

October 30, 2000

Dear Friend of FOCUS:

Voters in St. Louis City and County are being asked to make a very important decision on November 7th regarding the future of our sewer service. Four propositions, labeled MSD 1, MSD 2, MSD 3, and MSD 4, are going to be on the ballot. For the last year and a half, a FOCUS St. Louis citizen task force has been monitoring the progress of the Metropolitan St. Louis Sewer District as it pursues important reforms and has concluded that the region should ***VOTE YES ON ALL MSD PROPOSITIONS.***

Overall, the changes make sound business sense and address the historical concerns expressed about District operations. In all cases, the changes proposed are consistent with the best interests of the region's citizens. Many of these changes are long overdue and failure of the voters to approve them will make it extremely difficult, if not impossible, for the District to serve the needs of the citizens. These changes will:

- improve the District's ability to finance the service needs of the region
- give ratepayers a formal voice in setting District rates
- strengthen conflict of interest provisions
- provide term limits for Trustees
- improve auditing practices for both finances and operations
- improve business and operational planning
- require regular voter review of the charter
- expand public reporting requirements

FOCUS believes that the proposed changes will provide a charter for the MSD's operations that is consistent with the needs of the St. Louis metropolitan area. The District has taken our call for reform seriously, and has labored over these improvements. FOCUS has been involved, directly and indirectly, all the way. The findings and conclusions of that task force can be found on the following pages.

Again, FOCUS urges voters in St. Louis City and County to vote yes on propositions MSD 1, MSD 2, MSD 3, and MSD 4. This report, and additional information on our website www.focus-stl.org, explain why.

Sincerely yours,

Christine A. Chadwick
Executive Director

MEMBERS OF THE TASK FORCE AND RESOURCE PERSONS:

CHAIRS:

Ms. Sheila Stix, President, Sheila Stix Strategic Consulting Services
Mr. Robert G. Streit, Managing Partner (retired), Ernst & Young LLP.

MEMBERS:

Mr. Joseph A. Cavato, Senior Vice President, Bank of America
Mr. Daniel F. Cole, Senior Vice President, Ameren Services
Rev. James DeClue, Corporate Director – EEO, Emerson Electric
Mr. Tim P. Fischesser, Executive Director, St. Louis County Municipal League
Ms. Dee A. Joyner, Senior Vice President – Investment Management, Commerce Bank
Ms. Jane B. Klieve, Principal, IGE Training
Ms. Anne Liberstein, Director of Government Affairs, Home Builders Association of Greater St. Louis
Mr. Milton W. Matthews, City Manager, City of Webster Groves
Ms. Liz McCane, Naturalist, Nature on the Move
Hon. James E. O’Mara, Business Manager, Pipefitters Union; Chair, St. Louis County Council
Ms. Marcella Palmieri, Executive Director, Forest Park SE Housing Corporation
Mr. Alan C. Richter, Chief Operating Officer, Pyramid Construction
Mr. Kirwin Roach, Manager – St. Louis Information Center, St. Louis Public Library
Ms. Gloria S. Ross, Senior Vice President – Marketing & Communications, United Way of Greater St. Louis
Mr. Jim Suelmann, Director of Streets, City of St. Louis
Mr. Kenny Whitehead, Manager – Member Services, St. Louis Minority Business Council

RESOURCE PERSONS:

Mr. Terry Briggs, Director of Communications, Metropolitan St. Louis Sewer District
Mr. Jim Byrne, Counsel, Metropolitan St. Louis Sewer District
Mr. Charles M. Etwert, Assistant Executive Director, Metropolitan St. Louis Sewer District
Ms. Pepe Finn, Trustee, Metropolitan St. Louis Sewer District
Mr. Willie Horton, Executive Director, Metropolitan St. Louis Sewer District
Mr. Ron Peasley, Internal Auditor, Metropolitan St. Louis Sewer District
Mr. Tom Purcell, Trustee, Metropolitan St. Louis Sewer District
Ms. Mary Reichert, Partner, Bryan Cave; Trustee, Metropolitan St. Louis Sewer District
Mr. Derek Rose, Attorney, Bryan Cave
Ms. Carolyn Seward, Trustee and Chair – Audit Comm., Metropolitan St. Louis Sewer District
Ms. Glenn Sheffield, Trustee, Metropolitan St. Louis Sewer District
Dr. John Siscel, Trustee, Metropolitan St. Louis Sewer District
Mr. Karl Tyminski, Secretary-Treasurer, Metropolitan St. Louis Sewer District
Dr. Robert L. Virgil, Principal, Edward Jones

