

MINUTES  
NORTHEAST OHIO REGIONAL SEWER DISTRICT  
BOARD OF TRUSTEES MEETING  
OCTOBER 21, 2010

Meeting of the Board of Trustees of the Northeast Ohio Regional Sewer District was called to order at 12:31 p.m. by Darnell Brown.

I. Roll Call

PRESENT: D. Brown  
R. Sulik  
D. DePiero  
J. Bacci  
S. Kelly  
W. O'Malley  
G. Starr

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

II. Approval of Minutes

Executive Director Ciaccia advised that there was a typographical error on page 16 of the minutes from the October 7, 2010 Board meeting. The error was corrected.

**MOTION** – Mr. O'Malley moved and Ms. Kelly seconded that the minutes of the October 7, 2010 Board meeting be approved as amended. Without objection, the motion carried unanimously.

III. Public Session

Executive Director Ciaccia informed the Board that no members from the public registered to speak at Public Session.

IV. Executive Director's Report

Executive Director Ciaccia moved to first report item regarding the Combined Sewer Overflow Long Term Control Plan (hereinafter "CSO LTCP") better known as Project Clean Lake. District representatives met with the state and federal governments last week to continue to finalize the terms of the agreement, which will be recommended to this Board as well as the governments' management. Executive Director Ciaccia advised

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that we are confident that we can establish a schedule for recommendation to this Board for the November 18<sup>th</sup> meeting. The Board would benefit from being able to review some of language being incorporated into the Consent Decree and Appendices in advance. Executive Director Ciaccia advised holding an Executive Session at the November 4<sup>th</sup> Board meeting since November 18<sup>th</sup> is the targeted date wherein staff will bring a formal recommendation to the Board for consideration.

District staff is developing a communications plan which will be presented to the public, *The Plain Dealer* Editorial Board and at the November 18<sup>th</sup> Board meeting. Executive Director Ciaccia requested that Director of Administration and External Affairs, Constance Haqq, to report to the podium to present the Board with an overview of the communications plan.

Ms. Haqq stated that the CSO LTCP has been branded as "Project Clean Lake-- great lake, great future." Our goal between now and January 1<sup>st</sup> is to educate our customers about the future rate increases, how their investments will be allocated, how much they will be required to pay and the various rate savings programs.

The District will advertise in *The Plain Dealer*, *Sun News*, and local radio and television stations, which will also advertise our six public meetings and provide basic information about CSOs and the LTCP.

Ms. Haqq advised that there will be six public meetings held between November 4<sup>th</sup> and November 17<sup>th</sup> which will provide basic CSO information, details on Project Clean Lake and rate savings. The public meetings will be held in the following communities: South Euclid, Hudson, two meetings in Cleveland, Maple Heights and Parma.

The District will be meeting with *The Plain Dealer* Editorial Board on November 17<sup>th</sup> and at that time the District will discuss the details of the Consent Decree.

A direct mail will be sent to all 330,000 accounts which will include basic CSO information, rate savings programs and information about Project Clean Lake.

Ms. Haqq advised that we are producing a video in-house about CSOs for public viewing. According to Ms. Haqq, Providence, Rhode Island, had produced a similar video which was very successful.

Mr. Brown commented that as a result of the negotiations with the governments, we will be imposing rate increases but how those rate increases will benefit the customers is an important piece that should be addressed during our public engagement. Mr. Brown suggested included information about the benefits of reduced CSOs into our environment and also the opportunities presented by the implementation of green for gray

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infrastructure. There will also be significant economic impacts to the community as it relates to job opportunities. We must show the customers the return on their investments.

In response to Mr. Brown's suggestions, Ms. Haqq advised that each of the meetings will commence with a video that describes how the CSO program will benefit the environment and the community.

Mayor Starr questioned as to what information will be disclosed as it pertains to rate increases. Ms. Haqq advised that our rate study is not yet completed and therefore general information will be given to the public at this time. There will be a series of public meetings. Basic CSO information will be provided and the public will be advised that rates will increase and as we obtain specific information, the District will hold another series of public meetings.

Mayor Starr inquired as to how the Board will be able to adopt the Consent Decree without a completed rate study. Ms. Haqq deferred to Executive Director Ciaccia.

Executive Director Ciaccia advised that the cost of the Consent Order has been made public. The rate study will be finalized before the end of 2010 and we have estimated the amount of potential rate increases. Executive Director Ciaccia stated that the Consent Order is a long term arrangement and will be a 20 or 30 year program.

Executive Director Ciaccia explained that the rate increases effective 2012 through 2016 are for current projects. The Renewable Energy Facility (hereinafter "REF") is currently under construction and this is a \$150 million project. The bid opening is today for the Euclid Creek Tunnel (hereinafter "ECT") project which is estimated to cost \$213 million. The 2012 through 2016 rate increases will cover the REF and ECT projects and the Tunnel Dewatering Pump Station (hereinafter "TDPS") project, which is currently under design. Also included are the Dugway Storage Tunnel (hereinafter "DST") design as well as the above ground and underground construction projects, which are underway. The Consent Order is a long-term order which will impact rate increases beyond 2016.

