MINUTES OF SPECIAL MEETING
BOARD OF TRUSTEES
ROCK RIVER WATER RECLAMATION DISTRICT
FRIDAY, JANUARY 30, 2015

President Massier called the Special Meeting of the Board of Trustees of the Rock River Water Reclamation District to order at 10:00 a.m. in the Board Room at the District's Administration Building, 3501 Kishwaukee Street, Rockford, Illinois. The following Trustees were present:

Don Massier	President
Lloyd Hawks	Vice President
Elmer Jones	Trustee
Rick Pollack	Trustee
Don Kerestes	Absent

Staff members present: Steven Graceffa, District Director; Dana Carroll, Engineering Manager; Larry McFall, Plant Operations Manager; David Cook, Supporting Services Manager; Frank Papke, Business Manager; and Michael Robertson, Information & Technology Services Supervisor.

Also present: Lindsey Clark, WREX.

President Massier stated the meeting was being recorded. The purpose of the meeting was to discuss the proposed annual budget. President Massier directed attention to the Selected Financials sheet and observed that staff has kept O&M costs down.

District Director Graceffa stated that staff has been able to keep O&M costs down because of the capital spending the District is doing.

President Massier stated that is one reason the District is efficient; we spend money to become more efficient.

Trustee Pollack asked, "When did the District have the consultant come in and start the capital plan?"

President Massier stated the Clean Water Act requires user fees to be the District's primary source of income. Over the years, rates for the various groups that send us wastewater have been adjusted so that each group's rates more accurately reflect what the District spends to treat that type wastewater. The consultant assisted the District in determining what those rates should be and how to introduce the rate changes over a period of time.

Trustee Pollack asked if this was what spurred us to upgrade the system.

District Director Graceffa stated the grant program in the 1970's enabled the District to assess its system and determine what improvements were needed. One of those improvements was updating lines around the Snow Avenue Pump Station, which cost $80 million. In the 1990's we focused on improvements to the secondary system, spending $20 million. At that time, we realized our solids handling system was antiquated and needed $20 million in upgrade. Capital spending increased heavily, but operational costs dropped dramatically. We went from 40 operators to 20. As a team, we identify what capital improvements are necessary next and then we plan for them. Staff tries to analyze what didn't get finished in the past and what needs to be done in the next year.

Bond funding was our only available borrowing mechanism until just a few years ago. The State Revolving Loan Fund (SRLF) has been available for some projects. Staff determines which projects qualify for the SRLF. There have been some changes in what will qualify for State funding. At one point in the past, there was a forgiveness component of 25%.

Trustee Pollack asked what is the current interest rate and bond rate.

Staff stated SRLF's written standard is 2.5% but our last one was 1.93%; bond rates are 4% for 20 year bonds. About seven years ago the District received a Notice of Violation for sewer backups. We needed to respond with what actions we would take in similar situations in the future. We made a presentation to the IEPA and learned some things at that meeting. We agreed to spend more money on maintenance and to design for 10 year storms. This moved some repair items to high priority that had not been on the list before. The anticipated cost was 10 times what we had spent in the past. The District has done what we said we would do. It seems to be paying off because we are seeing fewer backups. There is no measure to know how well your money is being spent, but the decline in backups indicates it may have been a profitable decision.

We spend roughly 1.6 to 1.7 million on lining for mains, a little over half million on service linings, 5 to 6 hundred thousand on contract point repairs. We do some other smaller replacement projects as we come across them, which is roughly another half million, and our O&M. The total in capital expenditures is about $3 million each year. We have a $500 million asset. The State would like us to spend 2% of our total assets; for us it is 4 to 6 million a year.

Referring to the budget memo, Business Manager Papke stated staff is recommending two additional positions. The IT position title should read "Network Administrator".

Trustee Pollack asked for clarification of the IT budget of a half million per year designated "contractual". Supervisor Robertson stated it includes $200,000 for printing, mailing, and postage for bills done by an outside service. The category includes our WinGIS membership. "Leases, Licenses, and Maintenance" includes copier maintenance, phone system maintenance, computer leases, software maintenance –almost all of the technology items of the District.

Trustee Pollack stated he attended the WEFTEC session on IT; they recommended a peer review of your IT department by a system architect. He asked if that was something that could be done this year. How you put your IT together is important.

