

**FINANCE COMMITTEE MINUTES
NOVEMBER 21, 2023**

The Finance Committee meeting was held on November 21, 2023, at North Royalton City Hall, 14600 State Road. The meeting was called to order at 7:18 p.m.

PRESENT: **Committee Members:** Chair Paul Marnecheck, Vice Chair Mike Wos, Linda Barath; **Council:** John Nickell, Joanne Krejci, Linda Barath, Jeremy Dietrich, Heidi Webber; **Administration:** Mayor Larry Antoskiewicz, Fire Chief Robert Chegan, Wastewater Superintendent Mark Smith, Police Chief Keith Tarase, Finance Director Jenny Esarey, Law Director Tom Kelly; **Other:** Joe Crea, Mary Gorjanc, Jayden Linkart.

Approval of October 17, 2023 Finance Committee minutes. Moved by Mr. Marnecheck, seconded by Ms. Barath. Vote: Yeas: 3 Nays: 0. **Motion carried.**

UNFINISHED BUSINESS

1. Monthly Finance report including tax collections status

Ms. Esarey reported that she was very happy with our income tax. We are still over budget, even with all of the adjustments made. We are where we need to be, as well as operating within budget. She expressed her gratitude to the Department Heads.

2. Overtime

Ms. Esarey advised we are operating well with overtime as well. Overall, we should have been at 83%, whereas we are at 68%, with the General Fund at 58%.

3. Buckeye Institute's lawsuit – Kilgore case

No update.

4. Taxes for remote workers – House Bill 121

Ms. Esarey stated that House Bill 121 was still in the Senate Ways and Means Committee; since June 21st.

5. House Bill 263 – 70/70 plan

This was still in the House, and Ways and Means Committee since September 26th.

6. Ohio Bill to change cities' police pension contributions

Ms. Esarey stated that House Bill 296 was referred to the Pension Committee on October 24, 2023. Some testimony was heard from the Pension Boards and they are going to try to open it up to municipalities and other effective people. Once they begin doing so, Ms. Esarey would start making some calls so that people are aware of how detrimental this could be for us.

7. 2024 Budget

Ms. Esarey explained that everyone received the budget and a summary. She noted that she would need to receive any questions regarding the budget by December 1st, for the December 5th meeting. Mayor Antoskiewicz agreed it would be good to send questions ahead of time as requested.

NEW BUSINESS

1. Proposed legislation: 5-year sewer rate study

Joe Crea from Raftelis introduced himself and provided a detailed presentation. He has been working with Mr. Smith and the Mayor to go over a five-year rate study for the sewer rates. He wanted to discuss the project and the work that the firm has completed. Also, briefly discuss financial policies that guided the process, focus on what the results are, and what their recommendations are for the sewer rates over the next five years. They would be supporting some of the large projects that are coming up.

Mr. Crea's report was precisely as follows:

Mr. Crea has been with Raftelis for over sixteen years. We are the largest firm. We work with local governments on this kind of stuff for enterprise funds for general government. We work with over 600 clients each year we have a lot of clients here throughout the state. His primary area is in Ohio and he does water and sewer rates for communities all across the state and the region. What was our project? What does success look like as we started it? We wanted to really just provide a comprehensive vision for the next five years for the Sewer Enterprise Fund, so that we could make sure five years from now, we are in as good of a position as we are right now. That starts with the financial policies, which is the foundation of how we make our decisions throughout this process. It leads to the financial plan, that is the roadmap for how we are going to reinvest in the sewer system, and make sure we have the revenues to support that reinvestment and the annual operation of it. What are the rates and charges that are going to create that revenue, that allows that kind of sustainable and stable management of the utility? Then once we have it all pulled together, really culminates here with communicating that with you all, and then sharing that with customers in the community.

