

## **Our Mission**

*Provide exceptional quality in sanitary sewage collection and treatment and storm water management to protect the public's health and safety.*



# **Metropolitan St. Louis Sewer District 2009 Credit Rating Presentation**

# Participants

## MSD Participants

**Jeffrey Theerman, P.E., Executive Director**

**Randy E. Hayman, General Counsel**

**Karl J. Tyminski, CPA, Secretary-Treasurer**

**Janice M. Zimmerman, Director of Finance**

## Finance Team Participants

**Jeanne Vanda, Public Financial Management—Financial Advisor**

**Marco Listrom, Valdés and Moreno—Financial Advisor**

**Matt Schnackenberg, Public Financial Management—Financial Advisor**

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## Overview of MSD



# MSD was established as a special district in 1954

**MSD was established and chartered pursuant to a special election to provide for wastewater and stormwater services in the City of St. Louis and most of St. Louis County.**

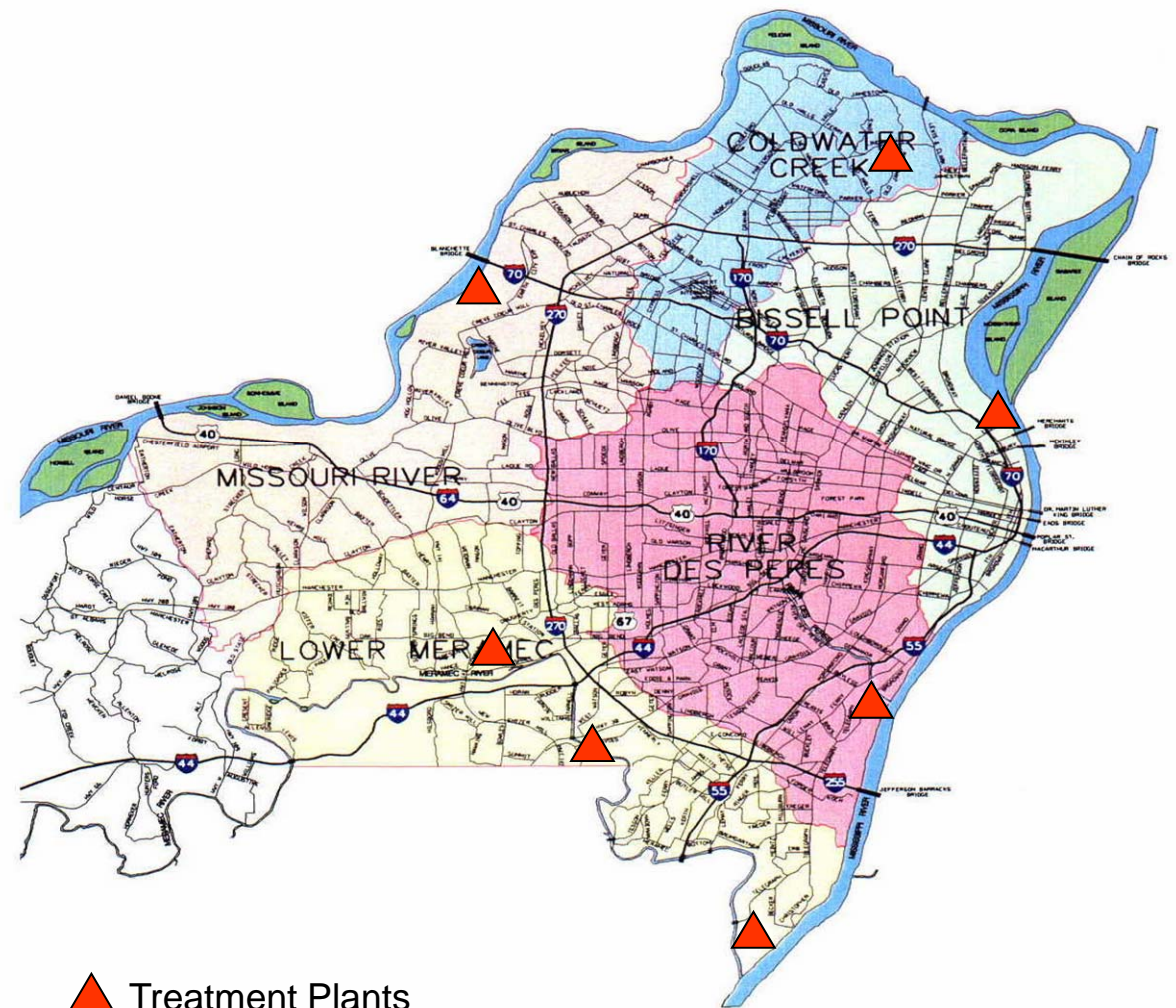
- Governance is vested in a six-member Board of Trustees.
- The Mayor of St. Louis and the St. Louis County Executive each appoint three trustees.
- A Rate Commission review proposed changes to rates and charges and makes recommendations to Trustees.
- Revenue Bonds are issued pursuant to referendum approval of majority of voters.



