

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

August 5, 2015

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 and Stormwater Rate Change Proposal submitted to the Rate Commission on February 26, 2015.

Accompanying the Report are (a)(i) the Minority Report of Commissioners Schneider, Stein, Toenjes, and Williams Regarding the Amount of Capital Improvement and Replacement Program Debt Funding; (ii) the Minority Report of Commissioners Brockman, Mahfood, and Stein Regarding Waste Hauler Permit Revenue; (iii) the Minority Report of Commissioners Brockman, Kelling, Schneider, Stein, Tomazi, and Williams Regarding Bad Debt; (iv) the Minority Report of Commissioners Bowser, Chodes, Kelling, Mahfood, O'Connell, and Tomazi Regarding Late Charges; (v) the Minority Report of Commissioner Stein Regarding Metered and Unmetered Ratepayers; (vi) the Minority Report of Commissioners Bowser, Mahfood, and O'Connell Regarding Utility Expense Escalation; (vii) the Minority Report of Commissioners Jones and Williams Regarding Allocation of Proceeds of the Stormwater Ad Valorem Tax Among the Yellow, Green, and Red Zones; (viii) the Minority Report of Commissioners Bowser, Mahfood, Schneider, Stein, Toenjes, and Tomazi Regarding Ad Valorem Funding for Stormwater Services; and (ix) the Minority Report of Commissioners Schoedel and Tomazi Regarding the Amount of Capital Improvement and Replacement Program Debt Funding; and (b) the Resolution adopted by the Rate Commission on July 30, 2015.

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 <http://www.stlmsd.com/our-organization/organization-overview/rate-commission-and-rate-proposal-information>. The Rate Recommendation Report was approved at a meeting on July 30, 2015, 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 The Resolution is in full force and effect and has not been altered, amended, or repealed.

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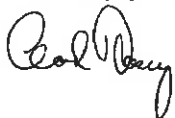
I particularly call your attention to the Statement of Rate Commission on Rate Increase and the Statement of Rate Commission on Funding for Stormwater Services found on pages 20-26 of our Report.

Rate Increase. The District has acknowledged that its projections for revenue requirements and rating agency standards to maintain a AA rating are based on conservative and optimistic economic assumptions which may result in receipt of revenue in excess of forecasts. The District has represented that it is in compliance with the Consent Decree. The District has further represented to the Rate Commission that since FY2009, if actual annual spending within a fiscal year is below the projections for revenue requirements or rating agency standards, any remaining funds have been used to accelerate capital projects. While conservative and optimistic economic projections for operations and maintenance expenses and to meet rating agency requirements for a AA rating may seem prudent, and while steps to expedite performance of the obligations of the District for the Consent Decree may seem appropriate, the appropriation of funds in excess of operation or capital requirements and to step up capital expenditures without regard to a significant increase in cost to ratepayers seems unwise and may jeopardize future rate change procedures.

Stormwater Funding. The proposed levy of an valorem property tax to operate and maintain the public stormwater system within the District does not link the cost of providing such stormwater services to the rate structure. We believe that the most appropriate stormwater rate structure is an impervious area calculation which links demand for service to cost causation. For the present, to avoid a potential legal challenge based on the Missouri Supreme Court's opinion in Zweig and because the levy of the property tax is uniform throughout the District, we have determined that such a mechanism meets the standards of the Charter.

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

Very truly yours,



Leonard Toenjes

Enclosures

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