MSD Exhibit No. MSD 3F

2019 Rate Change Proceeding

TIM R. SNOKE

Direct Testimony

Metropolitan St. Louis Sewer District

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Witness Background and Experience

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

A. Tim Snoke, 2350 Market Street, St. Louis, MO 63103, (314)768-6222; tsnoke@stlmsd.com

Q2. What is your occupation?

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

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

A. I have held that position since I started with the District in May, 2014.

Q4. What is your professional experience?

A. I started my professional career in 1992 with Ralston Purina Company. In 1994, I joined Ralcorp Holdings, Inc. (a Purina spinoff) and started my career in Treasury there in 1997. Since then, I have held various managerial positions of increasing responsibility over areas including treasury operations, corporate finance, and financial planning and analysis.

Q5. What is your educational background?

A. I hold a B.S. degree in Business Administration from Valparaiso University (1992) and a Master in Business Administration degree from St. Louis University (1997).

Wastewater Debt Financing

Q6. How does the District expect to finance its major capital improvements for this rate cycle?

A. For the term of the remaining rate cycle (FY17-FY20), the District expects to finance its wastewater capital improvement plan with cash on hand, new debt issued from the approximately $675 million of debt financing still available under its current $900 million bond authorization, and user charges based on the rate increases approved by the District Board in December, 2015.

Q7. How does the District expect to finance its future major capital improvement needs?

A. As presented in the Rate Change Proposal, the District assumes the use of $539 million additional debt financing remaining under its current $900 million authorization, up to $366 million of additional debt under a new $500 million authorization, and $550 million of cash, or PAYGO, funding to fund the CIRP from FY21 through FY24. The District expects to continue using debt as the major component of CIRP funding until such time it no longer becomes financially prudent.

Q8. How much of the District's current total bond authorization of $900 million remains available to finance capital improvements through FY20?

A. There is currently $674.5 million remaining under the $900 million authorization to finance capital improvements in FY19, FY20, and into the new rate cycle. Additional bond authorization will be required by voters to fund the CIRP as proposed.

Q9. Why will there be additional debt authorization remaining after the end of this current rate cycle (FY17-20)?

A. The $900 million authorization approved by the voters in April 2016 was an estimate based on expected CIRP spending and certain assumptions such as inflation rates and bond interest rates. The authorization also included a reasonable contingency. Low inflation has helped keep construction costs lower than anticipated, the low interest rate environment created an opportunity to issue some of the District's bonds at a higher premium than expected (resulting in additional proceeds), and the District was not required to set aside bond proceeds from recently issued debt into a reserve fund, resulting in less debt funding over the FY17-20 period than originally anticipated.

It is important to note that debt service costs are calculated from the face, or par, amount of debt issued and not on the amount of debt that is authorized. The fact that the District will go into the next rate cycle period with some unused debt authorization remaining means that the District only issued debt as needed to fund the CIRP and did not add to debt service costs unnecessarily. This created more rate setting flexibility heading into the FY21-24 rate cycle.

Q10. How did the 2000 Charter changes give the District the authority to issue district-wide wastewater revenue bonds?

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

Q11. What forms of debt and their relative amounts will be used to fund the proposed wastewater capital improvement program?

A. The proposed CIRP is anticipated to be funded with a combination of approximately 60% debt and 40% PAYGO. Debt financing is expected to be made up of approximately 90% percent senior lien bonds and 10% State Revolving Fund (SRF) loans. We are currently anticipating the issuance of fixed rate tax-exempt bonds. In the event Congress approves new authorization for Build America Bonds or other tax subsidy or credit bonds we would also analyze the financial benefits of these financing tools.

Q12. Is municipal debt financing of major capital improvements a practical way of obtaining funds?

A. Yes, historically the use of bonds to finance municipal capital improvements has been an equitable, cost-justified, and widely-used method of funding available to governments worldwide. Using a combination of bonding and PAYGO provides several benefits versus a PAYGO only approach. A combined approach allows projects to be built and put into service more quickly and/or with less significant rate impact. Customers receive the public benefit sooner, while both current and future users of the project receive its benefits and pay for its use. In a PAYGO only approach, current and prior constituents pay for the entire project, but only current and future constituents receive the benefit. A combined approach is also considered to be the more prudent financial practice by rating agencies and within the business and finance communities.

Q13. If the District were to seek additional bond authorization, what in your opinion is the amount of total authorization required?

A. To fully fund the CIRP projects planned through FY24, we would need additional bond authorization of approximately $500 million.

Q14. What would be the approximate debt service coverage ratios attributable to this additional debt authorization?

