



**Metropolitan St. Louis  
Sewer District**

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2350 Market Street  
St. Louis, MO 63103

November 5, 2019

Mr. Leonard Toenjes  
MSD Rate Commission, Chair  
Associated General Contractors of Missouri  
6330 Knox Industrial Drive, Ste. 200  
Saint Louis, MO 63139

Dear Mr. Toenjes:

This letter is intended to provide the Board's plans for the upcoming wastewater rate increases. First, the Board would like to thank the Rate Commission for its efforts throughout this rate setting process. It is obvious the Commission has taken its responsibility seriously and has issued a very detailed and thorough report. The Board is pleased that the Commission agrees that the District's proposed four-year Capital Improvement and Replacement Program is necessary to meet the obligations of the District under the Consent Decree and to protect the public's health and welfare by improving water quality and alleviating many wastewater concerns in the St Louis region through adequate sanitary disposal and treatment of sewage.

On October 10, 2019, the Board of Trustees adopted Resolution No. 3547 accepting the Rate Commission's August 16, 2019 Report. In Resolution No. 3547, the Board pointed out that this acceptance should not be construed to limit the Board's authority and discretion under the Charter with respect to bonds, bond ratings, and minimum debt service coverage.

The Board acknowledges that the Rate Commission found the District's original proposal did not impose a fair and reasonable burden on all classes of ratepayers. The Rate Commission examined several aspects of the District's proposed rates and found that two modifications should be made to make the rate change fair and reasonable. Specifically, the Rate Commission found that the rate change would be fair and reasonable so long as (i) the rate model uses a target "minimum total debt service coverage ratio of 1.6x," and (ii) "the proposed increases for extra strength surcharges [are] phased in over at least a two-year period."

The Board accepted rates consistent with those calculated using the two modifications as shown in Exhibit A from the Rate Recommendation Report (i.e., the phase in of the extra strength surcharge increases over two years and a total debt service coverage of 1.76x as the lowest coverage that is expected to be reached based on all parameters defined by the Rate Commission). The Board also considered statements from the Rate Commission outside of the rate and rate structure recommendations.



The Board would like to remind the Rate Commission that under the Charter the Rate Commission's role is limited to making a recommendation on changes in rates or rate structure. Within that role, it is free to make and change the assumptions underlying the rate proposal in developing recommended rates, however, the Board ultimately determines the methods used to operate the District within the recommended rates and rate structure. Moreover, the Charter provides that the Board meet the cost of acquiring, constructing, improving, or extending all or any part of the sewer drainage facilities and systems. Pursuant to the Board's responsibility to set rates and rate structure, it provides its plans for implementing recommendations (i) and (ii) stated above:

- Target a minimum total debt service coverage ratio of 1.6x:

Pursuant to MSD's Debt Management Policy,

- a. The District's Financial Advisor will assist MSD with capital financing strategy and the evaluation of specific debt management matters.
  - b. The Financial Advisor shall recommend the structure for any financing based on the composition of MSD's outstanding debt and market conditions at the time of the bond issuance.
  - c. The mix of PAYGO and debt financing shall balance concerns regarding the affordability of rates and charges as well as the impact of debt burden on MSD ratepayers.
  - d. MSD will actively seek to maintain and improve the credit ratings of its outstanding debt obligations through the highest quality fiscal management and adherence to prudent investment and debt management policies, including debt affordability benchmarks.
- Phase in the proposed increases for extra strength surcharges over at least a two-year period:
    - a. The extra strength surcharges outlined in the Rate Proposal increased more than the other rate components. While the proposed rates are supported by the cost of service analysis, the final rate schedule will allow for the extra strength surcharges to be phased in over a two-year period.

Regarding the statements made by the Rate Commission in its letter and on page 32 of the Report, the Board is pleased the Rate Commission finds the proposed debt/cash mix in the Rate proposal both adequate and appropriate. The Trustees agree that long-term planning is essential to successfully meeting the District's obligations to and expectations of its ratepayers, regulators, bond investors, and rating agencies. MSD's professional staff will work closely with our Financial Advisors to continue recommending and implementing a long-term financing plan that honors this commitment to current and future stakeholders.





Regarding the statements from the Rate Commission in its letter and on pages 111-112 of the Report, the Board is pleased that the Rate Commission recognizes the importance of the Consent Decree schedule, as modified, and does not find that any identified projects should be moved to a subsequent rate cycle. If and when additional funds become available during the rate cycle, the District will evaluate its capacity to move projects up and take action when feasible.

Also, the Board acknowledges that the Rate Commission believes that the District's I/I allocation of approximately 60% to volume and 40% to customers merits further examination. As stated during the proceedings, MSD is committed to performing a new I/I allocation study prior to the next rate proposal to determine what, if any, changes should be made to the I/I allocation.

In addition to the above discussion, the Board believes the Report makes the required findings to allow implementation of the alternative rate schedule based on cash financing, so long as the rates reflect the modifications requested by the Rate Commission. The District's main rate change proposal was premised on the approval by voters of \$500 million in bonds. However, in the event the voters do not approve the bonds, the District submitted an alternative rate change proposal that was based on cash financing of the wastewater program during the relevant time period (FY 21-24). If the initiative for bonding is not passed by the voters, the District will implement an alternative rate schedule based upon cash financing and including a two-year phase in of the proposed increases for the extra strength surcharges.

Again, thank you for your time and efforts in this important process of setting rates for the District.

Sincerely,

A handwritten signature in black ink, reading "Michael Yates", is positioned above the typed name.

Michael Yates, Chair  
Board of Trustees  
Metropolitan St. Louis Sewer District

cc: MSD Board of Trustees  
MSD Rate Commission  
Brian Hoelscher, MSD Executive Director  
Tim Snoke, MSD Secretary-Treasurer  
Marion Gee, MSD Director of Finance  
Susan Myers, MSD General Counsel