MSD Response:

Ordinance 50.24 Proposal

August 04, 2026

Louisville Metro Council

Government Oversight & Accountability Committee Meeting

msd

Safe, clean waterways

MSD History: Core Services+

- **1946**: MSD created by state statute as a wastewater entity
- **1986**: Louisville Metro Government (LMG) and MSD entered into Memo Of Understanding (MOU) for MSD to takeover stormwater and drainage management and the flood protection system
  - No staffing or funding associated with services
  - MOU states MSD will fund services through rates and charges
- MSD is also responsible for executing Louisville Metro Council (LMC) ordinances:
  - Hazardous Materials Ordinance (1986)
  - Erosion Prevention and Sediment Control Ordinance (1994)
  - Floodplain Ordinance (1997)

msd
Safe, clean waterways

MSD Governance and Oversight

- State statute dictates MSD board requirements
  - Eight-member board chosen by state senatorial districts
  - Appointed by the Mayor subject to approval of Louisville Metro Council
  - MSD does not participate in process
- MSD is responsible for adhering to all applicable federal, state and local laws, industry standards, ordinances.
- MSD's consent decree and other regulatory obligations require formal and informal engagements with federal and state authorities.

msd Safe, clean waterways

MSD's Federal Consent Decree

- **2005**: MSD, EPA, DOJ, and Commonwealth of Kentucky entered into consent decree
  - Legally binding agreement requires MSD to reduce sewer system overflows by completing certain projects under a specific timeline
  - Used by regulators to monitor large-scale and long-term compliance with the Clean Water Act to protect public health and the environment
- **2009**: EPA, DOJ, and MSD negotiated an Amended Consent Decree to clarify, amend, and expand provisions in the original Consent Decree from 2005
  - All parties acknowledged the original consent decree would need to be amended when negotiating in 2005.

msd
Safe, clean waterways

MSD’s Federal Consent Decree

- **2016**: MSD presented preliminary findings and funding needs from Critical Repair and Reinvestment Plan (CRRP) to LMC Budget Committee
    - Focused on infrastructure improvements, maintenance and operation of facilities based on consent decree
- **2017:** MSD asked for 20% rate increase to accomplish (CRRP) and Consent Decree requirements simultaneously; rate increase denied
- **2018:** MSD asked for three consecutive 10% rate increases to accomplish (CRRP) and Consent Decree requirements simultaneously; rate increase denied

msd Safe, clean waterways

MSD's "Ask" of the Regulators

1. Extend final completion by 18 months for the Waterway Protection Tunnel (June 2022)
2. Revise requirement to eliminate, capture, and treat 98% of CSOs per Typical Year to 95% to match updated model results
3. Extend final completion for remaining SSDP projects until December 2035 to allow MSD to address other priorities (Biosolids & Paddy's Run PS)

MSD has been working with the Regulators for the past 18 months.

MSD’s Federal Consent Decree

- **2019-2022:** MSD, EPA and DOJ negotiated Second Amended Consent Decree
- EPA developed integrated planning approach that allowed MSD to include additional projects to support work that had already been completed to prevent overflows
- Second amendment was necessary to account for needs for other assets such as the flood protection system and extend timelines for required projects.
- 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.

msd
Safe, clean waterways

Proposed Changes to 50.24

- Change current 7% to the percentage change in CPI plus 1 %
  - This would equate to an estimated rate increase of 2% to 4%.
- The proposed change reduces MSD’s independent rate-setting flexibility.
- At the same time, capital requirements remain driven by regulatory obligations, construction costs, debt markets, and system needs - not CPI alone.

msd Safe, clean waterways

Impact Area:
Infrastructure Project Impacts

- CPI + 1% is approximately 2% - 4% annual rate increase
  - Upper Middle Fork project to mitigate illegal sanitary sewer overflows impacting St. Matthews to the Highlands would be delayed
  - Floyds Fork Interceptor Project to support economic growth while protecting the watershed will continue to be delayed
  - No expansion of treatment plans to support growth in eastern Jefferson County

msd
Safe, clean waterways

Impact Area:
Infrastructure Project Impacts

- CPI + 1% is approximately 2% - 4% annual rate increase
  - No upgrades to flood pump stations which protect 280K people, Churchill Downs, UL, Airport, UPS, Ford, downtown
  - No funding for Project DRI (Drainage Response Initiative)
  - No funding for emergency projects (average $12M annually)
  - No funding for odor mitigation through catch basin replacement program

msd
Safe, clean waterways

Catch Basin Replacement Project

- Based on APCD Agreed Order for odor mitigation
- 355 replacements since 2023
- Current work focused in Chickasaw
- Russell project is unfunded
- Odor complaints have reduced an average of 16% annually since 2023