A few different tasks as part of our project...the first was just looking historically over where we have been. Mr. Crea was here five years ago presenting the previous rate study recommendations. We looked back over that five-year period to determine how did we do, relative to where we thought we were going to be. That really gives us that, again, baseline for where we are at. The policies define where we want to be in our financial plan, as that roadmap for how we get there, and then we communicate it again. When we look back, there are a few key drivers to really highlight. We have seen some substantial increases in the cost of operating the sewer enterprise system; that is really driven by all the inflation. Everybody's household budgets are going up dramatically, as you can imagine, for chemicals for the cost of electricity, salaries and wages; all of that has had a very significant impact on the sewer enterprise. You will see some information with some numbers in a few slides. The biggest cost that the enterprise incurs is the cost for treatment from Northeast Ohio Regional Sewer District. Their rates have gone up every year for roughly the last 20 years, but currently they are in a cycle where they are increasing at 4.2 % per year; at least for the next few years. That is a direct hit to the operation costs; there is nothing that the City can do to avoid that. The other big one is the major capital project going on at the B Plant. That cost has increased. We are seeing dramatic increases in the cost for construction of water and sewer infrastructure all across the country, again, driven by supply chain. The stimulus bill puts a lot of money out there and that creates a lot of demand, which increases everybody's costs. That is a 20-million-dollar capital project that we are going to be investing in over the next two years; really is driving the need for some substantial kind of increases to revenue that you will see. If we look historically, our rate increases have been below what we see across the industry and across the region, and we will somewhat compare our costs to those of our peers. The Sewer Enterprise Fund should run like a self-sustaining business. The rates and revenues that we generate from our customers' needs to be enough to cover our operating expenses, to make sure we maintain healthy fund balances. Given the scale of that capital project and just the operations in general, we need to make sure that we are thoughtful in how we set those rates and how we plan. That is the purpose of this whole study. Primarily, we are trying to balance that, making sure we have a reliable system. We want to make sure every time the toilet flushes or it rains, that water gets conveyed somewhere and treated, and we take care of the environment; and that we do it without putting too much of a burden on our customers.

So, what does our system look like over the last five years? As you know, the City has not really changed in terms of its size. So, the number of customers and the amount of sewage flow that's going into the system has remained relatively stable. You can see a little bit of fluctuation from a year-to-year basis, and that is common

for us, for a city like North Royalton. You do see a spike in the flows in 2020; that was the COVID year, so folks are working at home and flushing the toilet more and using water more. So, you can see a little bit of that in the data, but relatively flat. We are not anticipating any major changes, either increases or decreases, over the next five years; fairly stable kind of projection of usage of the system.

The next slide looks at some of our operating costs, both historically and where we are projecting them. We will start at the backward-looking costs. Again, one of our big drivers is how costs have increased since 2019. Our operating expenses increased 7 1/2 % per year, that is if we compare to where the current budget is for 2024. You can see the slight spike in 2022. That increase is largely driven by some of the professional engineering services that we had as part of our budget to prepare for that B Plant project. In 2024, you can see there is an increase from what we think we were going to end up this year in 2023. That is driven by increases for chemical costs and the utilities, which includes that Northeast Ohio Regional Sewer District increase as well; and some increases to wages and benefits. Part of that is that natural savings between what our budget is, and that we generally do not spend the full amount of the budget; there is usually a few percent that we come under. So, we want to be conservative. Our baseline is the 2024 preliminary budget number and from there, you can see we are escalating at about 3% per year out over the five-year period; that is our rough baseline forecast for our operating costs, that is a somewhat blended average. We did look on a sort of line-item by line-item basis. There are line items in which we are working with Ms. Esarey. Some of them are increasing at 10% or 15%, but there is some that we know we can control and get us to that 3 %. The other hope is that there is that natural savings as part of the data between actual and budget; that will give us a little bit of conservative forecast as well.

Mr. Marnecheck asked if we were expecting to see some savings once the B Plant conversion happens. Mr. Crea agreed; yes. You can see a little bit of that in 2020. He continued that between 2025 and 2026 the costs are flat; the first part of that is there are a few line items for the chemicals should be the B Plant expenses. Ms. Esarey added that we did discuss that when we were going through projections, that some of the expenses in the B Plant would drop off; some electricity, some B Plant specific expenses would drop off with the conversion. We would have to pay the debt service on the project; however, the expenses would go down. Mr. Crea stated rather than seeing the 3% increase between 2025 and 2026, it is relatively flat, and that is largely that. We have a reduction on the B Plant expenses, but the rest of the system has that increase still included. As discussion ensued, Mr. Crea indicated the forecast for the growth rate at that average of around 3%, is consistent with what we used in the previous study. He believed where the 2022 number is a little bit outside of what we had anticipated previously; 2023 estimate is right where we thought we would be. 2024 is a little bit of a jump, given the inflationary environment we are in, which was unanticipated five years ago.