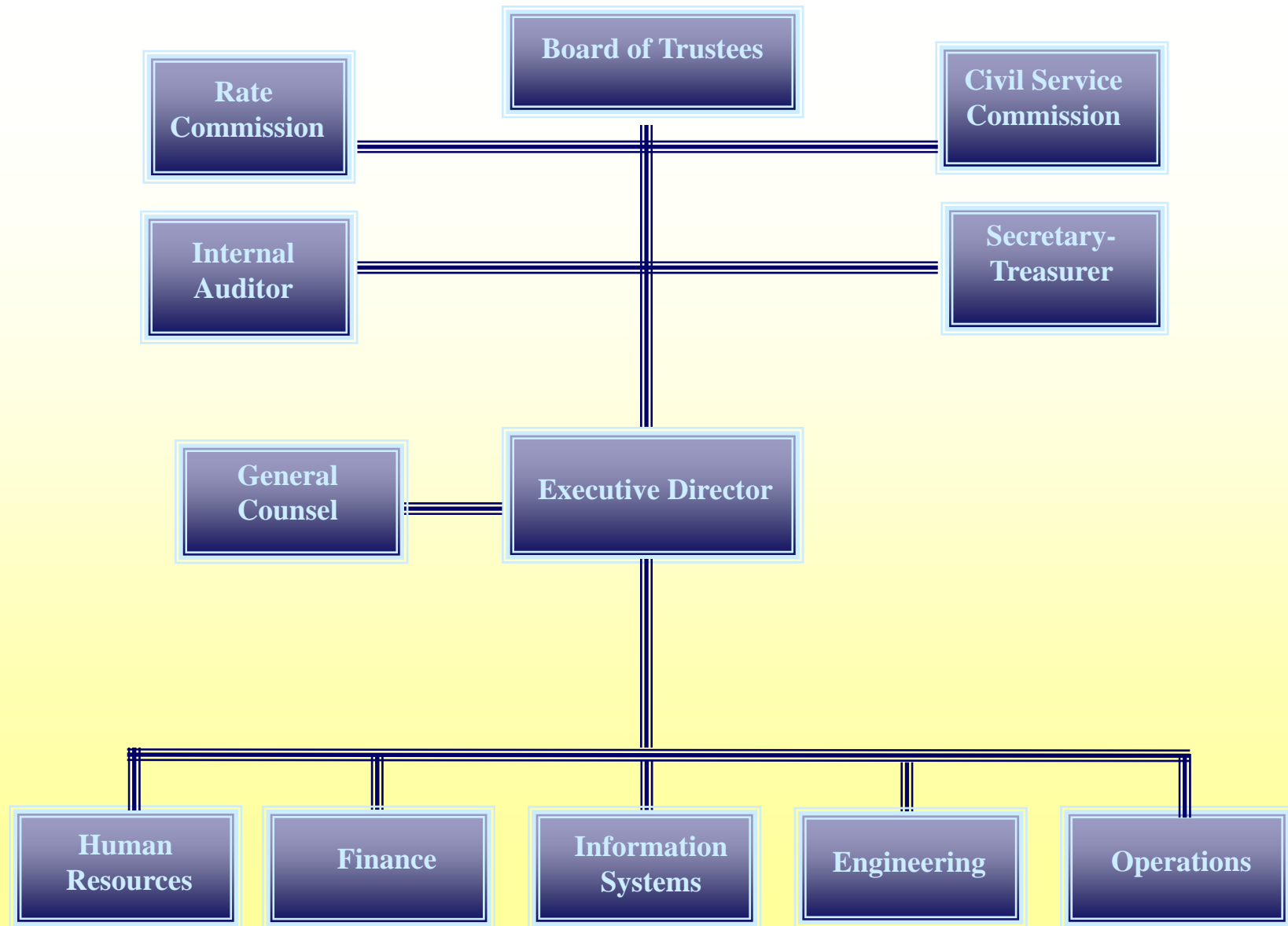
# MSD Service Area serves a population of 1.4 million

In 2009, the MSD service area included 92 cities and unincorporated areas.

