Examination Of The Louisville Metropolitan Sewer District

October 2026

AUDITOR ALLISON BALL

KENTUCKY AUDITOR OF PUBLIC ACCOUNTS



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Louisville Metropolitan Sewer District's Response 73

ALLISON BALL
AUDITOR OF PUBLIC ACCOUNTS

October 6, 2026

Tony Parrott, Executive Director
Louisville Metropolitan Sewer District
1600 W. Hill St.
Louisville KY, 40210

Executive Director Parrott,

The Auditor of Public Accounts (APA) has completed a special examination of the Louisville Metropolitan Sewer District (MSD). The purpose of this special examination was to review specific matters and to make recommendations to strengthen and improve internal controls to ensure operating activities are consistent and transparent. The APA does not express an opinion on MSD's financial statements.

This report summarizes the procedures performed and communicates the results of those procedures. Detailed issues along with solutions and recommendations are presented to assist management in implementing corrective action.

Pursuant to KRS 43.090(1), "[w]ithin sixty (60) days of the completion of the final audit or examination report, the agency to which an Auditor's report pertains shall notify the Legislative Research Commission and the Auditor of the audit recommendations it has implemented and of the audit recommendations it has not implemented. The agency shall state the reasons for its failure to implement any recommendation made in the final audit or examination report. All audit reports and agency responses shall be, subject to KRS 61.870 to 61.884, posted online in a publicly searchable format."

Thank you for your attention to these matters and your cooperation with this special examination. If you have any questions regarding this report, please contact Alexander Magera, General Counsel, at alexander.magera@ky.gov.

Respectfully submitted,

Allison Ball
Auditor of Public Accounts

CC Ricky Mason, Louisville Metropolitan Sewer District Board Chair

CHAPTER 1: Introduction and Background

Introduction

The Louisville Metropolitan Sewer District (MSD) is a public body corporate, and political subdivision of the Commonwealth of Kentucky. It was created in 1946 pursuant to Chapter 76 of the Kentucky Revised Statutes, in the interest of public health and for the purpose of providing adequate sewer and drainage facilities in the urbanized area of Louisville.

MSD is a discretely presented component unit of Louisville Metro Government. It is governed by a Board consisting of eight members who are appointed by the Mayor of Louisville Metro Government, subject to approval of Louisville Metro Council. Not more than five Board members may be of the same political party.

MSD's activities are overseen by its Board, which has statutory authority to elect officers, enact bylaws and enter into agreements and contracts for the management and regulation of MSD's affairs. MSD's revenue is derived from wastewater and drainage service charges collected from residential, commercial, and industrial customers. MSD controls the collection of all revenue and disbursement of payables and has legal title to all sewer and drainage assets. Wastewater service charges are distributed among customer classes based on actual costs incurred to collect and treat wastewater. Drainage service charges are distributed among customer classes based on actual costs of drainage services per equivalent unit of impervious surface.

Scope of Work

Since our office released its Examination of Certain Policies, Procedures, Controls, and Financial Activity of the Metropolitan Sewer District dated December 16, 2011, ratepayers have expressed numerous concerns to our office about MSD operations. These concerns focused on MSD's operational effectiveness, procurement policies and procedures, salary and wage increases, expense activities, and rate increases.

In a letter dated May 19, 2025, the Auditor of Public Accounts formally notified MSD that her office would be conducting a limited scope special examination to review certain financial and operational activities of MSD. The examination primarily focused on the period of July 1, 2022 through December 31, 2024; however, the scope of work was expanded and the period of focus extended into calendar year 2025 as deemed necessary to further address any concerns identified during the examination.

Executive Summary of this Report

To address the concerns of the public, auditors developed an examination program to answer four main questions about MSD's operations. First, is there an explanation for why rates have increased year after year? Second, did MSD follow the correct process to raise rates? Third, what is MSD's current debt outlook? And last, did MSD follow proper procurement procedures when contracting for goods and services? These questions are answered in Chapter 3 of this report.

But before answering these questions, Chapter 2 provides a general overview of MSD's financial summary and trends. When viewing certain financial metrics, MSD's revenue, the majority of which comes from rate payer fees, has allowed it to service debt incurred for significant capital projects and to fund operational expenses. But there is data suggesting that MSD may face significant long-term financial challenges caused by increased debt and staffing costs. For example, MSD's total liabilities have steadily increased over the audit period and, as of the end of fiscal year 2025, totaled around $3.2 billion. With additional capital projects scheduled for completion in the next nine years, that number is likely to grow. MSD also recently issued nine new bonds totaling $1,453,497,000, 70% of which were used to refinance old debt to extend the repayment period and reduce demand on cash flow. MSD's gross salary costs have increased from around $56.6 million in calendar year 2022 to $77 million in calendar year 2025, an approximate 36% increase.

The beginning of Chapter 3 tries to answer what MSD rate payers understandably want to know. Why have their rates continued to increase year after year? And they are not the only users of sewer services suffering from rate increases. One study projected that wastewater service rates throughout the nation would increase annually from 4.5% to 5.6% on average between 2025 and 2028. The Environmental Protection Agency has stated that these cost increases are driven by factors such as inflation, aging infrastructure, deferred maintenance, regulatory requirements, inflation, and supply chain disruptions.

The primary justification MSD provides for raising its rates is that it had to enter agreements (consent decrees) with the Environmental Protection Agency to resolve alleged violations of the Clean Water Act arising from combined and sanitary sewer overflows. These agreements committed MSD to invest billions into infrastructure improvements under the threat of penalties for failing to complete certain projects by established deadlines. MSD believed continued yearly 6.9% rate increases were required to meet ongoing operational needs and to service the debt needed to finance these projects.

At least part of MSD's perceived need to raise rates at the amount that it did may have been caused by internal factors under its control. As the report notes, several MSD management actions and decisions do not align with the principles of financial stewardship required of a public corporation.

Staffing costs have ballooned because of staffing level increases, the award of employee raises and bonuses, disproportional executive pay increases, excessive vehicle allowances, and the purchase of employee service awards. This examination also discovered MSD used rate payer funds on unnecessary expenses, such as food, unjustified travel, charitable donations unrelated to MSD's primary mission, uniforms and decorative shovels for the MSD honor guard, questionable procurement card purchases, and a loan to a private organization.

Chapter 3 of the report next addresses whether MSD followed the procedures for obtaining rate increases. MSD is not a public utility subject to the Public Service Commission's jurisdiction. Rather, under KRS 76.090(2), all rate increases must be approved through an ordinance passed by the council and signed by the mayor. However, the Louisville Metro Council does not pass a new ordinance every time MSD seeks to increase its rates. Rather, the council allows MSD to rely on Louisville Metro Ordinance 50.24 to raise rates up to 6.9% per year without obtaining additional council approval. Although the plain language of that ordinance does not seem to provide such authority to MSD, the council has acquiesced to MSD's 6.9% rate increase proposals during the examination period. As the report notes, MSD employed models to determine how each proposed rate increase would impact financial metrics. However, MSD did not consider any rate increase amount other than 6.9% during the audit period. MSD also did not calculate a proposed rate increase that was required to meet expected financial obligations for the upcoming year without incurring additional debt. It just assumed that the council would deny any proposal over 6.9% even if the models showed it was necessary. If a 6.9% rate increase was not enough to generate enough revenue to cover expenses, MSD planned on debt proceeds covering the shortfall.

The third part of Chapter 3 discusses the outlook for MSD's debt. MSD's debt may cause significant problems in the long term even though MSD is not currently at risk of defaulting in the short term. MSD is significantly leveraged with a total of $2.93 billion of debt at the end of fiscal year 2025. The total debt number has increased on average by 4.05% per year since fiscal year 2016. MSD predicts it will devote 37.5% of its fiscal year 2025 revenue to service debt in fiscal year 2026. Based on MSD's published fiscal year 2025 ACFR, MSD anticipates debt service costs peaking in 2034 with combined principal and interest expense close to $200 million, decreasing to around $8 million a year in fiscal year 2054. That projection does not account for additional debt that may be needed to finance additional capital projects in the future. On that note, MSD issued an additional $287 million in revenue and refunding revenue bonds to finance construction costs and refinance existing bonds and short-term debt.

Chapter 3 of the report concludes by discussing MSD's procurement processes and observes that there is room for improvement. Because MSD expends significant amounts on contracted goods and services, these improvements could lead to cost saving measures and reduce the need for rate increases. For example, as of June 30, 2025, MSD had over $395 million in outstanding contractual commitments related to the construction of a utility plant and the purchase of equipment. MSD's

documentation supporting the need for sole source contracts or change orders was lacking, and MSD did not properly evaluate past contractor performance when awarding new contracts. In addition, MSD's Community Benefits Program, which awards points to a bidding contractor or vendor for a commitment to make charitable contributions to the local community, likely increases MSD's operating costs, both (1) indirectly through amounts contractors or vendors may build into their bids to fulfill the pledged charitable contribution or (2) directly through staffing a department that administers this program.

The final chapter of the report provides an overview of the findings and observations of the report and gives proposed solutions that MSD should implement to minimize waste of rate payer funds. These solutions include: (1) evaluating policies and making necessary changes to create a culture at MSD that emphasizes stewardship of ratepayer funds as a public entity; (2) cutting unnecessary spending and programs; and (3) increased supervision and involvement by MSD's board, particularly when evaluating MSD leadership's recommendations involving the expenditure of funds.

CHAPTER 2: Financial Summary and Trends

Financial Summary And Trends Evaluation

MSD has maintained a strong financial position through fiscal year 2025 while continuing to invest heavily in wastewater, stormwater, and flood protection infrastructure. MSD's total assets increased primarily through capital improvements and expansion of its infrastructure. At the same time, MSD continued to carry significant long-term liabilities, largely in the form of revenue bonds and other debt to finance its extensive capital improvement program. Despite these obligations, net position (explained below) has increased, indicating MSD's assets and resources have continued to outpace liabilities. As projects are completed, however, service of debt and interest expenses and increased depreciation of infrastructure assets will likely lower net position in the future.

Wastewater and drainage service charges supported operating revenues, which increased throughout the three-year period. Expenses also increased, reflecting operational costs associated with a large utility system, depreciation of infrastructure assets, interest on outstanding debt, and compliance with environmental regulations. Overall, these results demonstrate MSD balanced substantial infrastructure investment and debt financing with steady revenue growth (albeit through continual rate increases) allowing MSD to maintain its financial condition while meeting its long-term service and regulatory commitments.

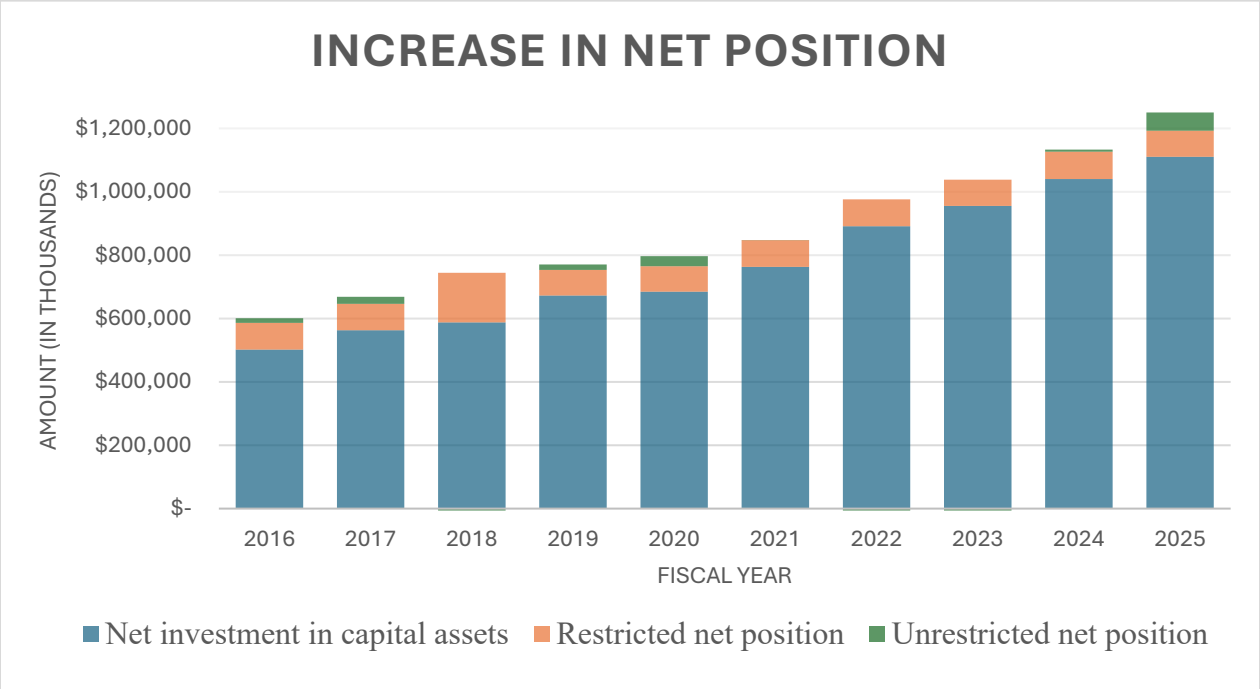
Financial Net Position

Net position is a snapshot of the overall financial health of an organization, representing the difference between an organization's assets and liabilities. Net position is reported in three distinct categories:

1. **Net investment in capital assets**: Includes capital assets (such as land, buildings, and equipment), net of accumulated depreciation and any outstanding debt used to acquire, construct, or improve those assets.
2. **Restricted net position**: Resources that are subject to external restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments.
3. **Unrestricted net position**: Resources available for general use and not subject to externally imposed restrictions.

The total net position reported in the MSD year-ended June 30, 2016 Annual Comprehensive Financial Report (ACFR) was $600,580,000, which has grown steadily to $1,274,385,000 as of June 30, 2025. Net position has increased an average of 9% since 2016. In the last ten years, an average of 88% of the total net position relates to net investments in capital assets, 11% in restricted net position, and 1% in unrestricted net position. Figure 2.1 illustrates the increase in MSD's net position during the last 10 years.

Figure 2.1



Source: APA based on MSD's Published ACFRs

MSD's net position has steadily increased each year as total annual revenues and capital contributions have exceeded expenses. Figure 2.2 presents MSD's annual increase in net position over the last 10 years including net income, capital contributions, and the resulting increase in net position. Net income represents MSD's annual "profit" of revenues less expenses. Capital contributions consist of infrastructure contributed from developers and grant proceeds received from government agencies.

Figure 2.2

Fiscal Year	Net Income	Capital Contributions	Increase in Net Position
2016	$ 10,473,000	$ 5,037,000	$ 15,510,000
2017	55,019,000	12,889,000	67,908,000
2018	50,661,000	12,726,000	63,387,000
2019	10,952,000	50,926,000	61,878,000
2020	3,358,000	9,085,000	12,443,000
2021	34,613,000	16,422,000	51,035,000
2022	65,695,000	9,572,000	75,267,000
2023	68,046,000	13,201,000	81,247,000
2024	98,514,000	30,303,000	128,817,000
2025	110,164,000	31,125,000	141,289,000
Total	$ 507,495,000	$ 191,286,000	$ 698,781,000

Source: APA based on data from MSDs 2025 ACFR

Revenues and Expenses

Operating revenues and expenses represent income generated and costs incurred during an organization's ongoing central operations, essentially representing the day-to-day financial activities. For MSD, operating revenues primarily consisted of collected wastewater and drainage service charges, which totaled $461,714,000 in fiscal year 2025. Operating expenses primarily consisted of service and administration costs of $159,112,000 and depreciation and amortization expenses of $140,583,000.

Non-operating revenues and expenses represent financial activity that falls outside the core day-to-day operations. Non-operating revenues include activity such as investment income, which totaled $13,201,000 in fiscal year 2025, while non-operating expenses primarily consisted of debt related interest expense, which totaled $116,753,000 in fiscal year 2025. Figure 2.3 illustrates a breakdown of MSD's operating and non-operating revenues, expenses, and income before capital contributions over the last three fiscal years.

Figure 2.3

	Fiscal Year		
	2023	2024	2025
Operating Revenues	$ 392,026,000	$ 426,275,000	$ 469,142,000
Non-Operating Revenues	46,367,000	48,132,000	42,906,000
Total Revenues	$ 438,393,000	$ 474,407,000	$ 512,048,000
Operating Expenses	$ 241,335,000	$ 259,279,000	$ 282,359,000
Non-Operating Expenses	129,012,000	116,614,000	119,525,000
Total Expenses	$ 370,347,000	$ 375,893,000	$ 401,884,000
Income Before Capital Contributions	**$ 68,046,000**	**$ 98,514,000**	**$ 110,164,000**

Source: APA based on MSD's ACFRs

During fiscal year 2025, revenues and other related activity for MSD totaled $512,048,000, which accounted for 90% of revenues and primarily consisted of collected wastewater and drainage service charges. Other miscellaneous activity includes amortization of debt discounts/premiums, capitalized interest, and change in fair value of investment swaps that is generally reported within the non-operating section of the MSD financial statements. Figure 2.4 reports the revenue sources and related activity for MSD over the last three fiscal years. Service charges have consistently increased during this time, which is impacted by rates, number of customer connections, and usage.

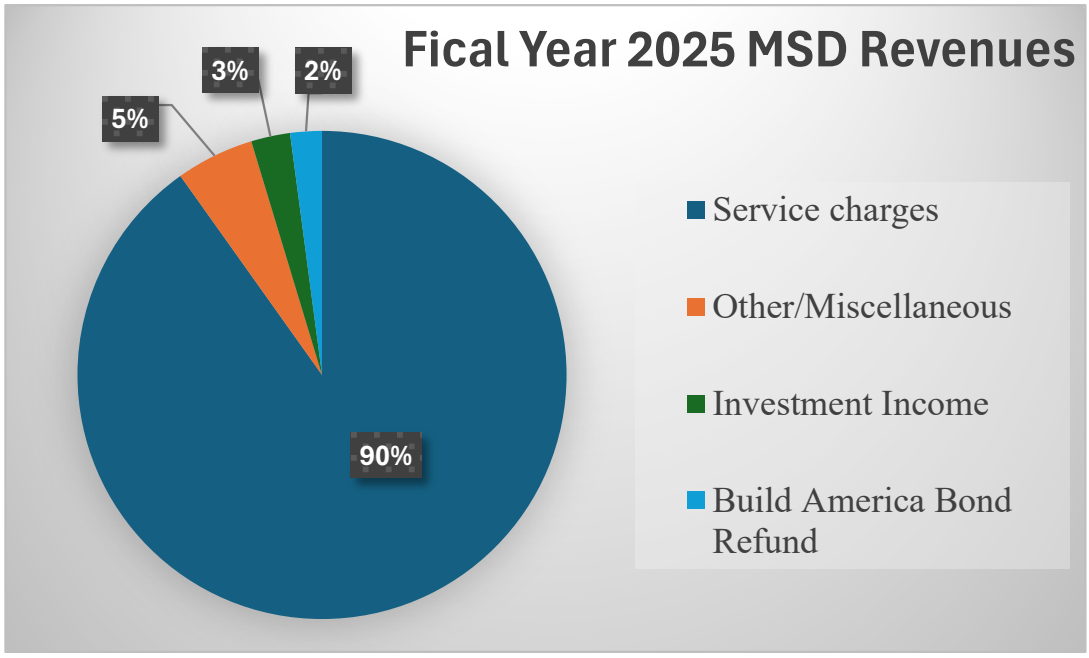
Figure 2.4

Revenue Source	2023	2024	2025
Service Charges	$ 385,163,000	$ 414,192,000	$ 461,714,000
Other Operating Income	6,863,000	12,083,000	7,428,000
Investment Income	7,253,000	13,618,000	13,201,000
Build America Bond Refund	11,350,000	9,444,000	10,713,000
Other Miscellaneous Activity	27,764,000	25,070,000	18,992,000
Total Revenues	**$ 438,393,000**	**$ 474,407,000**	**$ 512,048,000**

Source: APA based on MSD's ACFRs

Figure 2.5 illustrates the breakdown of MSD's fiscal year 2025 revenues and related activity, where service charges are the primary source of funding.

Figure 2.5



Source: APA based on MSD Fiscal Year 2025 ACFR

During fiscal year 2025, expenses and other related activity for MSD totaled $401,884,000, which primarily consisted of service and administration costs, depreciation and amortization expenses, and interest expense. Other miscellaneous activity includes loss on disposal of assets, transfer of assets, and amortization of loss on bond refunding. Note that Governmental Accounting Standards Board (GASB) 68 Pension expense is negative, which is appropriate reporting as determined by an actuarial analysis. Figure 2.6 reports the expenses and other related activity for MSD over the last three fiscal years. Service and administration costs as well as depreciation and amortization expenses have consistently increased over the last three fiscal years.

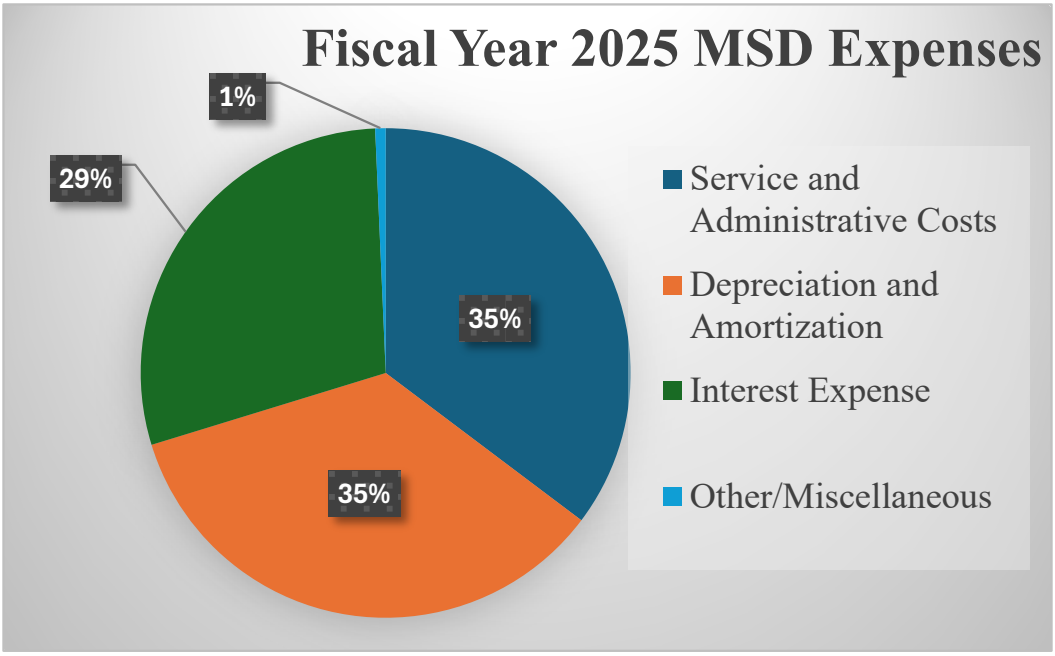
Figure 2.6

Expenses	2023	2024	2025
Service and Administrative Costs	$ 124,641,000	$ 137,929,000	$ 159,112,000
Depreciation and Amortization	114,562,000	131,336,000	140,583,000
Interest Expense	111,061,000	115,061,000	116,753,000
GASB 68 Pension Expense	2,132,000	(9,986,000)	(17,336,000)
Other Miscellaneous Activity	17,951,000	1,553,000	2,772,000
Total Expenses	**$ 370,347,000**	**$ 375,893,000**	**$ 401,884,000**

Source: APA based on MSD's ACFRs

Figure 2.7 illustrates the percentage breakdown of MSD's fiscal year 2025 expenses and other related activity. The negative GASB 68 pension expense has been included in the service and administration cost. MSD's expenses were balanced between service and administration costs, depreciation and amortization expenses, and interest expense during fiscal year 2025.

Figure 2.7



Source: APA based on MSD ACFRs

Payroll

Payroll represents a significant portion of the service and administration costs. MSD has a varied workforce that supports its consistently growing operations within seven distinct divisions. As of June 30, 2025, MSD had 798 non-seasonal employees in union, non-union, and government-appointed positions. A yearly budget for all positions is formulated with input from division supervisors and managers, and the creation or deletion of a position requires proof of necessity and financial budget approval from the Executive Director. The number of budgeted positions for

fiscal year 2025 was 874, a 5% increase from the number of budgeted positions for fiscal year 2024. MSD employees receive a defined base salary according to either a collective bargaining agreement, pay grade range, or individual employment contract, as well as lump sum payments and other incentives. The total salary expense for all employees as of calendar year 2025 was approximately $77 million.

MSD's annual salary expense for calendar year 2022 through 2025 is illustrated in Figure 2.8, which has increased steadily since 2022.

Figure 2.8



Source: APA, based on MSD provided salary data

MSD's compensation policies differ according to employee status, as MSD has union and non-union personnel. The two unions operating at MSD are the National Association of Government Employees (NAGE) and the Laborers International Union of North America (LiUNA). Yearly rate increases for these union employees range from 3% to 5% annually.

For union employees, who are employed within the operations divisions, compensation is specifically outlined in collective bargaining agreements. Each union position has a specified hourly rate, and yearly rate increases are expressly stated in the agreements. Unlike with non-union employees, no increase is made to union salaries outside of amounts specified within the collective bargaining agreements.

Non-union positions comprise roughly 60% of MSD's total workforce. Compensation for these positions is based on internally-generated pay grade ranges. Non-union employees receive a yearly performance evaluation, and the results of this evaluation are used to increase their base pay for the next fiscal year. Base pay for non-union employees can increase up to 4% following performance evaluations. The Board can also authorize an additional base pay increase to all eligible employees, unrelated to performance-based increases, if the Board deems that the pay increase is within budget. The Board voted to increase salary ranges 2% as of July 1, 2022, 2% as of April 1, 2023, 3% as of March 2, 2024, and 2% as of March 1, 2025.

Types of pay provided by MSD to employees include the following:

- Base Pay – This is the standard rate of pay for a job, excluding additional payments such as bonuses and other awards.
- Performance Pay or Lump Sum Performance Payment – Employee amounts are based on the results of the annual performance review and are determined by MSD's human resources department. Performance pay increases the employees' salary base unless they have reached the top of their salary range, at which point the performance pay is paid as a lump sum. Matrices of performance pay percentages are developed by the Personnel Committee and approved by the Board.
- Organizational Performance Goals and Incentive Awards – These are bonus payments approved through Board action and not related to a specific policy. They are tied to MSD's overall completion of the Blueprint organizational goal elements, which is further discussed later in the report in Observation 4. These amounts are referred to as incentive pay within this report.

