



**Metropolitan St. Louis  
Sewer District**

2350 Market Street  
St. Louis, MO 63103

May 5, 2011

Board of Trustees  
Metropolitan St. Louis Sewer District  
2350 Market Street  
St. Louis, MO 63103

Dear Trustees:

The mission of the Metropolitan St. Louis Sewer District (MSD) is to protect the public's health, safety, and water environment by responsibly providing wastewater and stormwater management. In fulfilling our mission, we focus on delivering sound fiscal management and fostering a business-focused culture throughout the organization.

As we build upon our progress over the past several years and move into fiscal year 2012, the District will focus on several key areas of its overall operations:

**STRATEGIC BUSINESS AND OPERATING PLAN (SBOP)** – The District's management is committed to running this utility like a business and making it accountable to our customers and community stakeholders. A key aspect of this effort is the District's Strategic Business and Operating Plan (SBOP).

The fiscal year 2012 Strategic Business and Operating Plan (SBOP) is a business-focused blueprint for serving our

customers now and into the future. It is a plan that puts the customers and the St. Louis community first.

The SBOP is tied to the budgeting process to ensure that initiatives are properly funded. Each department prepares a base budget that covers funding for its day-to-day operations, and an incremental budget for strategic activities that are to be implemented throughout the budget year. A detailed budget review process ensures an in-depth review of all budgetary requests. If fiscal constraints require reduced funding, the costs of strategic objectives are identified so that proper decisions can be made.

**WASTEWATER PROJECTS** – Perhaps the most important part of MSD's mission today is the execution of the multi-billion dollar, multi-decade Capital Improvement and Replacement Program (CIRP). The long-term goals of the CIRP are to protect the health and safety of our St. Louis community through the renewal and improvement of the District's existing wastewater collection and treatment capabilities. As we continue our progress on this important program, more and more work will be done on the collection system itself.

In fiscal year 2012, MSD plans 49 new or continuing wastewater projects, located throughout the District's service area, totaling \$145.8 million. These projects are funded primarily from the Sanitary Replacement Fund, and represent \$142.9 million in new projects and \$2.9 million in continued projects.

**STORMWATER** – The Missouri Department of Natural Resources has issued a Phase II Stormwater permit to MSD, St. Louis County, and 59 county municipalities. Under the

provisions of this permit, MSD is the St. Louis Coordinating Authority for our separate municipal stormwater sewer system. St. Louis County and the municipalities are co-permittees.

Per the Phase II Storm Water Management Plan, MSD has again committed significant resources to this important effort. Not only does this work help us meet MSD's legal obligations as a stormwater permit holder and as the St. Louis Coordinating Authority, but it significantly reduces the overall compliance burden incurred by our co-permittees. Such an approach allows for a comprehensive and meaningful direction to our community's Phase II Stormwater efforts.

The District has 2,980 miles of stormwater sewers that have received little to no maintenance. With the implementation of an impervious based stormwater user charge in 2008, MSD hired additional staff to adhere to a consistent maintenance level for our entire stormwater sewer system. As the new stormwater charge was fully implemented over several years, MSD also planned to work with the community and its customers to make additional stormwater services – such as the construction of new stormwater sewers where none currently exist, erosion control, etc. – available to the entire community. Unfortunately, in July 2010, a Lincoln County judge ruled that the stormwater user charge was invalid. This ruling was made in the case of *Zweig, et. al. vs. MSD*, a class action lawsuit that was filed over the validity of the impervious based stormwater user charge.

The July 2010 ruling forced MSD to reinstate a previous system of flat charges and property taxing districts to pay for stormwater service and to cut \$15.5 million in stormwater services and projects from the current budget. Due to how the taxing districts were previously established, customers inside of I-270 will receive very basic stormwater services, while customers outside of I-270 will receive virtually no stormwater

service other than those services that are required by state and federal regulations.

In fiscal year 2012, the District tentatively plans 19 stormwater projects, including 7 continuing projects from fiscal year 2011, totaling \$7.6 million. Due to the invalidation of the impervious based stormwater user charge, funding for stormwater projects will no longer be available after fiscal year 2012.

MSD has filed an appeal of the judge's ruling. Outside of if the appeal is successful or not, the issue of stormwater funding that provides effective and equal service must be solved. Without proper funding, chronic stormwater problems – particularly those outside of I-270 – will only get worse. This is unfair to customers and is not sustainable over the long term. For the sake of our community and our customers, MSD will continue its work to address this critical issue in an equitable and sustainable manner.

**ENTERPRISE SYSTEMS RETOOLING** – Our business software applications help us do everything from generating payroll to managing customer calls to producing work orders and financial statements. For years now, we've dealt with a patchwork of systems that are not well-integrated, not good at sharing data and are often so old that finding software support is difficult – if not impossible.

Beginning in 2007, we launched the first phase of the Enterprise System (ES) Retooling project that will replace all our patchwork of software systems with a single, more efficient system. Step one required us to consolidate and upgrade our Geographic Information System (GIS) so that we could better integrate map data with other MSD databases.