Mr. Crea continued his report, stating the next big piece of our financial plan is the capital component, how we pay for projects. There are really three big projects. The first one is all the B Plant work, and that's separated into force main work and work at the plant to do the conversion. Each of those pieces is about a \$10 M project. We did get a little bit of grant money from the state. Unfortunately, not as much as we were hoping for, so \$2 M is coming in from the state as a grant. The rest of that will be funded with a low interest rate, Ohio Water Pollution Control Loan Fund, so that is the state's revolving loan fund that is used for funding projects like this. The other large project is extending the sewer lines on Edgerton Road, which is about a \$1.175 M project. We will also be issuing another WPCLF loan for that, however that will ultimately be an assessment project, so that money will kind of come back to the City over the period of that assessment for the homes along that line. In addition to this, there is additional money in the budget for annual renewal and replacement of the infrastructure and of the assets of those minor repairs. That is all part of the budget and in the calculus for what the rate recommendation is.

In a very simplistic graph, this is our roadmap, the financial plan. Each of the columns of the bars represents costs; those are annual costs in millions of dollars. You can see our operating expenses in the very dark blue at the bottom. The portion of our operating expenses, that is the charges from the Northeast Ohio Regional Sewer District, and then our debt service is the third blue line up, followed by our capital outlay, and our pay as we go capital. The interesting thing he wanted to point out is the debt service. You can see it increases over this time period, particularly in 2026, there is a really big portion of our costs are for debt service. We have some existing

debt and 2026 is the last year that we owe on that. So, in 2027, as that portion of our chart gets smaller, we are actually freeing up about \$800,000 of the Enterprise Fund, because we have finished paying off a loan, which is good timing as we add in the new debt for the plant work kind of replaces that. We do have one year where those may overlap and that creates that spike. The repayment of that debt, the new debt will be based on the construction schedule at the plant, so there is a chance that timing may not hit exactly like that. But we have been conservative and that is why you see that big chunk in 2026, that then goes away in subsequent years. In order to support all of those costs, you can see the projected rate increases there. The first one, unfortunately is a heftier increase at 9% and that is to get us up, and get us ready for that debt service payment. Beyond that, shifting back down to more inflationary levels of rate increases of 4 ½% per year. In addition to that, we would recommend increasing the fixed charges by 2% per year for the first three years, and then increasing that by \$1.00 per year thereafter. What those increases look like for customer bills, for example, a typical customer in the system may use around 500 cubic feet; 100 cubic feet is about 750 gallons. That is about 3500 gallons of water per month. Current charge for that, just the sewer charge, is about \$55. With the proposed increase, that would increase to \$61.55, so you can see an increase of \$6.25 (9% plus the \$2.00); that is per month. As we kind of shift down into the lower rate increases, you can see that averages out to about a \$4 per month increase for the remainder of the five-year period. How that compares to some of our neighboring communities, based on information that is available right now for our peer utilities, our neighbor communities, you can see that the sewer costs for North Royalton do compare favorably with all of those towns around the city. The one thing that is different and sometimes will create confusion for customers, is that each of the communities that have the asterisks on there, they pay for part of their sewer service through their property taxes; there is a line on their property tax bill for front footage assessment, and that is how they collect revenue that they use to fund part of their sewer service. When you open your monthly bill, it may look a whole lot cheaper than the bill from North Royalton. Your costs are all on the monthly bill and it is right there and transparent. Oftentimes folks don't think about what is on their property tax bill, because it's just getting paid through their monthly escrow and they never look to see the breakdown. When you account for that, you can see that costs here are favorable relative to your neighbors.