Assets

Assets for MSD have been primarily comprised of capital assets, net of accumulated depreciation, which have steadily increased annually with the continuation of large construction projects. Net capital assets accounted for over 91% of MSD's total assets in fiscal year 2025. MSD assets primarily consist of sewer lines, wastewater treatment facilities, drainage facilities, pumping and lift stations, and prepaid regulatory assets. As of 2025, the value of MSD's total capital assets has been depreciated by 35%. Ongoing construction in progress totaled $647,237,000 as of June 30, 2025, which represented an increase of $438,652,000 from the previous fiscal year.

Additional assets include cash and cash equivalents and investments, which totaled $127,491,000 and $170,786,000 respectively as of June 30, 2025. Deferred outflow of resources represents activity that has occurred but is to be recognized in a future accounting period. A three-year trend of MSD's assets and deferred outflow of resources are presented in Figure 2.9.

Figure 2.9

Account	2023	2024	2025
Cash and Cash Equivalents	$ 91,786,000	$ 79,858,000	$ 127,491,000
Investments	144,248,000	183,804,000	170,786,000
Accounts Receivable	34,234,000	48,771,000	46,439,000
Inventories	5,811,000	6,264,000	5,416,000
Other Miscellaneous Activity	15,782,000	18,954,000	19,575,000
Capital Assets, Net	3,716,304,000	3,903,754,000	4,122,320,000
Total Assets	4,008,165,000	4,241,405,000	4,492,027,000
Deferred Outflow of Resources	59,456,000	42,363,000	48,522,000
Total Assets and Deferred Outflow of Resources	$ 4,067,621,000	$ 4,283,768,000	$ 4,540,549,000

Source: APA based on MSD's ACFRs

Liabilities

MSD's liabilities consist primarily of outstanding debt. Debt as reported on MSD's financial statements is categorized as revenue bonds payable, commercial paper notes, and other subordinate debt:

- Revenue bonds- Debt instruments secured by and payable from pledged revenues derived from the collection of rates, rents, and charges for the services rendered by MSD.

- Commercial paper notes- Unsecured promissory notes issued primarily by corporations for a specific amount and maturing on a specific day. The maximum maturity for commercial paper is 270 days, but most are sold with maturities of up to 30 days. Almost all commercial paper is rated as to credit risk by rating services.

- Other subordinate debt- Debt that ranks below other debt with respect to claims on assets or earnings. In the event of default or liquidation, subordinate debt holders are paid after senior debt holders. MSD's other subordinate debt includes other notes, general obligation bonds, and the State Revolving Fund loans.

A three-year trend of MSD's liabilities and deferred inflows of resources are as follows in Figure 2.10:

Figure 2.10

Account	2023	2024	2025
Revenue Bonds Payable, Net	$ 2,302,329,000	$ 2,560,352,000	$ 2,545,818,000
Bond Anticipation Notes, Net	226,340,000		
Commercial Paper Notes	165,000,000	212,195,000	274,870,000
Other Subordinate Debt	51,391,000	53,555,000	108,472,000
Net Pension/OPEB Liability	168,552,000	119,970,000	109,754,000
Accounts Payable/Accrued Salaries	56,646,000	84,502,000	111,391,000
Accrued Interest	17,895,000	13,316,000	13,294,000
Investment Derivative Asset Liability	27,247,000	21,204,000	22,516,000
Other Miscellaneous Activity	7,094,000	7,716,000	7,995,000
Total Liabilities	3,022,494,000	3,072,810,000	3,194,110,000
Deferred Inflow of Resources	40,848,000	77,862,000	72,054,000
Total Liabilities and Deferred Inflow of Resources	$ 3,063,342,000	$ 3,150,672,000	$ 3,266,164,000

Source: APA based on MSD's ACFRs

Revenue bonds payable represents 79% of MSD's total liabilities. The 2025 ACFR reported an outstanding balance of $2,545,818,000 in bonds payable at fiscal year-end. Year over year, outstanding debt has increased 4% annually in the last ten years. As of 2025, MSD paid only 5% of the total outstanding bonds. The oldest bond dates to 2009. The average length of all the revenue bonds is 19 years. It was noted that the increase in debt for the past several years was to finance construction in progress.

In the last five years, MSD issued nine new bonds totaling $1,453,497,000. At least 70% of those bonds were used to refund older bonds and other debt. Only one bond issuance, or about 7% of the total from the last five years, directly related to a project. The remaining issuances were used for capital improvements to the sewer and drainage system.

A Look Ahead

Looking forward, MSD is expected to face continued financial pressure from its ongoing capital improvement program, aging infrastructure replacement needs, and regulatory obligations. These requirements will likely necessitate additional capital spending and could result in further debt issuance. While MSD's financial statements reflect a utility that has maintained financial stability and continued investing in critical infrastructure, a review of the organization's spending patterns, operational practices, and governance structure provides important context for evaluating the efficiency and appropriateness of these financial results.

CHAPTER 3: Exploration of Ratepayer Concerns

QUESTION 1: Why Are Rates Increasing?

Factors impacting rates can be separated into two distinct categories:

1. External and economic factors including inflation, regulatory requirements, and supply chain disruptions.

2. Internal and organizational factors including policies, procedures, and day-to-day operational decisions directly controlled by MSD management and those charged with governance.

External and Economic Factors Impacting Rates

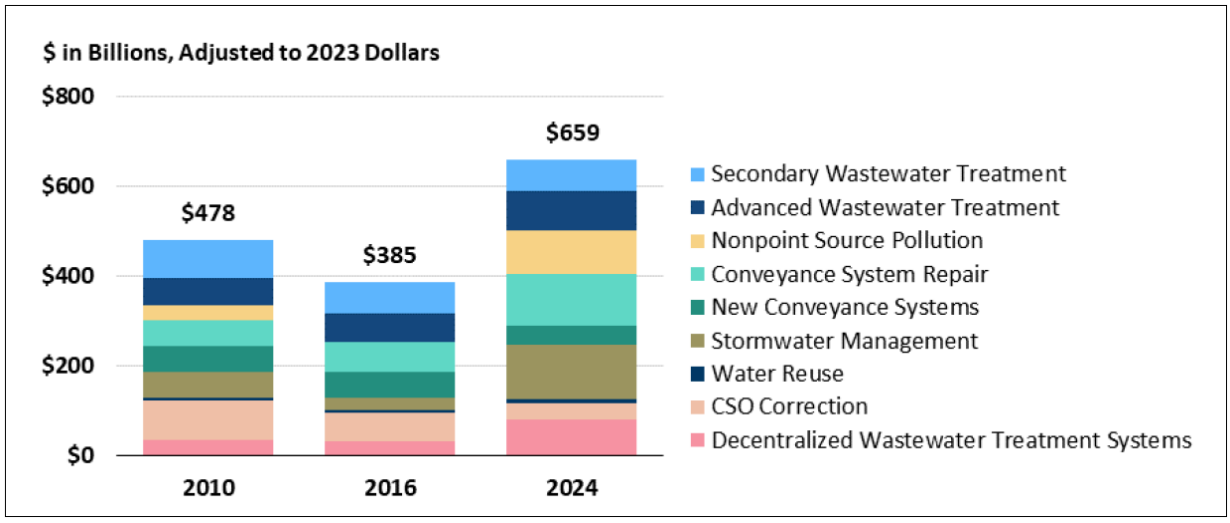
Observation 1: Wastewater Infrastructure Funding And Rate Increases Are National Issues

Auditors utilized information prepared by the Congressional Research Service (CRS), a nonpartisan shared staff to congressional committees and members of Congress to evaluate the nature of infrastructure funding and rate increases across the country. CRS operates solely at the behest of and under the direction of Congress and its reports can be useful for the public understanding of issues such as those under review in this examination.

In June of 2025, CRS published a report titled Wastewater Infrastructure Funding: Background and Affordability Issues, bringing awareness to financial and technical issues some communities are facing regarding wastewater infrastructure. Based on the United States Environmental Protection Agency (EPA) data from 2022, approximately 17,500 publicly owned treatment works operate in the United States providing wastewater treatment services for approximately 270 million people.

EPA periodically reports on the capital cost of wastewater infrastructure needs. In EPA's most recent assessment (published in 2024), EPA estimated national wastewater infrastructure needs will cost $630 billion over 20 years. Estimated needs increased by about 45% between 2016 and 2024. Figure 3.1 compares the fundings needs estimates, in constant 2023 dollars, over the last two reporting periods.

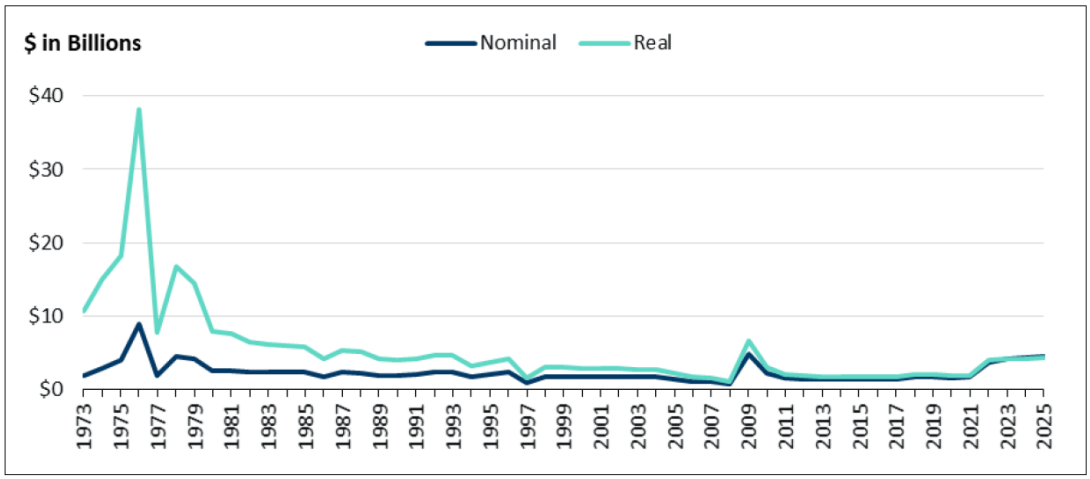
Figure 3.1
Comparison of EPA's Wastewater Infrastructure Needs Estimates
Values Adjusted for Inflation



Source: CRS Report.

A 2025 study from the Congressional Budget Office indicates that since at least the 1950s, state and local governments have contributed a significant majority of public funding for wastewater infrastructure projects. The study indicates that in 2023, the state and local share of such spending was 92%, while the federal share was 8%. Figure 3.2 illustrates the history of EPA wastewater infrastructure appropriations from fiscal year 1973 through 2025.

Figure 3.2
EPA Wastewater Infrastructure Appropriations FY1973 to FY2025
Nominal and Real (Inflation-Adjusted) 2023 Dollars

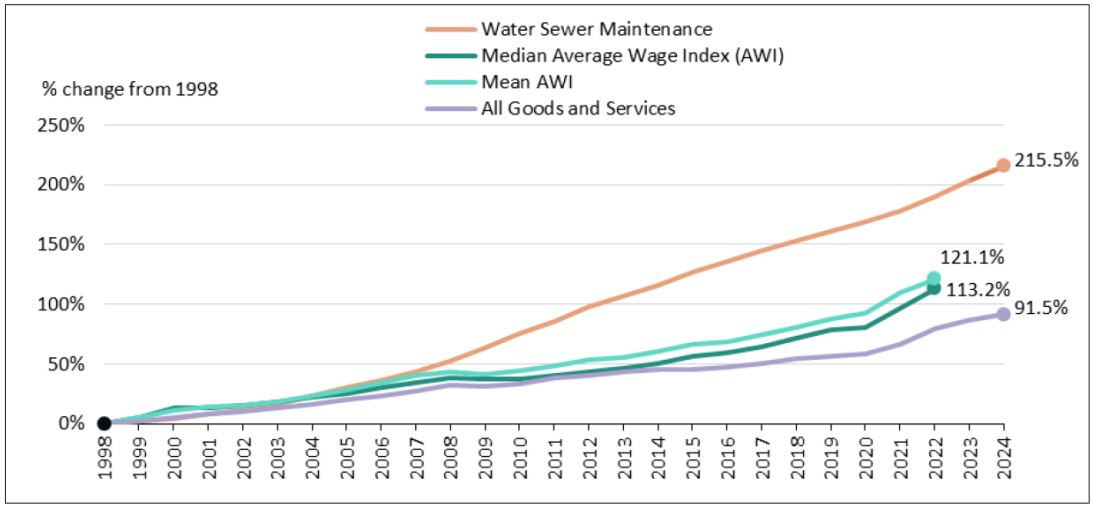


Source: CRS Report

The costs of wastewater services have increased across the United States in recent years. EPA states that numerous factors have played a role in these increased costs including aging infrastructure, deferred maintenance, regulatory requirements, inflation, and supply chain disruptions.

Figure 3.3 illustrates the percentage increase in household payments for water and sewer services between 1998 and 2024. The figure compares these percentage increases for water and sewer services to percentage increases in the consumer price index (CPI) for all items (listed as "All Goods and Services" in the figure) over the same period. The CPI is often used to measure inflation in the U.S. economy. The figure indicates that household payments for water and sewer increased at roughly twice the rate of the CPI during this period. In addition, the figure illustrates the average and median wage increases over this period. The relative increases in water and sewer service payments as compared to the wage data indicate that individuals are spending proportionally more of their income on household water and sewer services.

Figure 3.3
Household Drinking Water and Sewer Payments Versus Costs or Other Goods and Services
Percentage Change from 1998 to 2024



Source: CRS Report

Wastewater and drinking water services are often combined on household water bills. One study estimates that wastewater services account for about 60% of the total costs on these combined bills. In general, costs for wastewater services are based on household water consumption.

Recent studies indicate that the rates and payments are expected to increase. For example, a 2023 report from the National Association of Clean Water Agencies (NACWA) projected that wastewater service rates would increase annually from 4.5% to 5.6% between 2025 and 2028.

Observation 2: MSD Is Required To Commit Significant Resources To Comply With Regulatory Requirements Including The Consent Decree

Original Consent Decree

In August 2005, MSD entered a court-ordered Consent Decree with the Commonwealth of Kentucky's Environmental and Public Protection Cabinet (KEPPC) and the EPA. The Consent Decree is a federally enforceable, legally binding agreement reached in response to pending litigation regarding alleged violations by MSD of the Federal Clean Water Act and KRS Chapter 224 resulting from sanitary and combined sewer overflows. The Consent Decree required MSD to create an action plan to address the following issues:

- An aging sewer system that lacked the capacity to handle the current sewage and stormwater volume during wet weather;
- Sewer overflows that polluted the river and streams throughout Louisville Metro, which violated the Federal Clean Water Act; and,
- A responsibility to keep the public informed about potential health risks, financial impacts, and construction project activity.

The Consent Decree called for MSD to submit a final Long-Term Control Plan (LTCP) to KEPPC and EPA for review and joint approval. The final Sanitary Sewer Discharge Plan (SSDP) and the LTCP were certified on December 19, 2008, under the title of the Integrated Overflow Abatement Plan (IOAP). The SSDP included schedules and deadlines for 63 specific capital projects to be completed by the end of 2024. The LTCP included schedules and deadlines for 25 specific combined sewer overflow projects to be completed by December 31, 2020.

Consent Decree- Amendment #1

On April 10, 2009, MSD agreed to enter an amended consent decree with the KEPPC and the EPA to resolve all pending claims of violations of the Federal Water Pollution Control Act and the Water Quality Act of 1987. The amended consent decree superseded and replaced the original consent decree entered on August 12, 2005, but maintained the original SSDP and LTCP deadlines. The amended consent decree contained stipulated penalties for MSD's failure to comply with the provisions contained therein. The IOAP was amended in 2012 and 2014 to improve compliance and adjust capital project schedules.

Consent Decree- Amendment #2

In 2019, MSD approached Federal and state regulators to renegotiate the time to complete the remaining LTCP and SSDP projects required by the amended consent decree to reprioritize capital

dollars for rehabilitation of MSD's aging biosolids systems, failing sewer interceptors, and flood protection system rehabilitation.

MSD, along with KEPPC and EPA, negotiated the Second Amended Consent Decree, which the United States District Court approved on September 14, 2022.

Under this amended decree, MSD was given an extension for completion of the remaining 16 SSDP projects to facilitate construction of several additional projects. Project deadlines were updated as detail in Figure 3.4.

Figure 3.4

Remaining Consent Decree SSDPs			
Projects with a deadline of December 31, 2025:	**Original Deadline**	**Updated Deadline**	**Completion Status**
1) Raintree & Marian Ct Phase 1	31-Dec-25	31-Dec-33	In Progress
2) Idlewood Inline Storage	31-Dec-25		Completed
3) Monticello PS Elimination	31-Dec-25		Completed
4) Kavanaugh Road Pump Station	31-Dec-25	31-Dec-27	In Progress
5) Leven Pump Station Elimination	31-Dec-25	6-Oct-26	In Progress
6) Cinderella PS Elimination	31-Dec-25	31-Dec-30	In Progress
7) Gunpowder Pump Station ILS	31-Dec-25	31-Dec-27	In Progress
8) Little Cedar Creek Interceptor	31-Dec-25		Project Cancelled
Projects with a deadline of December 31, 2030:			
9) Bardstown Road PS	31-Dec-30		In Progress
10) Raintree & Marian Ct Phase 2	31-Dec-30	31-Dec-26	In Progress
11) Dell Road & Charlaine Pkwy Int.	31-Dec-30		In Progress
12) Upper Middle Fork #2 PS	31-Dec-30		In Progress
13) Mellwood System Improvements	31-Dec-30		In Progress
14) Sutherland Interceptor	31-Dec-30	31-Dec-31	In Progress
Projects with a deadline of December 31, 2035:			
15) Camp Taylor Phase 4	31-Dec-35	31-Dec-32	Project Cancelled
16) Goose Creek PS & Storage	31-Dec-35		In Progress

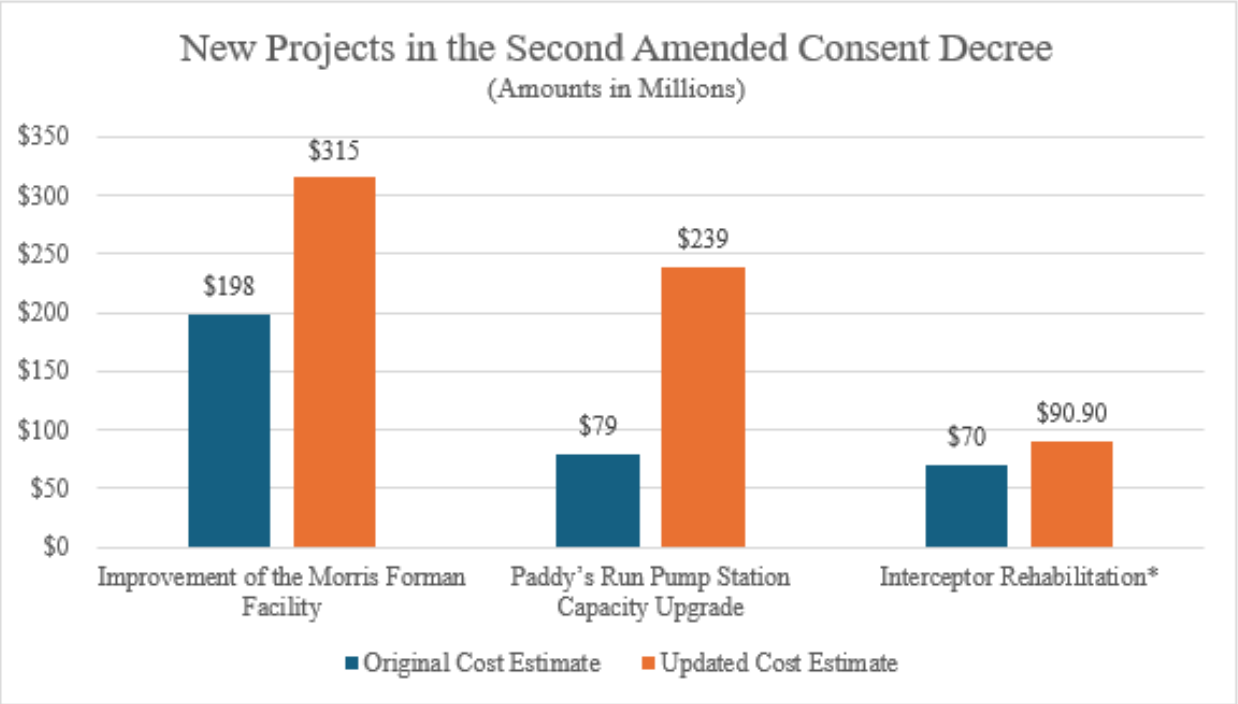
Source: Second Amended Consent Decree (2021)

In exchange for the time extension, MSD also agreed to additional maintenance and rehabilitation projects. New projects added under the Second Amendment of the Consent Decree included:

- Replacement of the Morris Forman Water Quality Treatment Center Biosolids Facility- Original Cost Estimate- $198 million.
- Paddy's Run Pump Station Capacity Upgrade- Original Cost Estimate $79 million
- Interceptor Rehabilitation Project- Original Cost Estimate $70 million.
- Invest a minimum of $25 million annually for asset management projects through 2035 for a total cost of $375 million by June 30, 2025.

As identified in Figure 3.5, the cost estimates for each of the additional projects required under the Second Amendment Consent Decree have increased 85% over the original estimates.

Figure 3.5



Source: APA, based on 2005 Consent Decree and Status Reports provided by MSD
*Note: The Interceptor Rehabilitation project has been completed with a final cost of $90.9 million.

Consent Decree Penalties

Each consent decree provides for the assessment of penalties if MSD failed to hit spending requirements or to meet project deadlines, or upon the occurrence of sewer overflow or discharge incidents. For example, the 2009 consent decree included a $150,000 penalty provision triggered by the failure to complete supplemental environmental projects. Penalties incurred for each sewer overflow or discharge incident were set between $500-$5,000 per incident. Additionally, failure to meet project deadlines would incur penalties of between $1,000 to $5,000 per violation per day depending on the number of days beyond the set completion deadline.

MSD Consent Decree Estimated Costs

MSD estimates total capital expenditures associated with complying with the requirements of the consent decree and associated amendments could range from $2 to $2.2 billion. MSD had already expended approximately $1 billion on consent decree projects by the time the Second Amended Consent Decree was approved.

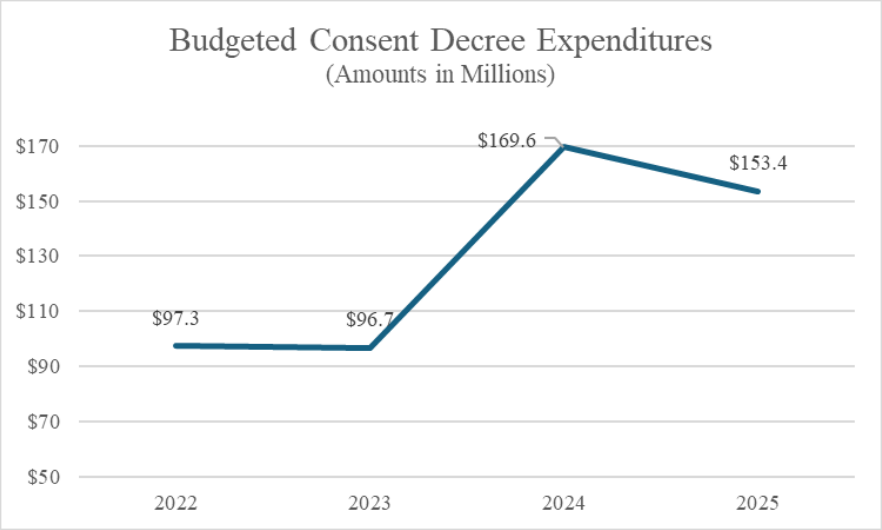
Figure 3.6

Consent Decree	Cost Estimate	SSDP Deadline	LTCP Deadline
2005	$850 million	2024	2020
2009 (First Amended)	$1.15 billion	2024	2020
2021 (Second Amended)	$2-2.2 billion	2035	2035

Source: APA, from MSD ACFRs

The total budget for consent decree projects in fiscal year 2025 was 51% of MSD's total capital budget. When combined with other compliance and regulatory-related spending, the capital spending amount increases to 88% of MSD's capital budget. State agreed orders, the Capacity, Management, Operations, and Maintenance Program (CMOM), the Nine Minimum Controls (NMC) Program, and the Municipal Separate Storm Sewer System Program (MS4) Program comprise the remaining regulatory drivers of MSD's capital budget. These agreements and programs obligate correction or mitigation of weaknesses within MSD's capital infrastructure. Total budgeted Consent Decree Expenditures over the last 4 years are outlined in Figure 3.7.

Figure 3.7



Source: APA, based on MSD budgets

According to MSD's fiscal year 2025 Adopted Budget, nearly 90 percent of Jefferson County's capital investment is mandated by regulatory requirements. Figure 3.8 outlines MSD's Construction in Progress budget for ensuring regulatory compliance.

Figure 3.8

Regulatory CIP Summary *Dollars in 000's*		
	FY25 CIP	Five-Year CIP
Consent Decree	$ 153,392	$ 609,753
State Agreed Orders	11,365	48,085
CMOM Program	69,418	299,933
NMC Program	26,844	112,480
MS4 Program	3,080	13,051
	$ 264,099	**$ 1,083,302**

Source: MSD, Fiscal Year 2025 Adopted Budget

The consent decree and regulatory spending requirements are the primary external cost driver for wastewater rates, requiring borrowing and future debt service. Additionally, initial project cost estimates have increased drastically, compounding budgetary constraints.