Neighborhood	# Identified for Replacement	# Replaced	% Complete	Total Expenditure
Park DuValle	20	20	100%	$0.27M
California	72	72	100%	$1.158M
Shawnee	176	178	100%	$3.11M
Taylor Berry	14	14	100%	$0.18M
Nulu	19	19	100%	$0.35M
W. Main St	9	9	100%	$0.14M
Park Hill	177	22	12%	$0.30M
Chickasaw	69	21	30%	$0.175M
Russell	641	0	0%	$15.0M
Totals:	**1,197**	**342**	**62%**	**$22.06M**

Impact Area:
LMG and LMC Impact

- If our rates are further restricted, the ability to continue to administer LMC ordinances and provide LMG sewer service will be impacted.
  - Hazardous Materials, Erosion Prevention and Sediment Control, Floodplain Ordinances
  - MSD provides Louisville Metro Government free sewer service which equates to $9M for FY27.

msd
Safe, clean waterways

Impact Area:
Financial

- Restricting our rates to CPI + 1% results in lower levels of capital spending, higher levels of debt, and lower financial metrics which will lead to a ratings downgrade.
- Negative impact to MSD's bond ratings
  - Introducing proposal alerts rating agencies
  - Moody's and S&P indicate risk associated with failure to receive timely or sufficient rate increases
- Each notch of a ratings downgrade is estimated to cost ratepayers an additional $10M - $20M

msd
Safe, clean waterways

Moody's Rating Impact

- Rate Management is worth 10% of overall scorecard
- Length of time to implement a rate increase is embedded in the score noting utilities that require outside approval may face delay, objection or partial denial.

2025 Ratings Report:

Factors that could lead to a downgrade

» Significant increase in debt to revenues

» Substantial decrease in coverage nearing 1.5x or liquidity below 300 days cash on hand

» Failure to implement timely rate increases or to meet consent decree deadlines

Safe, clean waterways

S&P Rating Impact

- S&P views 7% cap as negative already

2025 Ratings Report:

"In our view, the MSD's governance factors have increased risk, as rate increases above 7% must be approved by the Louisville & Jefferson County Combined Government's 26-member council, which historically has not allowed larger rate increases. This risk is somewhat mitigated by the district's board ability to still approve rate hikes up to 7% and the district's strong and conservative management planning and policies."

msd
Safe, clean waterways

Key Financial Metrics

MSD Metrics

Metric	FY25 Actual	FY26 Forecast	FY27 Budget	5-Year Plan
Total Debt Service Coverage	193%	181%	155%	145-155%
Pledged Debt Service Coverage	225%	211%	184%	176-210%
Days Cash on Hand	377	353	345	302-324

Moody's Scorecard Metrics

Metric	FY24 Published	FY25 Estimate	FY26 Estimate	FY27 Estimate	5-Year Estimate
Debt Service Coverage	180%	1.9%	1.8%	1.5%	1.4-1.5%
Debt to Operating Revenue	5.7%	5.3%	5.2%	4.9%	4.4-4.8%
Days Cash on Hand (Liquidity)	307	366	326	302	265-302

- The FY27 rate supports MSD’s financial policies and the financial metrics recognized by the rating agencies.
- Based on Moody’s last rating report, coverage below 1.5 can lead to a downgrade.

msd Safe, clean waterways

Impact Area:
Board Oversight and Consent Decree Impact

- LMC becomes MSD's governing authority and would be responsible for overseeing MSD's annual budget development and approval process (January through July) as well as finance committee meetings throughout the year.

- 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.

msd
Safe, clean waterways

Impact Area:
Consent Decree Language Triggers

Any denial of rate increases MSD proposes will trigger language in Section 58 of the consent decree.

"In the event of a Denied Rate Action, despite MSD using its best efforts to seek and obtain such approval, the Cabinet and EPA may move the Court to exercise its inherent authority under the CWA and other laws to ensure compliance with the Court's order and the protection of public health and the environment by ordering such actions as may be necessary, including the imposition of rate increases that MSD determined are necessary to enable MSD to comply with this Second Amended Consent Decree and including ***ordering the Louisville/Jefferson County Metro Council to approve all necessary rate increases****.* ***MSD shall not take any action that could reasonably be construed to be in opposition to such a motion by the Cabinet and EPA.*** *The Cabinet and EPA hereby reserve all of their rights to take any other action under the law so as to ensure compliance with the CWA, KRS Chapter 224 and this Second Amended Consent Decree that are not inconsistent with this paragraph…*