Mayor Starr inquired if November 18<sup>th</sup> will be the session for the Board to discuss and publicly debate the CSO LTCP and also for public comment. Executive Director Ciaccia affirmed and he stated that the District is holding these public sessions in an attempt to further educate the public on the CSO LTCP. Mayor Starr commented that we only have 29 days to do this. Executive Director Ciaccia replied that the District has been actively educating the public on these issues for quite some time and it has been a constant topic at our Board meetings and we are attempting to advance it beyond here.

Mayor Starr commented that "the defining moment will be if this passes and the bills are first received and the checkbooks are taken out." Executive Director Ciaccia agreed.

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Mayor Starr inquired if Executive Director Ciaccia expected the Board to vote on the CSO LTCP on November 18<sup>th</sup>. Executive Director Ciaccia replied that will be at the Board's discretion. A couple of Executive Sessions were held to discuss this topic since this is a negotiated process and was connected to litigation and potential litigation, and nothing has substantially changed since the last Executive Session. Executive Director Ciaccia was hopeful that the Board will feel comfortable with passing this on November 18<sup>th</sup> but the Board can certainly take more time to deliberate if necessary.

Executive Director Ciaccia moved to the next report item regarding the Stormwater Management Program (hereinafter "SMP"). We have served the communities in opposition to the SMP with Interrogatories and Request for Admissions and Request for Production of Documents. Through discovery, the opposing communities have requested hundreds of thousands of documents. The District served them with this request in order to prepare for trial.

The District did act upon Mayor Bacci's suggestion made at the October 7<sup>th</sup> Board meeting which was to make a public records request relating to legal fees. Two attorneys representing some of the communities in opposition to the SMP followed up by making a public records request of the District's legal fees. Executive Director Ciaccia indicated that he was "more than happy to present this to them since we have been making ours public all along." They are the reason for driving the costs up and Executive Director Ciaccia indicated that he will be "glad to talk about that publicly."

In reference to stormwater billing, the District continues to work with the City of Cleveland Division of Water (hereinafter "CWD") and moving towards incorporating stormwater into the bills. Once this task is completed, it will be placed on hold until such time that the SMP moves forward.

Executive Director Ciaccia moved to the next report item and he advised that a Suburban Council of Governments (hereinafter "SCOG") meeting will be held on Thursday, October 28<sup>th</sup> at 10:00 a.m. at the Environmental & Maintenance Services Center immediately following the Mayors and Managers Association meeting. Mayor Leiken of Shaker Heights is the SCOG president and therefore will be chairing the SCOG meeting. Executive Director Ciaccia was unsure if the stormwater topic will be addressed at said meeting, but he will be present to discuss the PCL, the SMP and other District issues.

Executive Director Ciaccia moved to the next report item regarding the Small Business Enterprise (hereinafter "SBE") program. The District is redeveloping its SBE program post the disparity study results to include Minority Business Enterprise (hereinafter "MBE") and Women's Business Enterprise (hereinafter "WBE") goals. Internal committees have been formed and meet weekly. A workshop is scheduled for November

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9<sup>th</sup> and Executive Director Ciaccia advised that Ms. Kelly will be present. He encouraged all Board members to attend.

Executive Director Ciaccia moved to the next report item regarding the District's finances. The District budgeted \$171 million for its operating revenue for 2010 factoring in the 9% rate increase as well as the drop in consumption. The District would have budgeted less in revenues if we were to create that budget again.

According to Executive Director Ciaccia, the District adjusted its factor for uncollectibles from 3% to 5% and if we created that budget in the beginning of the year with that modification in uncollectibles, the operating revenue amount would have been \$168 million. We have collected \$127 million to date, which is 74% of the \$171 million. We are at the three-quarter mark and should be at 75%; therefore, we are slightly behind. The District is estimating reaching \$165 million and we will have a shortfall on revenues.

Executive Director Ciaccia advised that these numbers are estimates and that the District has actual verified revenues through March and recently received reports from CWD from April through June. Director of Finance, Jennifer Demmerle, and her staff are verifying those numbers in an effort to create a financial picture.

District expenses were budgeted at \$102 million for 2010 and to date we have spent \$70 million, which is 69.3%. We are well under 75% and the District is doing well in that regard. The District estimates spending \$100 million by the end of the fiscal year.

The District's debt service ratio is the key metric. Our goal is 1.05% and we are at 1.09% which is good. The District was at 1.34% last year. Executive Director Ciaccia stated that "we are getting into a financial crunch" but we are managing it. This year, the District will not have to escrow or use its cash reserves. According to Executive Director Ciaccia, next year is going to be tight and we must flatten the budget as much as possible.

Executive Director Ciaccia moved discussion to cash balances and the capital account. We started the year with \$243 million in the capital account which is a combination of bonds and Water Pollution Control Loan Fund (hereinafter "WPCLF") funds. We are down to \$91 million in the capital account for the reason that we are drawing heavily from it due to ongoing projects. That balance will continue to decrease hence the reason for the District's need to raise more money. Executive Director Ciaccia wanted to apprise the Board of this issue since there will be a discussion at today's meeting regarding the bond issue.

Mr. Sulik questioned when we go to the bond market, "What do you think their reaction to estimated six months income" will be?