Observation 3: The Second Amended Consent Decree Was Used To Justify Increasing Rates

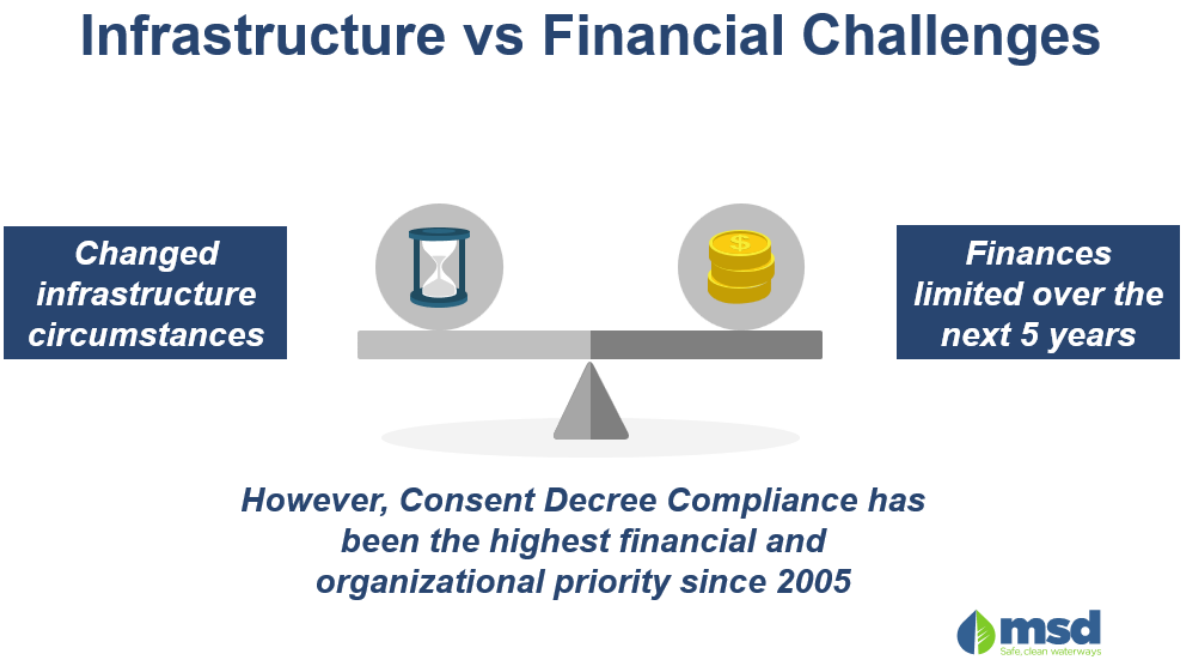
The Second Amended Consent Decree was requested by MSD with the goal of delaying and staggering final completion of ongoing projects so that MSD could address other infrastructure priorities. In exchange for the time extension, the regulators required MSD to commit to firm project completion dates and penalties for delayed performance. MSD also agreed to incorporate rehabilitation of $70 million of critical sewers into its 5-year CIP and to commit spending $25 million per year for additional asset management needs through the 15-year time extension.

Documentation provided as communicated and presented to the Board in April 2021 detailed crumbling infrastructure, sinkholes, and other emergency repairs such as the Morris Forman CSO Treatment Plant as examples of changed circumstances impacting operations and prompting renegotiation of the consent decree. The presentation to the board included a slide that stated:

> *Why renegotiate with the Regulators? As we were implementing the Consent Decree a series of unanticipated circumstances that continue to occur beyond MSD's control and create significant infrastructure impairments.*
>
> *MSD has an institutional rate increase limit of 6.9%. That limit plus serious bond market limitations mean that Louisville MSD can only spend $400 Million on ALL capital improvements 2020-2024 (Consent Decree and non CD). That is all there can be, and those dollars must achieve the best environmental and public health improvement.*

The need for annual 6.9% rate increases was further explained in a memorandum from the Chief Strategy Officer for Business Transformation and Regulatory Compliance to the MSD Board related to approving the Second Amended Consent Decree. The memorandum stated, "MSD negotiated flexibility for determining the asset management priorities each year. The $25M commitment – combined with all the other mandated project spending noted herein – was determined by MSD to be achievable within the Board's rate increase authority of 6.9% per year."

The presentation to the Board further communicated upcoming financial challenges and limited finances:



Source: MSD Provided Board Presentation

The statement "Finances limited over the next 5 years" was not consistent with several MSD management operational decisions, many of which were approved by the MSD Board. Fast forward to the July 28, 2025 MSD Board Meeting, where the Executive Director reiterated the importance of having regular rate increases. Observation 4 and the related findings in the next section of this report illustrates instances of unchecked and unnecessary spending that do not reflect MSD's assessment that it had limited finances.

Additionally, review of board meetings identified a theme of a "Unanimous" vote on some of the more controversial decisions surrounding incentive and lump sum pay, C-Suite base pay increases, and vehicle stipends. While there often were documented discussions with votes following presentation by members or board committees, final decisions did not reflect the notion that MSD's finances were limited.

Internal and Organizational Factors Impacting Rates

Observation 4: MSD Operates A Public Corporation While Utilizing Practices Commonly Associated With A Private Entity

MSD is organized as a public corporation and discretely presented component unit of the Louisville/Jefferson County Metro Government (Metro Government). A component unit is a legally separate organization for which the Metro Government, is financially accountable. MSD is presented as a discretely presented component unit because the Metro Government mayor appoints a voting majority of its board of directors; Metro Government can veto, overrule, or modify decisions of MSD regarding expansion of infrastructure and sewage facilities; and Metro Government must approve any rate increases over 7%. Metro Government does not provide any funding to MSD.

Every public entity has a responsibility to be an effective steward of public funds, regardless of whether those funds are acquired directly through taxes or generated through provided services. Effective stewardship requires managing financial operations responsibly, minimizing fraud and mismanagement, and prioritizing activities with the greatest benefit-to-cost ratio.

Unfortunately, several MSD management actions and decisions do not align with these principles of stewardship of a public corporation.

Finding 1: MSD Provided Significant Incentive Pay (Bonuses) To Employees Totaling Over $6 Million From Calendar Years 2022 Through 2025

Beginning in 2019, MSD implemented the "Blueprint" business strategies to promote the completion of organizational goals and objectives. Some of the goal areas are tied to consent decree regulatory compliance requirements and are composed of both quantitative and qualitative metrics.



Source: MSD FY 2024 ACFR

MSD gives an incentive award bonus to all categories of employee based on the achievement of goals outlined in the Blueprint strategies. Upper management reviews a monthly report regarding metric completion and can extend deadlines or tweak metrics based on current conditions. The Board and Executive Director must give budgetary approval to any incentive award bonus arising from meeting organizational goals. All employees hired before the given cut-off date, including Chief level executives (C-suite) but excluding the Executive Director, are granted an approved incentive award, which can be prorated.

Figure 3.9 and 3.10 outlines employee incentive pay amounts and the number of recipients from calendar year 2022 to 2025, which does not include the incentive payments received by the Executive Director. The bonus payment structure and amounts for the Executive Director are detailed in Finding 2.

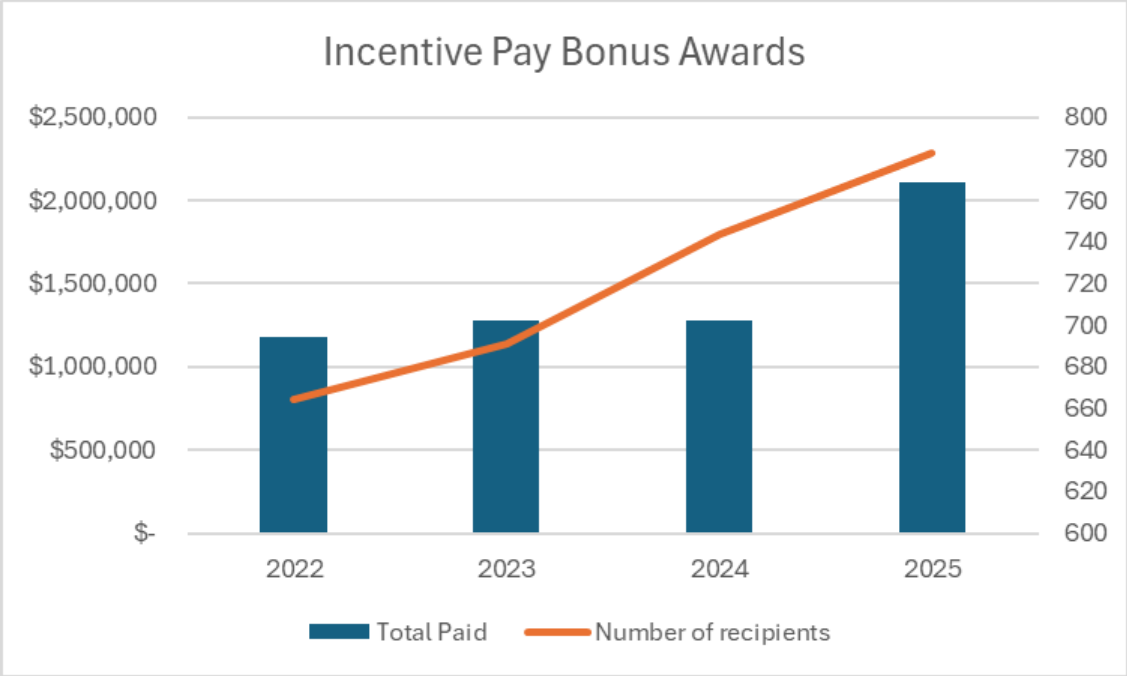
Figure 3.9

Incentive Pay Awarded				
Year	2022	2023	2024	2025
Number of Recipients	664	691	744	783
Max Award Sum	$ 1,850	$ 1,975	$ 1,825	$ 2,825
Total Paid	**$ 1,176,138**	**$ 1,279,635**	**$ 1,275,826**	**$ 2,104,390**
Total Incentive Pay Since Calendar Year 2022				**$ 5,835,990**

Source: APA, based on data provided by MSD

The "Max award sum" represents the amount paid to each employee; however, the amount provided was prorated for employees hired during the calendar year. The dollar amount is set within the yearly budgeting process and the final amount is determined and approved by the Board.

Figure 3.10



Source: APA based on Data Provided by MSD

The Blueprint program goals focus on what MSD labels as their "Critical Business Activities." Operational critical business activities include flood protection pump readiness, sanitary pumping station capacity availability, and systems inspections completion rate. Qualitative business activities are also identified, including customer service call quality and completion of "Transformational Initiatives." MSD grades its effectiveness in these activities with defined metrics, and awards incentive pay if grades were acceptable. In our view, these activities should

be considered as basic requirements for completing MSD's primary mission rather than activities meriting incentive pay.

Many critical business activities for which MSD grades and awards bonuses should occur as a normal course of business. Such routine tasks as staying within operational and capital budgets, completing performance evaluations for union and non-union employees, and processing invoices on time are all identified as graded metrics that may merit incentive pay above and beyond normal salaries and wages.

Refer to Appendix A- Exhibit 1 For a listing of Organizational Performance Goals for Calendar Year 2025.

Importantly, any incentive pay awarded is in addition to any annual increments earned based on non-union employee performance evaluations or other annual increments. Annual and planned rate increases for union employees ranged from 3 to 5% (From fiscal year 2017 through 2028 while non-union employee base pay can increase up to 4% following performance evaluations. The Board can also authorize an additional base pay increase to all eligible employees, unrelated to performance-based increases, if the Board deems that such raises are within budget. The Board voted to increase salary ranges by 2% as of July 1, 2022, 2% as of April 1, 2023, 3% as of March 2, 2024, and 2% as of March 1, 2025.

Since calendar year 2022, MSD has paid out over $5.8 million in incentive awards to personnel. When adding in the Executive Director's incentive pay as detailed in Finding 2, the total incentive pay surpassed $6 million since calendar year 2022.

Requirement Prohibiting Bonus Payments

Section 3 of the Kentucky Constitution, states "no grant of exclusive, separate public emoluments or privileges shall be made to any man or set of men, except in consideration of public services." Translated, public entities shall pay their officers and employees for services actually rendered, and not provide additional bonus pay, especially when it is based in part on performing basic job duties and functions.

While generally prohibited, whether extra pay constitutes an unconstitutional bonus is not always clear, especially when the entitlement to such pay is properly documented as a component of an employee's agreed upon compensation and based on clear criteria. For example, as it pertains to city governments, the Kentucky League of Cities website indicates "a city may avoid the restriction on bonuses or extra compensation by providing in the compensation ordinance that bonuses or extra compensation may be paid for actual services rendered. The ordinance should also establish criteria that will govern the decision to pay the bonuses or extra compensation. In that case, the bonus or extra compensation becomes a part of the fixed compensation, subject to the decision of the legislative body to appropriate the funds in the budget ordinance. So, if the city appropriates funds and establishes criteria for bonuses and extra compensation to be given for actual services rendered, it can be done."

Finding 1 Recommendation:

MSD should evaluate both the appropriateness and legality of providing incentive pay or bonuses to personnel, especially when rate payers are expected to pay increased rates year after year and MSD is faced with substantial regulatory spending funded through debt. Providing bonuses may also have unintentional consequences, which includes increasing the risk of unethical behavior as employees strive to hit established benchmarks or bonus-related metrics while neglecting other essential services.

Finding 2: The Executive Director's Contract Included Excessive Bonuses And Benefits

The Executive Director was appointed in 2015 with an initial base salary of $220,000. His contract includes provisions for an annual incentive payment of up to 15% of base pay for achieving MSD operating goals, as well as an additional incentive payment of up to 10% of base pay for achieving MSD strategic goals. The Executive Director position has its own set of organizational goals that are set by the Board and reflect the strategic initiatives in the Blueprint programs. Although this position is listed as the Executive Director and acting secretary/treasurer, there is no component of the contract that stipulates duties for the latter, and the Board has not defined any duties for the secretary/treasurer aspect of his contract.

The Executive Director's salary is reevaluated and increased annually by the MSD Board. At the beginning of calendar year 2024, base pay for this position was $330,000. Following the MSD Board Chair's annual performance review of the Executive Director, his pay was increased an additional 5% as of September 2024 for a total base pay of $346,500. In 2022, the incentive payment approved by the Board and received by the Executive Director was $56,513. The incentive payment increased to $62,165 in 2023, $72,603 in 2024, and $76,232 in 2025. Each year's incentive payment was approximately 22% of the Executive Director's base annual salary.

Figure 3.11 identifies the Executive Director's compensation, which includes his base pay, incentive pay, and his vehicle stipend. The vehicle stipends are further discussed in Finding 4.

Figure 3.11

Executive Director Compensation				
Fiscal Year	2022	2023	2024	2025
Base Pay Rate	$ 269,110	$ 282,568	$ 330,000	$ 346,507
Incentive Pay	$ 56,513	$ 62,165	$ 72,603	$ 76,232
Vehicle Stipend	$ 14,400	$ 18,336	$ 18,420	$ 18,420
Total	**$ 340,024**	**$ 363,069**	**$ 421,023**	**$ 441,159**

Source: APA, based on Salary data provided by MSD

The Executive Director's Contract Included a Generous Buyout Provision

The most recent iteration of the Executive Director's contract, signed January 23, 2023, stipulates that if he is terminated without cause at any time prior to September 13, 2030, the end date for his current term, that he will be paid twenty-four months' pay. At his current base pay rate of $346,507, this would equate to a payment of $693,014. Refer to Appendix A- Exhibit 4 for excerpts of the Executive Director's Contract.

Finding 2 Recommendation:

Both the incentive pay amounts and the severance package within the Executive Director's contract are overly generous and not typical within a governmental entity. The MSD Board should conduct a thorough review of the Executive Director's contract at renewal to ensure its terms and conditions are advantageous to the ratepayers and in line with those of a governmental entity.

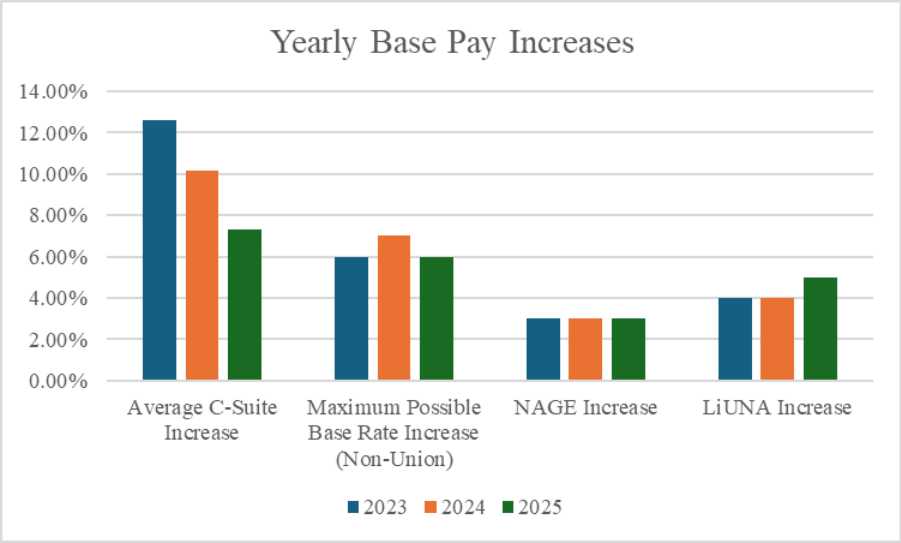
Finding 3: MSD Chief Level Executives (C-Suite) Salary Increases Were Not Proportional To The Rest Of MSD Staff

The MSD Personnel Board annually approves C-Suite base salaries and other lump sum payments, with increases made at the discretion of the Executive Director. The C-Suite salary increases are made retroactive to the beginning of the fiscal year (salary approvals are issued in October). C-Suite positions, while also assigned pay grade ranges, are evaluated by the Personnel Committee, and any increases in base pay must be approved by the Board.

In 2022, MSD had 13 C-Suite employees, including the Executive Director, with an average annual salary of $200,484. In 2025, MSD had 14 C-Suite employees with an average annual salary of $266,745. The increase in base pay each year for these positions ranged from 4.3% to 39.94% from 2022 to 2025. While some of these pay raises were documented by MSD as being part of an internal equity review, these Board-approved C-Suite salary increases grossly outpaced staff raises as indicated in Figure 3.14.

An additional chief position, Chief of Staff, was also created mid-2024 with a base pay of $310,419, bringing the total chief positions to 14. This position was filled in March 2024 by a former board member who had resigned from the Board in January 2024. Best practices generally recommend a longer "cooling-off" period between a Board member's tenure and his or her hire into an organization to reduce conflicts of interest or the appearance of impropriety. Creating another highly paid C-Suite position to be filled by a former Board member may have been an imprudent decision given complaints about continued rate increases.

Figure 3.14



Source: APA, based on salary data, Board minutes, and collective bargaining agreements provided by MSD

In addition to higher base pay, C-suite employees also receive incentive pay and lump sum performance payments as part of the performance review process as identified in Finding 1.

As an example, for the "lump sum" payments provided to some C-Suite staff, the October 2024 Board minutes state "Upon motion by [name withheld], seconded by [name withheld], by unanimous vote, the MSD Board authorized the Executive Director to award performance pay per the 2024 matrix and establish annual salaries for the C-level positions retroactive to July 1, 2024, as well as lump sum performance pay". For reference, the additional lump sum performance pay totaled over $31,000 combined for 12 C-Suite employees in 2024.

Governmental salaries are generally impacted by salary compression, whereby there is a narrowing of the pay gap between employees with different levels of skills, knowledge, experience, and job responsibilities, including executive level employees and subordinate staff. For reference, salary compression has been a topic of discussion in the Commonwealth of Kentucky legislature in recent years as a topic needing additional analysis and research. MSD combats salary compression by providing a lump sum payment to staff at the top of their respective pay grade following annual performance evaluations.

MSD's executive pay structure aligns with that of a private entity instead of a public one, offering much higher prevailing wages for executive level positions.

Finding 3 Recommendation:

MSD should evaluate C-Suite salary adjustments to ensure they are comparable and proportional to the rest of the organization. Executive compensation should be scaled in a fair and equitable manner as compared to the rest of the entity. Additionally, MSD should formulate a policy to address hiring of board members that requires at least a 12 month "cooling-off" period between participation on the Board and employment with MSD.

Finding 4: MSD Board Policy Provided Unreasonable Vehicle Stipends To C-Suite Staff

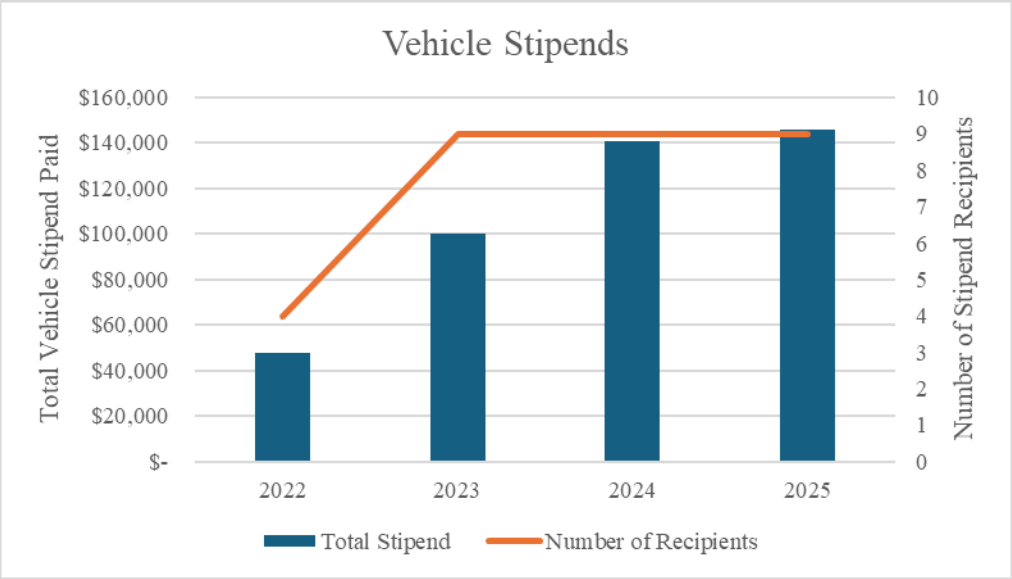
MSD maintains a fleet of vehicles as part of its operations, with some employees able to utilize a take home vehicle as a taxable fringe benefit in accordance with IRS Publication 15-B. Prior to 2023, only a select few members of MSD C-Suite staff could take advantage of the Vehicle Stipend Program, which provides a monetary amount to an employee to purchase a vehicle in lieu of being assigned a fleet vehicle to use. Most notably, the Executive Director's contract allows for a monthly vehicle stipend of $1,535 ($18,420 per year). The Executive Director's contract requires that vehicles leased or purchased with this stipend must be four-wheel drive, less than 5 years old, and have less than 100,000 miles. Vehicles within the stipend program are not restricted to business use as the employee owns the vehicle. Refer to Appendix A- Exhibit 4 for excerpts of the Executive Director's Contract.

Effective March 1, 2023, Board Meeting minutes identified "the MSD Board authorized the expansion of the Vehicle Stipend Program to allow participation by employees who have Take Home Vehicles and are defined as 'control employees' per IRS Publication 15-8 as amended each year. Establish a second level including the Chief Engineer, Chief of Facilities, Safety, and Security, and the Chief Operations Officer to be 90% of the Executive Director level stipend, and a third level that includes other eligible employees to be set at 80% of the Executive Director level stipend effective March 1, 2023. This is a voluntary program. The stipend is instead of the assigned vehicle."

As a result of the expanded board approved Vehicle Stipend Program expansion, additional C-Suite employees were eligible to receive a vehicle stipend of $1,228 or $1,382 monthly ($14,736 or $16,584 per year), depending on the employee level in accordance with the Board's approved policy. From calendar year 2022 through calendar year 2025, MSD spent $434,661 on vehicle stipends for C-Suite employees. The excessive Vehicle Stipend Program costs are unreasonable and unnecessary expenses, particularly since they are subsidized with ratepayer funds.

Figure 3.16 illustrates the number of vehicle stipend recipients and total amount of the stipend awarded from fiscal year 2022 through 2025.

Figure 3.16



Source: APA, based on MSD salary data

Finding 4 Recommendation:

MSD should re-evaluate the necessity of the Vehicle Stipend Program as the costs heavily outweigh any potential program benefits. MSD should ensure its identity as a governmental entity is factored into its operating decisions, with the focus on being a sound steward of ratepayer funds and cutting unnecessary spending.

Finding 5: MSD Provided Service Awards to Staff Totaling $61,900 from Calendar Year 2022 through Calendar Year 2025

Under MSD Policy HR15.22 Service Recognition Program, MSD recognized the service time of regular, full-time and part-time employees by awarding monetary service awards after each five-year period of employment and at the time of retirement after an employee completes either 10 or 20 years of service. Compensation is provided as follows:

Years of Service	Monetary Amount ($)
5	50
10	75
15	100
20	125
25	150
30	175
35	200
Retirement with 10 years	250 and Plaque
Retirement with 20 years	500 and Plaque

Payroll records identified MSD paid out on average $15,000 annually over the last four calendar years as part of this policy/program. Figure 3.13 identifies total amount paid and the number of recipients over the previous four calendar years.

Figure 3.13

Service Awards				
Calendar Year	2022	2023	2024	2025
Number of Recipients	115	109	107	124
Amount Awarded	$ 16,000	$ 16,400	$ 13,225	$ 16,275
Total Amount Awarded Across Calendar Years				**$ 61,900**

Source: APA based on MSD provided data

This policy aligns more closely with a private business model as opposed to a governmental entity model. As MSD approaches nearly 800 employees, this policy may result in another roughly $15,000 annually of unnecessary expenses and requires further employee manpower to track and appropriately apply. Refer to Appendix A- Exhibit 5 for a picture of an awarded plaque.

Finding 5 Recommendation:

MSD should re-evaluate Policy HR15.22- Service Recognition Program and determine the necessity of monetary awards for staff based on years of service. There are alternative ways to honor and recognize staff that would offer the same value of appreciation without additional financial burden. Overall, a strong organizational culture serves as the foundation for staff retention.

Finding 6: MSD Policy Allows For Monetary Payments Or In-Kind Contributions To Non-Profit Organizations

MSD's primary mission is ensuring sanitary conditions for the area it serves by providing a functioning sewer system and flood control. Yet, MSD has improperly facilitated charitable giving to various causes unrelated to its primary mission at the expense of its ratepayers. Moreover, governmental assistance to non-profit entities typically takes the form of grants and other subsidies that have a heightened level of oversight and monitoring and are designed to achieve certain governmental policy objectives. MSD's involvement with charitable giving does not meet these criteria. Last, Section 179 of the Kentucky Constitution generally prohibits a local public entity from making a donation to any corporation, association, or individual.

MSD's Non-Profit Organization Membership and Participation Policy (Document POA-01) states "The Executive Director or designee may make monetary contributions or approve sponsorships in amounts of up to $10,000 per organization per fiscal year to Non-Profit Educational or Charitable Organizations and Business Leagues or Associations when the organization's mission

is aligned and consistent with or advances MSD's mission, as determined and approved by the Executive Director or designee. The MSD Board may approve monetary contributions exceeding $10,000."

The original 2005 Consent Decree outlined several specific projects as part of the goal of environmental education and public outreach and allowed MSD to provide funding for groups that would "raise environmental awareness and stewardship for the local and regional community" with "[s]pecific emphasis [to] be placed on efforts that promote watershed focused environmental activities." The 2005 Consent Decree projects were due to be completed prior to the Amended Consent Decree (2009 and the Second Amended Consent Decree (2021 and did not allow for general charitable contributions outside the specifically listed projects.

MSD customers paying fees for services should have the freedom to decide whether to contribute to non-profit organizations, as opposed to the Executive Director or MSD board electing to divert ratepayer fees to a charitable cause, even if the mission and the goals of the non-profit entity align with MSD. It is important to note that a monetary contribution is not the same as an awarded grant, which generally requires a formalized application process with funds restricted for a specific purpose. Once provided to a recipient, donations lack transparency to ensure they are utilized for the intended purposes.

Ratepayer Funds Provided Donations to the Louisville Water Foundation, Inc.