- 1977 referendum and subsequent annexation enlarged service area to 525 square miles.
- Service area encompasses five watershed areas.
- Area includes the City of St. Louis and 91 other cities, including approximately all of St. Louis County.



# MSD Organizational Chart



# MSD Facilities--Treatment Plants

**MSD currently provides secondary treatment for an average daily flow of 330 MGD, operating seven treatment facilities. MSD maintains approximately 9,650 miles of sewer pipe.**

<u>Plant</u>	<u>Permitted Design Flow (MGD)</u>	<u>2008 Actual Flow (MGD)</u>	<u>Watershed Service Area</u>
Bissell Point	150.0	153.9	Bissell Point
Lemay	167.0	145.3	River Des Peres
Coldwater Creek	40.0	30.4	Coldwater Creek
Missouri River	28.0	28.9	Missouri River
Fenton	6.8	5.2	Lower Meramec
Grand Glaize	21.0	16.6	Lower Meramec
Lower Meramec	15.0	14.3	Lower Meramec
Total	422.8	394.6	

# Profile of Customers

Approximately 65% of customer billings are in St. Louis County, with 35% in the City of St. Louis.

<b>Fiscal Year Ending June 30</b>	<b>Single Family <u>Residential</u></b>	<b>Multi Family <u>Residential</u></b>	<b>Commercial/ <u>Industrial</u></b>	<b>Total <u>Customers</u></b>
2000	351,367	45,348	25,918	422,633
2001	352,656	45,074	25,779	423,509
2002	353,166	44,581	25,664	423,411
2003	353,935	44,632	25,672	424,239
2004	356,069	44,969	25,806	426,844
2005	356,805	44,506	25,581	426,892
2006	362,043	44,700	25,700	432,443
2007	362,569	44,875	25,647	433,091
2008	391,181	54,862	32,336	478,379
2009	388,791	51,441	32,161	472,393

\* Due to the implementation of the impervious area charge, approximately 46,000 additional stormwater-only accounts are billed each month.

Source: The District.

# Largest Customers

<u>Customers</u>	<u>FY 2009 User Charges</u>	<u>% Total</u>
INBEV (Anheuser-Busch)	\$7,565,613	3.09%
Mallinckrodt Inc	1,161,840	0.47%
Washington University	1,112,168	0.45%
City Of St Louis	1,038,359	0.42%
Chrysler Corporation*	699,271	0.29%
Boeing Co.	662,578	0.27%
Sigma-Aldrich	532,352	0.22%
BJC Health System	527,376	0.22%
Zoological Gardens	510,699	0.21%
Sensient Colors Inc.	486,380	<u>0.20%</u>
Subtotal	<u>\$14,296,636</u>	<u>5.83%</u>
Total All Customers	<u><u>\$244,699,964</u></u>	



\* Chrysler Corporation has closed the St. Louis plant as of the end of FY 2009.  
Source: The District.