In 2009, the project continued in a big way as we tackled the software applications that run our core business activities: asset management and work order processing, including

purchasing. We trained 450 employees at three different training centers in these new processes. We successfully implemented the new system in November 2009.

2010 marked major steps forward in our ES Retooling efforts. Now online, our new \$13 million Oracle Financial Business Suite combines our patchwork of financial, project management, payroll, benefits and budgeting functions into a single integrated system designed to enable us all to work smarter and more efficiently.

While we still have significant work to do to in completing our ES Retooling efforts, we are now in a much better position to forecast our needs, share data between departments, and plan our future. We expect this work to pay for itself in six to eight years, while addressing MSD's business needs for years to come.

**CHARTER CHANGE COMMISSION—** We are required to have a commission of citizens review our charter every 10 years and recommend changes to our Board of Trustees. If the Trustees agree, the potential changes are placed on the ballot in both St. Louis City and St. Louis County for voter approval. Each group of voters would have to approve changes before they would take effect.

Twelve citizens from St. Louis City and County were appointed by our Board of Trustees to serve on the commission, and they reviewed the charter line by line. MSD staff also compiled a list of potential changes to the charter that have been raised by stakeholders, trustees, and staff in the past. (This list was not a set of staff recommendations, nor was it intended to be all inclusive. Rather, it was a means to help make the commission aware of issues that have been brought up in years past.)

In May 2010, the commission submitted an extensive report to MSD's Board of Trustees that contained a series of recommendations for the Board to consider. Since that time, Board committees have been reviewing the recommendations. Once the review process is complete, the Board will make a decision on what recommendations should be submitted to area voters for approval. This process is expected to conclude during fiscal year 2012.

**COMMUNITY EDUCATION & OUTREACH –** Green infrastructure is becoming more popular both across the country and in our St. Louis community. As part of its support for green initiatives, MSD launched its rain barrel program in 2009, selling over 1,500 rain barrels to customers. This program continued in 2010 and, due to ongoing demand, will continue in 2011.

In September, MSD and the City of St. Louis' Land Reutilization Authority (LRA) finalized an agreement for a 3 million dollar pilot green infrastructure program in the combined sewer portion of MSD's service area. This pilot program is meant to help understand the regulatory, logistical, financial, and educational challenges that will need to be managed as green infrastructure is utilized to address sewer overflows. If successful, similar type programs may be implemented throughout the St. Louis area.

MSD also continued its efforts to promote the use of rain gardens and impervious pavement surfaces as part of broader efforts to educate the public on steps our community can take to reduce water pollution due to urban stormwater runoff. These efforts include working with partners such as the Deer Creek Watershed Alliance and the Missouri Botanical Garden, among others. District staff has also setup educational booths at community events, such as fairs and festivals, to directly reach the public and update them on MSD's green efforts.

We are also reaching out via other outreach efforts – such as neighborhood project meetings and Phase II Stormwater activities. In fiscal year 2012, we will continue these efforts to educate and enlist the support of the public.

**DIVERSITY** – Minority/Women Business Enterprise (MWBE) firms have had extensive participation in the District's Capital Improvement and Replacement Program (CIRP). In fiscal year 2010, MWBE participation in construction projects was 29.90%, and MWBE participation in design and consulting projects was 30.27%. As evidenced by these numbers, MWBE participation in the CIRP has been an important part of our diversity efforts. In addition, MWBE participation in general purchasing transactions was 5.3%.

As MSD continues the important work we are doing to protect our environment, we will continue our efforts to ensure the District staff and our service providers are reflective of the diverse community we serve.

**BUDGET SUMMARY** – As the Executive Director of MSD, I affirm that rates and charges as currently implemented will generate sufficient revenues to meet all expenditures as proposed in the fiscal year 2012 budget and will provide adequate operating liquidity as directed in the District's Debt Management Policy. Furthermore, current rates and charges are adequate to ensure District compliance with all obligations as provided in the Master Bond Ordinance, adopted by the Trustees on April 22, 2004.

The proposed fiscal year 2012 operating budget includes \$156.6 million for day-to-day operations reflecting a \$5.5 million or 3.7% increase over the fiscal year 2011 budget, and \$3.5 million for the District's Water Backup Program. The budget also includes \$1.8 million for repairs to the District's Wastewater System under the CIRP. The total operating budget for fiscal year 2012 is \$161.9 million.

Proposed expenditures for the fiscal year 2012 annual budget are separated into three main categories and are summarized as follows:

Operations	\$178.3 million
CIRP	153.4 million
Debt Service	45.9 million
<b>TOTAL FY12 BUDGET</b>	<b>\$377.6 million</b>

In fiscal year 2012, we pledge to continue to scrutinize our business practices, deliver sound fiscal management, and be fully accountable to the public for the ways in which we spend their money. We will continue to improve our customer service levels and our efforts to inform the community of our operations and needs. We will persist in addressing the health, safety, and environmental needs of our St. Louis community. In short, we will work to prepare the District, its customers, and our community for the challenges of the future.

Sincerely,



Jeffrey Theerman, Executive Director, P.E.