Mr. Krejci inquired about the last time we had a rate increase. Ms. Esarey clarified last year. Mr. Smith expressed that we took over a situation where the rates went the opposite way, which they should have been going up each time. You never want to go backwards. He spoke of the last time they had the rates where they went up; you are putting yourself in the hole. That is why we got to this point. Plus, the costs have gone up with chemicals. When we started the B Plant, we did not think it was going to balloon to the payment that it did. We can spend that \$20 M, or come up with a hundred million to put a new plant over there, because that plant is falling apart. We are trying to get this pushed through and we are band-aiding it daily. Mr. Smith reiterated we are band-aiding it. There are some walkways there that we had to chain off so that nobody gets injured. The plant is old and we felt the best opportunity we had, and the cheapest for the residents and the citizens of North Royalton, was to make it a pump station and send it all over to the plant where we spend all this money. The A Plant is almost a brand-new plant now. This is where we are incurring these costs. In the beginning we did not think everything would balloon, but we did not think we would have a pandemic either. After that, a 2x4 wood that you could get for cheap was 10 times the cost. That happened with the treatment process as well. As we move forward, this is something we have to look at.

Mr. Nickell pointed out all of the EPA regulations coming out, whereas if it stays the same, it is going to get worse. They are putting huge restrictions on diesel engines; that cost will go up. We purchase diesel trucks; everybody delivers by diesel. If the gas situation does not change, that is going to be up. Furthermore, electricity is going to be up. He does not want us to short ourselves. He would rather see it gradually increase. Mayor Antoskiewicz pointed out that even though the percentage looks painful, if you go with a lower percentage the first year, you will have to have a higher percentage. We are getting more money up front, which allows us to keep the rates more reasonable and stable on the back end. Whatever we had the last time, even the 4 1/2 % that we did last year, the increases average 7 ½%. Even though we were getting more money, we were still falling behind. Again, these are good projections, but who knows in another two years if something else happens. We are always mindful of trying to keep things under control for the residents. He felt that when you really look at the job everyone has done at the plant, our costs are reasonable compared to our neighbors. He reiterated the

points of the presentation.

Mr. Nickell inquired about the A Plant getting up to speed. He wanted to know the life expectancy of it. Mr. Smith explained the last major thing that would have there would be the digester. That is minor compared to what has been done; that is a brand-new plant there. That is why we wanted to make the pump station, so we would not have to have two plants; because if not, then we would have to make a new Plant at B. He agreed about the EPA regulations, stipulations, and some of the things that are going on in the industry; we have to keep up with it. He appreciated this rate study and appreciated Mr. Crea for working diligently on it, also Ms. Esarey for working with him. Mr. Smith felt strongly that this is almost outstanding. He reiterated we pay a percentage to Regional and we have never been able to catch up with them. Now they are at 4.2% for the next three years; this gives us a chance to get equal to them. He spoke of Strongsville, where they were told this is what the district pays, and this is what you are going to pay. When you do that, you would be hitting the residents; we do not need that. He recapped that in 2020, we purchased a lot of vehicles; we had some major expenses. We got a brand-new gap truck; the hope is not to buy another one for ten years. You have a lot of equipment that you do not need to purchase for a few years. Nobody wants to hear rates have raised. However, you must be a player in the game, and that is where we are at with this

Ms. Barath asked if there was a comparison done between the sewer district; part of her ward is in that district. As far as what the costs, she wanted to know how close they are. Ms. Esarey stated they are way above us. Mr. Smith agreed. Ms. Esarey noted we pay the sewer district for the C District, that was part of our calculation in our expenses; to say we still have to pay that 4.2% each year for the C District. That was part of our review when we were doing the expenses. The Mayor added that anything we do above the 4.2% helps us cut into the amount that we have to pay. Ms. Esarey agreed; because we are behind and they are way above us.

Mr. Marnecheck wanted to clarify there is a portion of the City that still goes to a regional sewer. Ms. Esarey concurred; the C District. Mr. Marnecheck pointed out we have to pay the difference. Ms. Esarey agreed. Mr. Marnecheck stated that is one of the things we have to factor in, because the district is higher than us. We need to make up that gap for a portion of Ward 2; for the C District. Ms. Esarey agreed, and that was included in our discussions and the spreadsheets. Mr. Marnecheck believed that was the result of a lawsuit. Mr. Kelly added that you are going way back many years, whereas the rate situation was reversed. People were paying rates that were significantly higher than the regional district was paying. He agreed, stating it was that case out of the Court of Appeals that created the North Royalton Consolidated Sewer District which is A, B and D, and with responsibility for C. Mr. Marnecheck wanted to clarify we do not have the ability to absorb C. Mr. Kelly agreed; C is part of the Regional Sewer District now and forever.