Since fiscal year 2023, MSD has contributed a combined $500,000 to the Louisville Water Foundation. The Louisville Water Foundation is recognized as a non-profit organization per the Kentucky Secretary of State's website; however, members of the MSD executive staff are also listed as directors for the non-profit, including the Executive Director. This program supports customers who cannot make timely water and sewer bill payments and is administered by the Association of Community Ministries (ACM through a Memorandum of Understanding with the Foundation. MSD indicated "ACM is the non-profit that partners with the Louisville Water Foundation to distribute the funds MSD provides after ratepayers are approved and meet ACM's customer assistance program requirements. MSD does not have an agreement with ACM, nor do we have access to the MOU they have with the Louisville Water Foundation."

It is worth noting that MSD operates a Customer Assistance Program (CAP including an Emergency Wastewater Rate Assistance Program for qualified low-income households and a Senior Citizen Discount program for those age 65 or older and a gross annual household income of $35,000 or less.

Goodwill Industries Inc. Bathroom "Naming Rights"

MSD approved a $80,000 three-year sponsorship to Goodwill Industries, Inc. in exchange for the naming rights for the Resource Plaza Corridor restrooms in the Goodwill West Louisville Opportunity Center. As part of the sponsorship, MSD received acknowledgement markers in prominent locations leading into the Resource Plaza Corridor restrooms and space inside each of the sponsored restrooms for MSD to place marketing materials that can be replaced and updated once each quarter.

The contract agreement stated "MSD continues to strive to be a good neighbor and build brand awareness for the three core services we provide to the community. We are continuously seeing ways to reach all of our ratepayers." As a public metropolitan sewer district, the MSD mission is not to "strive to be a good neighbor" but rather to provide public services in a fiscally responsible manner. It is also unclear why MSD believed it needed to build its brand in this manner, especially when MSD essentially has a monopoly on sewer services in the Louisville Metro area. Additionally, this is an ineffective means to conduct public outreach.

Ratepayer Funds Used to Attend the Olmsted Parks Sponsorship Breakfast

MSD's Non-Profit Organization Membership and Participation Policy (Document POA-01) further states, "MSD may purchase tickets or sponsor fundraising or business events for Non-Profit Educational or Charitable Organizations and Business Leagues or Associations when the organization's mission is aligned and consistent with or advances MSD's mission, as determined by the Executive Director. Tickets for these events must be used by MSD Board members, employees or MSD invited guests as approved by the Executive Director. The Executive Director may approve expenditures up to $5,000 per organization."

In 2024, MSD was a supporting sponsor for an Olmsted Parks fundraising event, costing $2,500 for 8 employees, to attend a gathering of 400-600 other professionals to "network, eat a delicious catered breakfast, and enjoy a dynamic program to learn about the value Olmsted Parks brings to Louisville." The breakfast was a fund-raising event for the Olmsted Parks Conservatory.

MSD Cares Employee Campaign Was Subsidized with Ratepayer Funds

MSD Cares Campaign is an MSD employee supported charity campaign, which generates funding through employee pledges, donations, and fundraising events. For reference, documented board meetings identified the campaign generated over $100,000 in 2024. During the evaluation and testing of expenditure activity, $10,638 expenditures were identified relating to MSD Cares Campaign events including the purchase of promotional items and catering provided by food trucks. These expenditures were paid for by MSD with ratepayer funds. Additional activity was

noted within the procurement card Finding 8 including the purchase of UK/UL sports apparel for the MSD Cares Silent Auction for $151.

Finding 6 Recommendation:

MSD should evaluate its policies and procedures pertaining to its support of non-profit organizations, particularly Policy Document POA-01. The initial evaluation should ensure the policy complies with Section 179 of the Kentucky Constitution. Programs such as MSD Cares should not be subsidized with ratepayer funds: it should be funded by employee giving. MSD should further evaluate all expenditure activity and internal programs to ensure ratepayer funds are only utilized in the most efficient means possible to fulfill the primary mission of MSD. A cost-benefit analysis should be conducted for any arrangements and sponsorships where services are not provided to ensure they are an effective and efficient use of ratepayer funds and directly further MSD's primary mission.

Finding 7: Ratepayer Funds Were Used On Unnecessary Expenditures

Ratepayer Funds Were Used to Purchase Food and Drinks for MSD Employees

While testing a sample of expenditures, instances of food and beverage purchases were identified and included:

- One item sampled for testing included a $308 lunch provided during new hire orientation. MSD identified spending approximately $5,600 in fiscal year 2025 on new hire orientation meals. MSD further disclosed that it has not adopted a procedure or policy for providing meals; however, the Travel and Meals policy was updated for fiscal year 2026 based on auditor inquiry.
- Two items selected for testing showed purchases in 2023 for "Coffee and Condiments" and "Coffee and Tea" totaling a combined $12,000. MSD confirmed these purchases were for general employee consumption at all MSD facilities.

Additional items were identified during purchase card testing detailed in Finding 8 including lunch provided for employees for $604 and coffee carafes for $194.

MSD's Volunteer Honor Guard Uniforms and Equipment Were Paid for With Ratepayer Funds

MSD operates an honor guard, which is recognized as the nation's first and only wastewater utility honor guard. While the honor guard is comprised of volunteers, expenditure testing identified MSD expended $8,505 of its funds for the honor guard, including $6,088 for uniforms and $2,417 in engraved shovels. Additional honor guard activity was identified during procurement card testing as discussed in Finding 8 including honor guard equipment for $406.

A public sewer district should not fund or subsidize an honor guard with ratepayer funds.

Finding 7 Recommendation:

MSD should re-evaluate its policies and procedures to ensure ratepayer funds as acquired through fees for services are only utilized to carry out its mission and responsibilities. All expenditures should be reasonable and beneficial.

For reference, the Commonwealth of Kentucky policy Finance and Administrative Policy (FAP) 120-23-00, entitled Use of Public Funds, provides a good foundation for MSD's development of its own policy identifying what constitutes an allowable use of funds. This policy also lists expense items that are unallowable including beverages for employees (even coffee), employee parties and gifts, as well as donations, which are prohibited under the Kentucky Constitution Section 177, which is like Section 179 but applies to the state instead of local governments.

Finding 8: MSD Travel Justification Forms Were Consistently Incomplete

MSD employees attend several conferences, meetings, and training sessions annually. Documentation obtained from MSD identified the following activity related to travel, trips, and training costs as outlined in Figure 3.17:

Figure 3.17

Fiscal Year	Number of Trips	Amount
2023	278	$ 565,641
2024	253	$ 742,193
2025 (6 Months)	126	$ 446,336

Source: APA based on MSD Provided Documentation; Amounts based on ledger accounts for Travel & Meetings and Training.

MSD Travel Policy (POF-04) requires MSD employees and members of the Board to submit a Travel Justification Form and obtain approval prior to any scheduled Out-of-Area Travel. This form is not required per the Travel Procedures for In-Area-Travel. In-Area-Travel is defined in the Travel Policy as attendance within the MSD service area or in Frankfort, Kentucky.

MSD's Travel Policy states "Business travel shall be authorized for MSD staff when the travel serves a legitimate business purpose to meet the mission or regulatory requirements of MSD. Travel may also be authorized for MSD staff training and development that is consistent with the mission of MSD." MSD's mission is to "Provide quality wastewater, stormwater and flood protection services to protect public health and safety through sustainable solutions, fiscal stewardship and strategic partnerships."

Most of the travel and training expenditures were charged to a credit card (Refer to Finding 9 for additional information on MSD's procurement cards). During the examination period, credit card

statements were scanned, and 26 travel specific transactions were sampled. The following exceptions were noted:

- No documentation was available to support 2 transactions. The transaction description on the credit card Statement indicated "Disney Yacht" for $996 and "Airfare" for $147. MSD stated the charges may have been related to a conference.
- The required Travel Justification form was incomplete for 8 of the transactions tested. Refer to Appendix A- Exhibit 2 for an example of the travel justification form.
- All 26 instances were purportedly related to employees attending conferences; however, in all instances the justification form's "Which Certificate or License Will Be Credited" section indicated "na". As a result, the necessity and value of the related training expenditures could not be fully assessed.

Additional procedures were performed to evaluate travel expenses for conferences. It was noted that MSD sends operational employees to a conference annually for employee development. This conference is called the Kentucky Labor and Management Conference, which "brings together representatives from labor, management, and government for a unique and collaborative experience focused on strengthening workplace relationships." MSD has sent at least 19 employees to this conference each year under the examination period. In 2025, 22 employees attended the Kentucky Labor and Management Conference. The justification form sampled and reviewed for one attendee estimated costs at $1,200. If this estimated cost was typical for all attendees, the potential combined cost for all employees to attend this conference may have been over $25,000.

In addition to employee travel, the former MSD board member was identified in the test sample of purchases. In this instance, the former board member attended a conference in Sonoma, California and incurred a total of $4,056 in charges to observe MSD staff during a panel and award ceremony. The submitted travel expense reimbursement report requires MSD to summarize three takeaways from attending this event and how they will benefit your job performance at MSD or satisfy business objectives. The report indicated, "As *[name redacted]* accompanied *[name redacted]*at the Awards Ceremony and Winter Conference. She attended several workshops, one where *[name redacted]* was a panelist, one where *[name redacted]* and one where *[name redacted]* were presenters. She also attended the Awards Ceremony." The summary provided does not support how this would benefit this employee's job performance or satisfy MSD business objectives.

Finding 8 Recommendation:

We recommend MSD re-evaluate its travel policy and procedures to include stronger business justifications, a documented cost-benefit analysis, and demonstrable operational relevance for all training and conference travel. Management should establish clear criteria defining allowable travel, require evidence that the lower-cost alternatives were considered, and implement

supervisory review procedures to ensure travel expenditures are necessary, reasonable, and align with MSD's financial condition and strategic priorities. MSD should evaluate the travel requests with the employee's job description and qualifications. Certifications or licenses provide stronger justification for the necessity for travel if continuing professional education is earned.

Finding 9: MSD Has 157 Active Procurement Cards, Which Carry An Increased Risk Of Fraud, Waste, And Abuse

MSD has written procurement regulations refencing the Purchase Card Program that allows authorized employees to make small-dollar, non-inventory purchases of materials and supplies for single purchases of $1,500 or less. MSD's Purchase Card Procedures (PRI-01) provide additional guidance including a list of items that should not be purchased with the card.

Card holders are required to provide support and justification for each purchase within the procurement card database. The approving supervisor is required to review the supporting documentation, justification description, and MSD's policies and procedures prior to approving the purchase.

MSD utilizes two types of procurement cards: purchase cards and travel cards. Provided documentation identified MSD has 142 purchase cards individually assigned to MSD employees. Roughly 18% of employees were assigned their own purchase card. Additionally, MSD utilizes 15 travel cards, which are temporarily assigned to employees on an as needed basis. It is worth noting that travel-related expenses are allowable under both types of procurement cards.

MSD documentation further identified there are 59 different "Approval Groups" responsible for monitoring purchases for these cards, with many of the approvers having their own procurement card. Currently, the group manager has the primary review responsibility, and policy only requires the Purchase Card Administrator to do a monthly review of all purchases more than $1,000 for compliance with purchase card policies. The sheer volume of active procurement cards, combined with the number of approval groups, significantly increase the risk of improper purchases and brings into question the consistency and adequacy of the review process.

Considering MSD's Purchase Card policy, the following questionable purchases from the testing sample were noted:

- Lunch provided to employees, $604.
- Five instances of manhole cover plaques for retirees, $656. See Exhibit 5 for an example.
- Most Admired CEO photo plaque and rush shipping, $809.
- Personality tests, $405.
- Ceremonial hard hats with personalized engravings, $770.
- Honor guard equipment, $406.
- Airport coffee carafes for employees, $194.

- UK/UL Sports Apparel for MSD Cares Silent Auction, $151.
- A car wash payment, which failed to document the vehicle being washed, totaling $23.
- Auditors also identified other purchases that did not comply with procedures relating to office supplies and inventory-related parts. These purchases may be considered emergency purchases, but MSD does not address emergency purchases in its regulation or procedures. Personal purchases, inventory, office supplies, and office furniture are purchases that are not allowed under Policy PRI-01, Section 5.10.
- Sales tax totaling $108 was charged to three purchases sampled and no evidence suggested MSD addressed those charges. MSD Policy identifies that all purchases made on the purchase card must exclude sales tax. (PRI-01, Section 5.2)
- One purchase was made by an employee on behalf of the Executive Director. The Executive Director subsequently approved the transaction. The Executive Director has his own procurement card, and MSD policy states cardholders cannot lend their cards to another person for use.

Approximately $10,500 of the sampled procurement card transactions did not provide sufficient information to justify the purchase in accordance with MSD policies and procedures. Additional levels of review were noted within the MSD purchase card policy, but further questions should have been asked during that review to validate the necessity of all activity.

Finding 9 Recommendation:

MSD should review and strengthen its Purchase Card Procedures (PRI-01) to provide further accountability and oversight. Oversight should be strengthened to allow for a further independent review of all transactions, ensuring the business need is fully documented and supported.

MSD should perform a comprehensive review of cardholder assignments and considerably reduce the number of authorized purchase cards. Staff should receive additional training to ensure full compliance with the procurement card policy. Each transaction should be fully supported with the necessity and business justification documented. Additionally, management should implement reviews of cardholder activity and the necessity of purchases to reduce unnecessary exposure and strengthen oversight.

Finding 10: MSD Issued A Loan To A Non-Profit Organization Without A Formal Agreement

In April 2025, the MSD Board unanimously approved an “emergency loan” of $35,000 to Five Cities Plus, Inc. Per its website, Five Cities Plus is a 501(c)(6) non- profit organization comprised of a group of major Midwestern wastewater utilities, which have come together in the common interest of advancing the municipal wastewater industry. MSD providing a loan to a non-profit entity is questionable and unnecessary, especially since no formal loan agreement was in place, leaving ratepayer funds at risk.

Documentation provided by MSD indicated "due to unforeseen circumstances the 5 Cities + canceled the 2024 Technical Conference and depleted the reserve funds. Louisville MSD was the host city for the 2025 Technical Conference. 5 Cities + has requested an emergency loan to reserve the hotel for the event this year." The 2025 Conference was held at the Omni Louisville Hotel.

We also have the following additional concerns regarding the loan with Five Cities Plus, Inc.:

- The MSD Executive Director was the President of Five Cities Plus, Inc. during 2025. Providing a loan to that organization created a potential conflict of interest.
- The loan was expected to be repaid prior to the conference, which was held in August of 2025. MSD records show that the loan was not repaid until January 2026, five months later than expected.
- Two MSD employees were identified as authorized to write checks on behalf of Five Cities Plus, Inc., which could constitute further potential conflicts of interest.
- The loan repayment check was signed by an MSD employee.
- The Five Cities Plus website was vague with the only real purpose identified as gathering funds from sponsors to host an annual conference with the purpose of technical and educational undertakings in the municipal wastewater industry.

Finding 10 Recommendation:

MSD management and the Board should evaluate and update policies and procedures to ensure loans to outside parties are not permissible, as they fall outside the scope and mission of MSD and likely violate Section 179 of the Kentucky Constitution. MSD should be more prudent with ratepayer funds to limit risk and to ensure all funds are utilized in the most effective and efficient means possible to accomplish MSD's primary mission.

QUESTION 2: Did MSD Follow Procedure For Rate Increases?

Observation 5: While MSD'S Rate Increases Were Approved Under Establish Custom And Practice, The Louisville Metro Council Should Evaluate The Suitability Of This Custom And Practice For Meeting The Needs And Expectations Of Ratepayers

MSD is not a public utility subject to the Public Service Commission's jurisdiction. Rather, under KRS 76.090(2), all rate increases must be approved through an ordinance passed by the Louisville Metro Council and signed by the mayor. However, the council has not passed a new ordinance every time MSD sought to increase its rates. Rather, the council appears to allow MSD to rely on Louisville Metro Ordinance 50.24 to raise rates up to 6.9% per year without obtaining additional council approval.

The plain language of Louisville Metro Ordinance § 50.24, however, does not seem to grant MSD carte blanche authority to approve rate increases up to 6.9%. Rather, that ordinance only mandates that the MSD Board amend the schedule of wastewater and drainage services when MSD's revenue is expected to be less than 1.1 times the debt service on outstanding revenue bonds for any consecutive six-month period. The amended rate is supposed to be set so that expected revenue is sufficient to maintain at least 1.1 times the debt service coverage required by certain revenue bonds issued in the 1970s and 1980s, which have long since been paid off. The amended rates, however, cannot generate additional revenue from service charges more than 7.0% during the succeeding twelve-month period, and the MSD board is required to provide an explanation to the council of any proposed rate increase of greater than 4% at least 60 days before MSD approval of that rate increase.

During the examination period, MSD never based its rate increase proposal on revenue falling below 1.1 times the debt service amount, nor did it rely on the debt service coverage requirements applicable to retired bonds when setting rate increases at 6.9%. In fact, MSD's debt service ratio, which is discussed below, has been at or above 1.5 times debt service since 2016. In any event, the council has acquiesced to MSD's 6.9% rate increase proposals before and during the audit period after being provided notice of the same. Even so, the council should consider amending its ordinance to more properly reflect needs and expectations of ratepayers.

MSD increased rates at the maximum percentage of 6.9% in seven of the last ten years for Jefferson County customers. MSD requested additional increases over the 6.9% mark for only three of those seven years from the Louisville Metro Council; however, the council denied those rate increase proposals. MSD did not propose any additional rate increases over its 6.9% authority limit to Louisville Metro Council after fiscal year 2019. Discussions with MSD indicated it did not pursue additional rates more than 6.9% — even if its models suggested a higher rate would be necessary to ensure revenue covered all expenses without incurring more debt — because it anticipated those

requests would have been denied. While MSD stopped calculating the annual rate increase percentage required to prevent additional debt, its financial model was sufficient to analyze future budgetary projections and potential outcomes based on several different rate change scenarios, including the 6.9% increase. MSD planned for debt proceeds to cover any shortfalls in revenues.

Figure 3.18 presents the rate increases in Jefferson County since 2016. MSD also has service areas in Oldham and Bullitt County; however, the exam focused on rates for Jefferson County, which is MSD's largest service area. Note Louisville Metro Council denied the preliminary rate adjustment proposals above the 6.9% from 2017 through 2019.

Figure 3.18

Fiscal Year	Effective Date	Preliminary Rate Adjustment Proposal	Final Approved Rate Adjustment	Louisville Metro Council Approval?
2025	8/1/2024	6.9%	6.9%	Not Required
2024	8/1/2023	6.9%	6.9%	Not Required
2023	8/1/2022	5.0%	5.0%	Not Required
2022	8/1/2021	6.9%	6.9%	Not Required
2021	8/1/2020	5.0%	5.0%	Not Required
2020	8/1/2019	6.9%	6.9%	Not Required
2019	8/1/2018	9.9%	6.9%	No
2018	8/1/2017	20.0%	6.9%	No
2017	8/1/2016	20.0%	6.9%	No
2016	8/1/2015	5.5%	5.5%	Not Required

Source: APA, based on MSD provided data

Auditors obtained and reviewed the rate models, proposed budgets, and related policies and procedures. MSD provides the following information on the rate-setting process in its annual budget:

> A preliminary rate resolution is passed by the MSD Board detailing new proposed rates for Jefferson County. Rate increase recommendations more than 4 percent but less than 7 percent require a sixty-day written notice to the Louisville Metro Mayor and Louisville Metro Council prior to final MSD Board approval and implementation. MSD advertises a thirty-day public comment period for the Jefferson County preliminary rate resolution during the month of June. Public comments are received at MSD, summarized, and presented to the Board prior to approval of the final rate resolution. The final rate resolution is voted on by the Board at its July meeting following the expiration of the sixty-day notification requirement. If approved, new rates become effective on August 1 annually. Rate increases in Jefferson County more than 7 percent require Louisville Metro Council approval.

In review of the board minutes for July in years 2023, 2024, and 2025, the board approved the final rate resolutions for Jefferson County. Auditors found the rate models to appear appropriate, accurate, and sufficiently detailed. The main cost driver for rate increases relates to MSD's capital spending program for regulatory projects. MSD's capital budget plans supports this claim and failure to meet regulatory deadlines may lead to penalties or fines placed on MSD.

In developing rate models and budgets, MSD also considered financial ratio levels, which have specific threshold requirements. The models supported a conscious effort to balance capital project needs in these requirements. Funding for capital projects is comprised of cash (including rates paid by customers), grants, and debt. Debt was a significant funding source for the capital improvement plan as presented in the 2025, 2024, and 2023 budgets.

As indicated in MSD's Fiscal Year 2025 Adopted Budget, debt is the primary funding of the Capital Improvement Plan as indicated below.

FY25 CIP - Combined Service Area

Dollars in 000's

		FY25 CIP
Capital Improvement Plan	$	298,831
Funding Sources:		
Cash Funded	$	67,762
Grant Funded		14,400
Debt		216,669

Source: MSD, Fiscal Year 2025 Adopted Budget

The primary concern with increasing debt is MSD's ability to generate sufficient revenues and cash flows to sustain current operations. Continuously relying on debt can turn into a significant issue when compounding debt out paces revenues. Heavy reliance on debt to subsidize operations brings additional costs in the way of future principal and interest; however, steadily increasing rates will continue to put further burden on households and ratepayers. Evaluation of MSD debt is further evaluated in Question 3.

QUESTION 3: What Is The Current Outlook Of Debt Obligations?

Observation 6: MSD Debt Service Requirements Are Consistently Increasing

Utility entities are typically capital-intensive, requiring substantial funds for infrastructure and operations and commonly carry high debt levels.

MSD's total outstanding debt including revenue bonds, commercial paper, and other subordinated debt has increased on average 4.05% per year since fiscal year 2016. Figure 3.19 presents the change in outstanding debt for MSD since fiscal year 2016.

Figure 3.19

Fiscal Year	Total Outstanding Debt	Increase in Outstanding Debt	Percentage of Increase
2016	$ 2,050,444,000		
2017	$ 2,167,901,000	$ 117,457,000	5.73%
2018	$ 2,315,569,000	$ 147,668,000	6.81%
2019	$ 2,386,059,000	$ 70,490,000	3.04%
2020	$ 2,498,264,000	$ 112,205,000	4.70%
2021	$ 2,602,398,000	$ 104,134,000	4.17%
2022	$ 2,698,317,000	$ 95,919,000	3.69%
2023	$ 2,745,060,000	$ 46,743,000	1.73%
2024	$ 2,826,102,000	$ 81,042,000	2.95%
2025	$ 2,929,160,000	$ 103,058,000	3.65%

Source: APA based on MSD's ACFR

MSD's published 2025 ACFR includes a "Schedule of Estimated Future Principal and Interest Payments", which identifies estimated debt payments totaling $4,354,671,201 through the year 2060. That amount includes $1,585,439,911 of interest payments. Over the next 5 years, from 2026 through 2030, MSD estimates making $919,505,095 in debt service payments including $393,714,328 in principal and $525,790,767 in interest. The expected 2026 debt service payments of $175,960,260 represents approximately 37.5% of fiscal year 2025 operating revenues.

Estimated Debt Service Payments (2026-2060) for MSD are as follows in Figure 3.20:

Figure 3.20

Year	Interest	Principal	Total
2026	$ 110,821,401	$ 65,138,859	$ 175,960,260
2027	108,195,249	84,251,285	192,446,534
2028	104,574,117	85,707,068	190,281,185
2029	101,876,517	88,423,259	190,299,776
2030	100,323,481	70,193,857	170,517,338
2031	99,248,282	91,901,740	191,150,022
2032	95,476,082	95,299,995	190,776,077
2033	91,570,277	99,122,330	190,692,607
2034	87,643,263	111,463,764	199,107,027
2035	84,354,211	101,088,203	185,442,414
2036	79,912,199	107,991,369	187,903,568
2037	75,134,289	123,071,442	198,205,731
2038	69,973,993	128,200,054	198,174,047
2039	64,757,019	133,415,350	198,172,369
2040	58,017,598	139,073,375	197,090,973
2041	50,952,679	144,156,392	195,109,071
2042	43,392,909	149,523,648	192,916,557
2043	35,537,216	154,401,505	189,938,721
2044	27,394,687	131,065,608	158,460,295
2045	23,047,447	134,711,115	157,758,562
2046	18,604,982	138,898,917	157,503,899
2047	13,855,768	106,141,364	119,997,132
2048	10,290,455	71,955,087	82,245,542
2049	7,691,800	35,145,332	42,837,132
2050	6,378,900	36,324,796	42,703,696
2051	5,014,896	31,002,485	36,017,381
2052	3,753,022	30,128,403	33,881,425
2053	2,492,954	28,308,556	30,801,510
2054	1,259,089	7,066,950	8,326,039
2055	1,091,603	7,234,590	8,326,193
2056	920,143	7,405,482	8,325,625
2057	744,633	7,580,633	8,325,266
2058	564,972	7,761,047	8,326,019
2059	381,035	7,944,733	8,325,768
2060	192,745	8,132,695	8,325,440
Total	$ 1,585,439,913	$ 2,769,231,288	$ 4,354,671,201

Source: APA based on MSD 2025 ACFR

As detailed in Observation 7, while MSD's short term debt service metrics are strong, MSD's forecasts indicate potential long-term concerns. Increasing debt that is not matched by increasing revenue or other available resources (i.e. cutting expenditures) can become a significant issue if not managed properly. In such a scenario, MSD may have to incur additional debt to keep up with operating activities and annual principal and interest payments on existing debt if sufficient cash and other resources are not available.

Figure 3.20 does not include any future new debt issuances that may arise. For example, in August 2025, MSD issued an additional $287 million in revenue and refunding revenue bonds. Per the official bond issuance statement, the bonds were authorized primarily to finance up to $150 million for the cost of construction and acquisition of improvements to the sewer and drainage system, to refund senior subordinate commercial paper notes, and to refund prior outstanding revenue bonds.

Observation 7: MSD's Financial Model And Debt Service Metrics Suggest Adequate Short-Term Resources Yet Reveals Potential Long-term Concerns

Debt metrics can provide a general idea of the government's overall debt capacity and are often used to assess the overall level of financial risk a government and its creditors face. MSD's bonds are primarily rated by Moody's Investors Service, Fitch, and S&P Global Ratings, which are three of the largest credit rating agencies.

MSD tracks and monitors key financial measures in its financial model, which is for internal planning purposes. The financial model assumes rate increases of 6.9% annually through fiscal year 2030, followed by 3% thereafter. The formulas used in its evaluation and financial model were evaluated and determined to be sufficiently documented and reasonable.

As of 2025, Moody's has assigned an Aa3 rating, Fitch assigned an AA- rating, while S&P Global Ratings maintained an AA rating on MSD's long-term debt. Overall, these represent strong bond ratings, with a low risk of default.

