

Exhibit MSD 63A

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

MSD'S RESPONSE TO THIRD DISCOVERY REQUEST OF THE RATE COMMISSION

The Metropolitan St. Louis Sewer District Response

ISSUE: WASTEWATER RATE CHANGE PROCEEDING
WITNESS: METROPOLITAN ST. LOUIS SEWER DISTRICT
SPONSORING PARTY: RATE COMMISSION
DATE PREPARED: APRIL 1, 2019

**Lashly & Baer, P.C.
714 Locust Street
St. Louis, Missouri 63101**

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

For Consideration of a)
Wastewater Rate Change Proposal by)
The Rate Commission of The Metropolitan)
St. Louis Sewer District)

**MARCH 25, 2019 THIRD DISCOVERY REQUEST
OF THE RATE COMMISSION**

The Metropolitan St. Louis Sewer District

Pursuant to § 7.280 and § 7.290 of the Charter Plan of The Metropolitan St. Louis Sewer District (the "Charter Plan"), Restated Operational Rule 3(7) and Procedural Schedule § 16 and § 17 of the Rate Commission of The Metropolitan St. Louis Sewer District ("Rate Commission"), The Metropolitan St. Louis Sewer District ("District") hereby responds to the March 25, 2019 Third Discovery Request of The Rate Commission for additional information and answers regarding the Rate Change Notice dated March 4, 2019 (the "Rate Change Notice").

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

For Consideration of a Wastewater)
Rate Change Proposal by the Rate Commission)
of the Metropolitan St. Louis Sewer District)

**THIRD DISCOVERY REQUEST
OF THE RATE COMMISSION**

Pursuant to §§ 7.280 and 7.290 of the Charter Plan of the Metropolitan St. Louis Sewer District (the “Charter Plan”), Restated Operational Rule § 3(7) and Procedural Schedule §§ 16 and 17 of the Rate Commission of the Metropolitan St. Louis Sewer District (the “Rate Commission”), the Rate Commission requests additional information and answers from the Metropolitan St. Louis Sewer District (the “District”) regarding the Rate Change Proposal dated March 4, 2019 (the “Rate Change Proposal”).

The District is requested to amend or supplement the responses to this Discovery Request, if the District obtains information upon the basis of which (a) the District knows that a response was incorrect when made, or (b) the District knows that the response, though correct when made, is no longer correct.

The following Discovery Requests are deemed continuing so as to require the District to serve timely supplemental answers if the District obtains further information pertinent thereto between the time the answers are served and the time of the Prehearing Conference.

THIRD DISCOVERY REQUEST

1. During the Rate Commission's Work Session on March 22, 2019, a reference was made to the District's use of a four-year cycle to establish rates. Please explain why the District uses a four-year period to set rates, and identify that factors that drove that decision.

RESPONSE: *As stated recently by Pam Lemoine, the Rate Commission's rate consultant, there is not one set time period that is consistent throughout the industry. During MSD's first two Rate Proposals (FY 2003-2007 and FY 2008-2012), MSD used a five year rate proposal. There were two factors that lead to MSD going to a four year cycle (FY 2013-2016, FY 2017-2020, and the current proposed FY 2021-2024). The first was the timing of MSD's union contracts. MSD's contracts were three years long when the rate proposal process was first started. This led to instances where the Rate Commission was faced with in-place labor contracts that were effective through a rate proposal currently under review. MSD was also in a position of negotiating labor contracts without knowing the recommendation of the Rate Commission or the decision of the Board of Trustees for the next rate cycle. The unions agreed to a four year contract cycle to better match up with an acceptable rate proposal cycle. In addition, the four year rate cycle as now in place has the advantage of allowing any ballot initiatives associated with necessary bond authorization to be held without coinciding with other significant area wide initiatives or electioneering such as for the Mayor of the City of St. Louis or for the County Executive of St. Louis County. Since MSD has been using a 4 year rate cycle, four other benefits have become evident. First, the 4 year cycle has proven to be acceptable for MSD to address negative financial impacts (for example flooding, or lower water usage than anticipated) without having to request a rate adjustment. Second, a four year cycle assures that the rate payer will be able to regularly see the positive impact on future rates of MSD's continuous improvement efforts. Third, a Rate Commission process consumes two years of internal MSD resources as well as approximately \$600,000 for the cost of the Rate Commission process as well as approximately \$800,000 for the cost of any resulting ballot initiative. Finally, we have found that the Rating Agencies and bond investors consider it a strength to have a 4-year rate approval when considering our credit profile.*

2. Please explain how wastewater projects are evaluated and prioritized for inclusion in the Capital Improvement and Replacement Program ("CIRP").