A. Senior debt service coverage is expected to range from 3.2x to 2.6x from FY21 through FY24. Total debt coverage is expected to be in the 2.1x to 1.8x range (Exhibit MSD 1, Table 4-10).

Q15. How is the Rate Proposal structured to attempt to maintain the District's current bond rating?

A. The District worked with its financial advisor, PFM, to develop a financing plan for the Rate Change Proposal that, combined with proposed revenues and operating expenses, is consistent with maintaining AA bond ratings based on comments from the District's rating agencies. Fitch, Moody's, and S&P have all noted that the District's current credit rating could be compromised if projected senior debt coverage fell below projected levels

(Exhibits MSD38, MSD39, MSD40). In addition, the District is seeking to maintain a strong liquidity position over the rate proposal period as it also has been noted that a reduction in cash balances below historical norms could also pressure ratings.

Q16. What is the potential impact of the proposed use of debt on the District's current bond rating?

A. Based on the most recent comments we have from the rating agencies, we believe that the combination of the proposed rate increases and the use of debt as outlined in the Rate Proposal will allow the District to maintain strong credit ratings, commensurate with a AA-rated utility revenue credit. However, reductions to proposed revenues and/or increases in operating expenses or future debt service costs could reasonably be expected to lead to lower credit ratings and increase future debt service costs.

Q18. Why is the District currently seeking additional debt authorization from the voters to support the WW CIRP in its Rate Proposal?

A. The District's CIRP includes substantial capital improvements over the near term. Utilization of debt financing allows the District to fund these large near term capital improvements while moderating the rate increases imposed on customers. In contrast, use of PAYGO only financing would require significantly higher rate increases through FY24.

Q19. Is this proposed Rate Change contingent upon voter approval of additional wastewater bond issues?

A. The primary Rate Change Proposal assumes voter approval of additional wastewater bond issues. However, if voters do not authorize additional bond issues, rates will increase more quickly as the District will need to fund the CIRP through PAYGO only. An alternative PAYGO only scenario is also detailed in the Rate Change Proposal

(Section 6).

Q20. When will the voters have an opportunity to consider additional debt authority for the District?

A. The Rate Proposal assumes that the District will ask the voters for additional debt authority prior to FY22.

Q21. How long would it take to obtain additional debt authority assuming the voters would approve the required ballot initiative?

A. Passage of a revenue bond initiative will require a simple majority of the voters of the District. The available election dates are in the following months: February, April, August, and November. The District must file 10 weeks in advance of an election, and internal legislative time will require an additional four to six weeks. Therefore the minimum amount of time required between Board of Trustees action on a rate proposal and holding an election is approximately 16 weeks. Once the election is held, another four weeks should be set aside to allow for the Election Commission to certify the results. Once the election passes, bonds can typically be issued within 6-8 weeks.

Q22. Has the District obtained voter approval for previous bond authorizations?

A. Yes, the District has had four successful bond authorization elections since the beginning of 2004.

Q23. What have been the voter approval margins of past bond authorization elections?

A. In February, 2004 the District received voter authorization for $500 million of waste water revenue bond debt. This measure passed by about a 2:1 margin. In August, 2008 the District received voter authorization for an additional $275 million of revenue bonds by an almost 3:1 majority. In June, 2012 voters approved a $945 million bond authorization by more than a 5:1 majority. In April, 2016 voters approved a $900 million bond authorization by more than a 3:1 majority.

Q24. Does the proposed bond election impact the implementation date of proposed wastewater charges?

A. The rate proposal assumes uninterrupted authority to access the capital markets to fund the CIRP. If the District does not have the authorization required to issue bonds, rates will have to increase more quickly in order to fund capital projects required to maintain compliance with the Consent Decree.

Q25. How are the outstanding revenue bonds being repaid and what is the current ratio of net revenue to annual debt service on these senior lien bonds?

A. The outstanding revenue bonds are being repaid according to an amortization schedule established when the bonds were issued from revenue collected from wastewater user charges. FY19 wastewater net revenue is expected to be approximately three times FY19 senior debt service costs.

Q26. How are the District's revenue bond requirements being met and what terms were considered in the Rate Change Proposal for potential future senior revenue bond issues?

A. The covenants in the District's debt agreements require a minimum senior bond debt coverage ratio of 1.25x and a minimum total bond debt coverage ratio of 1.15x. In order to maintain the District's high credit ratings, revenue in the Rate Change Proposal has been set to achieve minimum debt coverage ratios of 2.50x (senior bonds) and 1.80x (total bonds), a minimum Days Cash on Hand target of 550 days, and a minimum Operating Reserve of 60 days. The Rate Change Proposal assumes that future senior lien revenue bonds will be issued with annual coupon rates of 5.00 percent over a 30 year term. It also assumes level debt service over a 30 year period for senior revenue bonds and over a 20 year period for subordinate bonds. Issuance costs are estimated to be about 1.00% of the total issuance amount.