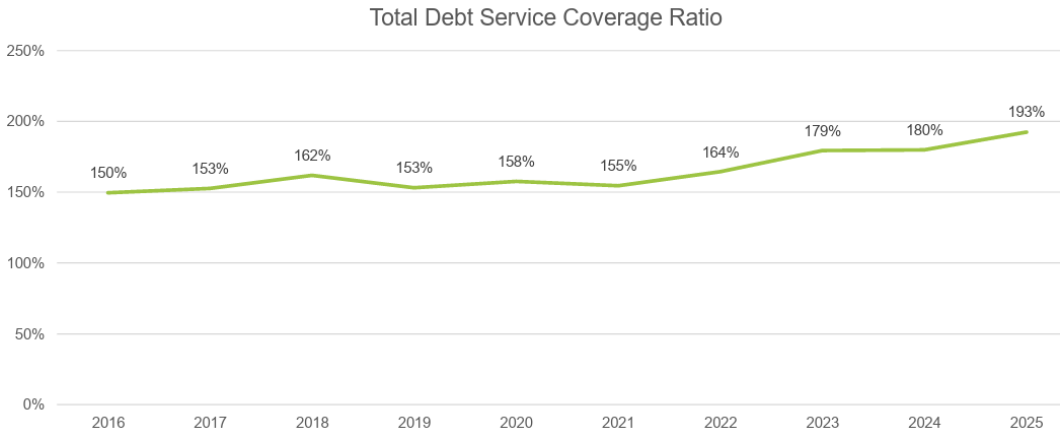
Bond rating agencies use many factors when assigning a bond's rating, with three key factors and ratios including debt service coverage ratio (DSCR), debt to operating revenue (D2OR), and days of cash on hand (CoH).

Debt Service Coverage Ratio (DSCR):

DSCR measures an entity's ability to pay its debt obligations and is calculated by dividing net operating income by annual debt service requirements, which includes principal and interest. A higher DSCR indicates incomes are covering debt obligations.

Figure 3.21 illustrates the total DSCR as reported by MSD in its FY 2025 ACFR since 2016.

Figure 3.21



Source: MSD 2025 ACFR

MSD's current and projected DSCR varied between 1.47 and 1.73 across the 2024-2040 period in its internal financial model. It is important to note that the reported DSCR in the fiscal year 2025 ACFR as presented in Figure 3.21 exceeded the MSD financial model forecast projections of 161% in fiscal year 2024 and 159% in 2025. For reference, a DSCR over 1 identifies the organization's net income covers debt payments, and anything over 1.5 is generally considered a strong DSCR for a governmental entity. Upon inquiry, MSD stated "Moody's has made clear that we need to be above 1.5 for DSCR."

Debt to Operating Revenue (D2OR):

Moody's evaluates a utility's D2OR ratio as a key indicator of leverage and debt payback capacity. As a result, a lower D2OR is preferred. MSD's model projected a decline of D2OR from a high of 6.42 in 2024 to a low of 4.10 in 2040. Research indicated a target between 2.00 and 4.00 supports an Aa rated bond rating.

Cash on Hand (CoH):

Moody's typically categorizes entities with greater than 100 to 150 days of CoH as strong, whereas dropping below 90 days often serves as a primary red flag for debt deterioration. In the short term MSD's CoH is, or is projected to be, strong; however, MSD's model projected a significant drop off after 2032 that could greatly impact operations. In general, Moody's expects an Aa rated bond to have a CoH between 150 and 250 days. MSD stated, "Moody's indicated Cash on Hand needed to be over 300 days to maintain the current bond rating."

The following is MSD's response to the auditor's inquiry about the DSCR and CoH projections:

> The model provided includes assumed rate increases of 6.9% annually through FY2030, followed by 3% thereafter. Actual adopted increases have been lower (e.g., 3.9% in FY2026), and future increases at the modeled level are not planned. Under these assumptions, the model demonstrates that, over the long term, revenues at the modeled levels may be insufficient to fully support projected capital needs without negatively affecting key credit metrics. That said, our long-term projections are intentionally conservative, and management has a variety of tools at our disposal to improve financial outcomes.
>
> We have had conversations with Fitch about more conservative revenue estimates as we have implemented lower rate increases than what is recommended in the model and subsequently deferred capital projects. Those conversations will happen with Moody's and S&P at our next engagement. There is headroom within our current ratings for modest erosion of metrics. Moody's has made clear that we need to be above 1.5 for DSCR and 300 days cash or our credit rating is at risk of downgrade. S&P and Fitch guidance is not as explicit, but the narrative has a similar theme.

Maintaining healthy debt metrics are essential to MSDs operations, both short and long term. A downgrade of bond ratings can lead to higher borrowing rates and significantly higher interest expense.

Question 4: Is MSD Following Proper Procurement Requirements?

MSD expends significant amounts on contracts for goods and services to accomplish its mission. As of June 30, 2025, MSD had over $395 million in outstanding contractual commitments related to the construction or acquisition of utility plant and equipment. Ongoing future commitments will also be necessary to comply with regulatory requirements and infrastructure maintenance. Because contractual obligations represent a significant outlay of MSD's capital and operational expenditures, proper implementation and oversight of procurement policy is vital for the successful and timely completion of capital projects in a way that uses ratepayer funds as effectively and efficiently as possible. MSD's policies and procedures were reviewed and testing was performed on 75 contract awards and 46 contract modifications or renewals between July 1, 2022 and December 31, 2024.

Observation 8: MSD Should Strengthen Policies Related To Sole Source Bids, Contract Modifications, And Contractor Performance Evaluations

Finding 11: Documentation To Support Sole Source Procurements And Contract Modifications Was Inadequate For The Contracts Tested

Completing sole source procurements and contract change orders are higher areas of risk related to the procurement of goods and services. Sole source procurements are contracts awarded to a single vendor without a competitive bidding process and are generally utilized when goods or services provided are highly unique, specialized, or when there are emergency situations and time is limited. Change orders are amendments to existing contracts due to changes in costs, scope of work, or deadlines.

In two instances, MSD relied on vendor submitted information to justify awarding a sole source contract instead of conducting and documenting its own evaluation. The noted exceptions included the following:

- A contract related to an annual service fee for a diversity management system was procured based on documentation from the vendor stating "No other company is qualified, authorized, or able to provide the annual service for the [name withheld]. As such, the annual service fee must be provided by [name withheld's] team."
- An equipment repair sole source contract was determined by MSD to be proper based on the vendor's documentation. MSD confirmed that it did not complete any further evaluation of this contract. MSD also confirmed that it modified its procedures to require additional sole source support as of February 2025.

In one instance, a change order for approved without sufficient documentation and justification:

- An awarded grass cutting contract was originally renewed for $684,140 in April of 2022. MSD approved a change order increasing the cost of the contract by $317,400, a 46.4% increase.

While MSD provided a chart that detailed locations and costs pertaining to the adjustment, it could not provide any detailed support and justification for the change order (e.g. additional cuttings, added locations, documented need and necessity). MSD indicated the employee who originated the change order had retired.

Finding 11 Recommendation:

MSD should strengthen internal controls to ensure sole source and change order justifications are documented, supported, and maintained. Sole source procurements should be a last resort and used sparingly only when the situation warrants. MSD should ensure all sole source procurements are evaluated and confirmed to be necessary based on management's independent review and evaluation and not based solely on vendor provided analysis. MSD's evaluation should be adequately documented, maintained, and approved based on a multi-level review because sole source procurements carry an increased risk of fraud, waste, and abuse and typically lead to higher costs.

MSD should ensure documentation is maintained for all change orders. Documentation should be in enough detail to provide sufficient documentation and justification for cost increases. Because change orders carry a higher risk of fraud, waste, and abuse, they must be subjected to a higher degree of evaluation and scrutiny.

Finding 12: MSD Did Not Adequately Monitor, Evaluate, And Document Vendor Performance

Feedback and evaluation on vendor performance for a specific contract is only required by MSDs policy when a contract option year is being considered. Inquiries with MSD indicated that an evaluation of contract performance is not documented at the end of a contract term. These evaluations are essential to ensure goods and services were provided to a satisfactory level under the contract's terms. Vendor and contractor evaluation is especially important in best value procurements as it establishes a historical basis when evaluating future bids based on previous performance.

During the auditor's review of contract modifications and extensions, 7 out of 18 applicable contract modifications sampled did not have the required vendor evaluations documented as required by MSD's policy. Instances identified where required vendor evaluations were not performed included contracts related to plumbing services, public relations, marketing, recruitment, and organic sampling services.

Finding 12 Recommendation:

Following auditor inquiry, MSD indicated it is in the process of "rolling out an evaluation tool that will survey users for goods/services contracts twice per year. The last evaluation should occur approximately three months prior to the end of a contract."

MSD should update its current procurement policies and ensure vendor evaluations are completed. A centralized tracking process of vendor evaluations should be developed to support the evaluation of past vendor performance as part of new procurements and renewals. MSD should carefully consider if vendors failing to meet contract requirements should be awarded future work.

Observation 9: Construction Contracts Often Preferred Best Value Over Best Price In Accordance With Industry Standard

According to MSD's Procurement Policy, "Competition in the marketplace inherently creates the best opportunity to acquire goods at the best price for the quality bought. As a result, it is the policy of the MSD Board to ensure maximum practicable competition in all procurement activities."

In several instances, MSD construction contracts were awarded based on best value as opposed to best price, as price was only 10-25% of the total award criteria when selecting the winning bid. Best value procurements rely more heavily on quality and experience to determine the contract award winner.

Awarding a contract based upon best value, where price is not the primary factor in determining the winning bid, is appropriate when the success of long-term, large, complex, or technical projects is highly dependent on the expertise of the contractor. While auditors did not have the civil engineering expertise to determine if each awarded contract based on best value was appropriate, the "best value" approach is seen as an appropriate and industry supported standard when properly evaluated and utilized.

While this is not a finding requiring formal corrective action or response, MSD should appropriately evaluate and document its justification for determining whether price or value should be the predominant factor when awarding a contract.

Observation 10: MSD's Community Benefits Program Could Be Contributing To Higher Contract Costs While Limiting Competition

The Community Benefits Program (CBP) is deeply embedded within MSD's established policies and procedures, and was identified in received complaints as a potential cause for the increasing rates. The CBP was implemented in July 2019, with the mission to "Ensure that large scale MSD

construction and professional services contracting is leveraged to deliver positive economic, environmental, and social impacts for residents of our service area." Firms contracting with MSD are often required to assist nonprofit activity in the community through workforce development, education, financial or in-kind contributions, volunteering and more. The goal is to continually increase health, equity, and sustainability throughout the community. MSD identifies contracts to which the CBP applies within the request for proposal and requires bidders to provide a signed Community Benefits Preference Commitment Form (See Appendix A- Exhibit 3) along with their bid.

Auditors noted that CBP documented contributions were generally around 2% of contract cost, representing 5% of a bid score, and were to be delivered to non-profits at no direct cost to MSD.

In our view, CBP is another example of MSD losing focus on its sole mission and purpose of providing sewer services and flood control for the ratepayers it serves. Even if the CBP may meaningfully impact the community.[1] There are unintended consequences that may impair MSD's ability to fulfill its stated mission and purpose at the lowest cost possible for its ratepayers, including:

1. Those bidding on MSD procurements are generally for-profit organizations. Given their profit motive, these organizations likely build in CBP contributions as an extra cost when bidding on jobs, which are in turn indirectly passed along to MSD and its ratepayers. Program requirements could limit competition from vendors that are excluded from bidding because they cannot meet CBP requirements. In accordance with MSD policy, grounds for the rejection of a bid includes, "Failure of a bidder to comply with the Supplier Diversity and/or Community Benefits requirements of MSD or the Supplier Diversity and/or similar Community Benefits procurement requirements..."

2. In addition to the built-in contract costs that the Community Benefits Program (CBP) passes on to MSD rate payers, there are also direct costs associated with administering the program. The Department of Community Benefits and Partnerships was established in July 2019, which is responsible for the oversight of the community benefits and local labor programs. The department also ensures MSD actively manages and fosters intentional and equitable strategic partnerships within MSD's service area to ensure the community receives social impact and public benefits. As of June 30, 2025, there were six positions in this department with Community Benefit roles. The salary costs for these positions exceed $600,000 per year, which does not include healthcare, retirement, and other expected personnel costs.

[1] According to the 12/16/2024 board minutes, the Community Benefits Teams raised $6.8 million in commitments towards workforce, education, and economic development in Jefferson County.

The CBP also does not directly promote MSD's mission of prioritizing environmental causes and public health. The Second Amended Consent Decree does not require MSD to form a program to encourage bidding contractors to make additional community donations. Additionally, MSD does not have a pre-approved list of non-profits that promote watershed-focused environmental activities. Bidding contractors may select any non-profit as the recipient of their donation.

MSD claimed that CBP addressed the risk of insufficient staffing as outlined in its Strategic Asset Management Plan, which is posted on MSD's Project WIN website. However, because MSD does not require contribution to specific non-profits, its ability to leverage these partnerships to meet staffing needs is not guaranteed.

MSD is utilizing the CBP to further its brand beyond its core mission of providing sewer services and flood control. One beneficiary of the CBP was Goodwill Kentucky. Goodwill received a $50,000 donation in October 2025 from a construction company when this company won a bid for an MSD project. A published quote on Goodwill's website regarding the donation said, "through our Community Benefits Program, MSD is dedicated to demonstrating compassion and social responsibility by ensuring that the investments we make in infrastructure also invest in people and neighborhoods," said Tony Parrott, Louisville MSD executive director. "Our partnership with [name withheld] reflects that commitment—showing how progress at the Morris Forman Water Quality Treatment Center can extend far beyond construction, creating opportunities that uplift people across the communities we serve." In our view, a renewed focus on providing sewer services and flood control while minimizing rate increases would also have a meaningful impact in the community and align with what MSD's ratepayers are paying MSD to do.

In sum, the CBP, regardless of the benefits to the community, may unintentionally increase MSD's operating costs while limiting competition. MSD should evaluate the need and necessity of the CBP to ensure it is not limiting competition or inadvertently increasing costs.

Chapter 4: Solutions

MSD is a large complex entity, with a self-defined mission to "Provide quality wastewater, stormwater and flood protection services to protect public health and safety through sustainable solutions, fiscal stewardship and strategic partnerships." MSD's organizational values include respect, excellence, accountability, stewardship, customer focus, and integrity.

In addition to the findings and recommendations identified above, the following are general summary of solutions to be further evaluated by MSD management and the Board.

Solution 1: MSD Should Align Its Policies, Procedures, And Actions With Those Of A Governmental Entity To Be A Better Steward Of Ratepayer Funds

While MSD has established comprehensive policies and procedures, management and the governing board should review those policies through the lens of a public-sector entity. MSD should evaluate whether its compensation practices, non-profit donations, procurement activities, discretionary spending, and administrative operations are consistent with the principles of transparency, accountability, fiscal restraint, and prudent use of ratepayer funds. Policies should be revised where necessary to prioritize the public interest, emphasize essential service delivery and infrastructure investment, and limit expenditures that may be perceived as providing private-sector-style perks or benefits without a clear public purpose. By aligning its practices with governmental standards and expectations, MSD can strengthen public trust, enhance accountability, and better demonstrate responsible stewardship of the resources entrusted to it by its ratepayers.

Solution 2: MSD Should Evaluate Organizational Functions And Cut Unnecessary Spending

MSD should evaluate its organizational structure to ensure each division adds value in achieving MSD's mission to "provide quality wastewater, stormwater and flood protection services to protect public health and safety." MSD should strengthen its oversight of procurement card usage, discretionary spending, sole source contracts, and employee compensation practices to ensure that all expenditures are necessary, reasonable, and directly support its public mission. Management should reduce procurement card issuance to employees with a demonstrated operational need, establish stricter spending controls and approval requirements, and conduct periodic reviews to identify and prevent personal, excessive, or non-mission-related purchases. Additionally, MSD should evaluate employee bonus programs, executive vehicle stipends, and other discretionary benefits to determine whether they provide a measurable operational benefit and represent an appropriate use of public resources. Given MSD's reliance on customer rate revenues and recent rate increases, expenditures that do not directly support essential operations, regulatory compliance, infrastructure investment, or other key components of MSD's mission should be reduced or eliminated. Strengthening these controls will improve accountability, promote fiscal

stewardship, and help ensure that ratepayer funds are used efficiently and consistently with the MSD's public purpose.

Solution 3: MSD's Board Should Take A More Proactive Approach In Evaluating Management Recommendations and Associated Costs

The MSD Board should strengthen its oversight of operations by taking a more active role in evaluating management recommendations, expenditures, compensation practices, and discretionary spending to ensure they align with MSD's public purpose and fiduciary responsibilities. While policies and procedures appear to provide for appropriate Board oversight, the observations identified during this examination suggest that the Board may not be consistently exercising sufficient scrutiny over expenditures such as procurement card purchases, bonuses, vehicle stipends, and other discretionary costs. The Board should require management to provide clear business justifications, cost-benefit analyses, and public-purpose explanations for significant expenditures and compensation-related decisions, particularly those extending beyond essential operational needs. Additionally, Board members should receive periodic training regarding their governance responsibilities and stewardship obligations as officials of a governmental utility. By fostering a culture of independent inquiry, transparency, and accountability, the Board can provide more effective oversight of management activities, promote prudent use of ratepayer funds, and reinforce public confidence in MSD's governance.

APPENDICES

Appendix A: Exhibits

Exhibit 1: Organizational Performance Goals

Source: Compiled from the MSD fiscal year 2025 Organizational Performance Goals Report

Blueprint 2025

Goal Title	Goal Explanation	Critical Business Activity	Metric
Sustain Quality and Compliant Wastewater, Stormwater and Flood Protection Services	Champion the protection of public health and safety, and the environment through sustainable solutions, operations, support systems and management practices.	Reclaimed Water Effluent Quality	Number of permit violations: Total number of facility months (4 WQTCs x12 months = 48 total) with permit violations for the reporting period for the Regional WQTCs. No single WQTC counted more than once per month. Performance is cumulative over fiscal year. Note: metrics exclude Morris Forman WQTC until Corrective Action Plan items are completed to bring WQTC systems up to standards.
		Flood Protection Pump Readiness	Percent of operational flood pumps: Number of individual flood pumps in service / Total number of individual flood pumps (%) (cumulative average of pump availability) Performance is cumulative over the flood season duration with score based on cumulative percent pumps in service over the time period.
		Sanitary Pumping Station Capacity Analysis	Test performance of sanitary pumping stations: Weighted 50% - Number of PS's with draw down testing completed / Total number of sanitary PS's (%) 25% - Number of drawdowns with completed QA / Number of drawdowns completed (%) 25% - Facilities with action plans developed / Number of action plans required (%). Performance is cumulative over fiscal year.
		Structured Maintenance Completion Rate	Structured maintenance work orders completed by due date / total structured maintenance work orders scheduled (%) 25% - Sanitary Pump Stations; 12.5% - WQTC – Operations; 12.5% - WQTC - Maintenance; 25% - Flood Protection System; 25% - Controls. Performance is cumulative over fiscal year.
		Systems Inspections Completion Rate	Inspections completed by due date / total inspections scheduled (%)
		Transformational Initiatives Completion	Successful completion of Critical Success Factor 1 (CSF1) initiatives / total planned CSF1 initiatives (%)
Earn the Community's Trust Daily as the Leading	Earn community trust in the value of MSD	Customer Service Request Responsiveness	Response Time: Average total time from customer request receipt through time to arrive onsite, determine next steps and complete initial customer communication. Performance is rolling average of monthly averages

Provider of Quality Wastewater, Stormwater and Flood Protection Services	through consistent delivery of quality services and respectful interactions with our customers.	Customer Service Call Quality	Quality Control: A random sampling of calls are scored by a member of the Call Quality Department
		Odor Mitigation Responsiveness and Reporting	Follow-up on odor complaints and performance of compliance reporting: Percentage of completions: 30% Customer follow-up on standard odor complaints; 30% Enhanced customer follow-up on frequent odor complaints (3 or more times in 30 rolling days); 40% Compliance reporting
		Vendor Invoice Payment Timeliness	Process invoices on time: Number of invoices approved within 30 days of receipt/Number of invoices approved. Performance calculated cumulative year to date.
		Development Plan Review Responsiveness	Review infrastructure and construction plans: Percent of development plan submittal reviews completed within 14 days of receipt and documentation occurs as requires
		Supplier Diversity Utilization	Utilize at least 25% minority or woman-owned vendors: Percentage of MWBE Utilization: 20% M/WBE participation in Professional Services contracts (aspirational); 40% M/WBE participation in Construction contracts; 40% MWBE participation in Goods and Services contracts. Performance is cumulative over the fiscal year.
		Transformational Initiatives Completion	Successful completion of Critical Success Factor 2 (CSF2) initiatives / total planned CSF2 initiatives (%) (cumulative completion)
Transform into an Employer of Purpose where Employees are Provided the Opportunity to Thrive	Attract, equip and retain an effective workforce, reflective and supportive of our community, which consistently delivers high quality services to customers internally and externally.	Vacant Positions Mitigation, Part I	Reduce vacancies: Vacancy rate at the end of the fiscal year, updated monthly (Total vacant positions/total approved positions x 100%).
		Vacant Positions Mitigation, Part II	Maximize job fill rates: Total number of positions filled over the fiscal year, based on a percent of total vacancies on July 1 (110.0)
		Policy/Program Compliance Training Completion	Percentage of trained staff: Total number of employees that completed each required training by the deadline / total number of employees required to complete each training. (average of the class averages)
		Performance Management Goals Establishment Timeliness	Goal assignment rate: Total aligned goals assigned to non-union employees by June 30 / total aligned goals assigned to non-union employees required (%).

		Non-Union Employee Performance Appraisals Completion Timeliness	Non-Union Performance evaluation completion rate: Total annual non-union appraisals completed, signed, submitted to HR/ total non-union annual appraisals required (%)
		Union Employee Performance Appraisals Completion Timelines	Union Performance evaluation completion rate: Total annual union appraisals completed, signed, submitted to HR/ total union annual appraisals required (%)
		Transformational Initiatives Completion	Successful completion of Critical Success Factor 3 (CSF3) initiatives / total planned CSF3 initiatives (%)
Ensure Financial Stewardship and Sustainability of Community Resources	Meet today's operating and capital investment needs while managing risk and long-term affordability for the future	Capital Schedules Management	Capital design/construction is on schedule: CIP (capital improvement program) FY Schedule Milestones Achieved / Total CIP FY Baseline Milestones Planned (%)
		Capital Spend Management	CIP Budget to Actual: Annualized capital spend/approved CIP budget (cumulative %)
		Capital Construction Change Order Management	Change order amounts do not exceed industry standards: Year to Date formula = cumulative change order value / (July 1 contract value + newly awarded contract value)
		Operating Spend Management	Operating Budget to Actual: Annualized operating spend / approved operating budget (%)
		Transformational Initiatives Completion	Successful completion of Critical Success Factor 4 (CSF4) initiatives / total planned CSF4 initiatives (%)

Executive Director's Performance Goals

FY 23 - FY 25 Performance Goals	
Goal Title	**Metric**
Operating Budget Utilization:	Metric: Annualized Operating Spend as a percent of Approved Budget Level 1: 90.1 %- 95% or 102.1 - 104.0% Level 2: >95.1-98%% or 100.1-102.0% Level 3: >98.1-100%%
Return on Assets:	Metric: Net Income/Average Total Assets Level 1: =/> 1.3% Level 2: =/> 1.6% Level 3: =/> 1.8%
Capital Spend Management:	Metric: Annualized Capital Spend as a percent of total Capital Budget Level 1: 90.1-95.0% or 102.1-104.0% Level 2: 95.1-98.0% or 100.1-102% Level 3: 98.1-100%
Infrastructure Effectiveness/Compliance:	Metric: Number of Months with Permit Violations for the 4 non-CSO WQTC's* Level 1: 8-12 Level 2: 3-7 Level 3: 0-2 *Excludes Morris Forman
Employer of Purpose: Vacancy Mitigation	Metric: Time to Fill Positions Metric: #1 Vacancy rate at the end of the fiscal year. #2 Total number of positions filled over the fiscal year Description: Reduce vacancies to be within optimal range Level 1: 49-57 .9 Days Level 2: 38-48.9 Days Level 3: </= 37 .9 Days

Executive Director's Strategic Goals

Strategic Objectives and Goals			
Goal Title	**FY 23 Elements**	**FY 24 Elements**	**FY 25 Elements**
Customer Service & Community Trust	Finalize New Customer Service Survey/Index	Brand and Enhance MSD Community Benefits Program	Brand MSD for Regional Marketing Appeal
	Re-organize Facility, Safety and Security Division	Re-organize Executive Director Direct Reports/Structure	Re-organize Operations Division Structure
	Complete Consumer Confidence Report	Complete Community Impact & Accountability Report	Re-organize Facilities, Safety and Security Division Structure
	Identify Procurement Packages for SBE/MBE utilization	Implement SOP Communications - Executive Office	Enhance/Supplement Internal Audit Function
	Complete Phase I & II - Catch Basin Retrofits	Develop Community Outreach Plan for Odor Season	Review Contractor Policies/Emergency Projects Process
	Create Special Projects Manager for Executive Office	Bid Catch Basin Retrofits – Phase 1-6 Shawnee Area	Enhance Public Relations Staff and Resources
Sustain Quality and Compliance, Financial Stewardship	Complete Drainage Study/Recommendations	Finalize Partnership w/ LG&E for RNG – Thermal Hydrolysis	Explore utilizing AI tools for Asset Management
	Enhance Inventory and Warehouse Management	Engage with Odor Czar/Expert - Air Quality Regulations	Complete Elements of Agreement with APCD – Short Term
	Modify Regionalization Approval Process	Private Property I &I Procedures – Rates, Rentals & Charges	Establish Budget Appropriations for Brick Sewer Repairs
	Create Risk Administrator Role and Functions	Develop Risk Management Plan (Finance)	Implement Risk Management Plan (Finance)
	Participate in NACWA EUM Re-Vamp	Re-Assigning MSD Regulatory Signatory Authority	Complete Cost of Service Study (Finance)
	Finalize New VARC Procedures/Process	Finalize Transition to New Main Office Facility	Move to New Main Office Facility
One Water Partnership with LWC	Modify Governance for One Water Partnership	Guide One Water Transition Plan	Guide One Water 2025 Work Plan
	Complete Phase I Affordability Assessment	Finalize Water Affordability Roadmap Plan	Convert final 11 Billing cycles to monthly billing
	Develop Phase 2 for Billing Services to Other Entities	Develop Phase 2 for Billing Services to Other Entities	Implement Phase 2 for Billing Services to Other Entities
	Collaborate with L WC for Economic Development & Regionalization	Collaborate with LWC for Economic Development & Regionalization	Collaborate with LWC for Economic Development & Regionalization
	Continue Leadership of Mayor's Equity Task Force	Special Advisor to Mayor's Equity Task Force	Special Advisor to Mayor's Equity Task Force
	Support AMI Pure Connect for monthly customer billing	Support AMI Pure Connect for monthly customer billing	Administer New billing Agreement for collection Process/bad debt

Employer of Purpose	Analyze Pay Parity and Matrix	Execute Vacancy Mitigation Plan	Convert Blueprint Strategy to 2030
	Explore Mental Wellness Benefits	Implement Staff Emotional Intelligence Training	Implement Staff Supervisor Development Training
	Climate Assessment for customer Relations & RIG	Climate Assessment for RIG & IT	Climate Assessment for Engineering Division
	Enhance MSD Branding - #3 Utilities in One	Continue EUM Roadmap Development Plan	Continue EUM Roadmap Development Plan
	Equity Tool Implementation	Conduct “Amp IT Ump” workshops	Initiate ERG for Caregivers
	Implement NACWA CORE Leadership Partnership	Employee Retention Surveys – Action Plan	Launch “3C” Value Approach – Compassion, Collaboration & Care
Technology/Innovation	Finalize IT System Acquisition Procedures	Go Live – SAP Migration	Initiate SAP Phase 3 Project
	Roll-out Generally Accepted Recordkeeping Principles (GARP)	Pursue Isle Technology Grants	Enhance Research & Development via WEF, WRF
	Develop RIG Program Compliance Dashboard	Develop Facilities Camera Surveillance Master Plan	Implement Facilities Camera Surveillance Master Plan
	Operations & Information Technology Cybersecurity Collaboration	Secure Application Development & Management Initiatives	Cybersecurity boosting to safeguard Infrastructure/Data
	Cyber Security Training for Vendors	Conduct Utility Collaborations via Booky Oren	Continue Utility Collaborations via Booky Oren
	Contract for Robotic Process Automation (RPA)	Operations Mobile Device Deployment	Operations Mobile Device Deployment

Exhibit 2: Travel Justification Request

msd waterways

TRAVEL JUSTIFICATION REQUEST

Revised 05/14/2019

Please return completed & approved request to General Accounting

Employee Name: [redacted] Employee No. [redacted] Job Title: [redacted]

Department & Division: [redacted] Manager Name [redacted]

Cost Center/Account: [redacted] Budgeted (Check one) Yes No

Name of seminar, training event, or business meeting: 2024 KY Labor Management Conference Total Train./Program hrs. 32.00

City & State for location of event: Gilbertsville, Kentucky Travel Date(s): 9/9-9/13/24

JUSTIFICATION (attach a separate sheet if more space is needed, and submit a copy of registration information)

A. List the professional development needs &/or business objectives that this travel is expected to satisfy:

B. Describe how this event relates to the employee's job description:

C. Which certificate or license will be credited CEU credits? n/a

Please forward a copy of your certificate of attendance to the H.R./Training Department

Expense	Total Cost Expected
Meals/Incidentals/Per Diem	$ 265.00
Lodging	$ 400.00
Conf./Seminar Registration	$ 300.00
Air Fare	
Rental Car	$ 250.00
Gas for Rental Car	
Taxi, etc.	
Personal Car Expense	
Other:	
Other:	
Estimated Totals	$ 1,215.00

Travel Exceptions Travel Per Diem Hardship Requested

Identify the specific section number of the Travel Policy where a waiver is requested. Include the amount:

List reason the exception is requested: *(If more space is needed, attach additional paperwork)*

I certify that the proposed travel for the Total Estimated Travel Cost (listed above) is for official MSD business and this request conforms to MSD travel policies and procedures. I agree to properly document and to provide a full and complete reporting of expenses to my manager within 10 business days of returning.

