



MSD Exhibit No. MSD 3E
2019 Rate Change Proceeding

MARION M. GEE

Direct Testimony

Metropolitan St. Louis Sewer District

March 4, 2019

Table of Contents

	<u>Page</u>
Witness Background and Experience	1
Budget Development	1
Wastewater Financing.....	3
Current Projections Compared to 2015 Rate Model Forecasts.....	6

1 **Witness Background and Experience**

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

3 A. Marion M. Gee, 2350 Market Street, St. Louis, Missouri 63103, (314)768-6299;
4 mgee@stlmsd.com

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

6 A. I am the Director of Finance for the Metropolitan St. Louis Sewer District (District).

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

8 A. I have been with the District since September 8, 2015.

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

10 A. Prior to joining the District, I was an Assistant Director of Finance for the City of San
11 Antonio, Texas. One of my responsibilities was to review all rate proposals and debt
12 issuances of the City’s publicly owned utilities which included a water/sewer utility as
13 well as a gas/electric utility. Prior to my time in San Antonio, I was the Finance Director
14 at the Louisville & Jefferson County KY Metropolitan Sewer District for approximately
15 eleven years. I was also employed in various financial positions with the Louisville
16 Water Company for approximately 8 years. I have also been a certified public accountant
17 since 1992.

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

19 A. I hold a Bachelors in Business Administration and a Masters of Business Administration
20 from the University of Louisville.

21

22 **Budget Development**

23 **Q6. How is the District’s budget developed?**

1 A. The District’s budget is developed annually using a zero based budget approach. Each
2 District Director develops the budget for his/her area of responsibility based on most
3 current and historical expenditure trends and knowledge of upcoming needs. Each
4 Department prepares a base budget that covers funding for its day-to-day operations and
5 an incremental budget for strategic activities tied to the District’s Strategic Operating
6 Plan to be implemented throughout the upcoming budget year. Each Director’s
7 components are compiled into a comprehensive, balanced preliminary operating budget,
8 which is presented to the District’s Board by March 15 of each year as required by the
9 Charter.

10 Simultaneously, the District’s Engineering Department updates and develops the
11 District’s five year CIRP Supplemental Budget document. This document, which lists
12 the various capital projects anticipated over the next 5 years, is reviewed by the District’s
13 Executive Director prior to presentation to the District’s Board of Trustees (“Board”) and
14 modifications are made accordingly.

15 The Board Finance Committee meets in April to review, in detail, operating expenses, the
16 CIRP, and revenues projected for the budgeted year. During these meetings, District
17 Trustees ask questions and provide direction for modifications. These modifications are
18 incorporated into the budget, which is then presented at a public hearing prior to formal
19 introduction by the Board as required by the Charter. This public hearing is held
20 immediately following the May Board meeting at which the budget’s formal introduction
21 is held. Final adoption of the District budget occurs at the June Board meeting.

22 **Q7. What percentage of the total operating budget does the District actually spend?**

23 A. A two year average (FY17 and FY18) of actual to budget expenditures reflects that the

1 District spent 95.4% of its operating budget.

2 **Q8. When was the current fiscal year 2019 budget approved by the District’s Board?**

3 A. The District’s Board adopted the current fiscal year 2019 budget on June 14, 2018 by
4 Ordinance 14920. (Exhibit MSD 7)

5 **Q9. Do the budgeted costs for fiscal year 2019 match the 2019 costs shown in the Rate
6 Change Proposal?**

7 A. Yes.

8 **Q10. In your opinion, are the inflation allowances used in the Rate Change Proposal
9 reasonable?**

10 A. Yes. Please see Section 7.1.1 of the appendix for additional information regarding the
11 inflation allowances used in the Rate Change Proposal (Exhibit MSD 1).

12 **Q11. When will the fiscal year 2020 budget be approved by the Board and available for
13 distribution?**

14 A. The fiscal year 2020 budget is expected to be approved by the District Board in June
15 2019 and will be available for distribution shortly thereafter.

16 **Q12. Is the 2020 preliminary budget available for review?**

17 A. No, not at this time. The 2020 preliminary budget will be provided to the Board by
18 March 15, 2019 as required by the Charter and will be available thereafter for
19 distribution.

20

21 **Wastewater Financing**

22 **Q13. Does the proposed Rate Change impose a fair and reasonable burden on all classes
23 of Ratepayers?**

1 A. Yes. The District’s cost of service analysis (see Table 4-20 in the Rate Change Proposal
2 – Exhibit MSD 1) reflects that the proposed rate adjustments by customer class closely
3 aligns with the cost to provide wastewater services to each customer class. Please see the
4 testimony provided by Thomas Beckley (Exhibit MSD 3I) for additional information
5 regarding this matter.

6 **Q14. Has customer impact data been factored into the Rate Change Proposal?**

7 A. Yes. The Rate Proposal attempts to balance the use of debt financing and current
8 wastewater user charge revenue to simultaneously fund a wastewater improvement and
9 replacement program needed to meet anticipated regulatory requirements and minimize
10 the impact on customer monthly bills to the extent possible.