RESPONSE: *Refer to MSD's response to the second discovery (Exhibit MSD 61A) question 1. The SSO Master Plan (Exhibit MSD 37C) discusses how system problems were identified, how system condition and capacity were assessed, and how projects were identified to resolve the issues. Sections 5.2 and section 6 discuss how projects were prioritized and sequenced for developing project activities, approved by EPA and used to include projects in the CIRP. The CSO Long Term Control Plan (LTCP) (Exhibit MSD 37B) discusses the CSO Control options screened and the Control Alternatives evaluated and selected in sections 7, 8 and 11. The Long Term Control Plan also includes an implementation schedule in section 11.4. The LTCP was used as the basis for including projects in the CIRP. For budgeting significant asset*

Exhibit MSD 63A

renewal projects in the CIRP, MSD uses a new asset management approach for facilities, as developed by Brown and Caldwell. Projects are identified and CIRP funding requested through a Project Justification Form, and the various projects are evaluated on a business case evaluation using a risk quantification tool. Refer to the form, the risk quantification tool and rulebooks of instruction in Exhibits MSD 63B - 63D.

3. Please explain what effect, if any, a decision by the District's voters not to approve Proposition S (2019) would have on the wastewater CIRP or the Rate Change Proposal generally. Would funds presently allocated to address wastewater be redirected to address stormwater? If so, please explain how such funds would be reallocated.

RESPONSE: *Overhead and capitalized labor that would be charged to the stormwater CIRP would be charged to other CIRP projects which are primarily wastewater projects if Proposition S is not approved by voters. A "NO" vote on Proposition S would have no impact on the rates being proposed by MSD for fiscal years 2021 thru 2024. Funds presently allocated to address wastewater matters will not be redirected to address stormwater matters.*

4. Please provide a detailed summary of investments made by the District to date to comply with the Consent Decree, as amended. See Ex. MSD 37; Ex. MSD 37A. Please provide calculations of dollars expended by the District, and any overflows eliminated as a result of these investments.

RESPONSE: *As noted on Page 4-15 of Exhibit MSD 1, Rate Change Proposal Document, \$1.7 billion is expected to be appropriated for capital projects over the first 7 fiscal years of the CD program, from FY13 through the end of FY19 (June 30, 2019).*

A typical sewer construction project takes four years to complete – one year for design, one year for easement acquisition, and two years for construction and accounting closeout. As of March 26, 2019, 245 Consent Decree related projects have been completed. \$471 million was appropriated for those projects, and \$417 million was expended on them. The difference between those two values, \$54 million, represents a cost savings, as those projects were able to be completed under budget. This cost savings is reflected in available fund balances each fiscal year, as individual projects are closed out, and is therefore factored into this Rate Change Proposal (lessening the need for future capital program revenue).

For 528 currently ongoing projects, \$1.228 billion has been appropriated, with \$832 million expended as of March 26, 2019. The difference between those two values, \$396 million, represents future payments for currently contracted construction and engineering services for ongoing projects, such as the Deer Creek Sanitary Tunnel.

Exhibit MSD 63A

As a result of these investments, 61 Sanitary Sewer Overflow Outfalls and 3 Combined Sewer Overflows have been eliminated. Additionally, there are 50 Sanitary Sewer Overflow Outfalls and 22 Combined Sewer Overflows that are included in the Consent Decree and were removed ahead of the spending period presented above.

5. Please explain how the District's debt capacity – presently \$3 billion – is determined. Is this limit determined by statute, constitutional provision, or the Charter Plan? Or is it determined by rating agencies, the District's ability to recover cost, or some other factor(s)? Please explain how this limitation influences long-term financing projections, such as using PAYGO or a mix of PAYGO/debt financing.