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Ms. Demmerle indicated that by the time we go to the bond market she was confident that we have at least nine months of actual data. We should receive July, August and September very shortly.

Mr. Sulik inquired if our estimates are high or low for April, May and June. Ms. Demmerle deferred to Monica Johnson, Accounting Manager. Ms. Johnson advised that the estimates are coming in "really close" and that they are a "couple \$100,000 off budget." Ms. Johnson stated that the District just received information for July and August and that data is being examined and the District has made pretty good estimates.

Mr. Sulik advised that according to the newspaper, it was discovered that the credits were not given to the Summer Sprinkling Program participants. Executive Director Ciaccia advised that he was aware of this development and that he had previously reported billing problems to the Board.

Mr. Sulik inquired if this could be an estimated \$1 million credit to be issued wherein Executive Director Ciaccia indicated that it could be in this range; however, this is not an unanticipated expenditure since those discounts should have been issued and those amounts were budgeted for.

Mr. Sulik questioned if this was factored into the estimates. Ms. Demmerle affirmed that the District factored in the Summer Sprinkling discounts.

Mayor Starr questioned as to "how much money are we talking about, six months of revenue, approximately?" Was the last actual on March 31<sup>st</sup>? Ms. Demmerle stated that it is approximately "six months of revenues, and it is probably around \$95 million."

Mayor Starr inquired as to the District's goals. The ratepayers are submitting checks to the City of Cleveland, the District's billing agency and "we are six months in delay, \$95 million, to actually verify those actual numbers?"

Ms. Demmerle clarified that CWD sends the cash to the District once it is collected. There is cash, and then there are revenues, and we are referring to the revenue numbers. Ms. Demmerle advised that the reports from CWD have been delayed and when we receive those we have to verify the adjustments and billing information. That information is what is being estimated.

Mayor Starr inquired whether the District's goal is to be up to date monthly or weekly. Ms. Demmerle replied, "month to month."

Mayor Starr questioned, "Is there a problem to begin with?" Ms. Demmerle replied that there has been a problem with the reporting and we have been working very diligently

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with the CWD to remedy this situation. The District will be gaining access to run our own reports so we no longer have to rely upon Fiscal Control. Ms. Demmerle anticipated that we will obtain monthly reports once the CWD identifies the problem with the billing system. The new billing system is not retrieving the correct information and the District has to determine the actual revenue.

Mayor Starr inquired as to when the problem will be corrected wherein Ms. Demmerle replied that she believed the CWD's deadline is November.

Executive Director Ciaccia reminded the Board that IBM was hired to work with the District and the CWD to correct some of these reporting issues. Executive Director Ciaccia advised that the amount to engage IBM will be credited to the District from its billing fee. The District anticipates having access to the CWD's system sometime in November.

Mayor Starr questioned if the problem will be corrected in November. Executive Director Ciaccia clarified that we will receive the programs that have been established for us to access the information, but we must go through verification and testing to ensure that the systems coincide and that the CWD's data is accurate.

Mayor Starr inquired whether the financial statements were not an exact portrayal. Executive Director Ciaccia affirmed.

Mayor Starr questioned, "What is the issue here?" Ms. Demmerle replied that the projections are based on estimated information.

Mayor Starr inquired if the estimates could be higher or lower? Ms. Demmerle affirmed but that she does not anticipate it coming in lower than what we are projecting.

Ms. Kelly inquired if the District generates its own reports on the incoming revenues in order to compare our report with the City's. Ms. Demmerle affirmed and she explained that the CWD wires money to the District each month and the District generates a report on the cash collections. We are having a problem with the monthly remittance reports which shows what has been billed, or not billed, and the adjustments that were made. Those reports are not pulling the correct data. The District has been manually reconciling this data each month and the process can be very labor intensive. Ms. Demmerle advised that the District is confident in the revenue being reported through March. We just received the data through August and therefore the September quarterly report, which will be given at the next Board meeting, will reflect the revenues through September.

Ms. Kelly questioned if as the revenues come in, do we know which customers they are coming from? Ms. Demmerle advised that we do not have that specific information and

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that a lump sum amount is wire transferred each month. We reconcile the amount billed against the actual amount received, the amount that remains to be billed and the adjustments that were made.

Executive Director Ciaccia stated that revenue includes money that we have not received. Executive Director Ciaccia advised that adjustments were made in regard to the suppressed billing issue. The District receives the cash and this has been reported on a monthly basis. The District has been down on its cash remittances from last year. Revenues are the amounts billed and we want to compare what we received against those and we have to estimate those comparisons.

Ms. Kelly questioned as to when we expect this situation to be remedied. Executive Director Ciaccia replied hopefully in November. Fortunately, we can verify some of those estimates, which have proven to be pretty accurate by working against the first quarter information that we have received from Fiscal Control. Executive Director Ciaccia indicated that we are confident and have built a lot of conservatism in those estimates.

Mayor Starr requested clarification on what IBM was hired to do and whether they have been helpful to the District and City of Cleveland. Ms. Demmerle stated that the District hired IBM to assist with the financial reporting to ensure that the reports are retrieving the correct data.

