



Hamilton County

County Administrator

Board of Commissioners

Greg Hartmann
Chris Monzel
Todd Portune

County Administration Building, Room 603
138 East Court Street, Cincinnati, Ohio 45202-1226
Phone (513) 946-4400
Fax (513) 946-4444
www.hamiltoncountyoio.gov

County Administrator

Christian Sigman
Phone (513) 946-4420

May 23, 2014

Scott Stiles, Interim City Manager
City of Cincinnati
801 Plum Street
Cincinnati, Ohio 45202

Dear Scott,

This letter is a follow-up to our discussion yesterday with Mayor Cranley and Board President Monzel concerning the leadership at the Metropolitan Sewer District (MSD). The potentially explosive issue of major cost overruns within several federal Consent Decree projects is merely a symptom of larger management issues within MSD.

I fully appreciate that as interim City Manager you have been thrust into complex issues not of your making or direct control; however, it is apparent that there are systemic management problems within MSD that have resulted in a culture of fear, poor morale, unacceptable operational results and significant financial risks to the ratepayers. All of these negative outcomes are ultimately on the shoulders of the County Commission as owners of the sewer district, but the MSD management does not report to the County Commission or County Administration. They report to the City Manager.

The significant errors on cost and volumetric control projections for several large projects required by the Consent Decree – including the nationally recognized LMCPR (Lick Run) project could, if not corrected, ultimately cost ratepayers over \$100 million. While technical errors can occur within the scope of any project or program, what cannot be overlooked is the response of the MSD leadership to these problems. Prior to being uncovered by the County's monitoring team, there was no formal disclosure of the Lick Run problems to the County. Worse yet, the subsequent response has been to imply that there are no remedies available, or simply demonstrating an unwillingness to discuss changes to project scope or other cost reduction alternatives. This is true for all three of the problem projects we discussed on the phone. The Consent Decree is already projected to cost ratepayers over \$3 billion. I hesitate to think, given the philosophy of current MSD leadership, what the actual final cost could be if the current management approach continues.

I do not take lightly commenting on department management within another city or county government; however, the County Commission's fiduciary responsibility to ratepayers and bondholders necessitates our call for immediate management changes within MSD. Just yesterday, I approved a voluntary disclosure notice to bondholders concerning the potential cost overruns for two Consent Decree projects. A copy of that notice, filed today, is attached.

In isolation, the major cost overruns are something that, while extremely embarrassing and costly to the ratepayers, could be addressed with major remedial changes to the project and MSD staffing. However, there are a host of other serious management deficiencies that justify immediate intervention. A sampling of these deficiencies include:

- Elements of trust and judgment after the revelation of the residency issue of the Director;
- Incident reporting and management of environmental violations (i.e., a major mercury spill and two recent fish kills);
- Undermining stated County policy (i.e., statements to Green Township and lack of cooperation dealing with Consent Decree regulators concerning the Werk & Westbourne project);
- Disintegrating personnel management with City employees sending letters to County Commissioners decrying morale and management issues at MSD (we even had a City employee speak at a recent Board meeting);
- Inflated budget and rate requests (with little effort the County budget staff shaved \$20 million off the MSD 2014 budget request); and
- Over-reliance on consultants at the expense of organizational capacity building as a result of insufficient succession planning.

While we can discuss later the details of the organizational and management issues at MSD, I fully expect the City to demonstrate the same level of urgency and resolve as it did with the recent management changes in the City Public Services Department.

With the public disclosure to the bondholders and pending Consent Decree milestones, we need to move quickly to restore trust and confidence in the management of this sewer utility.

Scott, I have outlined these concerns in an effort to genuinely and completely communicate the need for us to chart a new path forward as it relates to the County and City's relationship around MSD – one based on City/County team work, openness, cooperation, and shared goals – all of which I know reflect your personal leadership style. We do not have the time to wait for a resolution to the 1968 Agreement, for judicial pronouncement, or for some third party to intervene. This needs to be done immediately. I believe that, with the support of the Board of County Commissioners, Mayor and City Council, we can work together to get this done.