Employee Signature: [redacted] Date: [redacted]

Approvals

Department Manager [redacted] Date [redacted]

Department Director (if unbudgeted/exception requested) [redacted] Date

Division Director (if unbudgeted/exception requested) Date:

Executive Director (if out of country/exception requested) Date:

Finance Use Only

Date: 8-19-24

Credit Card: 14

Sent to Payroll: 8-21-24

Exhibit 3: Community Benefits Commitment Form

COMMUNITY BENEFITS COMMITMENT

I, the undersigned on behalf of _____, do hereby, voluntarily agree to participate in the MSD Community Benefits Program ("CB Program"). We will commit to provide _____% of the total amount of the contract award over the term and duration of the Agreement. I further certify and acknowledge that I am familiar with the requirements of the CB Program and fully understand that there will be penalties assessed against said company if we fail to comply with the commitment contained herein. I agree to provide to MSD all the required and necessary records, to determine whether said company has complied with its commitment as set forth above. The required records include but is not limited to: (1) a completed Community Benefits Summary Table; (2) substantiating documents of contribution; (3) certified letter from beneficiary documenting receipt of contribution

IN WITNESS WHEREOF, the undersigned has affixed his/her signature this_____ day of _____, 20___, on behalf _____.
(Company Name)

_____
(Signature)

Title:_____

Date:_____

COMMONWEALTH OF KENTUCKY)
) SS
COUNTY OF JEFFERSON)

I, the undersigned Notary Public in and for the Commonwealth and County aforesaid, do hereby certify that on the _____ day of _____, 20___ the foregoing Community Benefits Commitment was this day presented to me by _____ who being by me first duly sworn, declared that he/she signed the foregoing Affidavit as his/her voluntary act and deed.

My Commission Expires: _____

_____
NOTARY PUBLIC

Exhibit 4: Executive Director Employment Contract Snapshots Amendments

Excerpt from Executive Director's contract, July 21, 2015

5. Compensation.

(a) Base Salary. Commencing on the Effective Date and continuing during the period of Parrott's employment, MSD shall pay to Parrott an annual base salary at a rate not less than Two Hundred Twenty Thousand Dollars ($220,000.00), which salary shall be paid in conformity with MSD's policies relating to salaried employees.

(b) Tax Withholding. MSD shall withhold from Parrott's base salary normal deductions for state, local, federal, and social security taxes in the same manner as it does for other salaried employees.

(c) Performance Incentive Pay. Parrott shall also be entitled to receive annual performance-based lump sum incentive payments contingent upon the achievement of specific operating and strategic goals established by the MSD Board, including but not limited to performance goals, expectations and objectives set forth in the Addendum and any further recommendations to be made and approved by the Mayor. Beginning with Fiscal Year 2016, Parrott shall become eligible to receive an annual lump sum incentive payment of up to fifteen percent (15%) of annual base salary for the year to which the payment relates for achievement of specific Board established operating goals, and an annual lump sum incentive payment of up to ten percent (10%) of annual base salary for the year to which the payment relates for achievement of specific Board established strategic goals.

Amendment to Executive Director's contract, January 23, 2023

FOURTH AMENDMENT TO EMPLOYMENT AGREEMENT

This Fourth Amendment is made and entered into effective January 23, 2023, ("Effective Date") by and between James A. Parrott, hereinafter referred to as ("Parrott/Employee"), and Louisville and Jefferson County Metropolitan Sewer District ("MSD"), a public body corporate acting under the virtue of the laws of the Commonwealth of Kentucky (Collectively, the "Parties").

WHEREAS, Parrott and MSD entered into an Employment Agreement dated September 14, 2015 (the "Agreement") wherein Parrott accepted the terms and conditions of the Agreement inclusive of his duties and responsibilities as the Executive Director of MSD and for a term of three years (3); and

WHEREAS, February 26, 2018, the parties amended the Employment Agreement to extend the terms of the Agreement an additional five (5) years, increase Parrott's annual base salary, and to provide Parrott additional vacation leave and severance pay; and

WHEREAS, on October 28, 2019, the Parties entered into a second amendment to the Employment Agreement to require that Parrott's operating and strategic goals align with MSD's Strategic Business Plan-Blueprint 2025 Critical Success Factors, and to update the process utilized by the Board to evaluate Parrott's performance; and

WHEREAS, on November 23, 2020, the Parties entered into a third amendment to the Employment Agreement to extend the terms of the Agreement an additional two (2) years ending on September 13, 2025; and

WHEREAS, through this fourth amendment, the Parties desire to amend the Employment Agreement to further extend the term an additional five (5) years beyond the current term ending the on September 13, 2030; to increase the pay Parrott will receive if Parrott is terminated as Executive Director prior to the expiration of the extended term of the Employment Agreement, and Parrott remains willingly and able to perform his duties as set forth to twenty-four (24) months' pay; and to increase the vehicle allowance that Parrott receives to One Thousand, Five Hundred Thirty-Dollars ($1,535) per month.

NOW THEREFORE, in consideration of the mutual covenants and conditions contained herein and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Parties agree as follows:

1. Term. Paragraph 2 of the Agreement is amended to extend the term of the Agreement for additional five (5) years beyond the current term. The duration of the Agreement is hereby extended to the September 13, 2030.

2. Termination. In the event Parrott's appointment as Executive Director is terminated pursuant to Paragraph 12(a) hereof, and prior to the expiration of the initial or extended term of this Agreement, and Parrott remains willing and able to perform his duties as set forth herein, MSD will pay Parrott equal to twenty-four (24) months' pay. If approved, the severance payment shall be made within thirty (30) days of the date of Parrott's termination, shall be based on Parrott's then current annual base salary, and shall be reduced by the amount MSD is required to withhold pursuant to local, state, and/or federal law.

3. Vehicle Allowance. Because the duties of Executive Director require responding to emergencies and service outside normal business hour, the Board has determined that it is in MSD's best interest to ensure that Parrott is available for work-related service throughout MSD's service area at any time, day or night. Therefore, during the period of Parrott's employment, MSD shall provide Parrott a vehicle allowance of One Thousand, Five Hundred Thirty-Dollars ($1,535) per month to defray the cost of obtaining a vehicle though ownership or lease, which amount shall include the cost of gas, and shall also include any and all vehicle related expensed for MSD related travel within a 75 mile radius of Metro Louisville. Parrott, at all times, shall own or lease a reliable four-wheel drive vehicle, less than 5 years old with less than 100,000 mile, for business use and may also use the vehicle for personal use. Parrott shall obtain personal automobile liability, property damage, and comprehensive insurance, and for all expense necessary to maintenance and operation of the vehicle. MSD shall provide adequate parking facilities at the location of MSD's main office building.

4. All other terms and conditions shall remain in full force and effect.

IN WITNESS WHEREOF, Parrott and MSD, acting by and through its Board Chairman have executed the Amendment as of the Effective Date.

EMPLOYEE:

By: _____
James A. Parrott, Executive Director

EMPLOYER:

By: _____
Marita Willis, MSD Board Chair

Exhibit 5: Employee Award Plaque



LOUISVILLE METROPOLITAN SEWER DISTRICT'S RESPONSE

1600 West Hill Street | Louisville, KY 40210-1750
502.540.6000 | louisvillemsd.org

October 21, 2026

The Honorable Allison Ball
Auditor of Public Accounts
209 St. Clair Street
Frankfort, Kentucky 40601

RE: October 2026 Examination of The Louisville Metropolitan Sewer District

Dear Auditor Ball:

On behalf of the MSD Board members and staff, we would like to thank you and your staff for their time and the professional way this examination was conducted. MSD has been in regular contact with the State Auditor's office since 2024 responding to requests transparently, and this special examination continued that practice.

The leadership of Louisville and Jefferson County Metropolitan Sewer District (MSD) has reviewed the findings, recommendations and observations contained in the October 2026 Examination of The Louisville Metropolitan Sewer District report. This letter will serve as MSD's response pursuant to KRS 43.090(1).

Background

MSD is critical to our community's public health and safe, clean waterways. We serve over 800,000 people by operating as three distinct utilities in one:

- Wastewater collection and treatment, processing approximately 155 million gallons per dry weather day, and approximately 500 million gallons per wet weather day;
- Stormwater and drainage management in Jefferson County;
- Operation and maintenance of the Ohio River Flood Protection System which includes 16 large flood pump stations and 26 miles of floodwall and earthen levee that protect over 200,000 residents approximately $34 billion worth of property value.

In addition to our three core utility services, Louisville MSD is also responsible for the administration and management of the Hazardous Materials, Erosion Control and Floodplain Ordinances for Louisville Metro Government

In 2020, the Kentucky State Legislature and the Division of Water changed state law to allow public utilities to operate outside of their respective county borders. As a result, Louisville MSD also owns, operates, and maintains infrastructure to provide wastewater treatment services to Oldham and Bullitt Counties under Interlocal Agreements. MSD increased its total full-time positions by 40 to 50 employees from these acquisitions in Oldham and Bullitt Counties.

As such, MSD manages a total annual budget of **$750 million dollars** with our operating and capital costs and debt payment obligations. That equates to **$3 billion dollars** for the examination period. It is also important to note that because MSD completed capital improvements totaling **$1.5 billion dollars** between 2022 and 2025, full-time positions were added to operate and maintain these new assets.

Louisville MSD's funding sources are a mix of ratepayer funds, low-interest loans, and grants. MSD does not receive funding from Louisville Metro Government.

Oversight and Accountability

KRS 76.030 lays out the guidelines for MSD's board of directors. The business, activities and affairs of MSD are managed and controlled by MSD's eight (8) member board who each represent a state senatorial district. No more than 5 board members can be affiliated with the same political party (KRS 76.030(1)) and not more than one board member can reside in any one state senatorial district.

All board members are appointed by Louisville Metro's Mayor, subject to approval of Louisville Metro Council. MSD does not participate in the approval or appointment process of its board members.

MSD is responsible for adhering to all applicable federal, state, and local laws, industry standards, ordinances, and regulatory orders. MSD meets frequently with local, state, and federal regulators such as the Air Pollution Control District, the Kentucky Division of Water, and the Environmental Protection Agency to ensure compliance with its consent decree, operating permits, financial obligations, and all other regulatory requirements under which MSD operates.

On page 3 of the special examination report, the auditor states "MSD is a discreetly presented component unit of Louisville Metro Government." The report further explains a component unit on page 25.

> *"MSD is presented as a discretely presented component unit because Metro Government mayor appoints a voting majority of its board of directors; Metro Government can veto, overrule, or modify decisions of MSD regarding expansion of infrastructure and sewage facilities; and Metro Government must approve any rate increases over 7%."*

Under Governmental Accounting Standards Board (GASB) Statement No. 14 and its amendment Statement No. 39, a component unit is:

> *"A legally separate organization for which the elected officials of the primary government are financially accountable, or where the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete."*

By this definition, MSD is a discreetly presented component unit of Louisville Metro Government, with an exception to the statement on page 25: Louisville Metro Government **does not** have direct veto, override, or modification authority over MSD's independent infrastructure and sewage facility decisions, because MSD is a separate legal entity with its own statutory powers under Kentucky law.

MSD is created under KRS Chapter 76 as a joint metropolitan sewer district authorized for cities with populations of 20,000 or more, including Louisville, authority to construct, improve, or extend sewer and drainage systems, acquire land, and set rates. KRS 76.010–76.190 grant MSD its own corporate powers, including the following:

- KRS 76.010 corporate powers
- KRS 76.020 ordinance for creation of district
- KRS 76.030 board of the district
- KRS 76.040 fiscal year of the district
- KRS 76.050 quorum for meeting of the board

- KRS 76.060 officers and employees- legal services- effect of compact
- KRS.76.070 district to take over existing sewer facilities-duration of control and function
- KRS. 76.080 general powers of the district
- KRS 76.090 rates, rentals and charges- use of funds-cutting off sewer and water service to delinquents
- KRS 76.150 district revenue bonds

These powers are independent of Louisville Metro Government's legislative or executive functions. MSD is not a department of Louisville Metro Government; it is a separate district governed by its own board and statutory framework.

Louisville Metro Government's Mayor and Louisville Metro Council have legislative and executive authority over Louisville Metro ordinances, budget, and citywide infrastructure projects. The Louisville Mayor's veto power applies to Metro Council ordinances and does not extend to the operational or planning decisions of MSD. Louisville Metro's influence over MSD is limited to interlocal agreements, funding arrangements through bond resolution approval, or service contracts that both entities negotiate and approve.

There is no statutory mechanism in KRS Chapter 76 or the Louisville Metro Charter that allows Louisville Metro Government to veto, overrule, or modify MSD's infrastructure or sewage facility decisions.

Debt Obligations and Financial Management Practices

Although the examination resulted in **no findings related to MSD's debt and financial management practices** and requires no corrective action in this area, the Executive Summary and Observations Six and Seven discuss several important aspects of MSD's debt obligations and long-term financial position. MSD welcomes the opportunity to provide additional information regarding its approach to financing the capital program, the purpose and structure of bond refundings, and the financial metrics used to support long-term financial stability.

Financing MSD's Capital Budget

MSD intends to finance a portion of its capital budget with debt proceeds

annually. MSD targets cash funding of 25% of the capital program, with the remaining funding needs generally financed through debt. Every capital plan is presented to the Board alongside a financing plan. In addition, MSD adopted a Debt Issuance Policy in 2021 which explicitly limits the use of debt except to fund capital projects and to refund, refinance or restructure outstanding debt. Accordingly, issuing debt for the purpose of funding operating expenses or debt service is not permitted under MSD policy.

The use of debt to finance long-lived capital assets is a common practice among utilities. Financing capital improvements over time helps align the cost of assets with the generations of customers who benefit from them and allows utilities to complete needed infrastructure improvements while avoiding the level of rate increases that would be required to fully fund capital programs on a pay-as-you-go basis.

MSD's approach is not unique among its peer utilities nationwide. NACWA's 2024 Triennial Financial Survey notes that revenue bonds continue to be the preferred debt financing source. From 2020 to 2023, long-term debt increased 4.4% among survey respondents. **Exhibit 1:** *MSD FY2027 Funding Sources and Budget Allocations* shows MSD's fiscal year 2027 budget approach and budget spending categories compared to the information from the NACWA survey. The *Budget Allocations* shows that MSD's operating and maintenance budget is 12% lower than the national average, indicating its commitment to sound financial management and operating efficiently while managing lower rate increases and a decline in federal funding.

Bond Refundings and Debt Service Savings

MSD does not utilize refundings to extend the repayment period of its debt. Refunding bonds are generally structured to maintain the original maturity profile while achieving debt service savings. The primary objective of these transactions is to reduce financing costs for the benefit of ratepayers.

Of the nine bond series referenced on page 10 of the report, six included refunding components that generated cumulative debt service savings of **$122 million** over the life of the bonds.

Financial Metrics

One of the primary purposes of MSD's long-term financial model is to identify potential future financial challenges sufficiently in advance to allow for corrective

action. The MSD Board's Finance Committee is responsible for oversight of key financial performance metrics and long-term financial projections. This process allows management and the Board to take appropriate action before projected deterioration in days cash on hand or other key financial metrics could threaten MSD's long-term financial stability. MSD has a demonstrated history of outperforming its financial projections. Moody's Ratings noted in its July 2025 credit opinion that "the district has historically outperformed projections given conservative estimates."

MSD calculates the debt service coverage ratio defined in Louisville Metro Council Ordinance (LMCO) 50.24 annually. The calculation is provided to the MSD Board when rate resolutions are proposed and is published in MSD's annual budget book. The results of the calculation are also referenced in the preliminary rate resolution provided to the Louisville Metro Mayor and Louisville Metro Council following adoption by the MSD Board.

MSD has consistently provided the Mayor and Metro Council with the notices and information required by Metro Ordinance 50.24, including explanations supporting proposed rate increases. **Exhibit 2:** *Annual Notification to Louisville Mayor and Louisville Metro Council* shows examples of these notifications from the examination period. Metro Council has been provided with information regarding both MSD's interpretation of the ordinance and its annual rate-setting practices. Further, based on the calculation prescribed by LMCO 50.24, MSD's net revenues have been below the 1.10x coverage threshold in each year since 2016. MSD's rate-setting practices as they relate to LMCO 50.24 are discussed in the next section.

Exhibit 3: *Financial Management Practices Governance* provides additional information regarding the governance practices and financial safeguards MSD has established to manage the risk of being unable to fund operating activities and meet debt service obligations.

Items Previously Completed or Initiated Prior to Report Release

During our initial review, MSD noted items that had been evaluated, corrected, or were being worked prior to receiving the examination report in October 2026. Some of those actions include:

- MSD uses a third-party agency, Mercer, to review job descriptions. Between 2017 and 2023, MSD completed pay equity studies for all non-union employees including the Executive Director. All actions were presented and approved by the MSD Board in open session. **Exhibit 4**: *Pay Equity Analysis*

presents a timeline and process for the analysis for all non-union employees as well as additional details on the process used for the Executive Director. MSD will provide a complete response to Finding Three in our recommendation status plan.

- MSD Internal Audit began an audit of the Fleet Services division in February 2026. This audit, to be completed in two phases, included an initial review of the Vehicle Stipend program. MSD will provide more information on our analysis in response to Finding Four in our recommendation status plan.

- As noted on page 37, MSD began updating its Travel and Meals Policy in September 2025, and the revised policy was approved by the board in March 2026. The revised policy requires an annual list of approved budgeted items to be provided to MSD General Accounting. MSD will provide a complete response to Finding Seven in our recommendation status plan.

- MSD's Internal Audit plan includes an annual audit of MSD procurement card usage. These audit reports are presented to the MSD Audit Committee and the full MSD Board. MSD will provide more information on our analysis in response to Finding Nine in our recommendation status plan.

- MSD has addressed its documentation gap as recommended in Finding 11. The Procurement department will verify that all documentation and approvals are complete from the requesting department prior to processing the change order. This will ensure proper justification and sufficient information is recorded on all documentation.

- As noted on page 53, MSD has started implementing a vendor performance evaluation tool in Bonfire, its eProcurement system. MSD will provide more information on our full deployment and response to Finding 12 in our recommendation status plan.

In addition to the above actions, MSD would like to note that actions were taken by Louisville Metro Council between June and September 2026 that ultimately addressed Observation Five. On June 16, 2026, the Government Oversight and Accountability Committee of Louisville Metro Council proposed a change to ordinance 50.24 that would have impacted MSD's rate-setting ability changing MSD's board authority from 6.9% to "CPI + 1%."

After MSD appeared before the committee on August 4, 2026, the council amended the ordinance to focus on written notification and communication. On September 1, 2026, LMCO 50.24 passed Louisville Metro Council's full vote with

amended language requiring MSD to send written notice to council regardless of the amount of a rate increase and, if requested, the Executive Director and a board member will attend a committee meeting to answer questions about the preliminary rate proposal; the board authority for rate-setting up to 6.9% remains.

The proposed change to LMCO 50.24 would have had far-reaching impacts, including a potentially negative impact on MSD's bond rating that is estimated to increase borrowing costs by $10 million to $20 million in additional interest over the life of each new bond issuance, costs ultimately borne by ratepayers.

Exhibit 5: *Proposed Change to LMCO 50.24 – Impact Area Analysis* provides more information on the impacts of the potential change, the history of denied rate increases, and subsequent negotiation of the second amended consent decree that Louisville MSD presented at the August 4, 2026 Louisville Metro Council Government Oversight and Accountability Committee meeting.

MSD consistently engages with state and federal elected officials to develop policy and pursue funding opportunities that help reduce costs and lessen the financial burden on ratepayers. One example is MSD's aggressive pursuit of grants, forgivable loans, and low-interest financing for capital projects. To date, **MSD has been awarded approximately $69 million in grants and forgivable loans and $183 million in low-interest loans for projects that are planned or underway.**

MSD also uses a variety of financing tools including our rate stabilization fund and commercial paper program, to minimize the cost of financing the capital program and ultimately lessen the financial burden on ratepayers. MSD established the commercial paper program in 2018 to provide lower-cost interim financing and estimates that the program generated approximately **$3 million** in savings during its first three years compared with traditional financing methods. MSD is currently using commercial paper and the rate stabilization fund to finance a portion of the fiscal year 2027 capital program and estimates additional savings of approximately **$1 million** over the next year by delaying the issuance of long-term revenue bonds.

Items In Progress

As MSD continues its review of the report and its recommendations, we would like to provide additional information regarding Findings One and Two and Observation Ten.

Finding One: MSD Legal has initiated a review of our Performance Pay framework and practices per the recommendation of Finding One. On page 28, the report states:

> *"While generally prohibited, whether extra pay constitutes an unconstitutional bonus is not always clear, especially when the entitlement to such pay is properly documented as a component of an employee's agreed upon compensation and based on clear criteria. For example, as it pertains to city governments, the Kentucky League of Cities website indicates "a city may avoid the restriction on bonuses or extra compensation by providing in the compensation ordinance that bonuses or extra compensation may be paid for actual services rendered. The ordinance should also establish criteria that will govern the decision to pay the bonuses or extra compensation. In that case, the bonus or extra compensation becomes a part of the fixed compensation, subject to the decision of the legislative body to appropriate the funds in the budget ordinance. So, if the city appropriates funds and establishes criteria for bonuses and extra compensation to be given for actual services rendered, it can be done."*

The initial review of the framework that MSD has created meets the example stated from the report, as further explained above. MSD will provide more information on our analysis and response to Finding One in our recommendation status plan.

Exhibit 6: *Fiscal Year (FY) 2025 Organizational Goals and Performance Framework* outlines MSD's goal framework and provides an explanation of how the metrics and measurements are developed, reviewed, and monitored, as approved by the MSD Board on June 24, 2024. Any decision to distribute performance pay based on this framework is contingent on the MSD Board's annual approval for the goal framework **and** available funding in MSD's budget.

Finding Two: For approximately 25 years, MSD's three previous executive directors have served under employment contracts. However, MSD is developing a memo to document this finding and its action based on the recommendation. The memo will indicate that MSD's Board should conduct a thorough review of the Executive Director's employment contract upon renewal as recommended. This action will take place in 2030.

Observation Ten: While not a finding, MSD would like to address Observation Ten about its Community Benefits Program. As stated in our October 29, 2024

response to a State Auditor inquiry:

> *MSD's Community Benefits program was approved by the [MSD] board in 2019. Firm participation is voluntary, and the program is designed to leverage large-scale construction and professional services contracting for positive economic, environmental, and social impacts on the community. MSD selects beneficiaries by utilizing well-established vetting processes through partnerships with Louisville Metro Government's Office of Resilience and Community Services and Metro United Way.*

While Louisville Metro Government's Office of Resilience and Community Services has changed its name and narrowed its focus, the agency still publishes a list of vetted agencies. MSD uses that list as well as Metro United Way's list to select beneficiaries using a thorough review including interviews, research, and additional information.

The Community Benefits Program is aligned with MSD's mission to protect public health and safety and contributes to accomplishing objectives by:

- improving environmental conditions around MSD project sites;
- supporting STEM learning that builds future environmental workforce;
- enhancing public spaces that reduce environmental stressors; and,
- strengthening neighborhoods where MSD infrastructure is critical to the community's quality of life.