Mayor Starr questioned whether IBM has been helpful. Ms. Demmerle affirmed and she advised that good progress has been made regarding the financial reports.

Mayor Starr inquired if the District hired IBM to assist the City of Cleveland in refining and improving the billing system on behalf of us. Ms. Demmerle responded that IBM is improving the reporting piece of the billing system. Executive Director Ciaccia clarified that hiring IBM benefits both the CWD and the District. The District felt this to be an urgent issue and since the City's contracting process is more cumbersome than the District's, the District agreed to hire IBM and deduct that contract amount from its billing fee to the CWD. Therefore, the CWD is actually paying for the contract.

Mayor Starr was hopeful that this situation would get remedied soon especially since the District is creating a stormwater district. Mayor Starr advised that he receives angry calls occasionally and that he can imagine the calls coming in to the District and City customer service departments. Mayor Starr commented that this situation "really needs to be emphasized and corrected." Executive Director Ciaccia agreed with Mayor Starr and stated that "we are going to work as hard as we can with them to get it corrected."



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In response to Mr. Sulik's comments regarding the discounts for the Summer Sprinkling Program, Executive Director Ciaccia advised that the newspaper reported that there were 180,000 customers that did not receive their discounts; however, our records indicate that it was actually 147,000 customers. Some customers received discounts whereas others did not, or some customers received inaccurate discounts. Executive Director Ciaccia explained that it was a configuration problem that has since been identified. We are working through IBM and TMG, the program manager consultant assisting the CWD with the new billing system, to ensure that the problem is resolved and that those 147,000 accounts are reviewed and the proper credits or adjustments are made.

Executive Director Ciaccia moved to the next report item and he advised that he will hold the Bricker and Eckler engagement and the KMM&K Joint Venture discussions for Executive Session.

Executive Director Ciaccia advised that the District distributed iPads to Mr. Brown, Mayor DePiero and Mayor Bacci. The Board packets were uploaded onto those iPads and will be available to Board members interested in receiving the Board packets electronically rather than paper documents. The District can save paper and if this is successful, staff will be utilize the iPads as well.

V. Action Items

Authorization to Advertise

Resolution No. 290-10

Flats East Development Project 3 (FED-3).  
Engineer's opinion of probable  
construction cost: \$1,300,000.00.

**MOTION** – Mr. Sulik moved and Mayor Bacci seconded to adopt Resolution No. 290-10. After discussion and without objection, the motion carried unanimously.

Mayor Starr inquired if this is the Wolstein's plan for the Flats East side wherein Executive Director Ciaccia affirmed and he turned discussion over to Director of Engineering and Construction, Kellie Rotunno.

Ms. Rotunno referred to a slide depicting the Flats East CSO projects and she stated that the Wolstein efforts were complete and they were previously known as Projects 1 and 2. The Board entered into a Cooperative Agreement in 2008 and offered \$8 million in funding. The deal fell through and the developers pulled out. The District looked at the actual CSO system that was going to be installed and then returned to the Board in 2009 to request an additional \$2.3 million to complete Projects 1 and 2. We received a

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\$750,000.00 grant from the U.S. Army Corps of Engineers, bringing the total out-of-pocket expense for funding of the Projects 1 and 2 to \$11.1 million.

Ms. Rotunno advised that Projects 1 and 2 were completed under budget at \$9.7 million leaving \$1.39 of the original funding allocated. Project 3 is estimated to cost \$1.3 million. Ms. Rotunno stated that this is "a good opportunity to use the funds and deliver an additional project."

Ms. Rotunno referred to a graphic depicting Projects 1, 2 and 3. Projects 1 and 2 were showed in non-red colors. At the lower right-hand side of the slide were red stretches of sewer which represented Project 3. Project 3 will remove some stormwater from the combined sewer systems at this location.

Mr. Brown inquired if these projects will be taking discharge directly to the river. Ms. Rotunno replied that these separate sewers will be owned by Cleveland Water Pollution Control and therefore they are local sewers.

Mr. Brown inquired whether these are existing outfalls. Ms. Rotunno affirmed.

Mr. Brown commented "so no issue of elevation of water level" and Ms. Rotunno replied that "there may be one additional outfall there in that lower part."

Mr. Brown explained that those systems have always held water and that under pressure they have gone out. Mr. Brown questioned if this storm system will operate the same. Ms. Rotunno advised that she will confirm this information with the designers, but that the same designer handled Projects 1, 2 and 3 and therefore they are familiar with this area and those issues.

Mayor Starr inquired whether the purpose of completing Projects 1, 2 and 3 was to encourage economic development. Ms. Rotunno advised that these projects comply with our CSO plan and is an early action CSO project that will eliminate the CSOs that previously were discharged into this area. We can accommodate whatever type of development that may be constructed at this site.

Mayor Starr commented, "You're saying the City of Cleveland, or developers or proposed developers--" Ms. Rotunno advised that they are no longer part of this contract and that this project is solely under the direction of the District. It will not be covered under the Cooperative Agreement with the Flats East Development Corporation.

Executive Director Ciaccia explained that this was intended to be a CSO project for the District but whether this was a priority for the CSO LTCP is debatable. When the development came it pushed this project up further on the agenda in an effort to

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encourage development while addressing CSOs. When the Flats East Bank project stalled, the District already had some utilities going in and we opted to continue the project.