11 **Q15. Will ad valorem tax revenues be used to finance any of the WW program**
12 **expenditures shown in Table 4-7 of the Rate Change Proposal?**

13 A. No. The District’s current ad valorem tax structure consists of two WW subdistricts,
14 Lower Meramec River Basin and Missouri River. The CIRP includes projects associated
15 with the Missouri River subdistrict; however, this work is currently scheduled to be
16 financed by existing fund balances. No ad valorem taxes have been levied in either
17 subdistrict since 2008.

18 **Q16. Was a customer bad debt provision factored into the Rate Proposal to compensate**
19 **for a potential decrease in the collection rate due to rate increases?**

20 A. Yes. A bad debt provision equal to projected base charge and volume charge revenue
21 growth from FY20 to FY24 has been applied to the FY19 bad debt expense budget. The
22 percentages applied to each fiscal year are as follows: FY 20 (10.5%), FY21 (2.5%),
23 FY22 (3.75%), FY23 (3.75%), and FY24 (3.75%).

1 **Q17. What Percentage of the District’s total operating budget represents the wastewater**
2 **operations and maintenance program?**

3 A. Wastewater operations and maintenance expenses for the FY21-FY24 period are
4 projected to be \$786.0 million, or 89% of the total operating expenses of \$881.3 million
5 for this time period.

6 **Q18. How are the District’s wastewater O & M services funded?**

7 A. Wastewater O & M expenses are primarily funded through wastewater user charges.
8 Other sources of funding used for wastewater O & M expenses include engineering fees,
9 waste hauler permits, connection fees, interest income and other miscellaneous revenues.

10 **Q19. Besides wastewater O&M, what do the wastewater user charges fund?**

11 A. In addition to O&M expenses, wastewater user charges also fund debt service expenses,
12 a portion of the CIRP, and necessary reserves.

13 **Q20. What is the impact of the proposed wastewater rate change for the monthly bill for**
14 **the various typical customer types assuming the District is authorized to issue**
15 **bonds?**

16 A. The monthly bill for the typical metered single family residential customer based on
17 monthly usage of 6 Ccf will increase by \$7.79 from the FY20 projected amount of \$55.57
18 to \$63.36 in FY24.

19 The monthly bill for the typical unmetered single family residential customer based on
20 attributes of five rooms, one water closet, and one bath will increase by \$8.59 from the
21 FY20 projected amount of \$60.45 to \$69.04 in FY24.

22 The monthly bill for the typical metered multi-family residential customer based on
23 monthly usage of 40 Ccf will increase by \$33.29 from the FY20 projected amount of

1 \$221.15 to \$254.44 in FY24.

2 The monthly bill for the typical metered non-residential customer (normal Strength)
3 based on monthly usage of 100 Ccf will increase by \$80.00 from the FY20 projected
4 amount of \$516.49 to \$596.49 in FY24.

5 The monthly bill for the typical metered non-residential customer (excess Strength) based
6 on monthly usage of 100 Ccf and excess strength of 200 mg/l will increase by \$118.19
7 from the FY20 projected amount of \$750.34 to \$868.53 in FY24.

8 Additional detail on rate impacts can be found in Section 5, Customer Impact, in the Rate
9 Change Proposal (Exhibit MSD 1).

10

11 **Current Projections Compared to 2015 Rate Model Forecasts**

12 **Q21. How do the Wastewater user charge revenues currently projected for FY17 to FY20**
13 **compare to the amounts forecasted for these fiscal years in the 2015 Rate Model?**

14 A. Wastewater user charge revenues for FY17 to FY20 are currently projected to be lower
15 than what was forecasted in the 2015 rate model by \$20.3 million or 1.3%. Additional
16 detail can be found in appendix 7.8 of the Rate Change Proposal.

17 **Q22. How does the other revenue currently projected for FY17 to FY20 compare to the**
18 **amounts forecasted for these fiscal years in the 2015 Rate Model?**

19 A. Other revenue for FY17 to FY20 is currently projected to be higher than what was
20 forecasted in the 2015 rate model by \$9.7 million or 23.3%. Additional detail can be
21 found in appendix 7.8 of the Rate Change Proposal.

22 **Q23. How do the total operating expenses currently projected for FY17 to FY20 compare**
23 **to the amounts forecasted for these fiscal years in the 2015 Rate Model?**

1 A. Total operating expenses for FY17 to FY20 are currently projected to be lower than what
2 was forecasted in the 2015 rate model by \$43.2 million or 5.1%. Additional detail can be
3 found in appendix 7.8 of the Rate Change Proposal.

4 **Q24. How do the Total Debt Service Expenses currently projected for FY17 to FY20**
5 **compare to the amounts forecasted for these fiscal years in the 2015 Rate Model?**

6 A. Total debt service expenses for FY17 to FY20 are currently projected to be lower than
7 what was forecasted in the 2015 rate model by \$26.9 million or 5.6%. Additional detail
8 can be found in appendix 7.8 of the Rate Change Proposal.

9 **Q25. Does this conclude your prepared direct testimony in this matter?**

10 A. Yes.

11