RESPONSE: *The \$3 billion debt capacity number listed in the rate model is not intended to be used as a measure of debt capacity. The amount in the model was set at \$3 billion so as to be high enough to not interfere with the model's performance. It is not a limit.*

The District finances the CIRP with a combination of PAYGO and revenue bonds. Per MSD's Charter, bonding authority must be approved by the voters so the District's total outstanding debt amount is constrained by the debt authorization amount approved by the voters and by the bonds' rate covenant, which sets the debt service coverage rate at which the bonds would default. See the response to question 13 in Exhibit MSD 61A for an explanation of the rate covenant. In order to maintain its high credit ratings the District proposes rates that are expected to result in coverage ratios that exceed the rate covenants, as explained in the Financial Plan Assumptions section of the Direct Testimony of Bethany Pugh (Exhibit MSD 3G). As a result, the only current relevant limit on the amount of debt that can be outstanding is the amount that has been authorized by voters. The amount of debt authorization currently remaining is approximately \$675 million so the current effective limit is approximately \$2.3 billion (\$1.5 billion currently outstanding plus \$130 million of committed financing not yet borrowed plus \$675 million of debt authorization remaining). If voters approve an additional \$500 million of debt authorization, as contemplated by the Rate Change Proposal, the effective debt limit will rise by \$500 million. Likewise, the effective limit is reduced every time the District makes a principal payment. Principal payments are currently scheduled every January 1, May 1, and July 1 throughout the next several rate cycles. Since the rate model assumes voters will approve the new debt authorization, it forecasts that the peak in debt outstanding during the FY21-24 period will be \$2.3 billion and the peak debt limit ceiling will be about \$2.6 billion.

The debt limit has not been a factor in determining the PAYGO/debt financing mix. As stated previously, financing projections assume that voters will authorize additional debt financing. If voters do not approve additional debt, then the CIRP will become entirely PAYGO funded once any remaining debt authorization is exhausted.

Exhibit MSD 63A

6. Please explain how the District's bond ratings compare to similarly situated wastewater/stormwater utilities.

RESPONSE: *Every issuer's bond ratings, including the District's, are based on its unique characteristics and credit profile. Differences between systems include (but are not limited to) system age and size, population served, geography, climate characteristics, local/regional political and regulatory environment, consent decree size and length (if applicable), revenue sources, and services provided. Exhibit MSD 63E is a table of 15 other Moody's rated wastewater revenue bond issuers that report total assets greater than \$2.8 billion. MSD does not have the data to conclude that the issuers contained in the table are good comparisons or are "similarly situated", only that they are the other wastewater revenue bond issuers that report total assets greater than \$2.8 billion. For an understanding of the factors that drive the District's credit ratings and the events that have the potential to alter MSD's ratings, please see Exhibits MSD 38, MSD 39, and MSD 40.*

7. Section 7.2 of the Rate Change Proposal indicates that CCTV inspection and physical inspection of sewers are included within the CIRP for FY 2020 – FY2023. See Ex. MSD 1, p. 7-26. The SSO Master Plan indicates that inspections were performed in the formulation of the Master Plan. See Ex. MSD 37C. If inspections were performed as part of the SSO Master Plan, please explain why CCTV inspections and physical inspections are required through 2023?

RESPONSE: *In addition to the inspections referenced in the SSO Masterplan the Consent Decree paragraph 31 also summarized MSD's past efforts toward CCTV inspection, recognizing that MSD had CCTV'd 1,340 miles of the sewer system from 2005 to 2010. The CD requires MSD to continue to CCTV the system until the entire sewer system is televised, with a minimum of 280 miles per year, which is reported in section 9.1 of the Annual Report to EPA. Annual reports can be found on the MSD website at <https://www.stlmsd.com/our-organization/organization-overview/consent-decree>. CCTV inspections support scope definition for upcoming Capital Projects and are needed to support Operations and Maintenance activities, specifically large diameter sewer inspections.*

8. For all Public Infiltration/Inflow Reduction ("PIIR") projects, are specific PIIR projects in each watershed known at this time? If so, are funds allocated for these projects on a per-year basis? If these projects are not yet known, please explain how they will be identified.