Mayor Starr commented that he wanted to determine whether “we did something positive to assist Northeast Ohio economic development.” Executive Director Ciaccia affirmed and he explained that “we certainly moved this up on our priority list.”

Mr. Brown commented that the maintenance of these outfalls become the responsibility of the City of Cleveland whereas they previously belonged to the District. He inquired who is responsible for the maintenance if these are strictly stormwater sewers.

Ms. Rotunno replied that these are new sewers which would not yet be covered under the Sewer Responsibility Agreement between the City and the District, but this issue is subject for further discussion.

Director of Watershed Programs, Frank Greenland, stated that we will examine the Sewer Responsibility Agreement and that the outfall near Fagan’s was in the Sewer Responsibility Agreement. We predict that the level of control will be one or zero in a typical year. If regulators remain in the system then that outfall would be the District’s responsibility. If we separate or create a new storm-only outfall, then that would be Cleveland’s responsibility.

Mr. Brown commented that \$750,000 remains on the books and that start-up of the larger Flats project is being discussed. Mr. Brown advised that he participated in discussions today about the possible start-up of the development project in the Flats and that “there is going to be interest in pulling the parties back around the table just to understand who owns what responsibility as they move forward.” Executive Director Ciaccia advised that the District will be at those meetings.

Ms. Kelly inquired if this was the area that the Board members toured. Mr. Brown stated yes, the Pump Station.

Authorization to Issue Request for Proposals (RFPs)

Resolution No. 291-10

Offsite electronic media and hard copy records retention and services. Estimated cost: \$40,000.00.

**MOTION** – Mr. Sulik moved and Mayor Starr seconded to adopt Resolution No. 291-10. Without objection, the motion carried unanimously.

Authorization to Purchase

Resolution No. 292-10 Purchase from Tractor Place, under the State Procurement Program, six (6) John Deere plant utility replacement vehicles for use at Fleet Services and the Easterly and Southerly Wastewater Treatment Plants. Cost not to exceed \$68,211.39.

**MOTION** – Mr. Sulik moved and Mayor Bacci seconded to adopt Resolution No. 292-10. Without objection, the motion carried unanimously.

Authorization to Pay Dues

Resolution No. 293-10 2010 Water Environment Research Foundation subscription. Cost: \$85,629.00.

**MOTION** – Mr. O'Malley moved and Ms. Kelly seconded to adopt Resolution No. 293-10. Without objection, the motion carried unanimously.

Authorization for Bond Issuance

Resolution No. 294-10 Series 2010 Wastewater Improvement Revenue Bonds.

**MOTION** – After discussion, Mr. Sulik moved and Mr. O'Malley seconded to adopt Resolution No. 294-10. Without objection, the motion carried unanimously.

Ms. Demmerle stated that the District has a large Capital Improvement Program (hereinafter "CIP") over the next five to six years. As we venture into the bond market, we examined various financing scenarios in an effort to determine the best solution to finance this program.

We anticipate capital cash flow between 2011 and 2016 to be \$1.3 billion. The District's projected capital balance at the end of 2010 is \$73 million. We currently have \$170 million in outstanding bonds and around \$412 million in outstanding WPCLF funds.

With respect to our debt service, we have \$49 million left outstanding on the 2005 bonds and \$121 million outstanding on the 2007 bonds, which is 29% of our total outstanding debt. The 2007 bonds are 30-year maturity with an interest rate of around 4.5%. There is a level of debt payments, meaning that we pay principal interest of about the same

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amount each year. Seventy-percent (70%) of our total outstanding debt is in WPCLF funds which have an interest rate of around 3.5%.

Ms. Demmerle explained that a floor was put on the loan amounts that can be borrowed and that the minimum floor interest rate was 3.25% percent. Recently, the floor was removed and it is currently set at 2.66%. As part of that program, we are responsible for the Water Resource Restoration Sponsor Program (hereinafter "WRRSP") in which the District has sponsored approximately \$22.8 million. Since we are a sponsor, the District receives a discounted interest rate of up to 0.10% on its loans.

Ms. Demmerle referred to a chart depicting the District's total debt service, which she explained is front loaded and will put pressure on the 2012 through 2016 rate study. When considering various financing scenarios, the District examined the lowest cost of financing and minimal impact on our rates going forward in the next 20 to 30 years.

Ms. Demmerle discussed the various financing scenarios. The first scenario was to completely finance through low interest loans by using WPCLF funds. The second scenario was to use traditional structured revenue bonds, which is the level of debt payments, principal and interests starting in year one and paying the same amount every year for the next 30 years and also including a mixture of \$35 million in loans. The third scenario was to use non-traditional structured revenue bonds to defer principal and capitalizing interests so there is not a lot of debt upfront and amortized over a longer period of time. The final scenario was to use non-traditional structured revenue bonds and a mixture of loans.

A low interest loan program would be less of an administrative burden and would have the lowest financing cost. Traditionally, low interest loan programs have lower interest rates and payments begin after the construction period ends. Disadvantages include the program being limited and no flexibility. You can only do 20 years amortization, no more, no less. The loan cannot be refinanced or paid off early. For this reason more pressure would be placed on the rates long-term.