# **MSD Capital Improvement & Replacement Program**



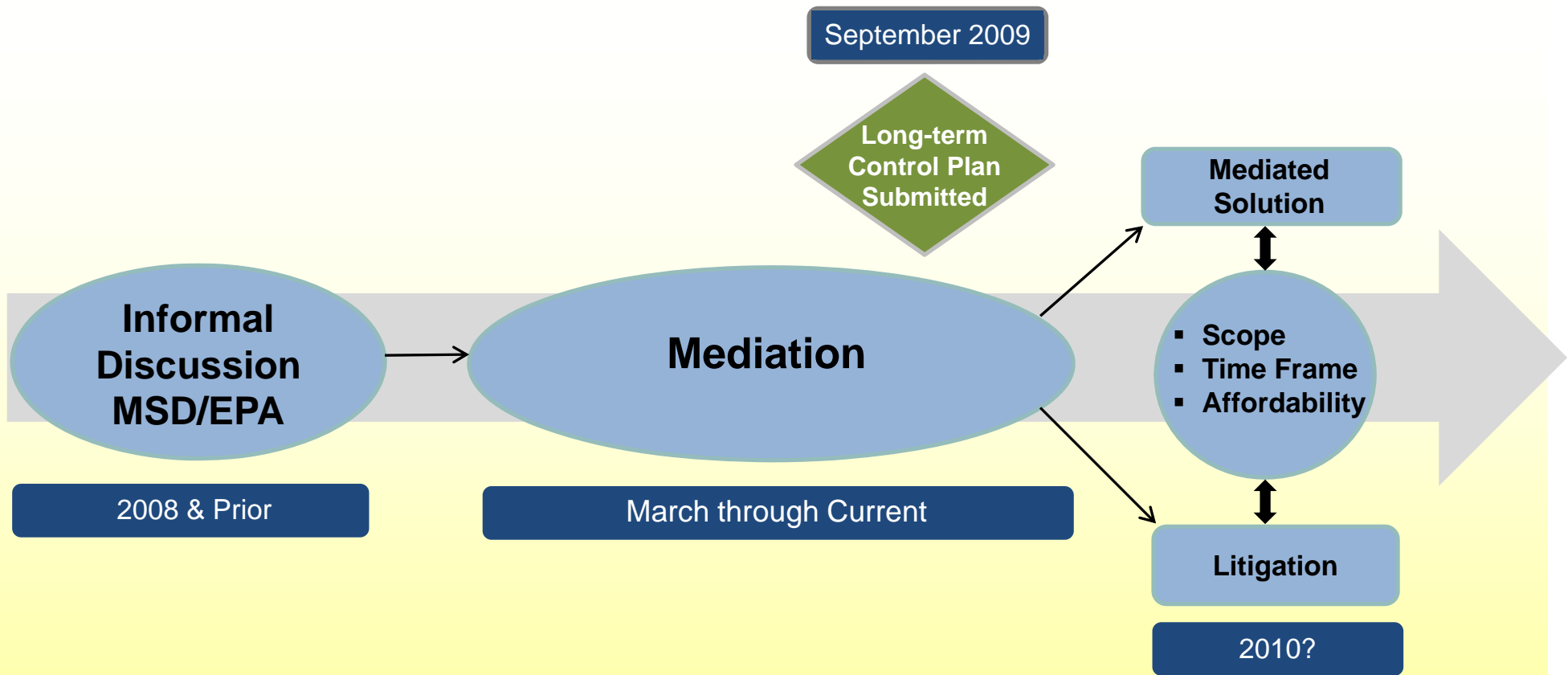
# MSD Approach to Long-Term Planning

- **Engage EPA in process to develop clarity in regulatory requirements and scope of projects to be required.**
  - MSD moved to a mediation process in early 2009.
  - Current litigation limits discussion.
- **Educate local and Congressional stakeholders regarding the environmental and financial impacts of regulatory requirements.**
  - MSD is collaborating with other urban systems to lobby Congressional representatives modifications of affordability metrics.
- **Continue to invest in the Capital Improvement Program (“CIRP”).**

***“MSD’s mission is to provide exceptional quality in sanitary sewage collection and treatment and storm water management to protect the public’s health and safety.”***



# Planning for Long Term Capital Program



# CIRP Investment Accomplishments

- **Projects completed or in progress in 2004 through 2010:**
  - Increasing Wastewater Treatment Capacity;
  - Finish construction of a new waste water treatment plant;
  - Infrastructure improvements to reduce Combined Sewer Overflows (CSOs); and
  - Infrastructure improvements to reduce Sanitary Sewer Overflows (SSOs);
- **Total investment at approximately \$1 billion.**



# Projects to be Financed by 2010B BAB Issue

- **Total estimated cost of projects that will use BABs and cash funding is \$105,711,000:**
  - \$55 million or 52% earmarked for projects that will help eliminate sanitary sewer overflows,
  - \$22 million or 21% earmarked for treatment plant upgrade and renovation projects,
  - \$15 million or 14% earmarked for general systems renewal projects,
  - \$7 million or 7% earmarked for the reduction of Combined Sewer Overflows, and
  - \$7 million or 6% earmarked for disinfection projects to improve water quality.