RESPONSE: *Specific public inflow/infiltration reduction projects are known in each watershed at this time. Exhibit MSD 37C, MSD Sanitary Sewer Overflow Control Master Plan, Table D-1, identified the conceptual scopes of work for SSO elimination projects. These scopes of work are further refined as more detailed information is received from Sewer System Evaluation Studies (SSES) or Operations inspections, and as detailed preliminary studies are developed for each project. However, to obtain the best value for our ratepayers, public I/I reduction work is removed from each individual project number, and bundled together into a*

Exhibit MSD 63A

separate project number with the same type of work in nearby areas, for bidding and construction purposes. These bundled projects are sized to be efficient to construct and administer. This process has led to a very streamlined delivery for public I/I reduction projects, reducing the cost of that type of work. Project names such as "Lemay Public I/I Reduction (2021) Contract A" indicate this type of bundling of like work.

Funds are not allocated to these projects on a per-year basis, per se, but are scheduled and funded per the SSO Master Plan schedule. The scheduling of work is intended to ensure compliance with consent decree requirements.

Although these projects are known, additional projects can be identified as more detailed information is received from Sewer System Evaluation Studies (SSES) or Operations inspections, and as detailed preliminary studies are developed for each project.

9. Please explain what additional work, if any, is required by the watershed consultants identified in Section 7.2.2 of the Rate Change Proposal, Ex. MSD 1, if Consent Decree projects are already planned and funding for such projects has been set aside for design.

RESPONSE: *The watershed consultant contracts were put in place to establish long term design teams to address both large storage tunnel projects and handle the large number of smaller projects throughout the District. These contracts were structured to handle the large influx of work associated with the consent decree, including assisting with program planning and assuming certain project management roles. The watershed consultant contracts supplement staffing levels with resources and expertise required to achieve the results of the Consent Decree.*

Two watershed consultant contracts were procured to implement the large storage tunnels associated with addressing the CSO requirements of the Consent Decree. These two contracts were anticipated to continue through the duration of these long term solutions.

Three watershed consultant contracts were implemented to address the numerous projects associated with addressing the elimination of SSOs required by the Consent Decree. These three contracts began in FY2012 and FY2013, with anticipated durations of 10 years. The transition away from these three contracts was originally identified as part of the District Strategic Business Plan in FY2018. Currently, one of the three contracts is only supporting a large tunnel that is in construction. The other two of these contacts are anticipated to receive their last new assignments in FY2022. Beyond that we anticipate going back to smaller consultant contracts to address specific projects along with District staff taking a more active role in program planning and project management duties. Currently, projects are programed for the watershed consultants beyond FY2022, but anticipate changes will be made depending on the availability of staff going forward.

Exhibit MSD 63A

10. Regarding the Construction Management Services – Tank/Treatment/Pump Station Facilities projects identified in Section 7.2.2 of the Rate Change Proposal, Ex. MSD 1, pgs. 7-30 – 7-31, are these services for the projects identified or are they in addition to other identified projects? Please explain how the District determines how funds for these projects are spent.

RESPONSE: *These services are for storage tank, wastewater treatment, and pump station projects identified in the rate proposal. These services are provided as a staff extension of our internal construction inspection team bringing resources and expertise to these specific projects. The budgets for the individual projects do not include construction management services. The budget for construction management services is based on historical construction management fees for similar projects and fee proposals from the vendor.*

11. Regarding the projects identified as Critical Infrastructure Assessment in Section 7.2.2 of the Rate Change Proposal, Ex. MSD 1, pgs. 7-32 – 7-33, are these projects different than the work performed for the SSO Master Plan or the Combined Sewer Overflow Long-Term Control Plan (“CSO LTCP”)? Please explain how these projects provide additional benefit to the District beyond the work previously performed.

