

May 29, 2014

Mr. Christian Sigman
Hamilton County Administrator
County Administration Building
138 East Court Street, Room 603
Cincinnati, Ohio 45202

Re: Response to County's May 23, 2014 Letter

Dear Christian:

This letter responds to your May 23, 2014 letter outlining concerns of the Hamilton County Board of Commissioners regarding management of the Metropolitan Sewer District (MSD).

As you are aware, the City and County have worked together for more than 45 years to build and support a sewer system that not only meets the needs of our community but is considered among the best in the nation. Given this history, it is difficult to understand why the County would so harshly criticize an organization that it has helped to shape. I firmly believe that the County is the recipient of substantial misinformation. I am extremely disappointed that the County has taken this adversarial approach. As you pointed out in your letter, these are complex issues and it is vitally important that this misinformation be corrected immediately to prevent further damage to the community and its standing with ratepayers, bondholders, regulators, and other vital partners.

MSD has successfully met all Consent Decree milestones and is in compliance with program budgets.

As stewards of ratepayer funds, the City and MSD take cost controls very seriously. To publically state that MSD has overrun the program by \$87 million is grossly inaccurate. It is unclear how such a figure was determined by the County. This is particularly troubling given the detailed information provided to the County in the Monthly Enterprise Management Reports, which are given in the County's requested format. In order to clear up any misunderstandings, I welcome the opportunity to meet and review the County's basis for its statement of an overrun.

The Phase 1 program remains within budget.

As reported to the County in the April Enterprise Management Report, MSD's Phase 1 program is forecasting to spend \$1.09 billion through 2018 – this is actually less than the \$1.14 billion Wet Weather Improvement Plan (WWIP) conceptual estimate (reference page 22 of April Enterprise Management Report document). MSD makes cost control on each project a high priority. **Of the 106 construction projects comprising the Phase I program, 90 have been completed and the overall program cost remains within budget.** This is no small feat given the Consent Decree requirements for pre-design cost

remains within budget. This is no small feat given the Consent Decree requirements for pre-design cost estimating. Additionally, MSD has realized substantial cost-savings within the program itself including more than \$21.7 million saved on the Eastern & Delta Sewer Separation project bundle. These achievements are remarkable considering this is the largest public works project in the history of Cincinnati and Hamilton County. The success to date reflects the strong management and leadership at MSD.

The City and MSD are committed to transparent communication with not only the County but with MSD ratepayers about the program costs, and as such information including budgets is posted to MSD's website on a monthly basis to keep all stakeholders apprised of the progress with the Consent Decrees.

Overall program remains within budget.

It appears there may be confusion over conceptual estimates vs. actual estimates. Conceptual estimates are regularly used as standard practice in any capital improvement program, and as the name implies are conceptual in nature. They are developed based on information that is available in the pre-design phase. Although cost estimating is not an exact science, it does require extensive expertise to ensure conceptual costs are closely aligned with actual costs. Given that the WWIP program remains within budget, it is clear that MSD's approach successfully demonstrates this principle. The program remains within budget because actual estimates versus conceptual estimates for some WWIP projects have increased, while others have decreased. It is worth noting, as a reminder, that the estimates developed for the WWIP projects were understood at the time by the Regulators, the City, the County, and MSD to be conceptual and not actual project budgets.

New County oversight effort may be creating unnecessary misunderstandings.

For many decades, the MSD Director reported program status directly to the Board of County Commissioners to eliminate barriers that might lead to miscommunication and to foster collaboration. The County changed this practice in recent years, creating a layer of consultants and County personnel positioned between the Commission and MSD. This additional layer has cost citizens an estimated \$10 million since 2010, and has likely led to the misunderstandings we are discussing today.

The City strongly urges the County to return to the long-standing practice of the MSD Director providing regular reports directly to the Commissioners. This will curb the flow of misinformation and misunderstanding, but also restore the ability of the City and MSD personnel to pursue their professional obligations without delays caused by third-party inquisitions. The May 23rd letter is a clear demonstration of the untenable situation the County's reliance on consultants, rather than maintaining direct communication with the MSD Director, has imposed on MSD and its staff. It is extremely disappointing that after successfully working together for more than 45 years we find ourselves debating information that was errantly and inappropriately provided by County representatives. For example, the Lick Run preliminary modeling data was taken out of context and inappropriately used to generate concerns about Consent Decree compliance. The opportunity to discuss the County's claims could have avoided this unfortunate turn of events.

For the County to call for removal of MSD leadership based on misinformation and inaccuracies is frankly alarming. Tony Parrott, who serves as the Director of Greater Cincinnati Water Works and the Metropolitan Sewer District, has provided exemplary utility leadership and MSD continues to be recognized nationally for excellence throughout the utility industry (see Attachment 1). As the appointing authority, and after my review, Tony Parrott will continue to serve in his current role.

Because you have voluntarily disclosed erroneous information to MSD bond holders, the City must now work to restore the confidence of bond holders in order to protect MSD's bond rating – *a potentially devastating blow at a time when our City, County and citizens need the confidence of the bond market, economic developers and businesses that create jobs and sustain the local tax base.* Why the County would create uncertainty just as the local economy is struggling to recover is beyond comprehension. In order to protect MSD ratepayers, bondholders and the Greater Cincinnati Community, the City will work with its bond advisors to determine how misinformation released by the County can be corrected.

In summary, after careful review of the facts, the City does not agree with the statements made in your May 23, 2014 letter. Tony Parrott will continue as Director. I will endeavor to re-establish an effective and functional City-County working relationship consistent with the 1968 Agreement.

Sincerely,



Scott C. Stiles
Interim City Manager

Attachment: 1. Report of MSD accomplishments for the community

REPORT OF MSD ACCOMPLISHMENTS

BENEFITTING THE COMMUNITY

MSD ratepayers and the Cincinnati community have come to expect exceptional performance from the utility, and the dedicated men and women of MSD work hard every day to make sure that those expectations **are not only met but exceeded**. This level of service is evident both locally as well as throughout the utility industry. Representatives from across the country and even the world routinely visit MSD to see its programs in action.

Awards are one measure that ratepayers are receiving not only the best service possible for their dollars, but the highest quality service. Under Director Tony Parrott's leadership MSD has received countless awards including:

- 2014 United States Water Prize from the U.S. Water Alliance (Lower Mill Creek Partial Remedy)
- 2013 Peak Performance Awards from the National Association of Clean Water Agencies (NACWA) for seven MSD facilities
- 2013 Best Emerging Maintenance Reliability Program by Uptime Magazine
- 2012 Diversity award from the American Water Works Association (AWWA)
- 2012 Innovation Award for the MSD Student Intern Academy for community connections from the Agnes and Murray Seasongood Good Government Foundation
- 2009 Exemplary Diversity Practices award from the American Public Works Association (APWA)
- 2006-2014 NACWA Excellence in Management Awards for every year since 2006

MSD Director Tony Parrott MSD has also been recognized nationally including:

- 2014 National Environmental Achievement Award from the National Association of Clean Water Agencies (NACWA)
- 2013-2014 Four invitations to the White House to discuss balancing Consent Decree requirements with affordability
- 2013 MSD Director Tony Parrott represented Publicly Owned Utilities at the Value of Water Coalition in Washington D.C.
- 2013 MSD Director Tony Parrott awarded the Innovation American Society for Public Administration – Greater Cincinnati
- 2011 MSD Director Tony Parrott bestowed the title Water Environment Federation Fellow
- MSD holds a healthy bond rating of AA+ (S&P) and Aa2 (Moody's), a demonstration of fiscally responsible management of the utility and its strong financial position