# CIRP Investment Planned: 2011 – 2012

- **Total investment for years 2011 through 2012 approximately \$374 million.**
- **Projects planned through 2012 total include the following:**
  - Infrastructure improvements to reduce Combined Sewers Overflows (CSOs);
  - Infrastructure improvements to reduce Sanitary Sewer Overflows (SSOs);
  - Plant Improvements – Missouri River Plant;
  - Plant Improvements – Lemay Plant;
  - Collection systems renewal and replacement activity;
  - Disinfection projects designed to improve water quality;
  - Upgrade and integration of Enterprise System; and
  - Planning and CMOM Activity.

# Proposed 2011-2012 Projects

- **Significant Projects planned for the remainder of the Phase II CIRP Program:**
  - Secondary expansion at the Missouri River Treatment Plant with estimated cost through 2012 of \$50 million, with an additional \$64 million planned in the next rate cycle. Project will be funded \$78 million by SRF loan and remainder in cash.
  - Disinfection projects at the Coldwater, Bissell, Lower Meramec and Lemay plants will cost approximately \$82 million, to be funded by either additional revenue bonds or cash.
  - SSO relief, estimated to cost \$108 million and funded by a mix of bonds and cash.
  - Stormwater projects will total \$38 million and will be cash funded by a separate revenue stream.



# Funding Strategy

- Strong Pay-Go component, targeted at 40% to 50% of program costs.
- Debt Plan seeks to maximize use of subsidized State Revolving Fund Loans.
  - SRF Debt is issued as subordinate debt.

	CIRP Projects	Funding	% Debt vs. Pay Go
2004-2010	\$ 1,002,812,826	Debt \$ 735,000,000	53%
2011-2012	\$ <u>374,000,000</u>	Pay Go (a) <u>641,812,876</u>	47%
<b>Total Projects</b>	<b>\$ 1,376,812,826</b>	<b>\$1,376,812,826</b>	

***MSD voters have demonstrated support for this strategy in two separate bond referendums authorizing \$775 million in Wastewater System Revenue Bonds.***

*(a) Pay Go component assumes the use of \$38 million of either storm water or tax funding.*

# Rate Commission Recommendations & Schedule

The Rate Commission's March 21, 2008, "Rate Recommendation Report" details recommendations for Wastewater and Stormwater rate increases to fund CIRP projects through 2012.

- Supports a \$660 million CIRP projects through 2012
- Plan of Finance includes both Pay-Go and Bonds
- Recommends rate changes that result in projected user revenue increases of:
  - 3.2% in 2009
  - 1.7% in 2010
  - 4.2% in 2011
  - 4.0% in 2012
- Vote referendum August 5, 2008, authorized \$275 million in new revenue bond authority.
- MSD anticipates initiating a new Rate Commission dialogue in 2011 to fund projects beginning in 2013.



# Public Support

**District voters have demonstrated strong referendum support for MSD:**

- February 3, 2004—68% approval for the issuance of \$500 million in revenue bonds;
- August 5, 2008—76% approval for the issuance of \$275 million in revenue bonds.

**MSD’s plan of finance is focused on ensuring that funds are available as needed to finance project costs, while achieving the lowest long-term cost of money for ratepayers. Bonds issued and planned are as follows:**

Date	Series	Term	Par Issued	Par Outstanding
<b>Outstanding</b>				
05/06/04	2004A	30 Year, Fixed	\$175,000,000	\$168,965,000
04/28/04	2004B (EI ERA)	20 Year, Fixed	161,280,000	136,795,000
05/19/05	2005A (EI ERA)	20 Year, Fixed	6,800,000	5,955,000
04/27/06	2006A (EI ERA)	20 Year, Fixed	42,715,000	40,480,000
11/28/06	2006B (EI ERA)	20 Year, Fixed	14,205,000	13,575,000
11/28/06	2006C	30 Year, Fixed	60,000,000	60,000,000
10/28/08	2008A	30 Year, Fixed	30,000,000	30,000,000
10/28/08	2008B (EI ERA)	20 Year, Fixed	40,000,000	39,127,500
10/21/09	2009 (EI ERA)	20 Year, Fixed	23,000,000	23,000,000
12/15/09	2009 ARRA Loan	21 Year, Fixed	7,980,700	7,980,700
<b>Planned</b>				
01/28/10	2010B	30 Year, Fixed	85,000,000	
<b>Total:</b>			<b>\$645,980,700</b>	<b>\$525,878,200</b>

