have an impact to offset the cost-of-service increase for lower-income ratepayers. When applied to the lowest quintile income, it takes the average sewer and stormwater costs from \$790 down to \$522 per year, or 2.5% as a percentage of income.

Ms. Dumas asked if this is applied to a two-person household and Ms. Clements explained that it is. Ms. Dumas asked why this is a good measure as opposed to a family. Ms. Clements explained that the households in the District's service area that are earning less than 200% of the federal poverty level on average are two person households. Stantec did perform more detailed analysis accounting for different levels of income and persons per household.

Ms. Dreyfuss-Wells added that the graphic is intended to demonstrate the depth to which the affordability question was analyzed. Affordability was analyzed using various metrics and applying newer metrics to try to better articulate the question of affordability.

Stantec took a closer look at the Affordability and Homestead Programs to assess eligibility and participation in the programs. Close to 78,000 households within the service area qualify for the Homestead Program based on the senior or disabled eligibility requirement, however, the requirement that they must be homeowners narrows the pool of eligible households to approximately 32,000. There are currently approximately 20,000 households enrolled in the program for a participation rate of 61%, which is an extremely high rate of participation.

Regarding the Affordability Program, there are approximately 85,000 households who do not qualify for the Homestead Program but do meet the income threshold for the Affordability Program. Applying the current requirement that program participants must own the home and have a sewer bill in their name reduces eligible applicants to about 19,000 households. There are currently 2,200 households in the program for a participation rate of 12%, which is not atypical for the industry.

Of the approximately 85,000 households that would meet the income threshold for the Affordability Program, 20% of that population are renters who do have a bill in their name, representing a group to which the program could potentially be expanded. Ms. Clements provided a graphic demonstrating the income brackets of renters in the area and explained that it confirms that expanding the Affordability Program to renters could provide additional assistance to households in need.

Stantec assessed whether there is a need to expand the income eligibility criteria of the Affordability Program from 200% of the federal poverty level to 250% of the federal poverty level. Ms. Clements provided a graph demonstrating ranges of annual income levels associated with living wages and explained that in Cuyahoga County, the living wage is greater than 200% of the federal poverty level. Therefore, there may be a reason to consider expanding the criteria for the Affordability Program to 250% of the federal poverty level.

Ms. Clements provided a table demonstrating some characteristics of households that already qualify for the Affordability Program and those that would qualify if the eligibility criteria were expanded to 250% of the federal poverty level. Within the subgroup of households within the 200% to 250% of the poverty level, there is still a high percentage of renters. Although their median income is higher than the other group, they are still spending over 80% of their income on survival needs. Using the typical customer bill that was discussed earlier in the presentation, sewer and stormwater costs account for 2.4% of that median income in this group. Applying the Affordability Program discount to these households would take it down to less than 2% of the median income, which would provide meaningful assistance to households in this group.

In assessing potential changes to the criteria or eligibility for the Affordability Program as it stands, expanding it to renters, and examining the income threshold, the question arose as to what practices could be put into place to help increase the participation rate among currently eligible customers.

Ms. Clements provided a map of the service area showing where Program participants' residents are over a median income map and explained that while there is a good distribution of participating customers across the area, there are some gaps largely in the census tracts of multi-family households or renters who cannot currently participate in the Program.

Stantec worked with District staff and spoke with CHN Housing Partners about how the program works and the outreach that they conduct and found that they are following industry standards for best practices to increase participation. Some opportunities to expand participation were identified and District staff has begun working with CHN Housing Partners to identify and reduce barriers for eligible customers to participate in the Program. One potential opportunity is automatic enrollment with other agencies that provide assistance, such as CHN Housing Partners.

Ms. Clements offered a graphic demonstrating that there are currently 19,000 households eligible for the Affordability Program. If the Program is expanded to bill-paying renters, that would increase eligibility by 21,000 households and if the income threshold is expanded, an additional 21,000 households would become eligible. In total, if both of these criteria were adopted, there would be 61,000 eligible households, 42,000 of them newly eligible. As was discussed earlier, the goal of new participants is to reach 20% enrollment of eligible households, which would mean a total of 10,000 new accounts by 2026.

