



MSD Exhibit No. 9E
2011 Rate Change Proceeding
Karl J. Tyminski
Direct Testimony
Metropolitan St. Louis Sewer District
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1 **Witness Background and Experience**

2 Q1. **Please state your name, business address, and telephone number.**

3 A. Karl J. Tyminski, 2350 Market Street, St. Louis, Missouri 63103-2555,
4 (314) 768-6222.

5 Q2. **What is your occupation?**

6 A. I am the Secretary - Treasurer for the Metropolitan St. Louis Sewer District (District).

7 Q3. **How long have you been associated with the District?**

8 I have worked for the District since September 1988, and held the position of Secretary-
9 Treasurer since January 1, 1989 on a continuous basis.

10 Q4. **What is your professional experience?**

11 A. I started my professional career in accounting and finance in 1973. Since then I have held
12 various managerial and supervisory positions with oversight responsibility for: auditing,
13 budgeting, treasury operations, cost accounting, general ledger accounting, and financial
14 planning. The organizations that I have been employed by have been: U.S. Army Corps
15 of Engineers, New York State Comptrollers Office, Deloitte & Touche (formerly Touche
16 Ross), Chase Bank (formerly Lincoln First Bank), Anheuser Busch Companies, and the
17 Metropolitan St. Louis Sewer District)

18 Q5. **What is your educational background?**

19 A. I hold: a B.S. degree in Accounting (1973) from the State University of New York at
20 Albany, a M. S. degree in Management Science (1992) from Stevens Institute of
21 Technology, Hoboken N.J., and I passed the CPA exam in New York State (1982). I
22 have also attended academic programs in investments offered by the University of
23 Pennsylvania and by Texas Tech University. Additionally, since 1981 I have taught

1 various courses in accounting, finance and economics at various colleges and
2 universities.

3 **Criteria Governing Rate Change**

4 **Q6. Is the Proposed Rate Change necessary to enable the District to comply with any**
5 **covenant or provision relating to any outstanding bonds or indebtedness of the**
6 **District and if so, to what extent or specific quantification of the amount of the**
7 **Proposed Rate Change is necessary for such purpose?**

8 A. The rate covenant provided by the Master Bond Ordinance requires the District to
9 provide wastewater rates that are sufficient to pay all operating and maintenance
10 expenditures and provide net operating revenues, together with investment earnings that
11 will at least equal 125 percent of the annual debt service requirement on all senior lien
12 bonds and at least equal 115 percent of the annual debt service requirement on all
13 outstanding bonds, loans and other obligations. District's senior lien bond debt service
14 coverage is projected at 234 percent in FY16 of the proposed rate change cycle while
15 total debt service coverage is projected at 166 percent. Since amortization of debt issued
16 through FY 16 is not fully reflected in FY 16 projected debt service we also view FY 16
17 debt coverage of the projected maximum senior lien debt service and the projected
18 maximum total debt service as important debt security metrics. FY 16 pledged revenues
19 provide 192 percent coverage of projected maximum senior lien debt service and 140
20 percent coverage of projected maximum total debt service. While projected debt coverage
21 exceed Master Bond Ordinance requirements the projected coverages are only in line
22 with median metrics used by the credit rating agencies.

1 Wastewater Debt Financing

2 **Q7. How does the District expect to finance its major capital improvement through**
3 **FY12?**

4 A. In the near term and as presented in the Rate Proposal, the District expects to finance
5 wastewater capital improvements with the remaining \$92 million available under its
6 current \$775 million bond authorization and user charges based on the rate increases
7 approved by the District Board in October 2008.

8 **Q8. How does the District expect to finance its future major capital improvement needs?**

9 A. The Rate Proposal assumes the use of \$945 million of additional debt to fund the
10 proposed CIRP through FY16. The District's total outstanding debt at that time will
11 equal \$1.7 billion and represent a 64% debt funding of the District's cumulative CIRP
12 work since the inception of this bond program in 2004. The District expects to continue
13 using debt as the major component of CIRP funding until such time it no longer becomes
14 financial prudent.

15 **Q9. Is municipal debt financing of major capital improvements a practical way of**
16 **obtaining funds?**

17 A. Yes, historically the use of revenue bonds or general obligation bonds to finance
18 municipal capital improvements has been an extremely equitable, cost justified and
19 widely-used method of funding available to governments worldwide.