**Remaining Authorization: \$129 million**





## Update of Financial Performance



# Finance Department – Performance Focus

- **Annual “Zero-Based” budget development process.**
  - Department budgets developed in two components: Base & Incremental.
  - Departmental Base budgets reflect core operational costs only.
  - Incremental Budgets detail cost of strategic initiatives aligned with District goals.
  - In-depth Board review through series of Finance Committee meetings.
- **Budget monitoring process enhances budget performance**
  - Monthly budget variance reports are reviewed by Senior Management Team.
  - Quarterly budget performance reports are reviewed by Finance & Audit Committee.
- **Proactive approach to bad debt remediation**
  - FY 2009 provision for delinquencies increased to \$9.7 M from \$5.2 M in FY 2008.
  - Comprehensive strategy to both optimize bad debt collections and assist ratepayers meet user charge obligations.
- **Pension & OPEB Obligations**
  - Commitment to responsibly manage and reduce liabilities.

# Payment Delinquencies & Bad Debt Remediation

## Initiatives directed at payment delinquencies

- Current program offers payment discount to qualified low-income homeowners.
- Assistance to low-income tenants will be explored.
- Consideration will be given to reducing late payment charges to lessen delinquency growth.
- MSD Call center will take a more proactive customer follow-up to establish customer payment plans to address delinquencies.

## Bad Debt Remediation

- Collection agency utilization has proven effective.
- Utilization of collection agencies may be expanded to address a higher volume of accounts.
- Additional use of outside law firms to pursue unresolved delinquencies is under consideration.
- Other initiations under consideration:
  - Outsourcing and/or sale of liens related to delinquent accounts.
  - Credit bureau reporting of delinquencies.
  - Discussion with water providers of water shut off triggers.
  - Discussion with governmental partners concerning MSD payment triggers for construction permits.

# Pension Fund Update

**MSD offers a defined benefit plan providing retirement, death and disability benefits to all full-time employees.**

**As of December 31, 2008:**

- 885 active participants
- \$184.7 million actuarial value of assets
- \$28.4 million in unfunded liability
- Funded ratio of 86.6% in 2008, down from 94.6% in 2007

**MSD remains committed to meeting the unfunded liability over ten years.**

# OPEB Considerations

**MSD's total OPEB unfunded accrued liability has been estimated at approximately \$21.9 million , assuming a 4.5% return on investment, by Milliman, Inc. (Report dated July 30, 2008).**

- The initial projected liability of \$76 million has been significantly reduced to \$21.9 million by a change in benefits offered to existing and future retirees age 65 and over.
- MSD is partially funding the OPEB liability through the payment of the monthly health claims on an ongoing basis for pre-age 65 retirees. There are 109 individuals in this group.
- MSD has continued to elect a Pay Go approach to assure flexibility in future benefits. The current recognized liability is \$1,014,700.

