

Executive Brief

October 2026 Examination of The Louisville Metropolitan Sewer District

Background

Louisville and Jefferson County Metropolitan Sewer District (MSD) has been engaged in a formal limited scope examination to review certain financial and operational activities. The special examination engagement began May 2025 and ended October 2026.

The final report is posted to the Auditor of Public Accounts website and can be found here: [October 2026 Examination of The Louisville Metropolitan Sewer District](#)

In addition, Louisville MSD has created a public webpage with the links above and additional information: <https://louisvillemsd.org/transparency>.

Purpose:

The purpose of this Executive Brief is to give a high-level overview of key information included in the special examination report and references to MSD's response as applicable.

It should be noted that MSD's response does not address all findings in the special examination report. Per KRS 43.090(1), MSD has sixty days from the completion of the final examination report to respond with its actions to implement or not implement the recommendations listed in the report.

While observations are not findings and do not require formal corrective action, MSD chose to respond to some observations where appropriate to provide additional information.

MSD Response + Exhibits



Safe, clean waterways

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 discreetly 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,

A handwritten signature in blue ink, appearing to read "James A. Parrott".

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

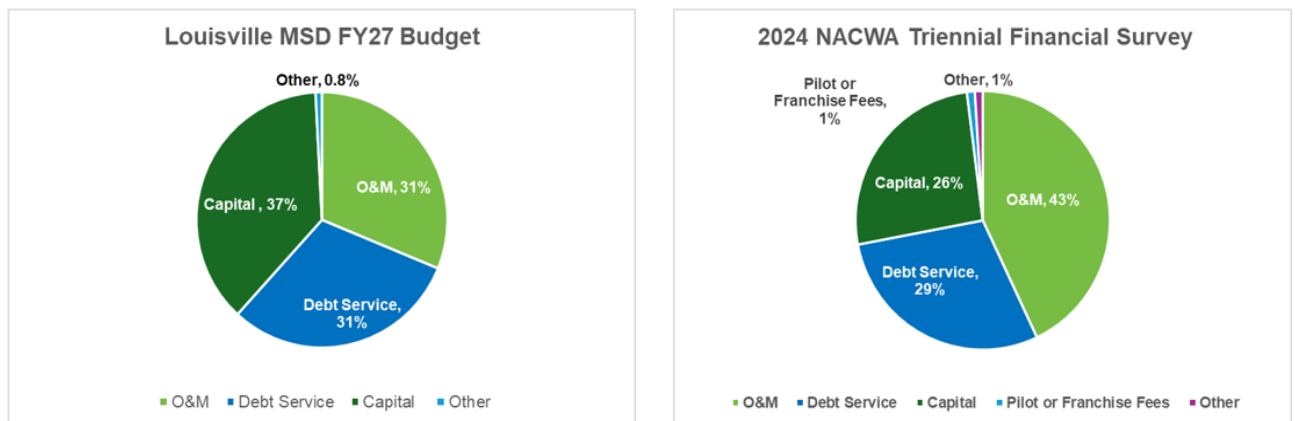
The [2024 National Association of Clean Water Agencies \(NACWA\) Triennial Financial Survey](#) was published in September 2024. Since 1981, NACWA has performed a triennial financial survey of its membership to provide utilities, government officials, and the public, a comprehensive knowledge base on 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



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.

Honorable Greg Fischer
Honorable David James
MSD Preliminary Rate Resolution
May 24, 2022
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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.

Honorable Greg Fischer
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MSD Preliminary Rate Resolution
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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,

A handwritten signature in blue ink, appearing to read "James A. Parrott".

James A. Parrott
Executive Director

Enclosure – MSD Preliminary FY 2023 Rate Resolution

cc: Metro Council Members
Metro Council Assistants
MSD Board Members



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 its 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
Page 3

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 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.

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 Levees/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

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 adequate information Metric: A random sampling of calls are scored by a member of the Call Quality Department Performance Scale: 5 ≥ 90.0% 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 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 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 within 14 days of receipt. Metric: Percent of development plan submittal reviews completed within 14 days of receipt <u>and</u> 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

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 – 89.9% collective completion 3 = 70.0 – 79.9% collective completion 2 = 60.0 – 69.9% collective completion 1 ≤ 59.9% collective completion

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 – 89.9% 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 – 89.9% collective completion 3 = 70.0 – 79.9% collective completion 2 = 60.0% – 69.9% collective completion 1 ≤ 59.9% collective completion