Director Graceffa stated we could do it. Initially, in a peer review situation, you have to train the review person, so you have a significant time commitment. The system has evolved over fifteen years or more. We had some peer review of our automation with Black & Veatch.

Supervisor Robertson stated before he came to the District, his background was in Systems Architecture; that is one of the reasons he was hired by the District. The District is in the process of getting a certification for the payment card industry data security standard (PCI/DSS) which is a credit card acceptance requirement. For that, you have to have a very high level of security, which includes things like penetration testing on an ongoing basis. We are in the process of putting those things into place.

President Massier stated we have a hard time finding an agency to help us as other agencies aren't as aggressive as we are at the District.

Supervisor Robertson stated we are modifying the structure slightly. The PC is a desktop device; desktop functions are moving to virtualization and mobile devices. This concept will lead the District's change. The network infrastructure is under IT except Plant Operation Manager's EE which handles the plant scada system software. We supply infrastructure for that environment. He builds the software and we provide the instrumentation.

Discussion moved to staff's requests for additional personnel in the various departments, and the impact (on both budget and work load) of granting or not granting the requests.

Trustee Pollack stated two years ago $1.3 million was budgeted for the Spring Creek project and now we know the amount actually needed is $17 million; this is an example of the unpredictability of future projects. We don't know what each project will cost.

District Director Graceffa stated that project was identified in the Black & Veatch project as a pinch point. It was not as important to have accurate numbers at that point, but it was more important to give it a place holder.

Trustee Pollack asked why the District doesn't install larger pipe initially so that upsizing isn't needed later. Staff stated we estimate ultimate development to the best of our understanding at the time the pipe is built. Conversely, if a pipe is too large, there will be low flow problems.

Trustee Pollack stated the Capital Financing Plan shows a total of $225,849,687 of both available and borrowed funds over the ten year period. This figure is a 32% increase over the plan we had in 2013. Will we see another 30% increase two years from now? Staff stated at that time there were projects that were being discussed, but were not in the 10 year frame. Trustee Pollack asked if we need to revisit the plan with the goal to attain more balance.

President Massier stated if we tell staff we cannot borrow that much money and we do not do a project that staff says we need to do, and then we have problems because we did not do it, we will end up spending a lot more money because we did not do what we needed to do.

The debt plus the debt service cost and the rate of debt payoff were discussed. Trustee Pollack stated if you make the pie bigger by borrowing money, you are no longer sustainable.

President Massier stated that our total revenue went from $26 million in 2010 to $38 million in 2016. In 2010 we had $45 million in debt balance. If we take that $45 million and make it $110 million we'll be paying 100% of our income to debt. How will we pay staff?

Trustee Pollack asked how much more could we borrow before we start impacting our staff. It seems we have already reached that point, since we aren't adding the positions that staff requested. Can staff make a snapshot of where the money goes each year, projecting salaries, and expenses? What percent is going to go to debt service?

President Massier stated the debt is being paid over a period of 20 years.

Trustee Pollack stated he wants to see the curve come down in the plan.

District Director Graceffa stated last year staff saw the collision course coming. We went through and reviewed the placeholders. For the first five years, the numbers are as realistic as they can be. Beyond that, we really don't know what we're going to need to do, so we only have a place holder for each project. In 2021 we have the funds available to fund capital projects out of revenue. We have capital expenses of $12,148,884 and Borrowed and Used Funds available of $12,472,640. The $188,620,473 is a scary number; some of that money has already been spent.

President Massier stated our concern is how much we are going to raise the rate. We're saying we aren't going to raise it more than 8%.

District Director Graceffa stated we retained Eric because we needed a long range plan that said we are going to eventually have nutrient removal and all of these other projects. We wanted to avoid volatility in the rates. Eric said we needed to be generous to the plan. Increasing the rate 8% in the first year seemed like a large increase, but it will soften rates in future years.

Business Manager Papke stated the debt service will remain about the same but revenue will go up. We can cover the debt service and have about $15 million for projects.

District Director Graceffa stated Eric carefully crafted the debt service to keep the District in a position to be bond ready; that was well guarded.

Manager Papke stated it included 50% debt service balance which helps the District get better interest rates on bonds when we go to market.

District Director Graceffa stated we can, and do, take out capital projects along the way.

The meeting adjourned at 11:50 a.m.

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Clerk