20 **Q10. Why is the District currently seeking additional debt authorization from the voters**
21 **to support the WW CIRP in its Rate Proposal?**

22 A. **The District's six year CIRP includes substantial capital improvements over the**
23 **near term. Our analysis shows that utilization of debt financing allows us fund**
24 **these large near term capital improvements while moderating the rate increases**

1 **imposed on customers. In contrast, use of PAY GO financing would require**
2 **significantly higher rate increases through FY 16.**

3
4 Q11. **If the District were to seek additional bond authorization, what in your opinion is**
5 **the maximum amount of total authorization required?**

6 A. To fully fund the CIRP projects planned through FY 16, we would need additional bond
7 authorization totally approximately \$1 billion at a minimum.

8 Q12. **What would be the approximate debt service coverage ratios attributable to this**
9 **additional debt authorization?**

10 A. See Question Six.

11 Q13. **How is the Rate Proposal structured to attempt to maintain the District's current**
12 **bond rating?**

13 A. First, the proposed rate increase is directed at generating debt service coverages
14 consistent with rating agencies' expectations for high "AA" rated large metropolitan
15 wastewater systems. These coverages were discussed in Question Six. In addition we
16 are seeking to maintain a strong liquidity position over the rate proposal period. As of
17 February 28, 2011, our Days Cash on Hand is estimated at 485 days, which is modestly
18 stronger than credit agencies' medians for this metric. This calculation also includes
19 balances of operating cash that will be utilized to fund the CIRP.

20
21 Q14. **How much of the District's current total bond authorization of \$775 million remains**
22 **available to finance capital improvements through FY16?**

23 A. The District's total \$775 million bond authorization will be exhausted by the end of

1 FY12. Additional bond authorization will be required by voters to fund the CIRP as
2 proposed.

3 **Q15. If debt financing were to be considered for wastewater capital improvement needs**
4 **within the next five years, how long would it take to obtain additional debt authority**
5 **assuming the voters would approve the required ballot initiative?**

6 A. Passage of a revenue bond initiative will require a simple majority, and passage of a
7 general obligation bond issue would require a 4/7 majority. The available election dates
8 are in the following months: February, April, June, August and November. However,
9 there is a measure before the State Legislature that will eliminate the February and June
10 election dates. The Rate Proposal assumes a successful bond authorization election in
11 April 2012. The District must file 10 weeks in advance of an election, and internal
12 legislative time will require an additional four to six weeks. Therefore the minimum
13 amount of time required between Board of Trustees action on a rate proposal and holding
14 an election is approximately 16 weeks. Once the election is held, another four weeks
15 should be set aside to allow for the Election Commission to certify the results. Once the
16 election passes, bonds can typically be issued within 6-8 weeks.

17 **Q16. Has the District obtained voter approval for previous bond authorizations?**

18 A. Yes, the District has had two successful bond authorization elections in the past decade.
19 In February, 2004 the District received voter authorization for \$500 million of waste
20 water revenue bond debt. This measure passed with about a 2:1 margin, and in August,
21 2008 the District received voter authorization for an additional \$275 million of revenue
22 bonds. That measure passed withy almost a 3:1 majority.

23 **Q17. What forms of debt and their relative amounts will be used fund the proposed**

1 **wastewater capital improvement program?**

2 A. The proposed CIRP is anticipated to be funded with a combination of 85 percent senior
3 bonds and 15 percent State Revolving Fund (SRF) loans. We are currently anticipating
4 the issuance of fixed rate tax-exempt bonds. In the event Congress approves new
5 authorization for Build America Bonds or other tax credit bonds we would also analyze
6 the financial benefits of these financing tools.

7 Q18. Could the District realistically expect to obtain any additional State Revolving Fund
8 (SRF) loans in the future if it was authorized to debt finance additional improvements? If
9 so, what is the potential magnitude of such loans within the next ten years?

10 A. Yes, the District can realistically expect to receive some SRF financing in the future. It is,
11 however, difficult to determine the extent of subsidized financing that will be received.
12 Congress has drastically cut capitalization grants allocated for the SRF programs on a
13 national basis. These severe budget cuts will have a trickle down impact to the various
14 states including the Missouri SRF program.

15 Q19. Please explain the benefits of participating in the SRF program and identify any potential
16 disadvantages of program participation.