Attachment

Voluntary Disclosure Notice
May 22, 2014

Hamilton County, Ohio (the “County”), is providing this notice for the benefit of The Metropolitan Sewer District of Greater Cincinnati (“MSD”) with respect to the following outstanding bond issues:

Hamilton County, Ohio

Sewer System Improvement and Refunding Revenue Bonds, 2003 Series A (The Metropolitan District of Greater Cincinnati), dated July 9, 2003, issued in the original aggregate principal amount of \$160,065,000

Hamilton County, Ohio

Sewer System Refunding Revenue Bonds, 2004 Series A (The Metropolitan Sewer District of Greater Cincinnati), dated October 5, 2004, issued in the original aggregate principal amount of \$46,385,000

Hamilton County, Ohio

Sewer System Refunding Revenue Bonds, 2005 Series A (The Metropolitan Sewer District of Greater Cincinnati), dated March 30, 2005, issued in the original aggregate principal amount of \$86,960,000

Hamilton County, Ohio

Sewer System Improvement Revenue Bonds, 2005 Series B (The Metropolitan Sewer District of Greater Cincinnati), dated November 9, 2005, issued in the original aggregate principal amount of \$83,600,000

Hamilton County, Ohio

Sewer System Improvement Revenue Bonds, 2006 Series A (The Metropolitan Sewer District of Greater Cincinnati), dated November 15, 2006, issued in the original aggregate principal amount of \$83,045,000

Hamilton County, Ohio

Sewer System Improvement Revenue Bonds, 2007 Series A (The Metropolitan Sewer District of Greater Cincinnati), dated December 20, 2007, issued in the original aggregate principal amount of \$72,385,000

Hamilton County, Ohio

Sewer System Improvement Revenue Bonds, 2009 Series A (The Metropolitan Sewer District of Greater Cincinnati (Tax Exempt), dated August 25, 2009, issued in the original aggregate principal amount of \$19,515,000

Hamilton County, Ohio

Taxable Sewer System Improvement Bonds, 2009 Series B (the Metropolitan Sewer District of Greater Cincinnati) (Federally Taxable – Build America Bonds – Direct Payment), dated August 25, 2009, issued in the aggregate original principal amount of \$130,300,000

Hamilton County, Ohio
Sewer System Improvement and Refunding Revenue Bonds, 2010 Series A (The Metropolitan Sewer District of Greater Cincinnati) (Tax-Exempt), dated November 3, 2010, issued in the aggregate original principal amount of \$43,595,000

Hamilton County, Ohio
Taxable Sewer System Improvement Revenue Bonds, 2010 Series B (The Metropolitan Sewer District of Greater Cincinnati) (Federally Taxable - Build America Bonds - Direct Payment), dated November 3, 2010, issued in the aggregate original principal amount of \$87,080,000

Hamilton County, Ohio
Sewer System Improvement and Refunding Revenue Bonds, 2013 Series A (The Metropolitan Sewer District of Greater Cincinnati) (Tax-Exempt), dated July 31, 2013, issued in the aggregate original principal amount of \$178,760,000

Hamilton County, Ohio
Sewer System Refunding Revenue Bonds, 2013 Series B (The Metropolitan Sewer District of Greater Cincinnati) (Taxable), dated July 31, 2013, issued in the aggregate original principal amount of \$79,935,000

(the referenced bonds are hereinafter collectively referred to as the "Outstanding Bonds")

to inform the holders of the Outstanding Bonds that recently released project and cost assessment information demonstrates expected project cost increases of at least \$87 million as part of Phase I and the initial part of Phase II of MSD's Wet Weather Improvement Plan. Reevaluation processes are currently underway and additional project cost increases may result. At the same time, the County and MSD are undertaking efforts to mitigate potential cost increases. The County and MSD have also started the process of evaluating the potential impact on future sewer rates.

The County is providing this statement on a voluntary basis and, by releasing this statement, undertakes and assumes no obligation to further update the information contained herein except as otherwise required by law.