There is a cost associated with enrolling more customers in the Affordability Program. However, implementing the changes to expand the Affordability Program would improve the affordability metrics. Although there is a bit of a higher rate increase, it improves the metrics and affordability overall.

The District is continuing to work with CHN Housing Partners and other partners to conduct target outreach to improve participation in these programs, as has been done in the past.

President Brown thanked Ms. Clements for the information and added that renters represent a significant opportunity. President Brown added that the federal stimulus payments on a national level have an opportunity to impact citizens' quality of life. Locally, there is a concern regarding having the resources in place to affect outcome and while it is one thing to identify the opportunity to expand eligibility, it is another to have residents enrolled. The District has had multiple discussions about capacity for CHN Housing Partners and how to engage other resources to do similar work.

President Brown expressed concern regarding measuring the impact and outcomes of programs, adding that one indicator is the number of eligible residents versus those that enroll. There is a question as to how these changes really impact the lives of residents who are spending 80% of their income on necessities.

Mayor Alai voiced his agreement with President Brown and added that when programs can be expanded and combined with other social assistance programs such as meal assistance and snow

plowing, which can be implemented within municipalities, there is opportunity to provide real assistance to residents.

Ms. Dreyfuss-Wells thanked President Brown and Mayor Alai for their comments and added that the District has seen from the analyses that the need is great. The point about capacity building at a local level, to get relief to people in a sustained way is a key point for the District going forward into the coming year. Ms. Dreyfuss-Wells noted the importance of partnerships in implementing assistance programs.

Ms. Dreyfuss-Wells invited Constance Haqq, Chief Administrative Officer, to discuss her team's work in this area.

Ms. Haqq explained that there has been extensive work in this area, noting that it is more difficult to get residents to enroll in assistance programs than was initially anticipated. Barriers to the Affordability Program, such as the level of difficulty of the enrollment process, present a problem. There needs to be more outreach making more of a touchpoint with eligible individuals. Additionally, there is a stigma associated with enrolling in assistance programs overall, whether it be SNAP or HEAP. The nationwide average is 14% participation of eligible individuals. The District expects that reaching out to bill-paying renters will have a significant impact in the community and is enthusiastic about the endeavor.

Ms. Malesky presented a summary of the presentation.

The proposed rate schedule for 2022 through 2026 includes a 4.7% increase of the monthly fixed cost recovery charge, usage charges, and stormwater charges. The typical monthly bill impacts for a user at 5 MCF per month would be 4.7% increase in their monthly bills. The same is true for industries, with the exception of those customers that have a higher proportion of their bill based on the surcharges.

As for the Affordability Program evaluation, there is an opportunity to expand eligibility to include bill-paying renters and increase the eligibility threshold to 250% of the federal poverty level.

The next step will be to provide a detailed draft report for the Board's review. There will be a second working Board meeting on May 3, and public outreach will begin thereafter, depending on revisions or suggestions from the Board.

The second industrial user meeting will be held at the end of the month to present the recommendations to them.

Finally, there will be a request to modify Titles I and V of the District's Code of Regulations.

### III. Miceli Dairy Products Company's Comment Letter Discussion

Mr. Greenland advised that the District has analyzed the report provided by Miceli Dairy (Miceli) and their concerns regarding rates and rate impacts on their business. Additionally, Miceli recently spoke at a Board meeting.

District staff will be meeting with Miceli on April 13 to discuss their concerns as it is important that they understand the rate setting process, cost-of-service analysis, and surcharge fees. Additionally, there are some discrepancies to discuss in the report that they provided. There will also be a discussion regarding pretreatment and their discount program request.

Mr. Greenland presented some slides to the Board that will be used in the upcoming meeting beginning with equity, proportionality, and fairness. Mr. Greenland provided a graph demonstrating rate increases to residential customers versus industrial customers like Miceli, going back to 1998. For a long period of time, residential rate increases were increasing at a higher rate than industrial. The industrial rates began to increase between 2017 through 2021, due to cost-of-service analysis performed by the District in an attempt to balance equity between residential and industrial customers, particularly as to surcharges. The District will convey to Miceli that going forward from 2022 through 2031, the percent of rate increases will be much more equitable between industrial and residential customers.