STAFF:

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FINDINGS OF THE



METROPOLITAN SEWER DISTRICT TASK FORCE

Election Summary
November, 2000

RECOMMENDATION OF THE TASK FORCE

After careful study, the FOCUS St. Louis Task Force and Board of Directors recommend that citizens support the proposed charter changes at MSD because these changes to the structure and operations of the District are needed and are in the best interest of citizens.

Many of these changes are long overdue and the failure of voters approval will make it extremely difficult, if not impossible, for the District to serve the needs of the citizens. FOCUS believes that the proposed changes will provide a charter for the MSD's structure and operations that is consistent with the needs of the St. Louis metropolitan area.

FOCUS has had a lengthy involvement with MSD, which began in 1994. The heart of the problem at that time was that the voters of the District had not approved rate increases due to perceived discontent with certain aspects of MSD, while deferred maintenance needs and stormwater control needs were increasing dramatically.

An especially significant improvement is establishment of the rate commission. Ratepayers should find confidence in this improved process that will require ratepayer review of proposed fee increases by the Board of Trustees. While the District can legally raise wastewater rates without any review, the Board of Trustees has recognized the benefit of greater public involvement in rate-setting and is willing to share its authority over rates. This is an unusual, yet laudable, move by a government entity that only recently gained the power (via court rulings) to raise rates unilaterally.

It is the conclusion of the Task Force that the present senior decision-makers at the District, including the Board of Trustees, comprise a good management team that is open to feedback and input, and willing to make improvements. District leadership is focused on serving the needs of the citizens of the St. Louis region. While total improvement of operations and service levels cannot change quickly due to infrastructure issues, the Task Force believes that the current MSD team is committed to making significant improvements and is deserving of the support of the region's citizens. The opportunity for significant improvement in handling the St. Louis City

and County sanitary and stormwater needs is at hand, and the approval of the MSD charter changes by voters is a critical first step.

The Task Force was impressed with the District's willingness to assist at various points in this process. FOCUS will continue to monitor the District's audit implementation progress and its performance under any new charter provisions for a period of at least one year.

MISSION OF THE TASK FORCE

The MSD Task Force of FOCUS St. Louis was charged by the FOCUS St. Louis Board of Directors with reviewing MSD's implementation of organizational and operational changes, determining if those changes were in the best interest of the region's citizens, and recommending FOCUS' possible endorsement of the resulting ballot issues to modify MSD's charter.

The MSD Task Force was authorized by the FOCUS Board of Directors on May 11, 1999 and held its first meeting on July 21, 1999. The Task Force members represented the geography and demography of the Sewer District, and worked for over one year on the charge. On August 22, 2000, the Task Force reported its findings and recommendations to the FOCUS Board. The Task Force concluded that the changes being proposed by MSD were in the best interest of the region's citizens, and that FOCUS should publicly endorse the charter changes being placed on the November 2000 ballot. The FOCUS Board accepted the findings and voted unanimously in favor of the Task Force's recommendations. The Board authorized the MSD Task Force to prepare a report of FOCUS' history with the issue and the reason for its decision to endorse the charter changes being proposed by MSD.

HISTORICAL OVERVIEW OF THE ISSUE

MSD has dealt with significant operational and financial problems in recent decades. In the 1970s, MSD faced strict and costly federal clean-water regulations. Also, MSD annexed a large portion of St. Louis County in 1977 – substantially increasing the District's size and work, but without enhancing the revenue stream adequately. The greatest change came in 1980, when all political subdivisions of the State were required to put increases of taxes, licenses, and fees to a vote of the people (Hancock Amendment). In 1992 and 1993, the MSD Board of Trustees enacted some rate increases that were subsequently challenged in the courts by ratepayers, beginning a multi-year sequence of court decisions around the Hancock Amendment and how or when it governed MSD rates. A Missouri Supreme Court ruling provided relief to MSD and other entities across the state when it ruled that many user fees could be raised without Hancock Amendment approvals.