MSD's infrastructure work is critical to addressing environmental challenges in the communities we serve, which positively impacts public health. The contractors who choose to participate in the Community Benefits program select an organization from MSD's approved benefactor list to provide support through volunteer activities, financial or in-kind contributions. Through the Community Benefits Program commitments, neighborhoods have been improved through contractor-delivered projects such as:

- pollinator gardens to support pollinator populations and enhance biodiversity;
- STEM lab development and computer donation within schools to support future workforce needs;
- feeding students on weekends when meals are often scarce for families;

and,

- building new homes for community members.

MSD maintains rigorous safeguards to ensure the Community Benefits Program operations within approved budgets, legal requirements, and financial controls. The program is structured to eliminate financial risk, prevent misuse, and ensure transparent, accountable delivery of all commitments. Those compliance practices include:

- consistent reviews of vendor records, commitments, and activities to ensure compliance with requirements;
- periodic reviews of vendor records in accordance with MSD policy; and,
- regular evaluations of program performance, stakeholder feedback, and compliance outcomes for improvement opportunities.

MSD would note that staffing for the Community Benefits Program is approximately two full-time employees, not six, as indicated on page 54 of the report. The combined salary, excluding benefits, is approximately $160,000, and those two staff members are part of a larger department that manages multiple MSD initiatives.

Exhibit 7: *MSD Community Benefits Statement of Understanding* is the document that all firms that choose to participate in the voluntary Community Benefits Program sign and notarize affirming that commitments are delivered at zero-cost to MSD. This contractual safeguard prevents cost-shifting, protects ratepayer dollars, and ensures MSD's core mission remains fully funded.

Exhibit 8: *Impact Areas from the Louisville MSD Community Benefits Program* is a map of the locations of Jefferson, Bullitt, and Oldham Counties that have benefited from the program.

MSD will continue to review Observation Ten and conduct an in-depth analysis of program documentation and applicable policies to identify opportunities to strengthen the program and further mitigate risk to MSD and its ratepayers. Additional information regarding this review will be included in MSD's recommendation status plan.

All findings and some observations not mentioned in this response will be addressed in Louisville MSD's final recommendation status plan as required by

KRS 43.090(1).

Again, we appreciate your staff for identifying opportunities for MSD to strengthen its process and program documentation through additional evaluation and policy reviews. This MSD ratepayer-funded engagement gave MSD insight into multiple areas of our organization and helps us better understand those topics in different ways. Louisville MSD's leadership views third-party reviews as a way to receive valuable feedback to improve our organization. As we continue to review the report, any findings or recommendations will be evaluated for feasibility and prioritized based on our strategic planning process and framework.

Sincerely,



James A. Parrott
MSD Executive Director

CC: Ricky Mason, MSD Board Chair
Carmen Moreno-Rivera, MSD Chief of Staff
Sandra Conner, MSD Chief Audit Executive

Exhibit 1: MSD FY2027 Funding Sources and Budget Allocations

The 2024 National Association of Clean Water Agencies (NACWA) Triennial Financial Survey was published in September 2024. Since 1981, NACWA has performed a triennial financial survey of its membership to provide utilities, government officials, and the public, a comprehensive knowledge base on financing, rates, staffing and key utility management initiatives of public clean water utilities.

MSD Funding Sources



Source: NACWA's Triennial Financial Survey September 2024. Based on 2022 data representing $19.1 billion in expenditures by 91 utilities.

MSD Budget Allocations



Source: NACWA's Triennial Financial Survey September 2024. Based on 2022 data representing $19.1 billion in expenditures by 91 utilities.

Exhibit 2: Annual Notification to Louisville Mayor and Louisville Metro Council

msd
Safe, clean waterways

700 West Liberty Street | Louisville, KY 40203-1911
Phone: 502.540.6000 | LouisvilleMSD.org

May 24, 2022

VIA EMAIL AND FIRST CLASS MAIL

Hon. Mayor Greg Fischer
Metro Hall / 4th Floor
527 W. Jefferson Street
Louisville, KY 40202

Hon. David James, President
Louisville Metro Council
City Hall
601 W. Jefferson Street
Louisville, KY 40202

Subject: **MSD's Preliminary Rate Resolution**

Dear Mayor Fischer and President James:

On Monday, May 23, 2022, the Louisville and Jefferson County Metropolitan Sewer District (MSD) Board approved a preliminary rate resolution (enclosed) amending the District's 2022 Schedule of Rates, Rentals, and Charges. The proposed fiscal 2023 rate schedule, which is recommended pursuant to the debt service adjustment provisions of §50.24 of Louisville Metro Amended Ordinance No. 275-2007, includes a 5.0% rate increase in wastewater and drainage charges. This rate increase is necessary in order to produce aggregate revenues sufficient for the payment of interest and principal on all revenue bonds and other debt obligations of the District, all costs and expenses of operating and maintaining the sewer and drainage system, and for the payment of capital improvements to the system.

MSD's debt service on outstanding revenue bonds for fiscal 2023 is $144.6 million. Subordinate debt service payments are $28 million which brings total debt service for fiscal 2023 to $172.6 million, or 4.6% more than fiscal 2022. The preliminary rate resolution will enable MSD to maintain the debt service coverage required by Louisville Metro Ordinance §50.24 and ensures compliance with MSD's other debt service covenants. MSD actively manages its debt obligations to take advantage of opportunities to achieve debt service savings. To that end, the District has refunded $486 million in par value revenue bonds over the last five years. Additionally, the District supplements its revenue bond debt with other low-interest loan programs through the Kentucky Infrastructure's State Revolving Fund and the EPA's Water Infrastructure Finance and Innovation Act. These programs offer low-cost financing for qualifying projects.

MSD's operating budget totals $176.6 million for fiscal 2023 which is an 8.9% increase over the fiscal 2022 operating budget. This budget contains incremental increases to fund operating and maintenance expenses in MSD's regional service area in Bullitt and Oldham counties. These expenses are paid for by the user service charges collected from customers in those counties through revenue funds separate from Jefferson County. Inflation is a significant factor for the fiscal 23 operating budget. The District projects chemical costs will increase 38%, fuel costs will increase 56% and material costs will increase 21% and we have budgeted for these increases accordingly. MSD will absorb a $2.5 million budget-to-budget increase in insurance premiums and claims. The 2023 operating budget includes a $2 million management reserve to provide for contingencies related to inflation and supply chain issues.

MSD's capital budget totals $195.3 million for fiscal 2023. Jefferson County projects total $183.2 million. Projects for Bullitt and Oldham County are financed by the user service charges and debt obligations of customers in those counties. MSD has a variety of commitments related to infrastructure rehabilitation and improvement under the Second Amended Consent Decree and Kentucky Agreed Orders. For fiscal 2023, this spending represents $134.9 million, or 69% of the budget. Major categories of spending are summarized as follows:

- Wastewater projects: $126.8 million
- Stormwater projects: $28.6 million
- Support systems: $34.7 million

The fiscal 2023 capital budget includes a $5 million reserve which provides contingency funds for factors such as bid variances driven by economic issues and other emergencies. MSD's capital budget will be funded by a combination of funds available from operations (revenue less operating expenses and debt service payments) and new debt. For fiscal 2023, $41.8 million will be funded with funds available from operations and $153.5 million in funding will come from commercial paper and other debt instruments. The preliminary rate resolution preserves capacity to issue additional revenue bonds while maintaining the District's existing AA credit ratings from Moody's and S&P.

MSD will continue its hazard mitigation grant program which allows the District to provide assistance to homeowners with properties repeatedly affected by flooding. In fiscal 2023, MSD will fund $3.6 million worth of hazard mitigation projects, of which, MSD's share will be approximately $400 thousand. MSD has also received $12 million in Cleaner Water grant commitments from the state of Kentucky that will partially fund the Paddy's Run Flood Pump Station improvements and other smaller projects in the five-year capital improvement plan.

Following final adoption of the rate resolution by the MSD Board, the monthly wastewater bill for an average residential customer in Jefferson County will increase on August 1, 2022 from $54.99 to $57.75 or by $2.76. The average monthly residential drainage bill will increase from $11.88 to $12.47 or by $0.59. The total monthly increase for the average residential customer will be $3.35. As of January 1, 2022, Jefferson County wastewater rates are roughly equal to Indianapolis and St. Louis but lower than Cincinnati and Nashville.

MSD will continue to provide free wastewater and drainage services to Louisville Metro Government. The value of these services is estimated to be $6.3 million for fiscal year 2022.

MSD recognizes affordability is a concern for the community. The District will expand its Emergency Wastewater Rate Assistance Program (EWRAP) introduced in fiscal 2021. Beginning October 1, 2022, EWRAP will provide a 30% discount on MSD wastewater services for eligible households. Program participation is limited to 2,500 customers and/or will only be offered until available funding is expended. MSD will continue to offer its Senior Citizen's Discount which provides a 30% discount on MSD wastewater services to qualifying seniors. This program supports approximately 6,000 households annually and will provide $1.2 million in assistance in fiscal 2023. Both the EWRAP and Senior Citizen Discount programs require annual recertification. Finally, MSD will fund a $150,000 contribution in fiscal 2023 to the Louisville Water Foundation. This contribution provides funding for the Association of Community Ministries, supporting families in need with utility bill assistance. In total, MSD will provide over $1.8 million in rate assistance in fiscal 2023.

The preliminary rate resolution is posted on the District's website at LouisvilleMSD.org/Rates. Leal notice of the rate resolution will be published in the Courier Journal on June 1, 2022 and MSD will accept written comments until June 30, 2022. Comments from the public will be delivered to the MSD Board on July 25, 2022 before final adoption. MSD stands ready to address any questions from Metro Council during this period. Please feel free to contact me directly at (502) 540-6533 or tony.parrott@louisvillemsd.org.

Sincerely,



James A. Parrott
Executive Director

Enclosure – MSD Preliminary FY 2023 Rate Resolution

cc: Metro Council Members
Metro Council Assistants
MSD Board Members

msd
Safe, clean waterways

700 West Liberty Street | Louisville, KY 40203-1911
Phone: 502.540.6000 | LouisvilleMSD.org

May 29, 2024

VIA EMAIL AND FIRST-CLASS MAIL

Hon. Mayor Craig Greenberg
Metro Hall / 4th Floor
527 W. Jefferson Street
Louisville, KY 40202

Hon. Markus Winkler, President
Louisville Metro Council
City Hall
601 W. Jefferson Street
Louisville, KY 40202

Subject: **MSD's Preliminary Rate Resolution**

Dear Mayor Greenberg and President Winkler:

On Tuesday, May 28, 2024, the Louisville and Jefferson County Metropolitan Sewer District (MSD) Board approved a preliminary rate resolution (enclosed) amending the 2024 Schedule of Rates, Rentals, and Charges for Jefferson County. The fiscal 2025 rate schedule, which is recommended pursuant to the debt service adjustment provisions of §50.24 of Louisville Metro Amended Ordinance No. 275-2007, includes a 6.9% rate increase in wastewater and drainage charges. This rate increase is necessary in order to produce aggregate revenues sufficient for the payment of interest and principal on all revenue bonds and other debt obligations of MSD, all costs and expenses of operating and maintaining the sewer and drainage system, and for the payment of capital improvements to the system.

MSD's operating budget for fiscal 2025 totals $202.6 million. Labor costs are the most significant driver in the operating budget. Over the last two budget cycles, MSD has added 41 positions to its Operations staff. These positions are necessary, in part, to maintain and operate new infrastructure assets including the Waterway Protection Tunnel and other stormwater retention basins that were constructed in response to MSD's Consent Decree to eliminate sewer overflows. However, MSD faces additional workforce challenges that we are working to address. For several years MSD has struggled to recruit and retain skilled trade staff. In response, MSD developed mechanical and electrical apprenticeship programs. To date, 15 new apprentice positions have been filled and the fiscal 2025 budget includes funding for 5 additional apprentice positions. The community has been calling on MSD to further mitigate odors generated by the wastewater collection and treatment process and the fiscal 2025 budget includes funding for 7 new positions that will be part of our response to system odors. Finally, medical insurance premiums are expected to increase 14% in fiscal 2025. The 2025 operating budget includes a management reserve of $1 million to provide funding for contingencies as needed.

Debt service payments on MSD's outstanding debt will total $185.3 million for fiscal year 2025, a 5% increase from the fiscal year 2024 budget. The preliminary rate resolution will enable MSD to maintain the debt service coverage required by Louisville Metro Ordinance §50.24 and ensure compliance with MSD's other debt service covenants. MSD actively manages it debt service obligations by refunding debt to achieve debt service savings and by incorporating innovative financing tools. MSD started a commercial paper program in 2018 to provide interim financing for capital projects. Commercial paper is periodically refinanced with 30-year fixed rate sewer and drainage system revenue bonds. MSD estimates this program saved approximately $3.9 million in interest expense during its first five years. In 2020, MSD secured a $98 million WIFIA loan from the US EPA. The interest rate was locked in at 2.39% and is funding the construction of the new Morris Forman biosolids facility in fiscal 2025 when market interest rates are significantly higher. MSD estimates the WIFIA loan will save over $15 million in financing costs over the life of the loan compared to traditional financing methods. In addition to the low cost, the WIFIA loan provides MSD flexibility in repayment terms and construction scheduling, ensuring that the funding meets MSD's needs throughout the life of the project.

MSD's capital budget totals $298.8 million for fiscal 2025. Jefferson County projects total $289 million. Projects for Bullitt and Oldham County are financed by the user service charges and debt obligations of customers in those counties. For fiscal 2025, MSD's commitments related to infrastructure rehabilitation and improvement under the Consent Decree and other Kentucky Agreed Orders remain the primary capital budget drivers representing $264 million, or 88%, of the budget. The fiscal 2025 capital budget provides funding for the following major projects already under way:

- $74.2 million for the Paddy's Run Flood Pump Station Replacement and Capacity Upgrade
- $68.4 million for the Morris Forman Biosolids Facility
- $9 million for the Cedar Creek Water Quality Treatment Center Tertiary Filtration System

The 2025 capital budget includes a $5.1 million reserve which provides contingency funds for emergency projects and bid variances. The capital budget will be funded by a combination of funds available from operations (revenue less operating expenses and debt service payments) and new debt.

While the preliminary rate resolution ensures our ability to issue additional revenue bonds while maintaining MSD's existing AA credit ratings from Moody's and S&P, inflation and supply chain issues have made capital project delivery more expensive and more challenging. Work required to mitigate odors has added another $49 million to our five-year capital plan. To deliver on this work while implementing rate increases within the rate authority granted to our Board, MSD has aggressively pursued alternative funding in the form of grants and low-interest loans. These funding mechanisms are providing more than $225 million of support for in-progress projects. Nearly five percent of the fiscal 2025 capital budget is funded by grants.

Following final adoption of the rate resolution by the MSD Board, the monthly wastewater bill for an average residential customer in Jefferson County will increase on August 1, 2024, from $61.73 to $66.00, or by $4.27. The average monthly residential drainage bill will increase from $13.33 to $14.25, or by $0.92. The total monthly increase for the average residential customer will be $5.19.

MSD will continue to provide free wastewater and drainage services to Louisville Metro Government. The value of these services is estimated to be $8.3 million for fiscal year 2025.

MSD will continue to fund its wastewater rate assistance programs in fiscal year 2025. The Emergency Wastewater Rate Assistance Program (EWRAP) targets residential households at or below 150% of the federal poverty level and the Senior Citizen's Discount Program supports seniors with less than $35,000 in total household income. Together, these programs will provide $1.9 million in rate assistance to 10,400 households in fiscal 2025.

Honorable Craig Greenberg
Honorable Markus Winkler
MSD Preliminary Rate Resolution
May 29, 2024
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The preliminary rate resolution is posted on MSD's website at LouisvilleMSD.org/Rates. Legal notice of the rate resolution will be published in the Courier Journal and MSD will accept written comments until July 4, 2024. Comments from the public will be delivered to the MSD Board on July 29, 2024, before final adoption. MSD stands ready to address any questions from Metro Council during this period. Please feel free to contact me directly at (502) 540-6533 or tony.parrott@louisvillemsd.org.

Sincerely,

James A. Parrott
Executive Director

Enclosure – MSD Preliminary Rate Resolution for Jefferson County

cc: David Kaplan
Metro Council Members
Metro Council Assistants
MSD Board Members

Exhibit 3: Financial Management Practices Governance

There are many safeguards in place to prevent a scenario where MSD would be unable to fund its operating activities and debt service obligations with available revenues. The General Bond Resolution contains a rate covenant that requires MSD to establish and maintain rates and charges sufficient to fund operating expenses and satisfy debt service and debt service coverage requirements. Accordingly, operating expenses and debt service must be funded through revenues rather than through the issuance of debt. The rate covenant protects bondholders by requiring that sufficient revenues be maintained to fund operating expenses and service outstanding debt. Available revenues are pledged to bondholders for repayment of debt. Failure to comply with the rate covenant could constitute a default under the bond documents and would significantly impair MSD's access to the capital markets.

MSD has adopted a Debt Issuance Policy which explicitly limits the use of debt except to fund capital projects and to refund, refinance or restructure outstanding debt. Accordingly, issuing debt for the purpose of funding operating expenses or debt service is not permitted under MSD policy.

MSD develops long-term financial forecasts extending beyond five years using conservative assumptions regarding revenues, operating expenses, capital improvement costs, and related debt service. However, given the inherent uncertainty associated with long-range projections, including future regulatory requirements and capital needs, MSD places greater emphasis on a rolling five-year planning horizon. MSD's financial planning process is designed to maintain financial metrics consistent with preserving the District's credit quality and long-term financial stability. This often requires deferral of capital projects and changes in operating spending so that financial targets can be achieved. MSD publishes five-year financial forecasts annually as part of its budget process and has a demonstrated history of meeting or exceeding forecasted financial results.

MSD's Finance Committee Charter requires an annual review of five-year projections for key financial performance metrics, including Funds Available From Operations and Total Debt Service Coverage. If either metric is projected to decline over the five-year period, the Committee must document the reasons for the decline and require management to incorporate corrective actions into the following year's budget process. This governance framework helps ensure that MSD's long-term financial plans support the maintenance of strong credit quality and financial stability.

Collectively, these bond covenants, Board-adopted policies, long-range financial planning practices, and governance requirements are designed to prevent the use of debt to finance operating expenses or debt service and to maintain MSD's long-term financial stability.

Exhibit 4: Pay Equity Analysis

In 2017, MSD identified recruitment and retention as one of its most significant challenges/risks. Research shows the criticality of water sector jobs. Source: TheValueofWater.org

- 20% of the US economy would grind to a halt without a reliable and clean source of water.
- 46% of water consumed in America is used to produce the manufacturing products we buy.
- 1 to 3.68-the water jobs multiplier. Every job we create in the water sector helps add another
- 3.68 jobs in the national economy.
- Louisville community likewise is reliant upon MSD to deliver 3 water/infrastructure utilities for public health and safety and to support our local economy; it is imperative that MSD be able to employ high quality talent to support these efforts as well as compete with the private sector arm of the water industry.

Human Resources began conducting equity pay analyses for non-union employees in 2017.

Human Resources conducted the analyses by division starting with positions below the director level. For each non-union employee, the review analyzed their rate of pay as of the review date, MSD hire date, job date as of the review date, education, related experience prior to working at MSD, related experience with MSD if any, as well as certifications and other relevant information, along with their resume.

Progression through pay ranges is based upon years of experience doing related work. From these numbers, Human Resources calculated their adjusted overall experience and used this number for placement in the salary range. This process was completed for non-union employees, directors and below, by June 30, 2019.

There was an additional board action presented on February 27, 2023 for a small number of chiefs who had multiple years of experience and needed a higher level of evaluation for a pay equity analysis. This memo also acknowledged the need for an equity analysis for the executive director. From the board memo:

> *After all non-union employees below the director level were reviewed, we reviewed those at the director level in 2019. The equity analysis and adjustments were completed by June 30, 2019. We did not complete the process for those at the chief level (salary grades 29 and 31), however, most of the current chiefs received a pay equity analysis either when they were hired or prior to their promotion to chief. There are a few current chiefs who did not receive a pay equity analysis and adjustment.*

For the chief level, we recommend modifying the equity analysis methodology to be based on the number of years in current role:

- *0 up to 2.9 years - Minimum*
- *3 years up to 4.9 years - 1st Q*
- *5 years up to 7.9 years - Midpoint*
- *8 years up to 13.9 years - Between 2nd and 3rd Q*
- *14 years up to 19.9 years - near 3rd Q*
- *20 years + - 3rd Q*

Given their years of experience, equity adjustments for some chiefs will likely bring their salaries close to that of the Executive Director, necessitating Board review of his pay.

Recommendation
Authorize the Executive Director to conduct a pay equity analysis for Brian Bingham, Angela Akridge, and Rene' Lindsay, and Lynne Fleming, or any additional that may be necessary, including implementation of pay adjustments; following those adjustments, the MSD Board shall complete a pay assessment and pay adjustment for the Executive Director.

Equity adjustment methodology for chief positions will be based on number of years in current role:

- *0 up to 2.9 years - Minimum*
- *3 years up to 4.9 years - 1st Q*
- *5 years up to 7.9 years - Midpoint*
- *8 years up to 13.9 years - Between 2nd and 3rd Q*
- *14 years up to 19.9 years - near 3rd Q*
- *20 years + - 3rd Q*

By approving the above recommendation, the MSD Board acknowledged the need to have a pay equity analysis completed for the Executive Director.
In 2015, the Executive Director was hired by the Louisville Mayor and MSD Board and offered the contract terms and conditions upon recruitment. For approximately 25 years, MSD's three previous executive directors have served under employment contracts. The current Executive Director was hired with no reference to the recommended salary range, so he was hired at a starting salary of $220,000 which was below the minimum level of the range as shown:

- Minimum: $249,384
- Mid-point: $324,200
- Maximum: $399,015

In December 2023, the MSD Board approved a pay adjustment for the Executive Director as proposed by Mercer using the range below:

- Minimum: $324,756
- Mid-point: $430,302
- Maximum: $535,847

The pay adjustment was below the mid-point of newly established range and retroactive to August 2023.

On average, the Executive Director received an MSD Board-approved 4.3% increase from 2016 to 2026. There was no increase in 2025 or 2026.

Year	Effective Dates for New Annual	Starting Hourly Rate	Starting Annual Salary	Base Rate % Increase	New Hourly Rate	New Annual Rate
2015	9/14/15 - 7/31/16				$105.77	$220,001.60
2016	8/1/16 - 7/31/17	$105.77	$220,001.60	5.00%	$111.06	$231,004.80
2017	8/1/17 - 7/31/18	$111.06	$231,004.80	3.50%	$114.95	$239,096.00
2018	8/1/18 - 7/31/19	$114.95	$239,096.00	3.00%	$118.40	$246,272.00
2019	8/1/19 - 7/31/20	$118.40	$246,272.00	3.00%	$121.95	$253,656.00
2020	8/1/20 - 7/31/21	$121.95	$253,656.00	3.00%	$125.61	$261,268.80
2021	8/1/21 - 7/31/22	$125.61	$261,268.80	3.00%	$129.38	$269,110.40
2022	8/1/22 - 7/31/23	$129.38	$269,110.40	5.00%	$135.85	$282,568.00
2023	8/1/23 - 9/6/24	$135.85	$282,568.00	16.79% **	$158.66	$330,012.80
2024	9/7/24 - present	$158.66	$330,012.80	5.00%	$166.59	$346,507.00
2025	No change	$166.59	$346,507.00	0.00%	N/A	N/A
2026	No change	$166.59	$346,507.00	0.00%	N/A	N/A

** Indicates the retroactive pay for the pay adjustment that was approved by MSD's Board in December 2023

Exhibit 5: Proposed Change to LMCO 50.24 – Impact Area Analysis

The proposed changes to LMCO 50.24 would change the ratemaking process, decrease MSD's board authority, and make Louisville Metro Council (LMC) a party to MSD's consent decree. MSD views the proposed legislation as misguided as it would harm MSD's ability to meet the state and federal regulations that are in place to protect public health and safety.

Impact Area: Financial
The proposed change to LMCO 50.24 would eventually negatively impact MSD's bond rating. Each notch of a ratings downgrade is estimated to cost an additional $10 to $20 million to ratepayers. Simply introducing the proposal alerts the rating agencies as both Moody's and S&P reports have indicated the risk associated with failure to receive timely or sufficient rate increases.

Impact Area: Board Oversight and Consent Decree Impact
Any change to the ordinance as it pertains to rate increases changes MSD's board authority. This means:

- LMC becomes MSD's governing authority and would be responsible for overseeing MSD's annual budget development and approval process (January through July).
- LMC becomes a party to the federal consent decree with the EPA, DOJ, and KY.
- LMC would need to go to a federal judge to amend the consent decree to reflect the ordinance change and extend timelines as appropriate.

Impact Area: Infrastructure Project Impacts
Changing the rate increase limit from 7% to CPI + 1% almost guarantees MSD will need to request approval from LMC each year. This means:

- The consent decree timeline will likely need to be extended as approved rate increases could be between 2% and 4% as Councilman Reed mentioned in the June Government and Accountability Committee hearing.
- Lower rate increases would extend project timelines and increase the costs of impacted projects.
- Restricting or significantly lowering MSD rate increases will impact its ability to complete consent decree work and other projects in Jefferson County.
    - The Upper Middle Fork Tunnel project will be delayed. This project is necessary to mitigate illegal sanitary sewer overflows and impacts the

area from St Matthews to the Highlands including Seneca and Cherokee Parks.

- Economic development in the eastern part of Jefferson County will be impacted. The Floyds Fork Interceptor project will continue to be pushed out of capital budget planning for more than 15 years. Also, the Hites Creek, Floyds Fork, and Cedar Creek water quality treatment plants that serve the eastern part of the county will not be able to increase capacity.
- MSD will lose the ability to upgrade flood pump stations. These stations protect 280,000 people as well as LG&E Plants, Louisville Muhammad Ali International Airport, UPS, Ford, Churchill Downs, University of Louisville, and downtown.
- MSD will lose funding for odor mitigation projects like catch basin replacements which have significantly decreased odor complaints.
- MSD's DRI (Drainage Response Initiative) program will lose funding.

- Any denial of rate increases that MSD proposes based on consent decree requirements will trigger language in the consent around *Denied Rate Actions*. This language directs MSD to use its best efforts to seek and obtain approval of Louisville Metro Council on all rate increases above 7%. There is also language on EPA's authority to enforce increases above 7% if it is deemed necessary to meet requirements in the Second Amended Consent Decree.

More information on the Consent Decree and why Louisville MSD negotiated its Second Amended Consent Decree

When the original consent was drafted, all parties expected it to be amended as MSD developed compliance measures. In 2009, the Environmental Protection Agency (EPA), Department of Justice (DOJ), the Commonwealth of Kentucky, and MSD agreed to an Amended Consent Decree to clarify, amend, and expand provisions in the original Consent Decree from 2005.