RESPONSE: *The activities of the Critical Infrastructure Assessment project is similar to the sewer system evaluation work that supported previous planning efforts, however, it is now used to fulfill ongoing CMOM activities to properly operate and maintain the system, ahead of preventative maintenance and rehabilitation. Specifically, this project is focused on condition assessments of critical, high-risk assets. In addition, the services provided are to assist MSD in operating efficiencies, for example, when additional detailed reporting is required, or to recon and update maps to allow for the efficient use of crews and equipment to find and work on assets.*

12. Please explain how CSO Volume Reduction Green Infrastructure projects (See Ex. MSD 1, pgs. 7-34 – 7-35) are determined. Are these projects funded by or eligible for grant funding?

RESPONSE: *The CSO Volume Reduction Green Infrastructure projects are determined according to the CSO Volume Reduction Green Infrastructure Program: Full Implementation Plan, see sections 5.4 and 5.5 in the document, found at this link on the MSD web page (<https://www.stlmsd.com/sites/default/files/engineering/GI%20Pilot%20Final%20Section%201.pdf>). The CD requirement is that MSD spend \$100 million by 2034, which equates to approximately \$5 million annually.*

The projects are not funded by grant funding or eligible for grant funding. The CSO Long Term Control Plan, Appendix Q, indicates that any outside private funding by private developers, or the City, or LRA, or any entity other than MSD, will not count toward MSD’s \$100 million commitment.

Exhibit MSD 63A

13. Regarding the Easement Acquisition for Wastewater Projects identified in Section 7.2.2 of the Rate Change Proposal, Ex. MSD 1, p. 7-38, are funds budgeted in addition to what is already included in project budgets? Or are these included in individual project budgets? Please explain how these funds are allocated to projects.

RESPONSE: *Project budgets do not include easement acquisition funding. Separate funds have been programed for anticipated easement acquisitions costs based on fiscal year program requirements. Funds, based on historical expenditures are programmed based on the number and types of projects anticipated during particular fiscal years as a whole in one fund. As project schedules develop funding requirements are adjusted to appropriate levels depending on needs.*

14. Regarding the Flow Metering and Monitoring projects identified in Section 7.2.2 of the Rate Change Proposal, Ex. MSD 1, pgs. 7-41 – 7-42, please explain why funds are allocated for such projects if flow monitoring was completed as part of the SSO Master Plan and/or the CSO LTCP. The project descriptions on pages 7-41 and 7-42 state that “this information will be used to calibrate hydraulic models to determine if projects are required.” If the hydraulic models determine that these projects are not needed, will they be removed from the CIRP? Please explain the value of additional flow metering and monitoring to the District.

RESPONSE: *Flow metering is explicitly required by the Consent Decree as described in Exhibit MSD 37 (Appendix E) in order to evaluate performance of CSO Control Measures, in order to provide data to support capacity assurance evaluations and continuously updated hydraulic models (Paragraphs 19 a-c and 21 e.), and to evaluate performance of the separate sanitary sewer system during and after the execution of the SSO Control Master Plan (Paragraph 6 y.). Each year MSD utilizes the data collected under this project to evaluate the effectiveness of recently completed projects. In many cases this has allowed the cancellation of sanitary relief projects that follow Inflow and Infiltration (I/I) reduction projects. As a result of the data collected in 2017, MSD was able to cancel or reduce projects to the tune of approximately \$8 million. In 2018 projects were cancelled or reduced to allow approximately \$11 million in savings to the rate payers. In addition to supporting decisions related to Capital Improvements, flow monitoring data is used to provide information to MSD staff in order to respond to post rain event customer complaints and to evaluate the impacts of private development.*

15. Regarding the General Services Agreements identified in Section 7.2.2 of the Rate Change Proposal, Ex. MSD 1, pgs. 7-43 – 7-53, these are all listed as “as needed.” Are these items to be used for other identified projects? Or for additional projects? Please explain how these funds will be utilized.

RESPONSE: *General Services Agreements are procured to supplement staffing levels with resources and technical expertise required to implement projects. This work is for a variety of projects including green infrastructure and repairs to existing District assets. These projects are needed for timely repair work and cannot be programed.*

16. Regarding the Infrastructure Repairs at the Wastewater Treatment Facilities identified in Section 7.2.2 of the Rate Change Proposal, Ex. MSD 1, p. 7-57, have projects been identified for these funds? Or are these funds targeted annual expenditures? Please explain how these funds will be utilized.

