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MEDIA ADVISORY
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MSD Begins Response to Kentucky Auditor's Special Examination, Confirming Transparency, Efficiency and Responsible Stewardship

LOUISVILLE, KY – The Louisville/Jefferson County Metropolitan Sewer District (MSD) today announced its initial response to Kentucky State Auditor's Office's special examination of MSD financial practices and policies from 2022 to 2025. The utility that provides wastewater, stormwater and flood protection services will complete its formal response to the examination over the next 60 days.

"We are confident in our performance, internal audit controls and financial position, and have collaborated intently with the Auditor's Office over the past several months," said MSD Executive Director Tony Parrott. "Providing three utility services through one organization allows MSD to maximize efficiency and effectiveness of services that protect the health, safety and quality of life of the communities we serve. We look forward to providing additional context to the examination's findings and sharing the areas MSD had previously identified through internal reviews and is already working to address as part of our ongoing efforts to improve how we serve the changing needs of our customers and communities."

MSD provided several facts that provide context to the organization's financial operations and performance:

- MSD's operations and maintenance budget is 12 percent lower than the national average for similar services, according to the triennial financial survey of the National Association of Clean Water Agencies (NACWA).
- In the most recent operating budget, only 5 cents of every dollar goes toward administrative costs.
- Over the past two fiscal years, the agency has cut $10 million from its operating budget, including the removal of 36 positions, as part of ongoing efforts to maintain efficiency and limit impacts to the communities we serve.
- 87% of MSD's capital budget goes to projects required to keep our community in compliance with clean water standards and sewer overflow reduction requirements of federal and state government. Not completing these projects results in fines and penalties.
- MSD's past two budget years have included the lowest annual rate increase in 20 years.
- Since 2020, MSD has delivered $1.3 billion in new infrastructure to protect the community while adding just $384 million in debt.

- MSD consistently pursues funding opportunities that reduce costs and lessen the amount of capital improvement costs carried by ratepayers. 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's financial management helps maintains strong credit ratings with Moody's and S&P, which helps moderate interest rates and reduce the long-term costs of critical capital improvements.

In its initial response letter this week, MSD provided information and documentation to address key findings and observations included in the special examination, including:

Debt Management
The examination noted that "MSD has maintained a strong financial position through 2025," and references that MSD "balanced substantial infrastructure investment and debt financing with steady revenue growth" (rate increases). Financing capital improvements over time helps align the cost of assets with the generations of customers who benefit from them and allows MSD 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. Over the past ten years, however, MSD has consistently increased pay-as-you-go funding from 5 percent to 22 percent in this most recent budget year, with the target goal of achieving 25 percent.

Rate Setting
Rate increases are needed to continue the necessary capital improvements to comply with the consent decree with the U.S Environmental Protection Agency and the Department of Justice that require MSD to reduce hazardous sewer overflows that occur during heavy rains. Not meeting the requirements of the consent decree would result in fines and legal action costing ratepayers. While the federal government requires many cities to achieve these overflow reductions it has provided no funding to accomplish the work. The auditor's examination notes a NACWA study projecting that wastewater service rates around the country are projected to increase from 4.5 percent to 5.6 percent between 2025 and 2028.

In its initial response, MSD's provided documentation to affirm it has followed the proper processes to collaborate with the mayor's office and the Louisville Metro Council in setting its rates. In addition, MSD's response clarifies that between June and September 2026, the Metro Council proposed a change to MSD's rate-setting ability and, after its review of the process, the Council voted to amend the ordinance to only change the notification and communication process and maintain the current rate-setting ability.

Community Benefits Program
MSD clarified information regarding its Community Benefits Program that leverages large-scale construction and professional services contracts for positive economic, environmental, and social impacts on the community. 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. 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. Participating firms must affirm their commitments are delivered at zero-cost to MSD or ratepayers. The program has strengthened neighborhoods where MSD infrastructure is critical to quality of life, supported STEM learning to build future environmental workforce, and enhanced public spaces to reduce environmental stressors.

Progress Already Made
A number of findings in the special examination reflect policy areas MSD has already evaluated, or is in the process of evaluating, and addressing:

- Internal review of Fleet Services division to evaluate the vehicle stipend program; began in February 2026 and the results will be shared with the Auditor's office
- Updating of the Travel and Meals policy; approved by MSD Board in March 2026
- MSD's internal audit plan now includes an annual review of the procurement card usage; to be shared with the MSD Audit Committee and full MSD Board
- MSD Procurement Department is ensuring all documentation is complete prior to processing change orders
- Implementation of a vendor-performance evaluation tool is in process
- Pay equity analyses and third-party review of job descriptions, completed in 2017 and 2023
- Review underway of MSD performance pay structure and process

Regarding compensation
MSD relies on market data and a third-party human resources consultant, Mercer, in setting compensation structures that are competitive with comparable roles and functions in other markets. MSD provides three utility services in one organization, providing an extensive and critical scope of services managing a budget of $750 million annually to protect 800,000 residents across not just Louisville, but Bullitt and Oldham Counties as well. As such, many roles entail a significant level of expertise in engineering, water quality, public health and safety, financial management or other disciplines where it is vital for MSD to attract and retain qualified leadership with the appropriate skills and expertise.

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About MSD
The Louisville/Jefferson County Metropolitan Sewer District (MSD) works to achieve and maintain clean, environmentally safe waterways for a healthy and vibrant community. The organization's employees provide wastewater management, drainage and flood protection services across the 376 square miles of Louisville Metro, and wastewater service in portions of Bullitt and Oldham counties. In addition to operating and maintaining Louisville Metro's sewer system, floodwall system, water quality treatment centers and flood pumping stations, MSD invests in hundreds of infrastructure improvement projects each year, plants more than 1,000 trees and other vegetation annually to enhance water filtration and reduce runoff, and provides numerous outreach programs to inform and educate the community about protecting our waterways.