

***THE RATE COMMISSION OF THE
METROPOLITAN ST. LOUIS SEWER DISTRICT***

August 16, 2019

Board of Trustees of the
Metropolitan St. Louis Sewer District
c/o Mr. Brian L. Hoelscher, Executive Director
2350 Market Street
St. Louis, Missouri 63103

Dear Trustees:

I have been authorized and directed by the Rate Commission of the Metropolitan St. Louis Sewer District to deliver to you the Rate Recommendation Report regarding the Wastewater Rate Change Proposal submitted to the Rate Commission on March 4, 2019.

Accompanying the Report are (a)(i) the Minority Report of Commissioner Palans Regarding Amount of Bonding Proposed; (ii) the Minority Report of Commissioners Stein and Toenjes Regarding the Appropriate Allocation of I/I Costs; and (iii) the Minority Report of Commissioner Stein Regarding Deferral of Some CIRP Projects; and (b) the Resolution adopted by the Rate Commission on August 12, 2019.

The Proceedings of the Rate Commission at which the Rate Recommendation Report was considered were held in accordance with all requirements of law and procedural rules of the Rate Commission. The transcript of the Proceedings may be found at <https://www.stlmsd.com/our-organization/msd-rate-commission/meetings-and-exhibits-FY2021-2024-Rate-Commission>. The Rate Recommendation Report was approved at a meeting on August 12, 2019, at which a quorum was present and acted throughout. The Resolution is in full force and effect and has not been altered, amended, or repealed.

I particularly call your attention to the Statement of Rate Commission on Cash/Debt Ratio and Debt Service Coverage found on pages 29-32 of our Report; and the Statement of Rate Commission on CIRP Projects found on pages 109-112 of our Report.

Cash/Debt Ratio and Debt Service Coverage. The District has acknowledged that its proposed rate change is necessary to balance debt financing and current wastewater user charge revenue to simultaneously fund improvements and replacements needed to meet regulatory requirements. The District has represented that it is currently in compliance with the Consent Decree. The District has further represented to the Rate Commission that minimum coverage targets of 2.5x and 1.8x will help the District maintain AA level bond ratings and ensure cost effective market

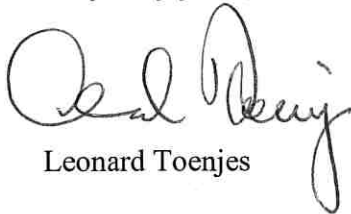
Board of Trustees of the
Metropolitan St. Louis Sewer District
August 16, 2019
Page 2

access. While conservative and optimistic economic projections for operations and maintenance expenses to meet rating agency requirements for an AA rating may seem prudent, the cash/debt mix may be more excessive than adequate. While we have determined that the District's cash/debt mix and debt service coverage is both adequate and appropriate, we stress the need to look further into the future and how the current recommendations may effect long-term debt.

CIRP Projects. The District maintains that it lacks the discretion to move projects out of the CIRP without jeopardizing compliance with the Consent Decree and other regulations. We believe that where appropriate the District should move projects into the CIRP due to the current favorable financial economy. In the instance where an excess of funds are available, we recommend the District evaluate its capacity and move projects up when feasible.

We appreciate all the time and effort the District staff contributed to the Rate Commission Proceedings.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Leonard Toenjes". The signature is written in black ink and is positioned above the printed name.

Leonard Toenjes

Enclosures

cc: (w/encs.) Office of the Secretary of the Rate Commission