In April of 1994, St. Louis Mayor Freeman R. Bosley, St. Louis County Executive George R. "Buzz" Westfall, and the MSD Board of Trustees encouraged Confluence St. Louis, a predecessor organization to FOCUS, to create a Task Force to address fundamental issues of governance and financing at the District. The Task Force, chaired by Dr. Robert L. Virgil, reviewed the operations and finances of the District extensively, and concluded that the best solution was to convert the District to an investor-owned private utility under the regulation of the Missouri Public Service Commission. These results are published in *Resolving the MSD*

Crisis: The Final Report of the Confluence St. Louis Task Force. On February 21, 1996 the Confluence Board of Directors accepted the Task Force's conclusions and recommendations.

The Confluence Task Force called upon the Mayor and County Executive to appoint a committee to lead in the implementation of this recommendation. The Conversion/Implementation Committee (C/I), co-chaired by Drs. Robert L. Virgil and Les Bond Sr., was convened on July 1, 1996. The Mayor and County Executive charged the committee with two tasks: to determine the feasibility of implementing the Confluence recommendation, and, if feasible, to recommend a plan for implementing the change or, if not feasible, to recommend a feasible alternative and a related implementation plan.

On March 21, 1997, the Conversion/Implementation Committee concluded that the Confluence Task Force recommendation was not feasible, and that reinventing MSD as a unit of government was a feasible idea. The rationale of this decision was to preserve the significant value and powers of MSD's governmental status, noting that it could be effective if certain changes were made in multiple areas of the District's structure and operations. (Specifically, these changes were: to strengthen the Board's planning and monitoring roles, to increase the Board's size and improve the appointment process, to increase the District's overall accountability, to provide for effective rate regulation, to facilitate bond financing, to enhance management effectiveness, and to give the District a new name.)

The MSD Board of Trustees has begun implementation of these recommendations. One of the first actions toward implementation was conducting an extensive management audit of the entire District. This audit was completed on March 1, 1999. The District, anticipating the need for significant changes to its charter, sought input from FOCUS St. Louis. The District expressed a desire to have some public endorsement from FOCUS regarding the changes being proposed and some testimony that the District was indeed taking its mandate for change seriously. To respond to this, the FOCUS Board of Directors authorized the FOCUS MSD Task Force on May 11, 1999. The Task Force spent most of the next year reviewing the District's change efforts. The Task Force presents its findings, conclusions, and recommendations in this report, with additional information available on the FOCUS website, www.focus-stl.org, in the sustainable infrastructure section.

THE FOCUS ST. LOUIS TASK FORCE PROCESS

The Task Force process involved extensive discussions of the challenges facing MSD, the history of issues at the District, and the proposed path of change. The Task Force, co-chairs, and staff had many significant meetings with the District's trustees, Executive Director, and lead staff.

The Task Force began its work by reviewing with District officials the comprehensive 1999 management audit of the District and the District's strategic business plan. District officials expressed the importance they attached to solving the problems of financing, governance, and ratemaking. Officials indicated that MSD has been very receptive to the recommendations made in the audit; and that many of them have already been completed and more are underway. The

District authorized the Audit Committee of its Board of Trustees to monitor implementation of these audit recommendations on an ongoing basis.

The Task Force held one of its meetings at the District's Bissell Point facility, which allowed those committee members unfamiliar with the District's facilities to tour the plant and meet several of the key staff members. At this meeting, the District made a formal presentation to the committee regarding the management audit, challenges facing the District, and attempts to improve.

The Task Force also considered differences in the course of action currently proposed from prior recommendations for change and had extensive discussions with Dr. Bob Virgil and the MSD staff on such matters.

The work before the Task Force fell cleanly into two areas: an overall examination of recommended changes (primarily coming from the 1999 Management Audit) and a specific examination of charter issues (most all of which were contained in the Management Audit). The Task Force addressed each of these separately.