Ms. Demmerle referred to a chart depicting the annual debt service if we were to finance the program with loans. Ms. Demmerle stated that long-term the blip occurs around 2022 because loans are piled on top of loans which will result in front-loaded debt service.

The scenario of mixing traditional structure revenue bonds would provide flexibility. The time period can vary from 10, 20, 30 or 40 years and we would have the ability to refinance when the interest rate market is low. Currently, we are at historic lows and it is now a good time to go to the bond market. Disadvantages of going to the bond market include the higher cost of issuance. Principal and interest payments on traditionally structured bonds begin in the first year and therefore the debt service is up front requiring

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larger rate increases in 2012 and thereafter. Ms. Demmerle referred to a chart that showed how debt service spikes in the earlier years.

The advantages of non-traditional structured revenue bonds include deferring principal and capitalized interest and depending on how they are structured could result in less pressure on the rates in 2012 through 2016. The problem with using all bonds is that we are no longer sponsoring the WRRSP, which is an important program to the District and benefits the communities and this region and therefore this scenario is not ideal. Ms. Demmerle referred to a chart depicting how the impact on the rates and debt service is lesser than the former and that debt service is normalized or smoothed out at the back end.

The final scenario included non-traditional structured bonds and adding loans so the District can continue its WRRSP sponsorship. This scenario had the least impact on the rates in 2012 and smoother rate increases thereafter. Ms. Demmerle referred to a chart which showed lesser rate impacts and smoother debt service. Ms. Demmerle advised that the District would like to use the scenario when structuring its bonds.

The District is considering bonds in an effort to reduce the impact the CIP will have on our customers. The CIP will require a significant amount of borrowing beyond just 20 years of low interest loans. We are in a low interest rate environment, and therefore, now is a good time to be in the bond market. This structure and these bonds will reduce the impact of rate increases over the next five years and thereafter.

The structure of the bonds will support the CIP through half of 2013. The approximate size is going to be around \$415 million which includes issuance costs. We will look at capitalizing interest the first two years and deferring principal for 10 years. The Reason for deferring principal interest is to preserve the capacity for shorter debt when interest rates start increasing. Our current outstanding loans are starting to diminish and we are going to assume \$35 million of low interest loans in order to continue our WRRSP sponsorship.

Ms. Demmerle advised that the District intends to also use Build America Bonds, which are sold in the taxable market. They have a 35% interest rate subsidy and it costs lower to issue these bonds than in the traditional tax exempt market.

Next steps include making a presentation to our rating agency on October 25<sup>th</sup> in which we anticipate receiving our rating on November 1<sup>st</sup>. We will begin pricing around November 10<sup>th</sup> and closing on November 18<sup>th</sup>.

Executive Director Ciaccia summarized that our total debt after this bond issuance is \$1.05 billion including our outstanding existing debt of \$500 million and the new debt of

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\$400 million. In order to lessen that number, we would have to do more pay-as-you-go which translates into higher rate increases for our customers.

Executive Director Ciaccia stated that the latter scenario has been chosen as the best option by Ms. Demmerle and her team. With this scenario, the anticipated rate increases for the time period 2012 through 2016 can be lessened by two to three percentage rate points. Depending on how the rates are structured we are looking at a possible 15% rate increase which is more palatable than 18%.

Mayor Starr inquired as to who participated on the team. Is it the bond counsel and underwriting counsel? Ms. Demmerle replied that David Goodman from Squire Sanders & Dempsey (hereinafter "Squire Sanders") was present and that Squire Sanders is our bond counsel. Bill Bloom was present from Barclays Capital (hereinafter "Barclays") our senior underwriter. Brad Sprague was present from Prism Municipal Advisors (hereinafter "Prism Muni"), the District's financial advisor. Roetzel Andress (hereinafter "Roetzel") is underwriting counsel. Co-bond counsel is Darrell Fields and Forbes. Co-senior underwriter is Siebert Brandford. Co-managers are Stifel, Nicolaus, KeyBank and Eric Small from Blaylock.

Mayor Starr inquired if this will be for capital projects to 2013. Ms. Demmerle replied through half of 2013.

Mayor Starr commented not beyond that so there is no relationship to the Consent Decree. Ms. Demmerle clarified that we took into consideration the next rate periods and we actually have three issues coming due. We are asking for two authorizations to sell in 2010. There will be an issue in 2013 and another issue in 2016. This scenario was based on three issues over the next five years. Our focus was for this rate study period.

Mayor Starr inquired if this scenario takes into consideration the sanitary issues related to the Consent Decree and those capital costs. Ms. Demmerle replied that it includes the ECT and TDPS, which are CSO projects. Executive Director Ciaccia added that it will include the DST design as well.

Mayor Starr questioned if we are financing projects before the Board votes on the Consent Decree? Executive Director Ciaccia replied that we are financing the continuation of those projects. Ms. Demmerle clarified that this particular issue is for existing projects including the ECT, TDPS and REF. We are examining scenarios based on the overall scope in conjunction with the rate study. This particular scenario is for existing projects that will be hitting cash flow in 2011 and 2012.