Mr. Greenland explained that industrial surcharges were not adjusted for a very long time, which resulted in an imbalance. In 2012, there was an increase in industrial surcharges to normalize some of the BOD surcharges and TSS rates. There was a significant increase in the last rate cycle based on cost-of-service to better balance equity between residential and industrial customers.

The District previously worked with Miceli to adjust their billing based on their production schedule, particularly on weekends when production and wastewater discharge is decreased. The District issued a substantial credit to them going forward, which is still in place.

Mr. Greenland provided a graph and explained that without the adjustment in 2016, particularly with the BOD increase, and in the last rate cycle, there was a growing imbalance between the percent change per MCF for residential and industrial customers and the District has now closed this gap, meaning that it will be much more stable going forward.

Mr. Greenland provided a comparison of District residential rates to other similar entities in Ohio and noted that the District's monthly fixed charge is relatively low. The District's overall monthly bill is the highest, with Project Clean Lake being the driving force in the increased bills over the last ten years.

The TSS and BOD surcharges are very standard across the industry and the cost-of-service analysis performed at each rate cycle helps to establish those surcharges. In comparing the District's TSS surcharges to similar agencies in the national region, the District's TSS charges are among the higher rates. However, the BOD/COD surcharges tend to drive Miceli's rates, and the District is among the lowest in terms of BOD/COD rates. These charges are based on the cost-of-service

analysis. The District was very diligent in its cost-of-service analysis in this rate cycle to determine what residential and industrial contributions should be.

The District has previously discussed the possibility of pretreatment and waste reduction tactics with Miceli and will do so again at the upcoming meeting. It is unknown whether they have performed an analysis as to how it might impact their business function and billing. The District is always available for discussion and to provide ideas.

Miceli made a specific request to the Board to establish a discount program for small business enterprises (SBE). The District investigated the possibility and sought legal guidance on the matter, including the preparation of a letter by outside counsel. The District does not believe a discount program based on SBE status is permissible under Ohio law and Clean Water Act requirements. Discounts of that type are not permitted. The Homestead and Affordability rates are allowed, and the District does utilize them.

The District will continue its discussions with Miceli and is open to suggestions. The intent of the upcoming meeting is to discuss many of the items discussed within the rate study presentation, specifically cost-of-service, phosphorus, and nitrogen, and whether there is a surcharge for those or not. All of the elements that they brought up in their report will be discussed.

President Brown noted the opportunity to discuss the potential benefits of pretreatment at the upcoming meeting with Miceli. Mr. Greenland explained that there will be further discussion regarding this option. The District has been doing research as to what other dairy producers do nationwide, and they do a lot to reduce surcharges. Ultimately, it is a business decision for Miceli to determine whether they will pretreat and whether it is better for them to have the District treat their wastewater or for them to install pretreatment to reduce costs and/or handle their waste treatment themselves. The District will assist Miceli with the cost equation, especially as it relates to the next ten-years with modest surcharge increases going forward.

Certain industries are required to install treatment facilities, particularly those that produce metals or harmful compounds that the District cannot take in excess quantities.

Ms. Dumas asked, although it is not directly the responsibility of the District, whether the District considers affordability as it relates to the business community and the potential impact on economic development, and what the District's role in that may be.

Mr. Greenland indicated that one of the things that is unclear is what is considered to be a small business enterprise. Miceli is a rather large business entity. The District is always working to ensure the balance of cost-of-service in rates. The specific request for the District to develop an industrial affordability program is something that it cannot do. Additionally, if industrial rates are lowered based on an affordability assumption, the lost revenue would need to be recovered and would ultimately be paid for by residential customers.

The goal has been to achieve balance in rates, and the District believes that it has done so in the current rate study. If there are creative ways for customers to achieve savings while maintaining



fairness, equity, and proportionality, the District is open to suggestions, as long as the balance is maintained.

Ms. Dreyfuss-Wells indicated that the District has maintained the approach described by Mr. Greenland, and offered that Scott Broski, Environmental Services Superintendent, could further expound on the District's extensive work with the organizations in Cleveland that are focused on industrial retention, such as the Cleveland Industrial Retention Initiative (CIRI), Manufacturing Works, and WIRE-Net. Mr. Broski has been in contact with the organizations since the last Board meeting and will be doing more presentations with their representatives. The District's approach has been partnerships and technical assistance.