Exhibit 7: MSD Community Benefits Statement of Understanding



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

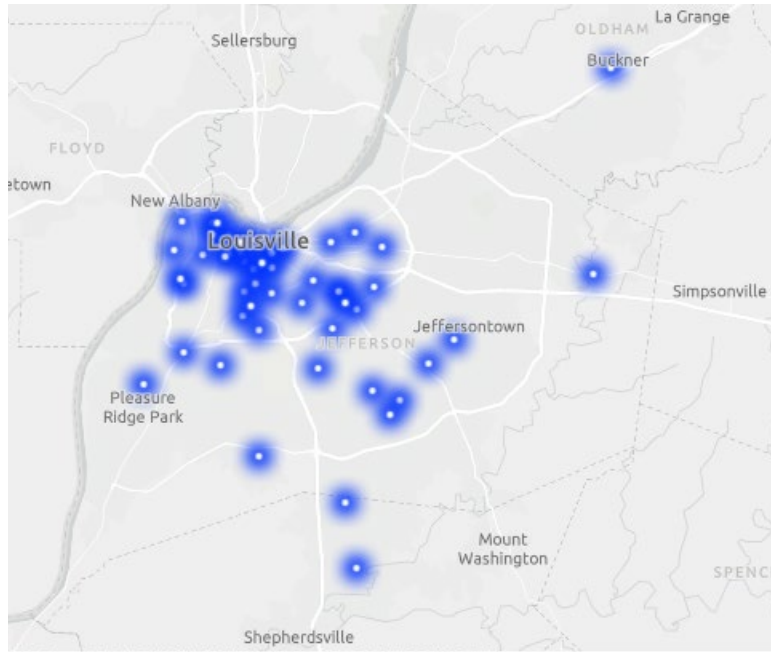
20

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.



Index: Special Examination Observations, Findings and Related Recommendations

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

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

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

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

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

Observation 6: MSD Debt Service Requirements Are Consistently Increasing

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

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

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

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

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

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. (Pg 29)

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

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. (Pg 30)

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

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. (Pg 32)

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

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. (Pg 33)

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

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. (Pg 34)

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

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. (Pg 37)

Finding 7: Ratepayer Funds Were Used On Unnecessary Expenditures

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. (Pg 38)

Finding 8: MSD Travel Justification Forms Were Consistently Incomplete

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. (Pg 39 – 40)

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

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. (Pg 41)

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

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. (Pg 42)

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

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. (Pg 52)

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

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. (Pg 53)

The following is a summary of the Special Examination report. Page numbers are included as reference to the complete report on the State Auditor's Office website.

Chapter 1: Introduction and Background

Examination period and scope of work:

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 (Pg 3).

Examination program:

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? (Pg 4)

Report Structure:

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 (Pg 4).

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 (Pg 4).

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 (Pg 5).

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 (Pg 5).

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 (Pg 5).

Chapter 2: Financial Summary and Trends

Note: Auditors cited "Source: APA based on MSD's ACFRs" in the report.

Beginning on page seven, the auditors noted that "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."

The auditors also noted that MSD's "wastewater and drainage service charges supported operating revenues, which increased throughout the three-year period" as expenses increased (Pg 7). Chapter 2 also notes that "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 conditions while meeting its long-term service and regulatory requirements (Pg 7)."

Chapter 2 details MSD financials throughout the following sections: Financial Net Position, Revenues and Expenses, Payroll, Assets, and Liabilities. Each section provides information including charts and graphs. The chapter ends with "A Look Ahead" stating "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." (Pg 15)

Chapter 3: Exploration of Ratepayer Concerns

Examination Program – Question 1: *Why are rates increasing?*

MSD has grouped these items as “Industry Overview and Regulatory Requirements.”

- Observation 1: **Wastewater Infrastructure Funding And Rate Increases Are National Issues**
 - Key points from report
 - Auditor’s office used “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” (Pg 16) and data provide by the Environmental Protection Agency.
 - 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% (Pg 17).
 - 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 (Pg 18).
- Observation 2: **MSD Is Required To Commit Significant Resources To Comply With Regulatory Requirements Including The Consent Decree**
 - Key points from the report:
 - 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 (Pg 19).
 - 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 (Pg 19).
 - 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 (Pg 19-20).

- **Observation 3: The Second Amended Consent Decree Was Used To Justify Increasing Rates**
 - Key points from the report:
 - 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 (Pg 23).
 - 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.” (Pg 24)
 - 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 (Pg 24).

MSD has grouped these items as “MSD Employees.”

- **Observation 4: MSD Operates A Public Corporation While Utilizing Practices Commonly Associated With A Private Entity**
 - Key points from the report:
 - 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. (Pg 25)
 - 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. (Pg 25)
- **Finding 1: MSD Provided Significant Incentive Pay (Bonuses) To Employees Totaling Over \$6 Million From Calendar Years 2022 Through 2025**
 - Key points from report
 - 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. (Pg 26)

- 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. (Pg 28)
- 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. (Pg 28)

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

- Key points from the report:
 - 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. (Pg 29)
 - 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. (Pg 30)

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

- Key points from the report:
 - 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. (Pg 30)
 - 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. (Pg 30)

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

- Key points from the report:
 - 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. (Pg 32)
 - 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.” (Pg 32)
 - 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. (Pg 32)

MSD groups these items as “Spending.”