On June 2, 2016, MSD made a presentation to the Metro Council Budget Committee, describing the preliminary findings of its Critical Repair and Reinvestment Plan (CRRP) and presenting funding needs to implement the plan within the 20-year planning horizon. The CRRP focused on infrastructure improvements and the maintenance and operation of new facilities being constructed based on consent decree requirements.

In 2017, MSD presented updated plans to Louisville Metro Council requesting a rate increase of 20%. The rate increase was denied, but during the hearing, a request was made to spread out the rate increases. So, in 2018, MSD requested a 10% rate increase over three years which was also denied. The higher increases were to accomplish the goals of the CRRP and the expanded

provisions in the Amended Consent Decree at the same time.

In 2019, MSD entered into negotiations with the EPA and DOJ to develop the Second Amended Consent Decree. The EPA developed a new integrated planning approach that allowed MSD to include additional projects in the consent decree to support work that had already been completed to prevent overflows. The second amendment was necessary to account for needs for other assets such as the flood protection system and extend timelines for required projects. In exchange for the requested timelines extensions, the EPA required $70M of critical sewer rehabilitation and $25M of annual spend for MSD's asset management needs to be added into the consent decree. The negotiations were based on the authority of the MSD board to raise rates up to 6.9% as set by Louisville Metro Ordinance 50.24. MSD is planned to meet the requirements in the Second Amended Consent Decree by 2035.

Exhibit 6: Fiscal Year (FY) 2025 Organizational Goals and Performance Framework

From the June 24,2024 MSD Board Agenda File located on Open MSD

FY25 Organizational Performance Goals

Each organizational goal area is comprised of strategically chosen critical business activities and the completion of carefully sequenced transformational initiatives (TIs). Standard protocol is that near the end of the previous fiscal year, the Chiefs review performance across each of the goal components to identify the following:

- Opportunities to further increase goal metrics performance targets for continuous improvement;
- Additional opportunities for goal metrics to support critical organizational or community service levels;
- External factors that may be require modifications to the goal metrics;
- Metrics that may no longer be the most appropriate indicator of performance in a specific area; and
- Adequate resources availability to perform each of the goal components.

The outcome of the review and evaluation by the Chiefs is a recommended suite of performance goals and metrics. Enhancements to the previous year goal components are indicated in red text on the attached Organizational Performance Goals matrix. During the previous year, significant focus was given to vacant positions mitigation within the CSF3 goal area. As we move into year 2 of that effort, and based on progress made during FY24, it is recommended to reduce the number of goal elements related to vacant positions mitigation from 3 goal components to 2. It is recommended that the goal element be replaced with a goal related to Odor Mitigation Responsiveness within the CSF2 goal area.

In total, there are 25 separate, aligned goal components that comprise the FY25 Organizational Performance Goals suite. Goal metrics are defined as the specific performance that must be achieved to obtain each rating level, starting with “Level 3” measure being the expected performance for the given activity. Level 4 and Level 5 performance requirements are then outlined as “stretch” goals. Likewise, Level 2 and Level 1 requirements are defined for less than expected performance.

The responsibility for performance monitoring and reporting of each organizational performance goal component is assigned to the divisions/departments or teams that are oversee the daily activities being monitored. Fact sheets are created for each of goal elements to document the

who, what, where, when, and how of performance documentation, calculation and internal reporting to ensure consistency, visibility and transparency.

Performance data is assessed for accuracy and quality by the designated data owner and submitted for compilation and evaluation. Metric dashboards on MSDnet, our internal intranet system, are populated for internal visibility and monthly reports are compiled for MSD management. Divisional chiefs and directors provide updates and status reports on goal performance during their report-outs at ELT meetings. They also review the monthly status reports with their teams each month to determine if performance is satisfactory or if/how it can be improved through increased focus over the remainder of the fiscal year.

Each of the 25 Organizational Performance Goal elements have been aligned to the charters of the Board Oversight Committees. Performance reports are provided at each Committee meetings during the performance year by the Executive Director and/or the Chief Strategy Officer. Division Chiefs also provide updates on Transformational Initiatives they are working on as part of their Committee reports.

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FY25 Organizational Performance Goals

	CRITICAL BUSINESS FUNCTIONS		TRANSFORMATIONAL INITIATIVES
	80%		20%
Sustain Quality and Compliant Wastewater, Stormwater, and Flood Protection Services (CSF 1) Champion the protection of public health and safety and the environment through sustainable solutions, operations, support systems and sound management practices.	**1G1: Infrastructure Performance** **1G1A Reclaimed Water Effluent Quality (Infrastructure Committee)** **Description:** Comply with KPDES operating permit effluent requirements at each water quality treatment centers within Jefferson County (WQTC) excluding Morris Forman **Metric:** Total number of months with permit violations for the reporting period for the Regional WQTCs (No WQTC counted more than once per month) **Performance Scale** 5 = 0-2 Total Permit Violation Months 4 = 3-4 Total Permit Violation Months 3 = 5-6 Total Permit Violation Months 2 = 7-10 Total Permit Violation Months 1 >10 Total Permit Violation Months **1G1B Flood Protection Pumps Readiness (Infrastructure Committee)** **Description:** Maintain and ensure availability of the full suite of existing pumps at each flood pump station (FPS) for utilization as needed before/during/after wet weather events during flood pumping season **Metric:** Number of individual flood pumps in service / Total number of individual flood pumps (%) **Performance Scale** 5 ≥ 95% pumps in service 4 = 91.0 – 94.9% pumps in service 3 = 88.0 – 90.9% pumps in service 2 = 85.0 - 87.9% pumps in service 1 ≤ 84.9% pumps in service	**1G2: Infrastructure Systems Inspection & Preventive Maintenance** **1G2A Sanitary Pumping Station Capacity Availability (Infrastructure Committee)** **Description:** Conduct drawdown tests on 20% (51) of sanitary pump stations annually, assess adequacy of pumps per design capacity and develop action plans to restore capacity (includes Oldham and Bullitt systems) **Metric:** • 50% - Number of PS's with draw down testing completed / Total number of sanitary PS's * 0.20 (%) • 25% - Number of drawdowns with completed QA / Number of drawdowns completed (%) • 25% - Facilities with action plans developed / Number of action plans required (%) **Performance Scale:** 5 ≥ 95% collective completion 4 = 91.0 – 94.9% collective completion 3 = 88.0 – 90.9% collective completion 2 = 85.0 - 87.9% collective completion 1 ≤ 84.9% collective completion **1G2B Structured Maintenance Completion Rate (Infrastructure Committee)** **Description:** Conduct structured maintenance (SM) activities at sanitary pump stations, water quality treatment centers, and flood protection system **Metric:** SM work orders completed by due date / total SM work orders scheduled (%) • 25% - Sanitary Pump Stations/Collection System • 25% - Flood Protection System • 25% - Controls • 12.5% - WQTC – Operations • 12.5% - WQTC – Maintenance **Performance Scale:** 5 ≥ 92.0% collective completion 4 = 88.0 – 91.9% collective completion 3 = 84.0 – 87.9% collective completion 2 = 80.0 – 83.9% collective completion 1 ≤ 79.9% collective completion **1G2C Systems Inspections Completion Rate (Infrastructure Committee)** **Description:** Conduct inspections per schedule for sanitary sewers, air relief valves (ARVs), sanitary force mains, flood protection levee/wall, CSO assets and CSS Catch Basins **Metric:** Inspections completed by due date / total inspections scheduled (%) • 6% - Sewers: length of pipe inspected/ length of pipe scheduled for inspection (internal crews) • 12% - Sewers: length of pipe inspected/ length of pipe scheduled for inspection (contractor crews) • 10% - ARVs: number of ARVs on sanitary FMs inspected/ number of ARVs scheduled for inspection • 18% - Force Mains: length of force mains inspected/ length of force mains scheduled for inspection • 18% - Flood Levies/Wall: length of levy/wall inspected / length of levy/wall scheduled for inspection • 18% - CSO Assets: assets inspected / number assets scheduled for inspection • 18% - CSS Catch Basins: catch basins inspected / number catch basins scheduled for inspection **Performance Scale:** 5 ≥ 92.0% collective completion 4 = 88.0 – 91.9% collective completion 3 = 84.0 – 87.9% collective completion 2 = 80.0 – 83.9% collective completion 1 ≤ 79.9% collective completion	**1G3: Strategic Business Plan Initiatives Completion** **1G3A BP2025 CSF1 Initiatives Completion (Infrastructure Committee)** **Description:** Complete planned activities under Blueprint 2025 critical success factor area 1 **Metric:** Successful completion of FY22 Critical Success Factor 1 (CSF1) initiatives / total planned CSF1 initiatives (%) **Performance Scale:** 5 ≥ 90.0% collective completion 4 = 80.0 – 89.99% collective completion 3 = 70.0 – 79.9% collective completion 2 = 60.0% – 69.9% collective completion 1 ≤ 59.9% collective completion

Last updated: June 10, 2024

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FY25 Organizational Performance Goals

	CRITICAL BUSINESS FUNCTIONS		TRANSFORMATIONAL INITIATIVES
	80%		20%
Earn Community's Trust Daily as Leading Provider of Wastewater, Stormwater, and Flood Protection Services (CSF 2) **Earn community trust in the value of MSD through consistent delivery of quality services, respectful interactions with our customers, and strategic collaborations with community partners.**	**2G1: Responsiveness to Customers** **2G1A Customer Service Request Responsiveness (Customer Service Committee)** **Description:** Perform initial site visit and communicate next actions to customer within a set time frame for cave-in, backup, and discharge service requests and includes Oldham and Bullitt systems. Excludes rain events. **Metric:** Average total time taken to arrive onsite and complete initial customer communication after the service request call date / time **Performance Scale:** 5 < 4:00 (240 minutes) average completion 4 = 4:01 – 4:45 (241 - 285 minutes) average completion 3 = 4:46 – 5:30 (286 – 330 minutes) average completion 2 = 5:31 – 6:00 (331 – 360 minutes) average completion 1 ≥ 6:01 (361 minutes or more) average completion **2G1B Customer Service Call Quality (Customer Service Committee)** **Description:** Ensure Call Center agents interaction with customers is polite and professional, as well as providing accurate and adecuate information **Metric:** A random sampling of calls are scored by a member of the Call Quality Department **Performance Scale:** 5 ≥ 98.0% collective performance 4 = 95.0 – 97.9% collective performance 3 = 90.0 – 94.9% collective performance 2 = 85.0 – 89.9% collective performance 1 ≤ 84.9% collective performance **2G1C Odor Mitigation Responsiveness & Reporting (Customer Satisfaction Committee)** **Description:** Perform follow-up communications on odor complaints as received and perform compliance reporting as defined **Metric:** Percentage of competions • 30% - Customer follow-up on standard odor complaints • 30% - Enhanced customer follow-up on frequent odor complaints (3 or more times in 30 rolling days) • 40% - Compliance reporting **Performance Scale:** Standard customer follow-up – percent of customer contact attempts within 2 business days 5 ≥ 98% - 100% attempts within 2 business days 4 = 94% - 97.9% attempts within 2 business days 3 = 90% - 93.9% attempts within 2 business days 2 = 86 - 89.9% attempts within 2 business days 1 < 86% attempts within 2 business days **Performance Scale:** Enhanced customer follow-up – percent of customer contact attempts within 5 business days 5 ≥ 98% - 100% attempts within 5 business days 4 = 94% - 97.9% attempts within 5 business days 3 = 90% - 93.9% attempts within 5 business days 2 = 86 - 89.9% attempts within 5 business days 1 < 86% % attempts within 5 business days **Performance Scale:** Compliance reporting – percent of milestones completed per schedule 5 ≥ 100.0% milestones achieved 4 = 75% - 99.9% milestones achieved 3 = 50% - 74.9% milestones achieved 2 = 25% – 49.9% milestones achieved 1 < 25.0% milestones achieved	**2G2: Responsiveness to Supply Chain Partners** **2G2A Vendor Invoice Payment Timeliness (Finance Committee)** **Description:** Process payment of invoices with traditional 30 day payment terms within 30 days of receipt. **Metric:** Number of invoices paid within 30 days of receipt/Number of invoices paid **Performance Scale:** 5 ≥ 97.0% collective completion 4 = 95.0 – 96.9% collective completion 3 = 93.0 – 94.9% collective completion 2 = 90.0 – 92.9% collective completion 1 ≤ 89.9% collective completion **2G2B Development Plan Review Responsiveness (Infrastructure Committee)** **Description:** Complete review of submitted private development wastewater and storm water infrastructure design and construction plans withir 14 days of receipt. **Metric:** Percent of development plan submittal reviews completed within 14 days of receipt and documentation occurs as required. **Performance Scale:** 5 = 98.0% or greater plan review completion within 14 days AND documentation occurs as required 4 = 95.0-97.9% plan review completion within 14 days AND documentation occurs as required 3 = 92.0-94.9% plan review completion within 14 days AND documentation occurs as required 2 = Less than 92% plan review completion within 14 days AND documentation occurs as required 1 = Plan review documentation does not occur as required **2G2C Supplier Diversity Utilization (Infrastructure Committee)** **Description:** Actively seek minority and woman-owned business for procurement opportunities with the goal of achieving 25% overall participation **Metric:** Percentage of M/WBE Utilization • 20% - M/WBE participation in Professional Services contracts (Aspirational) • 40% - M/WBE participation in Construction contracts • 40% - M/WBE participation in Goods/Services contracts **Performance Scale:** Engineering Services contracts (Excluding projects with 100% waiver of the supplier diversity goals.) 5 ≥ 23% utilization 4 = 19% - 22.9% utilization 3 = 15% - 18.9% utilization 2 = 12% - 14.9% utilization 1 < 12% utilization **Performance Scale:** Construction contracts (Excluding projects with 100% waiver of the supplier diversity goals.) 5 ≥ 23% utilization 4 = 19% - 22.9% utilization 3 = 15% - 18.9% utilization 2 = 12% - 14.9% utilization 1 < 12% utilization **Performance Scale:** Goods and Services contracts 5 ≥ 5.0% utilization 4 = 4 – 4.9% utilization 3 = 3.0 – 3.9% utilization 2 = 2.0 – 2.9% utilization 1 < 2.0% utilization	**2G3: Strategic Business Plan Initiatives Completion** **2G3A BP2025 CSF2 Initiatives Completion (Customer Service Committee)** **Description:** Complete planned activities under Blueprint 2025 critical success factor area 2 **Metric:** Successful completion of FY22 Critical Success Factor 2 (CSF2) initiatives / total planned CSF2 initiatives (%) **Performance Scale:** 5 = ≥ 90.0% collective completion 4 = 80.0 – 89.9% collective completion 3 = 70.0 – 79.9% collective completion 2 = 60.0% – 69.9% collective completion 1 ≤ 59.9% collective completion

Last updated: June 10, 2024

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FY25 Organizational Performance Goals

	CRITICAL BUSINESS FUNCTIONS		TRANSFORMATIONAL INITIATIVES
	80%		20%
Transform into an Employer of Purpose Where Employees have the Opportunity to Thrive (CSF 3) **Attract, retain and equip an effective workforce, reflective and supportive of our community, that consistently delivers high quality services to customers internally and externally.**	**3G1: Management Effectiveness** **3G1A Vacant Positions Mitigation, Part 1 (Personnel Committee)** **Description:** Reduce utility vacancies to be within optimal vacancy rate range. Metric includes all vacancies and all approved positions, with no exclusions over the fiscal year. **Metric:** Vacancy rate at the end of the fiscal year, updated monthly. (Total vacant positions / total approved positions) x 100% **Performance Scale:** 5 ≤ 6.7% vacancy rate 4 = 6.8% - 7.3% vacancy rate 3 = 7.4% - 8.0% vacancy rate 2 = 8.1% - 8.8% vacancy rate 1 ≥ 8.9% vacancy rate **3G1B Vacant Positions Mitigation, Part 2 (Personnel Committee)** **Description:** Maximize the number of positions filled across the utility. Accounts for positions filled through postings, including vacancies created through new positions, voluntary/involuntary departures and internal lateral/promotional movement. **Metric:** Total number of positions filled over the fiscal year, based on percent of total vacancies on June 30 of the previous fiscal year **Performance Scale:** 5 ≥ 160.0% percent of vacant positions filled 4 = 147.0% - 159.9% percent of vacant positions filled 3 = 133.0% - 146.9% percent of vacant positions filled 2 = 120.0% - 132.9% percent of vacant positions filled 1 ≤ 119.9% percent of vacant positions filled	**3G2: Employee Training, Development and Performance Accountability** **3G2A Policy/Program Compliance Training Completion (Personnel Committee)** **Description:** Ensure completion of electronically-administered training by appropriate staff as required. **Metric:** Total number of employees that completed each required training by the deadline / total required. 15% Louisville Green 15% ethics awareness 20% annual SORP 15% driver awareness 15% cybersecurity awareness 20% for quarterly SORP trainings (5% each) Total = weighted composite of the above activities as of June 30, 2023. **Performance Scale:** 5 ≥ 98.0% collective completion 4 = 95.0 – 97.9% collective completion 3 = 92.0 – 94.9% collective completion 2 = 90.0– 91.9% collective completion 1 ≤ 89.9% collective completion **3G2B Performance Management Goals Establishment Timeliness (Personnel Committee)** **Description:** Align and assign goals to non-union staff. **Metric:** Total aligned goals assigned to non-union employees by due date / total required (%). **Performance Scale:** 5 ≥ 95.0% collective completion 4 = 90.0 – 94.9% collective completion 3 = 85.0 – 89.9% collective completion 2 = 80.0 – 84.9% collective completion 1 ≤ 79.9% collective completion **3G2C Non-Union Employee Performance Appraisals Completion Timeliness (Personnel Committee)** **Description:** Complete annual non-union staff performance appraisals, provide to employees with opportunity to discuss, and submit to HR with all applicable signatures by required date. **Metric:** Total annual non-union appraisals completed, signed, submitted to HR by due date / total required (%). **Performance Scale:** 5 ≥ 95.0% collective completion 4 = 92.0 – 94.9% collective completion 3 = 89.0 – 91.9% collective completion 2 = 86.0 – 88.9% collective completion 1 ≤ 85.9% collective completion **3G2D Union Employee Performance Appraisals Completion Timeliness (Personnel Committee)** **Description:** Complete annual union staff performance appraisals, provide to employees with opportunity to discuss, and submit to HR with all applicable signatures by required date. **Metric:** Total annual union appraisals completed, signed, submitted to HR by due date / total required (%) **Performance Scale:** 5 ≥ 95.0% collective completion 4 = 92.0 – 94.9% collective completion 3 = 89.0 – 91.9% collective completion 2 = 86.0 – 88.9% collective completion 1 ≤ 85.9% collective completion	**3G3: Strategic Business Plan Initiatives Completion** **3G3A BP2025 CSF3 Initiatives Completion (Personnel Committee)** **Description:** Complete planned activities under Blueprint 2025 critical success factor area 3 **Metric:** Successful completion of FY22 Critical Success Factor 3 (CSF3) initiatives / total planned CSF3 initiatives (%) **Performance Scale:** 5 ≥ 90.0% collective completion 4 = 80.0 – 89.99% collective completion 3 = 70.0 – 79.9% collective completion 2 = 60.0% – 69.9% collective completion 1 ≤ 59.9% collective completion

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msd BLUEPRINT 2025

FY25 Organizational Performance Goals

	CRITICAL BUSINESS FUNCTIONS		TRANSFORMATIONAL INITIATIVES
	80%		20%
Ensure Financial Stewardship and Sustainability of Community Resources (CSF 4) **Meet today's operating and capital investment needs while managing risk and long-term affordability for the future**	**4G1: Capital Budget Utilization** **4G1A Capital Project Delivery Schedule Management (Infrastructure Committee)** **Description:** Attain capital design/construction project schedule milestones against a baseline schedule, inclusive of procurement and easement acquisition, for those milestones which are within staff ability to control. **Metric:** CIP FY Schedule Milestones Achieved / Total CIP FY Baseline Milestones Planned (%) **Performance Scale:** 5 ≥ 95.0% milestones achieved 4 = 90.0 – 94.9% milestones achieved 3 = 80.0 – 89.9% milestones achieved 2 = 75.0% – 79.9% milestones achieved 1 ≤ 74.9% milestones achieved **4G1B Capital Spend Management (Infrastructure Committee)** **Description:** Adhere to FY CIP spend compared to the approved FY CIP budget. **Metric:** Annualized capital spend/approved CIP budget (%) **Performance Scale:** 5 ≥ 90.0 – 100.0% collective spend 4 = 83.0 – 89.9% or 100.1 – 102.0% collective spend 3 = 75.0 – 82.9% or 102.1 – 104.0% collective spend 2 = 65.0 – 74.9% or 104.1 - 104.9% collective spend 1 ≤ 64.9% or ≥ 105.0% collective spend **4G1C Capital Construction Change Order Management (Infrastructure Committee)** **Description:** Ensure MSD-directed construction change orders remain within accepted industry standards. **Metric:** (New contract value sum - Original contract value sum) / original contract value sum) x 100 (%) Performance score is cumulative percentage change order value **Performance Scale:** 5 ≤ 3.0% owner directed change 4 = 3.1 – 4.0% owner directed change 3 = 4.1 – 6.0% owner directed change 2 = 6.1 – 8.0% owner directed change 1 ≥ 8.1% owner directed change	**4G2: Operating Budget Utilization** **4G2A Operating Spend Management (Finance Committee)** **Description:** Manage the District's operating expenditures against the approved operating budget not inclusive of the Management Oversight account. **Metric:** Annualized operating spend / approved operating budget (%): **Performance Scale:** 5 = 98.1 – 100.0% collective spend 4 = 95.1 – 98.0% or 100.1 – 101.0% collective spend 3 = 90.1 – 95.0% or 101.1 – 103.0% collective spend 2 = < 90.0% or 103.1 – 105.0% collective spend 1 ≥ 105.1% collective spend	**4G3: Strategic Business Plan CSF Initiatives Completion** **4G3A BP2025 CSF4 Initiatives Completion (Infrastructure/Finance Committee)** **Description:** Complete planned activities under Blueprint 2025 critical success factor area 4 **Metric:** Successful completion of FY22 Critical Success Factor 4 (CSF4) initiatives / total planned CSF4 initiatives (%) **Performance Scale:** 5 ≥ 90.0% collective completion 4 = 80.0 – 89.99% collective completion 3 = 70.0 – 79.9% collective completion 2 = 60.0% – 69.9% collective completion 1 ≤ 59.9% collective completion **4G3B BP2025 CSF5 Initiatives Completion (Infrastructure/Finance Committee)** **Description:** Complete planned activities under Blueprint 2025 critical success factor area 5 **Metric:** Successful completion of FY22 Critical Success Factor 5 (CSF5) initiatives / total planned CSF5 initiatives (%) **Performance Scale:** 5 ≥ 90.0% collective completion 4 = 80.0 – 89.99% collective completion 3 = 70.0 – 79.9% collective completion 2 = 60.0% – 69.9% collective completion 1 ≤ 59.9% collective completion

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Exhibit 7: *MSD Community Benefits Statement of Understanding*

Safe, clean waterways
700 West Liberty Street | Louisville, KY 40203-1911
Phone: 502.540.6000 | LouisvilleMSD.org

THIS FORM SHALL BE COMPLETED AND NOTARIZED BY AWARDED FIRM AND SUBMITTED WITHIN 14 CALENDAR DAYS OF NOTICE OF AWARD.

MSD COMMUNITY BENEFITS PROGRAM
STATEMENT OF UNDERSTANDING

The Firm must acknowledge in their CB Submittal that they understand the following statements:

- All instructions for the CB Submittal have been followed.
- Any of the CB Commitments that the Firm voluntarily commits to should directly benefit the communities, neighborhoods, and/or residents served by or impacted by MSD.
- CB Commitments must support nonprofit, charitable, or related activities.
- CB Commitments shall not go to, nor benefit, any Public Official, MSD Board member or employee, or otherwise conflict or violate provisions of MSD Ethics Policy.
- CB Commitments are separate from and in addition to any regulatory or legal requirements related to the Agreement.
- CB Commitments must be delivered at zero dollar cost to MSD.
- The total commitment amount listed in the Community Benefits Summary Table in the final Agreement is considered binding.
- Failure of the Firm to meet its contractual obligation of the community benefits commitment will result in the firm being assessed a penalty equal to 2% of the total awarded contract amount or up to the maximum percentage committed determined at bidding, whichever is greater. MSD reserves the right to determine the appropriate penalty to be applied. The amount of the penalty collected and/or assessed will be made payable to the beneficiary identified in your community benefits plan.
- Only activities commenced after the first NTP for this Agreement is issued will count towards the fulfillment of Firm's CB Commitments.
- Firm commits to complying with MSD's reporting requirements.
- Firm commits to the Terms and Conditions set forth in this section and in the Agreement.

IN WITNESS WHEREOF, the undersigned has affixed his/her signature this _____ day of _____, 20 _____, on behalf _____
(Company Name)

_____
(Signature)

Title: _____
Date: _____

STATE OF _____

[Recipient Name]
[Date]
Page 2

COUNTY OF _____

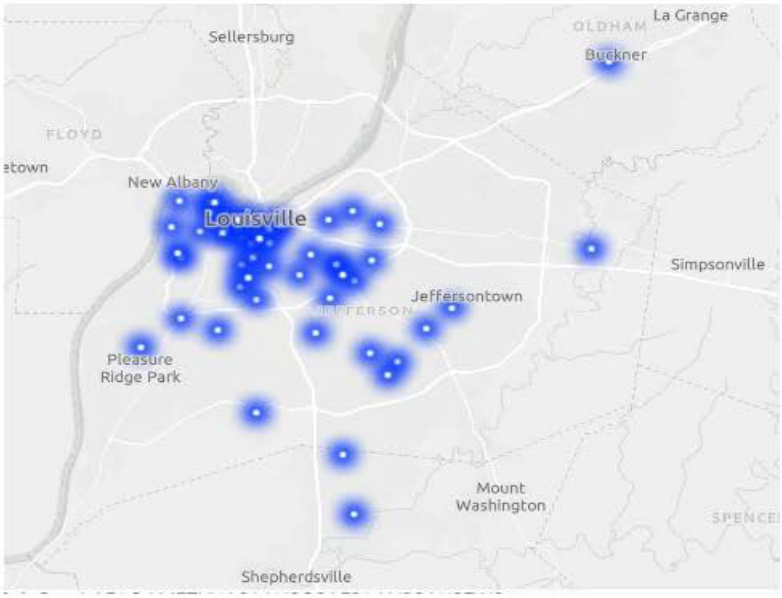
WITNESS my hand this _____ day of _____, 20 _____.

My commission expires: _____

Notary Public: _____

Exhibit 8: *Impact Areas from the Louisville MSD Community Benefits Program*

This map shows the geographic reach of MSD's Community Benefits Program and the tangible projects that are positively impacting Louisville MSD's service area.



Allison Ball
Auditor of Public Accounts

2026 Louisville Metropolitan Sewer District Special Examination