Q27. Are these estimates and costs reasonable in your opinion, based on your experience with similar transactions?

A. Yes.

Q28. Is the Proposed Rate Change consistent with and not in violation of any covenant or provision relating to any outstanding bonds or indebtedness of the District?

A. Yes, the Rate Change Proposal is consistent with all outstanding bonds and indebtedness and will not cause the District to violate any provisions or covenants related to said bonds or indebtedness. Examples of provisions and covenants are requirements to provide revenue to cover O&M expenses, to provide reasonable Revenue Fund reserves, to produce Net Operating Revenues sufficient to meet minimum Debt Service Requirements, and to make all required payments into Debt Service Reserve Accounts.

State Revolving Fund Financing

Q29. Could the District realistically expect to obtain any additional State Revolving Fund (SRF) loans in the future if it was authorized to debt finance additional improvements and if so, what is the potential magnitude of such loans within the next ten years?

A. Yes, the District can realistically expect to receive some SRF financing in the future. The Missouri Department of Natural Resources will not guarantee the amount that will be available so it is difficult to determine the extent of subsidized financing that will be received. The Missouri SRF program has a limit to the amount of money it lends each year and municipalities and programs throughout the State are all eligible to receive a portion of the funding that is made available. The Rate Change Proposal assumes a reasonable $30 million per year of SRF funding starting in FY21.

Q30. What are the benefits of participating in the SRF program?

A. The major benefit of participation in the SRF program is the up to 70% subsidy of interest costs. Therefore the true interest cost could be as low as 30% of the going rate for municipalities with a similar credit rating and term structure. The Department of Natural Resources will add a 0.5% annual administration fee. Currently, about 25% of the District's outstanding debt is from the SRF program.

Q31. What are some of the potential disadvantages of participating in the SRF program?

A. The primary potential disadvantage is the interjection of the State's administrative approval requirements to the process. Also, SRF funds primarily are to be used for sanitary sewer projects, and may not be available for certain combined sewer projects. The available SRF pool cannot possibly meet our entire borrowing needs. Moreover, the structure of the SRF loans is also less flexible than that of revenue bonds. Terms do not currently exceed 20 years and typically require annual principal repayments that cannot be deferred. Without consent of the State, the SRF bonds will not be callable, which means there is no opportunity to refinance the debt for economic benefit when market conditions warrant. Nor is there the chance to economically restructure the debt for any other purposes that might be desirable.

Q32. What terms were considered in the Rate Change Proposal for potential future SRF borrowings and, in your opinion, are these terms reasonable?

A. Future SRF loans are expected to have 20-year terms and a net effective annual interest cost of 3% or less per year. Issuance costs are expected to be 0.65 percent of the total

SRF loan amount. These terms are reasonable because they reflect current subsidization by the State. Future subsidized rates could increase due to market conditions and/or decreases in the State subsidy level.

Q33. Has the District submitted applications for additional SRF program loans?

A. Yes, the District has applied to have funds allocated to it in MDNR's 2020 Intended Use Plan. The District has submitted SRF applications on an annual basis and anticipates continuing this process indefinitely whenever unused bond authorization is available.

Q34. What level of SRF loans do you think could be available to the District on an average annual basis if the District had additional bond authority?

A. Due to the uncertainty of future Federal funding associated with the SRF program, the State's ongoing need to balance its budget, and substantial capital improvement requirements of other Missouri wastewater utilities, an estimate of the potential loans available to the District cannot be reliably determined. The Rate Change Proposal assumes $30 million of SRF loans per year will be available to fund a portion of the proposed CIRP during the next rate cycle.

Q35. Are there any legal issues that could prevent or restrain the District from obtaining State Revolving Fund (SRF) loans?

A. The District is not currently aware of any legal issues that would prevent it from obtaining SRF loans.

Q36. Will any SRF loans continue to be issued on a junior lien basis to the district-wide revenue bonds?

A. Yes, we plan to continue to issue all available SRF loans on a subordinate basis to our existing senior lien revenue bonds.

Wastewater Additional Funding Sources

Q37. Does Missouri American Water make annual principal and interest payments to the District to secure a portion of the new Meramec Regional Wastewater Treatment plant financed by the District?

A. Yes. Principal and interest payments are currently being received from Missouri American Water for a share of the Lower Meramec Regional Wastewater Treatment Plant capital costs required to meet their capacity needs. The principal portion of these payments is considered a contribution (Exhibit MSD58).

Q38. Does this conclude your testimony?

A. Yes.