RESPONSE: *No. The funds target an annual expenditure of approximately \$3 million. This project was created to support Operation's Asset Management Program for wastewater treatment plant facilities and pump stations, which has been newly revamped. Over the next several years, Operations will be inspecting all of their assets at these facilities to obtain current condition assessments. With thousands of assets, it is expected that assets will be identified at the end of their life. This project is to rehab or replace those assets. Along with the Engineering GSAs, this project allows Engineering to deliver rehab or replacement projects quicker than typical CIRP funding, which typically takes over 3 years from project identification through preliminary study, budgeting, full design and construction. Similarly, this project is intended for smaller equipment replacement, and to enable facilities to run non-critical equipment nearer to failure, rather than attempting to forecast failure and program ahead of time in the CIRP. This will increase the efficiency of MSD's delivery of equipment replacement. This funding is within the guidelines of financial forecasting to meet asset renewal needs, as described in the MSD response to the second discovery request, question 1.c. Examples of work under this project will include replacement of failed service tunnel ventilation equipment, failed pump station gates, failed wastewater treatment facility fittings and valves, and failed pump station cooling towers.*

17. Regarding the Infrastructure Repairs – Rehabilitation projects identified in Section 7.2.2 of the Rate Change Proposal, Ex. MSD 1, pgs. 7-57 – 7-59, are these funds in addition to specific projects that are already identified? Please explain how and when the District determines where to spend rehabilitation funds. Please explain what efforts the District takes to ensure that infrastructure needs are expended in a fair and equitable manner.

RESPONSE: *Yes. These funds are for repairing sewer infrastructure by using the rehabilitation method of cured-in-place pipe or similar method. As sewer assets are inspected by Operations and/or CCTV vendors under the CD required CMOM program, condition ratings are applied and work orders are entered in order to rehabilitate the sewer. CCTV data is utilized in determining the applicability for the cured-in-place method prior to work being performed. The CD requires that 90 miles per year of sewer are repaired, or rehabilitated or replaced.*

Exhibit MSD 63A

18. Regarding the Infrastructure Repairs – Wastewater projects identified in Section 7.2.2 of the Rate Change Proposal, Ex. MSD 1, p. 7-59, please explain how these projects are identified. Please explain in detail what type of infrastructure (e.g., pipelines, pump stations, treatment facilities) is included.

RESPONSE: *As MSD Operations responds to customer service requests and performs required routine CMOM inspections and CCTV work, assets are rated and work orders entered to perform required repair or rehab or replacement work. The infrastructure addressed by this project includes wastewater collection system assets, sewers and manholes. Facility work is not included, as Facilities such as pump stations and treatment facilities are addressed under this third discovery question number 16.*

19. Regarding the RADAR Rainfall Data, Stream Flow Gauge Operation and Maintenance (USGS), and Stream Flow Water Quality Sampling projects identified in Section 7.2.2 of the Rate Change Proposal, Ex. MSD 1, pgs. 7-76 – 7-77 and 7-81 – 7-83, will the data from these projects be utilized for ongoing Consent Decree monitoring?

RESPONSE: *Rainfall monitoring is required by the CD to support capacity assurance assessments, model calibration and as part of the LTCP Post Construction Monitoring Program (MSD Exhibit 37, Paragraphs 19 a-c, 21 e. and Appendix E). In addition, the Radar Rainfall Data provides the District with a continuous record of Gauge Adjusted Radar Rainfall (GARR) data. GARR data is the standard-of-practice when used for rainfall input into hydraulic models. MSD utilizes hydraulic modeling software that can ingest GARR data (the most accurate way to represent rainfall timing, volume and spatial variation) in order to calibrate to flow monitoring data for the best representation of wet-weather flow responses in the sewer collection system. Accurate model calibration saves the District millions of dollars in capital improvement dollars each year.*

Stream Flow Gauge Operation and Stream Flow Water Quality Sampling are required by the CD (Exhibit MSD 37 Appendix E). MSD collects continuous stream gauge measurements to support water quality sampling in the Mississippi River and River Des Peres watersheds to evaluate the impact on receiving water quality as the frequency and volume of CSO discharges are reduced.