It was determined early in the Task Force process that the Task Force would work in a reactive capacity to the actions of the District. The Task Force made this decision to ensure that its work would not unduly influence the behavior of the District.

THE MANAGEMENT AUDIT

Task Force members reviewed the 1999 Management Audit. This audit was a result of the Conversion/Implementation Committee's recommendation. The audit contained 99 recommendations for change that ranged from significant matters requiring charter changes to minor items related to organizational housekeeping.

The Board of Trustees was directly involved in the implementation process through its Audit Committee, led by Trustee Carolyn Seward and consisting of key staff and outside representation. This committee maintained a master list of audit recommendations, tracked changes, received monthly updates from staff, and met regularly to ensure consistent oversight of the effort.

The Task Force reviewed all 99 of the proposed changes in light of their impact on the best interests of the region's citizens as defined by FOCUS' organizational values and priorities. Overall, the Task Force concluded that the proposed changes made sound business sense and addressed the historical concerns expressed about District operations.

The District updated the Task Force at several points with progress reports on each of the 99 items. While many of the changes had no specific deadline and were merely labeled as "ongoing" implementation, some progress has been made in every area and many of the items are complete. At least 36 items have been completed, with another 63 underway. The Task Force was satisfied that these changes were indeed in the best interest of the region's citizens and

that the District was making a good faith effort to improve its operations and service to its customers.

THE CHARTER CHANGES

Simultaneously with implementing the Management Audit changes, the District is pursuing an extensive revision of its charter – a document that has not been revised in any meaningful way since its ratification in 1954. These charter revisions came from several sources, including the 1996 Confluence Task Force *Resolving the MSD Crisis* report, the 1998 Conversion/Implementation Committee report (which included a commissioned study by Price Waterhouse), the 1999 Management Audit, a citizen-based effort dating from 1989, and a current legal review of the charter documents initiated by the District.

Twenty-two basic charter changes were proposed, some of which represented substantial change, while others represented housekeeping issues. An appendix containing a discussion of all charter changes in detail can be found at the FOCUS website, www.focus-stl.org/prio/infr.htm, for additional reading. The changes to be included in the November 2000 ballot are as follows:

- *ALLOW THE ISSUANCE OF DISTRICT-WIDE REVENUE BONDS*
- *AMEND VOTER APPROVAL REQUIREMENTS OF REVENUE BONDS AND GENERAL OBLIGATION BONDS TO STATE OF MISSOURI LEVELS*
- *CHANGE INVESTMENT REQUIREMENTS TO THE SAME AS THE STATE OF MISSOURI*
- *REQUIRE BOARD OF TRUSTEES TO REPORT ANNUALLY TO THE BOARD OF ALDERMEN AND MAYOR, AND THE COUNTY COUNCIL AND COUNTY EXECUTIVE*
- *INVITE THE MAYOR AND THE COUNTY EXECUTIVE (OR REPRESENTATIVES) TO PLAY A ROLE WITH THE MSD BOARD OF TRUSTEES*
- *ESTABLISH A RATE COMMISSION*
- *INCLUDE THE POSITION OF INTERNAL AUDITOR IN THE CHARTER*
- *ESTABLISH TERM LIMITS FOR BOARD OF TRUSTEES AND CIVIL SERVICE COMMISSION.*
- *REVIEW OF CHARTER EVERY TEN YEARS BECOMES MANDATORY*
- *CHANGE AUDITING FIRMS AT LEAST EVERY FIVE YEARS*
- *REQUIRE A COMPREHENSIVE MANAGEMENT AUDIT EVERY FIVE YEARS*
- *APPROVE A FIVE-YEAR STRATEGIC AND OPERATING PLAN ANNUALLY*
- *STRENGTHEN CONFLICT OF INTEREST PROVISION*

CONCLUSION

Again, the FOCUS St. Louis Task Force and Board of Directors recommend that the citizens of St. Louis City and County support the proposed MSD charter changes. FOCUS is fully convinced that these amendments are needed and are in the best interest of citizens. Though some of these ideas are not new, this is the first time that voters are being given a chance to approve major changes at the District since the many citizen committees have become involved.