Ms. Dreyfuss-Wells has reached out to colleagues across the country as has Mr. Greenland, to gain insight into servicing industries that manufacture dairy, pulp and paper, and breweries, all of which have this very high concentration of biological oxygen demanding waste, to see if there are any other creative solutions available.

Ms. Dreyfuss-Wells invited Mr. Broski to further discuss the District's relationship with the industrial community.

Mr. Broski advised that the District has a longstanding history with industry in the area and industrial groups, including the Cleveland Industrial Retention Initiative and the Ohio Association of Metal Finishers, who make up a large portion of the District's regulated industry. The District has, over the years, held regulatory compliance seminars for these groups and businesses to help them understand regulations. The District has provided technical assistance from a treatment perspective, when possible. The District has received multiple case studies wherein a surcharge industry performed their due diligence and found suitable pretreatment at a reasonable price and assumed those responsibilities internally, rather than paying the District an industrial surcharge.

There was a case study at a local brewery that thought the sewer rates at the surcharge levels would be cost prohibitive to them to continue in business in the service area. The District inspected their facility and identified a number of housekeeping issues that allowed them to get more product into containers and out of the drains which reduced their surcharge and made them more profitable.

The District is always open to discussion and providing technical assistance to businesses to identify ways to comply with regulations or address surcharges.

With surcharge, it fundamentally comes down to the cost versus paying the surcharge, what pretreatment costs to handle internally versus paying the District to perform the service for them. It is an individual business decision. The District has spent considerable time with Miceli and other industries and will continue to do so.

The District is engaged with CIRI to ensure that all of their members are aware of the upcoming industrial meeting. The District provided CIRI with a recording of the first meeting in order that

they might share it with their users to gain the information that was provided, including cost-of-service discussions.

The District has also discussed with CIRC the potential to have an upcoming seminar for their users to discuss cost saving initiatives such as Sewer Service Charges Based on Usage of The System (SSCBOUTS), for water not returned to the system, the Non-discharge Status program for things like standalone irrigation systems, and anything else that can be offered through the Code of Regulations, in terms of cost savings.

President Brown noted the importance of outreach to CIRC and similar organizations to give them a voice and allow them to serve as a conduit for information to industries.

President Brown also noted the importance of providing technical assistance to allow them to make an informed decision as to whether it is in their best interest to continue to pay the District to perform treatment services or invest in pretreatment, providing them with the ability to control the expense. Additionally, it is a good opportunity to address issues of rate equity. President Brown encouraged the District to continue these efforts and the Board will wait to discover the results of these discussions and decisions and how the new rate structure will impact small business enterprises.

Ms. Dreyfuss-Wells thanked President Brown for his comments and advised that the District will include the information at the May 3 Special Board Meeting.

President Brown encouraged the Board to perform their due diligence in anticipation of the May 3 meeting to address any outstanding concerns and noted the potential need for general or executive session.

Ms. Dreyfuss-Wells indicated that the District would provide follow-up to any issues raised between this meeting and the May 3 meeting, with the assumption that the Board will inform the District if an additional session is needed.

President Brown expressed the Board's appreciation to the District and its outside consultants for providing a very thorough overview of the proposals and the rationale behind the proposed rate structure.

President Brown encouraged the Board to ensure that any of their questions are answered and noted that the Board has significant work to do in considering the data and making recommendations as to what the next five-year rate cycle should look like. President Brown emphasized the importance of the task as it relates to stormwater, sewer, and affordability, and the potential impact on the community, noting that individuals struggling with paying utilities are also most likely facing other financial insecurities. To the extent that there is the ability to leverage coordination and cooperation, those opportunities should be evaluated.

Mr. Sulik noted that he and President Brown have participated in rate studies in the past and commended the team for a job well done in terms of presenting options for affordability and laying the groundwork for the Board to make its recommendations.


IV. Adjournment

**MOTION** – President Brown stated business having been concluded, he would entertain a motion to adjourn. Mayor Bacci moved, and Mr. Sulik seconded the motion to adjourn at 12:33 p.m. Without objection, the motion carried unanimously.



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



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