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

- Key points from the report:
 - 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. (Pg 25)
 - 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. (Pg 25)

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

- Key points from report:

- 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. (Pg 33) The chart breakdown is also on page 33.
 - 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. (Pg 34)
- **Finding 6: MSD Policy Allows For Monetary Payments Or In-Kind Contributions To Non- Profit Organizations**
 - Key points from the report:
 - 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. (Pg 34)
 - The auditors cite MSD donations to the Louisville Water Foundation to support customer assistance programs (Pg 35); Goodwill Industries bathroom "naming right" to build brand awareness (Pg 36); Olmsted Parks sponsorship breakfast to support fundraising (Pg 36); and, subsidizing the MSD Cares employee campaign (Pg 36 – 37).
- **Finding 7: Ratepayer Funds Were Used On Unnecessary Expenditures**
 - Key points from the report:
 - The auditors noted that ratepayer funds were used to purchase food and drinks for MSD employees and equipment for MSD's volunteer Honor Guard (Pg 37).
- **Finding 8: MSD Travel Justification Forms Were Consistently Incomplete**
 - Key points from the report:
 - MSD employees attend several conferences, meetings, and training sessions annually. (Pg 38)
 - 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." (Pg 38)
 - During the examination period, credit card statements were scanned, and 26 travel specific transactions were sampled. Auditors noted exceptions such as not finding

documentation to support two transactions and incomplete travel justification forms (Pg 38 - 39).

- 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. (Pg 39)
- 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. (Pg 39)

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

- Key points from the report:
 - MSD has written procurement regulations referencing 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. (Pg 40)
 - The auditors noted questionable purchases from their testing sample including lunch provided to employees (\$604); Personality tests (\$406), Airport coffee carafes for employees (\$194), and several other examples. (Pg 40 – 41)
 - 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. (Pg 41)

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

- Key points from the report:
 - 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. (Pg 41)
 - 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." (Pg 42)

- The auditors noted additional concerns regarding the loan to Five Cities Plus, Inc. including the MSD Executive Director was President and two MSD employees were on the board. (Pg 42)
- 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. (Pg 42)

Examination Program – Question 2: *Did MSD follow procedure for rate increases?*

MSD uses “Rates” for this item. Observation 3 also discusses rates and has related information to Observation 5.

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

- Key points from the report:
 - 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. (Pg 43)
 - 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. (Pg 43)
 - 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. (Pg 43)
 - 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. (Pg 45)

Examination Program – Question 3: *What is the current outlook of debt obligations?*

MSD groups these items as “Debt Obligations and Financial Metrics.”

- Observation 6: **MSD Debt Service Requirements Are Consistently Increasing**
 - Key points from the report:
 - 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. (Pg 46)
 - 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. (Pg 48)
- Observation 7: **MSD’s Financial Model And Debt Service Metrics Suggest Adequate Short- Term Resources Yet Reveals Potential Long-term Concerns**
 - Key points from the report:
 - 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. (Pg 48)
 - 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. (Pg 48)
 - The auditor discusses several financial metrics for MSD including debt service coverage ratio, debt to operating revenue, and cash on hand (Pg 48 – 49)
 - 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. (Pg 50)

Examination Program – Question 4: *Is MSD following proper procurement requirements?*

MSD groups these items as “Procurement Processes.”

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

- **Observation 9: Construction Contracts Often Preferred Best Value Over Best Price In Accordance With Industry Standard**
- **Finding 11: Documentation To Support Sole Source Procurements And Contract Modifications Was Inadequate For The Contracts Tested**
 - Key points from the report:
 - 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. (Pg 51)
 - In two instances, MSD relied on vendor submitted information to justify awarding a sole source contract instead of conducting and documenting its own evaluation. (Pg 51)
- **Finding 12: MSD Did Not Adequately Monitor, Evaluate, And Document Vendor Performance**
 - Key points from the report:
 - 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. (Pg 52)
- **Observation 10: MSD's Community Benefits Program Could Be Contributing To Higher Contract Costs While Limiting Competition**
 - Key points from the report:
 - 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." (Pg 53 – 54)
 - 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. (Pg 54)

- 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 community¹. (Pg 54)
 - 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. (Pg 54)
- MSD is utilizing the CBP to further its brand beyond its core mission of providing sewer services and flood control. (Pg 55)
- 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. (Pg 56)

Chapter 4: Solutions

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. (Pg 56)

The auditors detailed three solutions in this chapter. Below are examples of information included in each:

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. (Pg 56)
- 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. (Pg 56)

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." (Pg 56)
- 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. (Pg 56)

- 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. (Pg 56)

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. (Pg 57)
- 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. (Pg 57)

The complete special examination contains exhibits as support for multiple areas throughout the report.