17 A. The major benefit of participation in the SRF program is the 70% subsidy of interest
18 costs. Therefore the true interest cost is 30% of the going rate for municipalities given
19 credit rating and term structure. The Department of Natural Resources will add a 1.0%
20 administration fee. Over the life of a 20-year loan, which is the maximum term allowed
21 by this program, interest savings could amount to approximately the principal value of
22 the loan..

23 Use of or reliance on SRF funding also has several disadvantages. The primary

1 disadvantage is the interjection of the State's administrative approval requirements to the
2 process. Also, SRF funds can only be used for sanitary sewer projects, and may not be
3 available for certain combined sewer projects. Lastly the available SRF pool cannot
4 possibly meet our entire debt needs.

5 Q20. Will any SRF loans continue to be issued on a junior lien basis to the district-wide
6 revenue bonds?

7 A. Yes, once additional bonding authority is available we will continue to issue all available
8 SRF loans on a subordinate basis to our existing senior lien revenue bonds.

9 Q21. In your opinion, are the terms (20-year term, 21/2 percent net interest/administration fee
10 rate) and associated issuance costs (0.65 percent of principal) reported in the recent
11 feasibility report (series 2011A) concerning future SRF loans reasonable?

12 A. Yes, these terms are more than reasonable because they are subsidized by the State.

14 Q22. Has the District submitted applications for additional SRF program loans?

15 A. Yes. The District submitted applications this fiscal year and will be carried over into FY
16 2012 that either has resulted in or will result in additional SRF loans, the most recent of
17 which was obtained in November 2010. The District has submitted SRF applications on
18 an annual basis and anticipates continuing this process indefinitely when additional
19 authorization is available.

20 Q23. What level of SRF loans do you think could be available to the District on an average
21 annual basis if the District had additional bond authority?

22 A. Due to the uncertainty of future Federal funding associated with the SRF program, the
23 State's ongoing need to balance its budget, and substantial capital improvement

1 requirements of other Missouri wastewater utilities, an estimate of the potential loans
2 available to the District can not be determined at this time. The Rate Proposal assumes
3 \$35 million of SRF loans per year will be available to fund a portion of the proposed
4 CIRP.

5 A. Q27.

6 Q24. How are the District's revenue bond requirements being met and what terms were
7 considered in the recent feasibility report for potential future revenue bond issues?

8 A. The revenue bond covenants allows for the deposit of bond funds or the purchase of
9 surety bond insurance policies to satisfy the bond reserve requirement. The bond reserve
10 is currently met by restricted amounts withheld from the prior bond proceeds. The
11 feasibility report assumes that future revenue bonds will be issued at an average annual
12 interest rate of 5.50 percent over a 30 year term.

13 Q25. Are these estimates and costs reasonable in your opinion, based on your experience with
14 similar transactions?

15 A. Yes.

16 Q26. How did the 2000 charter changes give the District the authority to issue district-wide
17 wastewater revenue bonds?

18 A. The District was formed under the provisions of Section 30 of Article IV of the
19 Constitution of Missouri which allows for self governing "Plan" or "Charter". The
20 original Plan of the District that was adopted in 1954 required a 4/7's majority for the
21 passage of revenue bonds, and a court decision, *Beaty V. MSD*, 731 SW2nd 318, limited
22 the District's ability to pledge revenues for capital improvements to those of a given
23 drainage area, sub-district, that is to be served. In other words the District was prohibited

1 from pledging revenue collected on a District-wide basis for the construction of a facility
2 that benefits only one subdistrict.

3 The November 2000 Charter ballot initiative which passed with nearly 70% of the vote
4 modernized the Charter and allowed for revenue bonds to be passed with a simple
5 majority vote and allowed for the use of District-wide revenue to be pledged for the
6 construction of facilities in any drainage area of the District.

7 **Wastewater Contributions and Grants**

8 Q27. Does the District already have agreements with responsible city, state or federal agencies
9 confirming contributions and grant monies will definitely be available to the District in
10 the amounts and years stated in Table 3-9 of the Rate Proposal?

11 A. Table 3-9, (line #6) reflects \$4,041,000 of grant revenue for the period covered by fiscal
12 years from 2011 through 2016. This line represents anticipated contributions from the
13 City of Arnold to reserve capacity in the Lower Meramec River Wastewater Treatment
14 Plant. The entire amount due from the City of Arnold is documented through an
15 intergovernmental agreement.