Mayor Starr inquired if this is something we would have done regardless of the Consent Decree wherein both Executive Director Ciaccia and Ms. Demmerle affirmed.

Authorization to Amend Resolution

Resolution No. 295-10

Amend Resolution No. 61-07 to implement a formal Debt Management Policy.

**MOTION** – After discussion, Mr. Sulik moved and Ms. Kelly seconded to adopt Resolution No. 295-10. Without objection, the motion carried unanimously.

Mr. Sulik requested an explanation on Resolution No. 295-10.

Ms. Demmerle advised that the only change to the Debt Management Policy was to allow for the issuance of Build America Bonds and for the District's participation in interest rate subsidy programs, which was highlighted on page 3 of the policy.

Authorization of Appropriation

Resolution No. 296-10

Appropriate one (1) permanent easement (ECT-3P) and one (1) temporary easement (ECT-3T) across Cuyahoga County Auditor's Permanent Parcel No. 114-28-001 and 114-28-002, owned by James M. Christensen which is necessary for the construction of the Euclid Creek Tunnel project. Cost: Fair Market Value of \$70,200.00 to be deposited with the Cuyahoga County Probate Court.

**MOTION** – Mayor DePiero moved and Mr. O'Malley seconded to adopt Resolution No. 296-10. Without objection, the motion carried unanimously.

Authorization to Enter Into Agreement

Resolution No. 297-10

Agreement with the U.S. Environmental Protection Agency to receive grant funding under the Great Lakes Restoration Initiative. Amount: \$250,000.00.

**MOTION** – Mr. O'Malley moved and Mayor Bacci seconded to adopt Resolution No. 297-10. Without objection, the motion carried unanimously.



Authorization to Enter Into Contract

- Resolution No. 298-10 Two (2) year requirement contract with Consolidated Electrical Distributors, Inc. dba CED Mentor for electrical product class. Cost not to exceed \$72,174.13.
- Resolution No. 299-10 One (1) year contract with Ikon Office Solutions, through the State term schedule, for service and maintenance for thirty-four (34) Ricoh Copiers located at all District facilities and two (2) Ricoh Plotters located at the George J. McMonagle Building. Anticipated Expenditure: \$105,000.00.
- Resolution No. 300-10 One (1) year requirement contract with R.W. Clark Company, Inc. to repair and replace inoperable windows at the Southerly and Westerly Wastewater Treatment Plants. Cost: \$48,521.76.
- Resolution No. 301-10 One (1) year requirement contract with S.A.W., Inc. for lawn maintenance services at the George J. McMonagle Building, Environment and Maintenance Services Center, and offsite facilities. Cost: \$42,682.92.
- Resolution No. 302-10 Contract with NTH Consultants, Ltd. for professional design services for the Westerly Low Level Interceptor – Long Term Options (WLLI-LTO) project. Contract fee: \$3,618,504.00.
- Resolution No. 303-10 One (1) year contract with Kronos, Inc. for the renewal of the annual software maintenance and support services for Kronos software, and hardware maintenance for Kronos clocks. Cost: \$33,760.76.

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Resolution No. 304-10

One (1) year contract with Ohio Machine Co. dba Ohio CAT for standby generator maintenance at all District facilities. Cost: \$284,126.00.

Resolution No. 305-10

Three (3) year contract for the District to provide laboratory testing services for the Cuyahoga County Sanitary Engineer.

**MOTION** – Ms. Kelly moved and Mayor Bacci seconded to adopt Resolution Nos. 298-10 through 305-10. A roll call was taken and the motion carried with one abstention by Mayor DePiero on Resolution No. 304-10.

Mayor Starr referred to Resolution No. 302-10 and he commented that there were previous discussions of possible involvement from the County, U.S. Army Corps of Engineers, the Port of Cleveland and the City of Cleveland on this project. He questioned whether the District was assuming all of the responsibility? What are the total estimated capital costs? Who is going to pay for it?

Ms. Rotunno explained that the Westerly Low Level Interceptor – Long Term Options (hereinafter “WLLI-LTO”) project solely deals with the District’s interceptor on the hillside. The District is proactively taking measure to prevent imminent failure of our interceptor.

Mayor Starr inquired as to who will be paying for the other improvements. Ms. Rotunno indicated that she was unaware as to the status of the other improvements or funding, but the District cannot leave its interceptor on a slope that is failing.

Mayor Starr inquired if we had an estimated cost for the WLLI-LTO project. Ms. Rotunno replied that we do not have a firm capital estimate; however, that will come with the recommendation and final alternative plan.

Mr. Brown added that this area has been studied for quite some time by the U.S. Army Corps of Engineers and the District. The harbor master for the City of Cleveland Port Control is the point person on this initiative. We have conducted studies on the mitigation of this problem and the cost estimates have ranged from \$30 million to \$80 million. Given this exorbitant amount, alternative options are being explored in order to stabilize this area. The interceptor and parking lots adjacent to the CMHA Building are all affected by this slope. Mr. Brown stated in essence the slope has been studied and the

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cost estimates have been received, but the remaining question is "Where is the money?" The WLLI-LTO project is to protect the District's utility.