# Historic Debt Coverage from Pledged Revenues

	FY05	FY06	Audited <sup>(1)</sup>		FY09
			FY07	FY08 <sup>(2)</sup>	
Operating Revenues					
Sewer -Service Charges	\$180,732,026	\$199,470,786	\$193,556,431	\$203,674,746	\$204,947,268
Other Operating Revenues	<u>7,027,246</u>	<u>6,083,674</u>	<u>7,406,654</u>	<u>5,306,631</u>	<u>5,025,394</u>
<b>Total Operating Revenue</b>	\$187,759,272	\$205,554,460	\$200,963,085	\$208,981,377	\$209,972,662
Investment Income					
Other	<u>0</u>	<u>0</u>	<u>0</u>	<u>4,371</u>	<u>3,205</u>
<b>Total Pledged Revenues</b>	\$192,115,915	\$211,689,807	\$214,464,836	\$222,263,296	\$220,255,766
Operating Expenses	\$117,930,992	\$131,909,717	\$138,089,529	\$137,302,360	\$134,136,731
Non-Recurring Projects & Studies	<u>9,959,204</u>	<u>3,470,561</u>	<u>4,014,673</u>	<u>1,016,891</u>	<u>4,778,877</u>
<b>Total Expenses</b>	\$127,890,196	\$135,380,278	\$142,089,202	\$138,319,251	\$138,915,608
<b>Net Pledged Revenues Available for Debt</b>	\$64,225,719	\$76,309,529	\$72,375,634	\$83,944,045	\$81,340,158
Senior Debt Service					
Series 2004A	\$8,052,321	\$9,665,734	\$9,640,734	\$9,615,634	\$9,587,884
Series 2006C	0	0	1,233,350	2,902,000	2,902,000
Series 2008A	0	0	0	0	707,389
Subtotal	\$8,052,321	\$9,665,734	\$10,874,084	\$12,517,634	\$13,960,806
Subordinate Debt Service					
Series 2004B (EI ERA)	2,624,276	6,370,755	9,684,010	10,373,643	11,134,993
Series 2005A (EI ERA)	0	67,605	111,674	425,239	422,967
Series 2006A (EI ERA)	0	0	404,639	913,454	911,965
Series 2006B (EI ERA)	0	0	0	192,932	171,970
Series 2008B (EI ERA)	0	0	0	0	0
Series 2009 (EI ERA)	0	0	0	0	0
Subtotal	\$2,624,276	\$6,438,360	\$10,200,323	\$11,905,268	\$12,641,895
<b>Total Debt Service</b>	\$10,676,597	\$16,104,094	\$21,074,406	\$24,422,902	\$26,602,701
<b>Net Revenue After Debt (Available for CIRP)</b>	\$53,549,122	\$60,205,435	\$51,301,228	\$59,521,143	\$54,737,457
<b>Senior Debt Coverage</b>	<b>7.98 X</b>	<b>7.89 X</b>	<b>6.66 X</b>	<b>6.71 X</b>	<b>5.83 X</b>
<b>Total Debt Coverage</b>	<b>6.02 X</b>	<b>4.74 X</b>	<b>3.43 X</b>	<b>3.44 X</b>	<b>3.06 X</b>

**Notes:**

<sup>1</sup>From District Report on Agreed-Upon Procedures for Years Ending June 30, 2005, through 2009

<sup>2</sup>2008 operating expenses have been reset to report wastewater expenses solely. Stormwater expenses have been removed.



# Projected Debt Service on \$85 Million 2010 Bonds

**Annual debt service requirements with the Series 2010 Bonds are projected to max at \$39 million in 2025 then decline as debt is retired.**

<b>Fiscal Year End</b>	<b>Current Outstanding Debt</b>	<b>Projected 2010</b>	<b>Less: Subsidy</b>	<b>Total Projected Debt</b>
6/30/2010	\$25,523,237	\$2,496,875	(\$873,906)	\$27,146,205
6/30/2011	32,634,995	4,993,750	(1,747,813)	35,880,932
6/30/2012	33,267,710	4,993,750	(1,747,813)	36,513,647
6/30/2013	33,471,673	4,993,750	(1,747,813)	36,717,610
6/30/2014	33,553,656	4,993,750	(1,747,813)	36,799,593
6/30/2015	33,905,610	4,993,750	(1,747,813)	37,151,547
6/30/2016	33,821,491	4,993,750	(1,747,813)	37,067,428
6/30/2017	34,342,692	4,993,750	(1,747,813)	37,588,629
6/30/2018	34,412,742	4,993,750	(1,747,813)	37,658,679
6/30/2019	34,629,062	4,993,750	(1,747,813)	37,874,999
6/30/2020	34,822,564	4,993,750	(1,747,813)	38,068,501
6/30/2021	35,006,702	4,993,750	(1,747,813)	38,252,640
6/30/2022	35,383,766	4,993,750	(1,747,813)	38,629,703
6/30/2023	35,398,959	4,993,750	(1,747,813)	38,644,897
6/30/2024	35,599,460	4,993,750	(1,747,813)	38,845,398
6/30/2025	35,788,437	4,993,750	(1,747,813)	39,034,374
6/30/2026	35,732,480	4,993,750	(1,747,813)	38,978,418
6/30/2027	32,894,854	4,993,750	(1,747,813)	36,140,791
6/30/2028	30,115,189	4,993,750	(1,747,813)	33,361,127
6/30/2029	29,204,801	4,993,750	(1,747,813)	32,450,739
6/30/2030	29,387,137	4,993,750	(1,747,813)	32,633,075
6/30/2031	29,296,989	4,993,750	(1,747,813)	32,542,927
6/30/2032	27,292,648	4,993,750	(1,747,813)	30,538,585
6/30/2033	27,299,828	4,993,750	(1,747,813)	30,545,765
6/30/2034	27,301,553	4,993,750	(1,747,813)	30,547,490
6/30/2035	15,134,890	14,993,750	(1,747,813)	28,380,828
6/30/2036	14,658,700	14,406,250	(1,542,188)	27,522,763
6/30/2037	5,066,763	23,818,750	(1,336,563)	27,548,950
6/30/2038	5,081,288	22,643,750	(925,313)	26,799,725
6/30/2039	-	26,468,750	(514,063)	25,954,688
6/30/2040	-	-	-	-
<b>Total</b>	<b>\$850,029,871</b>	<b>\$224,678,125</b>	<b>(\$48,887,344)</b>	<b>\$1,025,820,652</b>