20. Please describe the District's contract with the City of Arnold. Please explain how Arnold's Wastewater Treatment Plant revenue is derived. Further, please explain the reasoning for the projected increases in the Rate Model for Arnold WWTP revenues. See Ex. MSD 52, Inputs tab, line item 41500.

Exhibit MSD 63A

RESPONSE: *A copy of the District's contract with the City of Arnold has been provided as Exhibit MSD 58. In December 2014, Missouri American Water (MOAM) purchased the City of Arnold's sanitary sewer system and assumed the terms of the contract that the District previously signed with Arnold. The contract allows the District to bill MOAM for its share of operation and maintenance cost based on its metered flows to the plant. It also contains provisions that define the conditions by which the District is allowed to bill MOAM to recover capital costs. In addition, the contract allows the District to charge a management fee of 10% of the operation and maintenance costs plus capital costs paid to the District to recover administrative and general overhead costs. The projected 10% increase in revenues associated with the contract was based on the average increase of 10.8% from FY14 through FY18.*

21. Please provide a copy of the presentations made to ratings agencies for the District's most recent bond issuance.

RESPONSE: *See Exhibit MSD 63F*

22. On the O&M Summary tab in the Rate Model, Ex. MSD 52, please explain the nature of the projected One Time Expenses (line item 2524) and Recurring Future Expenses (line item 2408), as well as how incremental additional costs were developed.

RESPONSE: *One Time Expenses and Recurring Future Expenses are incremental expenses to be added to the District's O&M budgets. One Time Expenses are known, planned expenses that will take place in a forecasted year that are not included in a prior budget and must be added to a future year O&M forecast. For example, Board of Election commission expenses (line item 2538) are incurred when the District needs to place an item on a ballot for consideration by voters. This line item was placed in the FY2021 forecast but is not a recurring annual expense.*

Recurring Future Expenses are known, planned expenses that will not begin until a forecasted year and are not included in the current budget, but will remain in a future budget as an ongoing expense. For example, Office System Services expenses (line item 2416) include an amount for annual maintenance associated with the upgrade of the District's Hyperion budgeting system. The District will continue to incur this expense on an annual basis.

23. Please provide a copy of the District's FY2020 Operating Budget to be included as an exhibit to the Rate Commission's proceedings.

RESPONSE: *A copy of the District's preliminary FY2020 Operating Budget has been provided as Exhibit MSD 63G.*

24. Please provide a copy of the utility cost trend analysis referenced in Section 7-2 of the Rate Change Proposal, Ex. MSD 1, p. 7-2.

RESPONSE: *Please see the table below.*

Other Utilities - Average Annual Change

Fiscal Year	Natural Gas Usage		Water Usage		Telephone Usage	
FY13	\$ 1,826,194		\$ 545,249		\$ 874,344	
FY14	\$ 2,114,575	15.8%	\$ 494,792	-9.3%	\$ 910,824	4.2%
FY15	\$ 2,029,134	-4.0%	\$ 588,387	18.9%	\$ 904,504	-0.7%
FY16	\$ 1,645,464	-18.9%	\$ 825,718	40.3%	\$ 1,136,080	25.6%
FY17	\$ 2,319,792	41.0%	\$ 802,004	-2.9%	\$ 1,055,996	-7.0%
FY18	\$ 2,164,221	-6.7%	\$ 753,743	-6.0%	\$ 1,095,964	3.8%
5-Year Annual Change		3%		7%		5%

25. Please provide supporting file/documentation for the escalation factors indicated in the Rate Model, Ex. MSD 52, on the Inputs tab, for the following escalation factors:

- (a). 41160 Residential – Late Charges – please explain what led from the 1% increase in the 2015 recent wastewater rate change proposal to the 9% increase projected herein. Did the District experience an increase in delinquencies since the 2015 proposal?
- (b). 41260 Commercial – Late Charges – please explain what led from the 1% increase in the 2015 recent wastewater rate change proposal to the 9% increase projected herein. Did the District experience an increase in delinquencies since the 2015 proposal?
- (c). 41600 NSF Fees – Please provide documentation supporting the projected increase in NSF fees.
- (d). 42100 SSC Doubtful Accounts – Please confirm that this is the same information as is provided in Ex. MSD 61.
- (e). 43120 Connection Fees – Please state the most recent time MSD conducted a fee connection study. Do connection fees automatically increase 1% per year? Please provide a copy of any resolution/ordinance outlining projected increases.