16 Q28. Does the City of Arnold, Missouri make annual principal and interest payments to the
17 District to secure a portion of the new Meramec Regional Wastewater Treatment plant
18 financed by the District?

19 A. Yes. Principal and interest payments are currently being received from the City of
20 Arnold, Missouri for a share of the Lower Meramec Regional Wastewater Treatment
21 Plant capital costs required to meet their capacity needs. The principal portion of these
22 payments is considered a contribution.

23 Q29. Are there any other contributions or grants the District could possibly obtain?

1 A. The District is aggressive in pursuing grant funding from various federal and state
2 sources on an ongoing basis. Realistically, however, the amount of available funding is
3 insignificant in relation to the District's capital needs. The District was successful in
4 obtaining about \$11 million from the American Resource and Recovery Act, "ARRA"
5 program, federal stimulus program. This came in the form of grants and loans. However,
6 these funds were authorized by congress on a one time basis, and will be fully consumed
7 by the start of fiscal 2013. We continue to be alert to opportunities such as ARRA, if they
8 become available.

9 Q30. What are the District obligations for stormwater per the Charter?

10 A. The District's governing Charter contains a message from the Board of Freeholders to the
11 people of St Louis City And County which states "The Proposed Plan for a Metropolitan
12 Sewer District is presented in the sincere belief that its adoption will enable the people of
13 St. Louis and St. Louis County to solve critical sewer problems in a sound and equitable
14 manner. Large areas in both the City and the County have sanitary and storm sewers
15 which lack the capacity to handle the load." The intention of the formation of the District
16 clearly demonstrates the District has the power to handle both sanitary and storm sewage.
17 As such, Article 1, Section 1.010 of the Charter states: "In the interest of the public health
18 and for the purpose of providing adequate sewer and drainage facilities within the
19 boundaries herein defined, or as extended in the manner herein provided, there is hereby
20 established a Metropolitan Sewer District under the provisions of Section 30 of Article
21 VI of the Constitution of Missouri." The key phrase governing the District's stormwater
22 responsibility is the words drainage facility.
23 In 1977 by a majority vote the District annexed a significant area of St. Louis County

1 lying roughly outside of the current I-270 loop. To finance the District’s stormwater
2 responsibilities the District for the first time in its 1977 tax ordinance, ordinance number
3 3219, specifically identified a 2¢ and 5¢ ad valorem tax dedicated for stormwater issues.
4 On March 8, 1988 a majority of the voters approved stormwater service charges “To be
5 collected only in those areas within the boundaries of The Metropolitan St. Louis Sewer
6 District where the District has assumed or may in the future assume responsibility for
7 operation and maintenance of stormwater and drainage facilities,” which election was
8 called pursuant to Ordinance No. 7358, adopted December 23, 1987. It should be noted
9 that this vote preceded the Missouri Supreme Court decision in the case Keller v. Marion
10 county Ambulance District, 820 S.W.2d 301 (Mo. Banc 1991) that established the five
11 criteria test that differentiates the tax verses the user charge.

12 In Resolution 1884 adopted February 22, 1989 Section Two stated, effective April 1,
13 1989, the Metropolitan St. Louis Sewer District shall undertake a program to assume the
14 operation and maintenance of stormwater and drainage facilities within the boundaries of
15 the entire District.

16 **Stormwater Revenue Requirements**

17 Q31. Is the current funding of stormwater adequate in relation to the Charter requirements?

18 A. No, currently, stormwater activity is funded by a 24¢ per month flat rate charge per
19 residential and commercial account, an 18¢ per month flat rate charge per multi-family
20 unit, a 2¢ ad valorem tax applied on a District wide basis and a 6¢ ad valorem tax applied
21 to those residents that live in the original boundaries of the District. All stormwater
22 funding derived from the flat rate charges and taxes is currently directed to provide basic
23 stormwater operations and maintenance services to the extend funding is available.

1 Revenue collected from the existing stormwater sources is, however, inadequate to fund a
2 comprehensive stormwater program necessary to fulfill the District's stormwater
3 responsibilities per Charter.

4 Q32. Does this conclude your prepared direct testimony in this matter?

5 A. Yes, it does.