# Projected Debt Service – New Money Bonds through 2012

- \$78.0 million Series 2011SRF Bonds
- \$51.0 million Series 2012 Wastewater System Revenue Bonds

Year Ended <u>June 30</u>	Senior Debt			Subordinate Debt		
	Outstanding <u>Debt Service<sup>(1)</sup></u>	Series 2012 <u>Debt Service</u>	Total <u>Senior Debt</u>	Outstanding <u>Debt Service</u>	Series 2011 <u>Debt Service</u>	Total <u>Sub. Debt</u>
2010	\$ 15,778,488		\$ 15,778,488	\$ 11,367,718	\$ -	\$ 11,367,718
2011	17,538,606		17,538,606	18,342,326	-	18,342,326
2012	17,660,756		17,660,756	18,852,891	5,205,000	24,057,891
2013	17,797,156	2,832,933	20,630,089	18,920,454	5,206,500	24,126,954
2014	17,929,216	2,615,015	20,544,231	18,870,377	5,202,400	24,072,777
2015	18,080,154	2,615,015	20,695,169	19,071,394	5,205,750	24,277,144
2016	18,215,554	2,615,015	20,830,569	18,851,875	5,206,250	24,058,125
2017	18,371,354	2,615,015	20,986,369	19,217,276	5,203,900	24,421,176
2018	18,526,354	2,615,015	21,141,369	19,132,325	5,203,700	24,336,025
2019	18,720,898	2,615,015	21,335,913	19,154,102	5,205,500	24,359,602



## Summary of Credit Strengths



# MSD Credit Strengths

- **Proactive leadership has MSD well-positioned to meet current and future capital infrastructure needs.**
  - Continued efforts to reshape regulatory requirements that drive scope and cost of future projects.
  - Well-conceived CIRP provides \$1.4 billion in completed and budgeted projects through 2012.
  - Mediation process with EPA ongoing.
- **Solid financial management further enhances bondholder security.**
  - Close monitoring of financial performance, collections actions, contribute to strong budget performance.
  - Manageable pension and OPEB obligations.
  - Strong debt coverage & substantial Pay Go commitment to long term CIRP.
  - Additional rate increases approved for FY 2011 and 2012.
- **Strong stakeholder support affirmed by 2008 Rate Commission action and August 5, 2008, Bond Referendum.**

# MSD Financing Schedule

<u>Schedule*</u>	<u>Activity</u>
December 15-18	Rating agency calls
January 5	Ratings released
January 6	Print and distribute POS
January 14	Pricing of bonds
January 27 & 28	Close and deliver funds

\*Tentative Schedule

# MSD Contact Information

## MSD Staff

Jeffrey L. Theerman, P.E., Executive Director

Randy E. Hayman, General Counsel

Karl J. Tyminski, CPA, Secretary-Treasurer

Janice M. Zimmerman, Director of Finance

## Phone/Email

314-768-6224

[jthee@stlmsd.com](mailto:jthee@stlmsd.com)

314-768-6209

[rhayman@stlmsd.com](mailto:rhayman@stlmsd.com)

314-768-6222

[kjtymi@stlmsd.com](mailto:kjtymi@stlmsd.com)

314-768-6299

[jzimmer@stlmsd.com](mailto:jzimmer@stlmsd.com)