Exhibit MSD 63A

RESPONSE:

(a) (b) The escalation factors for residential and commercial late charges were analyzed in total. Below is the table that shows how this escalation factor was calculated.

<u>Late Charges</u>	<u>FY15</u>	<u>FY16</u>	<u>FY17</u>	<u>FY18</u>	<u>Average</u>
Residential	2,464,614	2,815,046	3,047,751	3,257,724	
Commercial	280,733	239,830	290,117	267,177	
	2,745,348	3,054,876	3,337,868	3,524,901	
		11%	9%	6%	9%

(c) The 7.3% represents the budgeted increase between FY18 actual NSF Fee revenue and FY19 budgeted NSF Fee revenue. A multi-year analysis of this line was not considered necessary due to the immaterial nature of this revenue source. NSF Fees for FY21 – FY24 represent \$456,978 of the total WW Pledged Revenue (Table 4-10 of Exhibit MSD 1) of \$1,954,690,930, or 0.02%.

(d) Account 42100 (SSC Doubtful Accounts) is used to record the amount of sanitary sewer charges that the District does not expect to collect in a given fiscal year or interim reporting period during the fiscal year. It is different from the delinquent account balance that was referenced in the District’s response to question 5 in Exhibit MSD 61A in that the delinquent account balance represents the balance due on customer accounts for wastewater charges, stormwater charges, late fees and other charges such as lien fees and other court awarded fees since MSD began operating. The balance in account 42100 is reset to zero at the beginning of each fiscal year whereas the delinquent account balance is a cumulative total of amounts due to MSD. Additional information regarding account 42100 can be found in Marion Gee’s testimony (see question 16, Exhibit MSD 3E).

(e) The District last conducted a study of its connection fees in April 2017. There are no automatic increases associated with connection fees. The increase in revenue that was listed in the model assumes a minimal growth in the number of fees that were collected. This revenue source is difficult to estimate as year-over-year variances can change by +/- 20% so the District has conservatively forecasted these fees. A copy of Ordinance 14854 (See Exhibit MSD 63H) that was adopted on January 11, 2018 has been provided that relates to the most recent change in connect fees.

Exhibit MSD 63A

Respectfully submitted,



Susan M. Myers, General Counsel

THE METROPOLITAN ST. LOUIS SEWER DISTRICT

2350 Market Street

St. Louis, Missouri 63103

smyers@stlmsd.com

Tel: (314) 768-6366

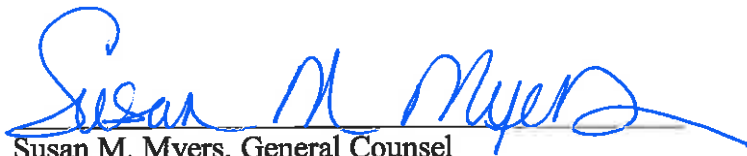
Fax: (314) 768-6279

CERTIFICATE OF SERVICE

The undersigned certifies that a copy of the foregoing was sent by electronic transmission to Lisa O. Stump and Brian J. Malone, Lashly & Baer, P.C., on this 1st day of April 2019.

Lisa O. Stump, Esq.
Lashly & Baer, P.C.
714 Locust Street
St. Louis, MO 63101
lostump@lashlybaer.com

Brian J. Malone, Esq.
Lashly & Baer, P.C.
714 Locust Street
St. Louis, MO 63101
bmalone@lashlybaer.com



Susan M. Myers, General Counsel
THE METROPOLITAN ST. LOUIS SEWER DISTRICT
2350 Market Street
St. Louis, Missouri 63103
smyers@stlmsd.com
Tel: (314) 768-6366
Fax: (314) 768-6279