VI. Information Item

1. Program Management Status Report and Update – September 2010.

Ms. Rotunno advised that the REF continues to have incinerators constructed and she presented the Board with updated photo images of the ongoing activity at Southerly.

The ECT bid opening is schedule at 4:00 p.m. today in the public meeting room. The engineer's estimate of the ECT project is \$213 million.

Ms. Rotunno advised that the design for the TDPS project is underway. The District held a Value Engineering Workshop last week in which Ms. Rotunno heard encouraging news from our designers regarding potential opportunities to continue to value engineer that project, which should make going to the bond market easier. Ms. Rotunno will keep the Board apprised of future developments.

The district continues to modify internal processes with respect to the execution of CIP projects from planning to closeout. We are conducting training which includes training set up and various modules that are being deployed. Staff is being introduced to "the new way of doing business here at the District."

Ms. Rotunno moved discussion to the Key Performance Indicators (hereinafter "KPIs") through the end of September. At 64%, we are still behind on the total CIP awards based on the number of projects. We are lagging on four design projects and nine construction projects. We anticipate bringing those to the Board for consideration in the next quarter. We intend to make up our deficit by the end of the year.

We are lagging behind on the dollar value of our CIP awards since those projects are not getting out, but also because our bids are coming in under the engineer's estimates. The ECT project is estimated to be over \$200 million and therefore Ms. Rotunno anticipates meeting our KPI goal of \$269 million by the end of the year.

Ms. Rotunno referred to a graph depicting the design projects that are to be awarded and that will make up the KPI for the number of design projects in which we are lagging behind. In addition, she presented the Board with construction projects that will be brought to the Board for consideration by the end of the year.

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Ms. Rotunno moved discussion to the engineer's estimate of probable construction cost. We have an average of 6.4%, which Ms. Rotunno indicated this is where we would like to see our estimates.

Ms. Rotunno moved to the KPI which measured how the District is managing its construction projects. The KPI continues to increase and we are at 93.1%.

Ms. Rotunno presented the Board with a pie chart graphic. To date, we have only authorized 9% of our general allowance, which is the contingency on each contract to allow the District to manage change orders. The pie graph on the left depicted the categories of those change orders. The pie graph on the right depicted the program area in which the change orders occurred.

The bulk of the change orders on the left are for design improvements and additions, which Ms. Rotunno explained those as "good ideas" that arise after the project is bid wherein the District and owner both agree are "value added" and we move those forward. The different site conditions shown in red on the left pie chart represented 27% of our total change orders year-to-date which includes unexpected or unforeseen conditions in the field.

With respect to the pie chart on the right, Ms. Rotunno advised that the majority of our construction is taking place at the treatment plants; however, this will change after the tunnel goes online. The treatment plants are experiencing more change orders at this time than the CSO sites.

Ms. Rotunno moved to the project closeout KPI of 93.1%. All but one project met our KPI of not using more than half of the general allowance or not more than 105% of the base contract amount. Ms. Rotunno indicated that this is due to the diligence of our construction supervisors and their judicious management and guarding of rate payers' funds.

Ms. Rotunno concluded her presentation by advising the Board that there was no additional MBE, WBE or SBE data to report.

### VII. Open Session

No items for discussion.

### VIII. Public Session (any subject matter)

No members from the public registered to speak at Public Session.

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IX. Executive Session

Mr. Brown stated that there was a matter for discussion in Executive Session.

**MOTION** – Mayor Bacci moved to enter into Executive Session to discuss the KMM&K litigation and to specifically designate all matters discussed in Executive Session to be protected from public disclosure in accordance with Ohio Revised Code §121.22(g)(3) and attorney-client privilege. A roll call vote was taken and without objection, the motion carried unanimously.

The Board met in Executive Session from 1:53 p.m. to 2:37 p.m.

X. Approval of Item from Executive Session

Add-On

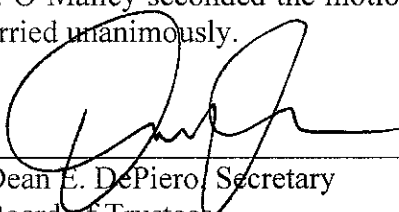
Resolution No. 306-10

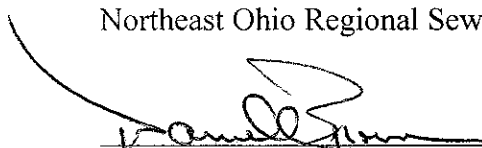
Authorization for Board to waive attorney client privilege on certain documents for use in KMM&K, Joint Venture v. Northeast Ohio Regional Sewer District litigation.

**MOTION** – Mayor DePiero moved and Mr. Sulik seconded to adopt Resolution No. 306-10. Without objection, the motion carried unanimously.

XI. Adjournment

**MOTION** – Mr. Brown stated business having been concluded, he would entertain a motion to adjourn. Mr. Sulik moved and Mr. O'Malley seconded the motion to adjourn at 2:37 p.m. Without objection, the motion carried unanimously.

  
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Dean E. DePiero, Secretary  
Board of Trustees  
Northeast Ohio Regional Sewer District

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