Mr. Crea concluded his report and presented his final slide, which was the firm's final recommendation.

Ms. Webber inquired about our responsibility to the public, as far as informing them. Mayor Antoskiewicz explained that we anticipate this going three readings, however we would like to get it passed; which allows us to get it passed before the first of the year. There is a curve and he did not know exactly what it is for them to be able to implement the rates. Ms. Esarey clarified it was 90 days. The Mayor agreed. He reiterated that we anticipated it going three readings, which could allow residents time. Mr. Nickell brought up that we are a utility and because we are a utility, we have to subsidize. The Mayor reiterated that it should be self-sufficient; it should run on its own. Ms. Webber inquired if the study was going on the website so that people could go on and review the numbers. Ms. Krejci pointed out that it was in our agenda. Ms. Esarey pointed out it was a piece of legislation. The Mayor stated that it is public record. Mr. Marnecheck pointed out that it will also be included with tonight's committee minutes. Mr. Smith commented when we first started this rate study, we were up in the teen numbers. We came a long way, because we thought we were going to be in the 20's. The 9% looks severe, however if you look at the monthly amount, it is really like \$4 to \$5 extra per month.

Mr. Nickell shared he had traveled Dominican Republic a couple years back and went to villages. Literally, their houses drained sewage directly into the sewer gutter. It was black sewage; nobody went near it. As much as he did not like paying a sewer bill, he saw the difference of treating it and not having sewer systems first

hand.

Mr. Marnecheck asked if all were comfortable having this go three readings. Mayor Antoskiewicz encouraged everyone that if they have questions, to please forward them. Ms. Esarey agreed. Ms. Esarey suggested for discussions, that she would not focus on the 9%, and she would focus on the money per month; an average bill. As discussion ensued, Mr. Smith commented that we need this rate study anyhow. However, we are still trying to get money for the B Plant. As we go, it only helps us with this formula, because the more money we do not have to borrow, the less that will be out in capital outlay. We still need these rates, because you must catch up with the sewer district. If you do not catch up with them, or at least get close, you are going to be in this position all along; you are still going to pay them.

Ms. Barath moved to recommend the five-year sewer rate study to Council for approval, seconded by Mr. Marnecheck. Vote: Yeas: 3 Nays: 0. Motion carried.

2. Proposed legislation: Amend Chapter 881 – Municipal Income Taxes

Ms. Esarey advised that House Bill 33 was the State's Biannual Budget, in which they made several changes to the income tax that required municipalities to put these different items in their tax ordinance. These are required changes from the State. Mr. Marnecheck commented that it is to keep us in compliance. Ms. Esarey agreed. Mr. Nickell inquired about some of the changes. Mr. Kelly mentioned one of the first ones had to do with the age of taxpayers. Ms. Esarey agreed, stating we have Age Exemption, Net Profit Allocation, Net Profit Filing Extension, Correspondence, Late Filing Penalties, and Opt-in Updates.

Mr. Marnecheck wanted to clarify what the situation would be if we were to 'not' pass this. Mr. Kelly stated we would be in difficult shape, because we rely on RITA as our council of governments to enforce our tax code, and to enforce all the regulations. They are dependent upon their municipal partners to adopt the changes required by the legislature. Technically they could fall back to the State statute and still bring us all current. However, that would create some problems, confusion, and some enforcement issues. Mr. Marnecheck added that even if we do not pass this, House Bill 33 supersedes this. Mr. Kelly agreed; it does. Mr. Marnecheck wanted to clarify, whether we pass it or do not, the residents would still be affected by it. Mr. Kelly concurred, stating that it just makes it much more difficult procedurally to work together with RITA.

Mr. Marnecheck moved to recommend the approval of Ordinance 23-147 to Council, seconded by Ms. Barath. Vote: Yeas: 3 Nays: 0. Motion carried.

ADJOURNMENT

Moved by Mr. Marnecheck, seconded by Ms. Barath to **adjourn the November 21, 2023 Finance Committee meeting.** Vote: Yeas: 3. Nays: 0. **Motion carried.**

Meeting adjourned at 8:05 p.m.