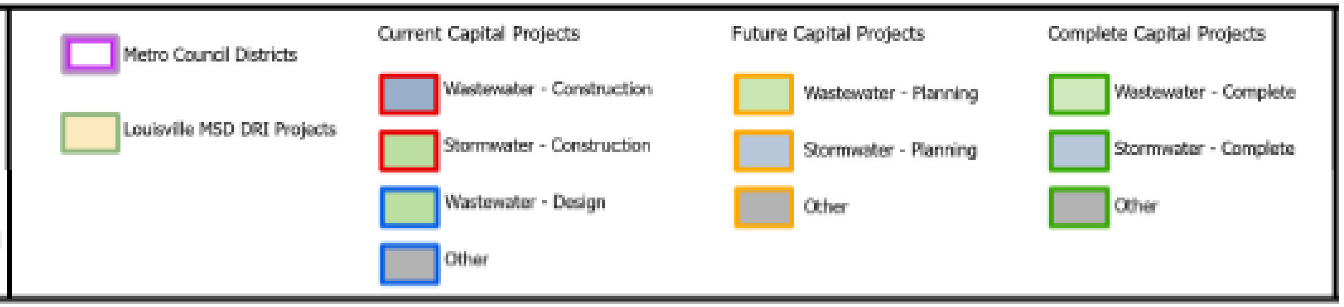
msd
Safe, clean waterways

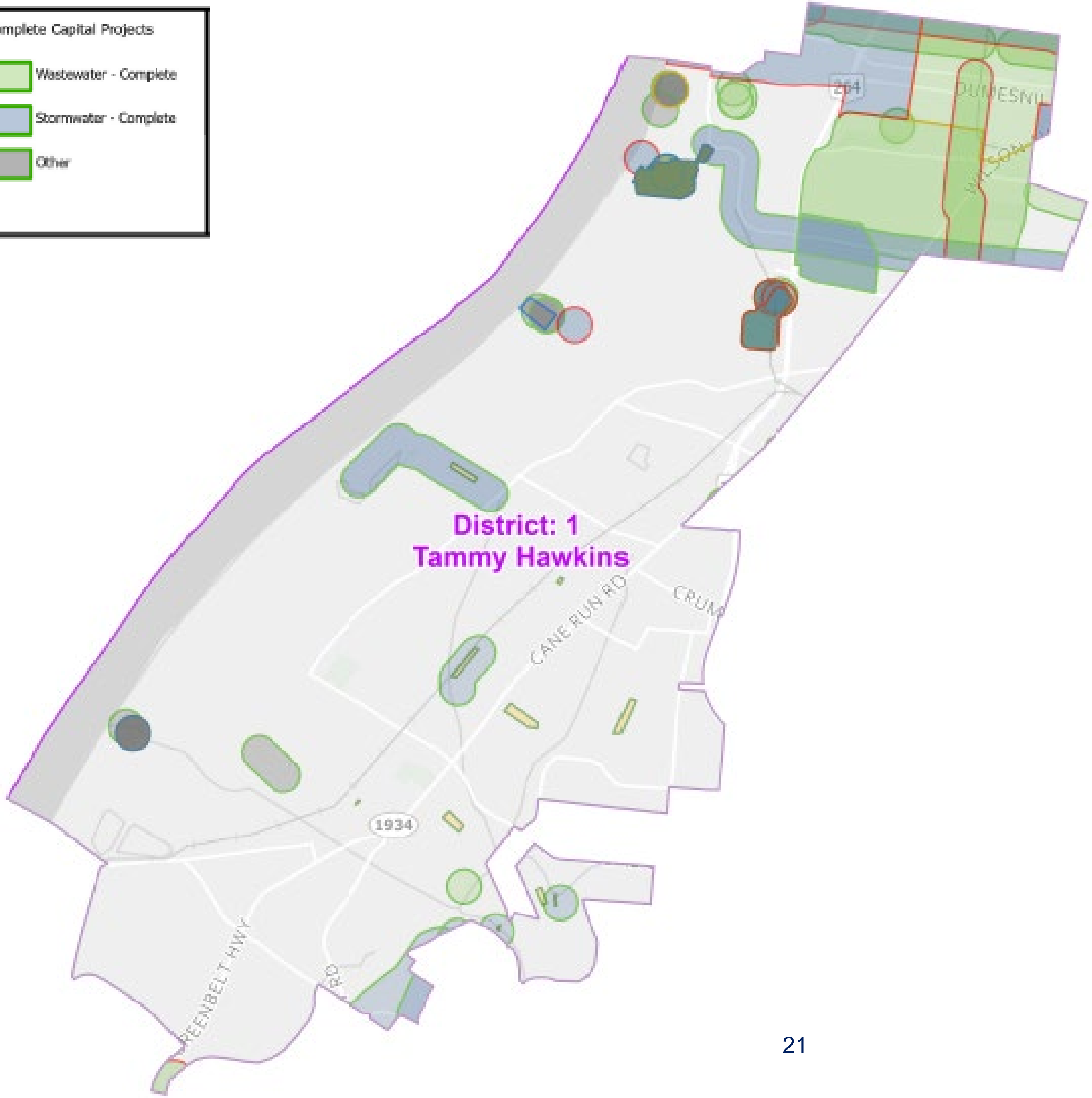
Impact Area:
Consent Decree Language Triggers

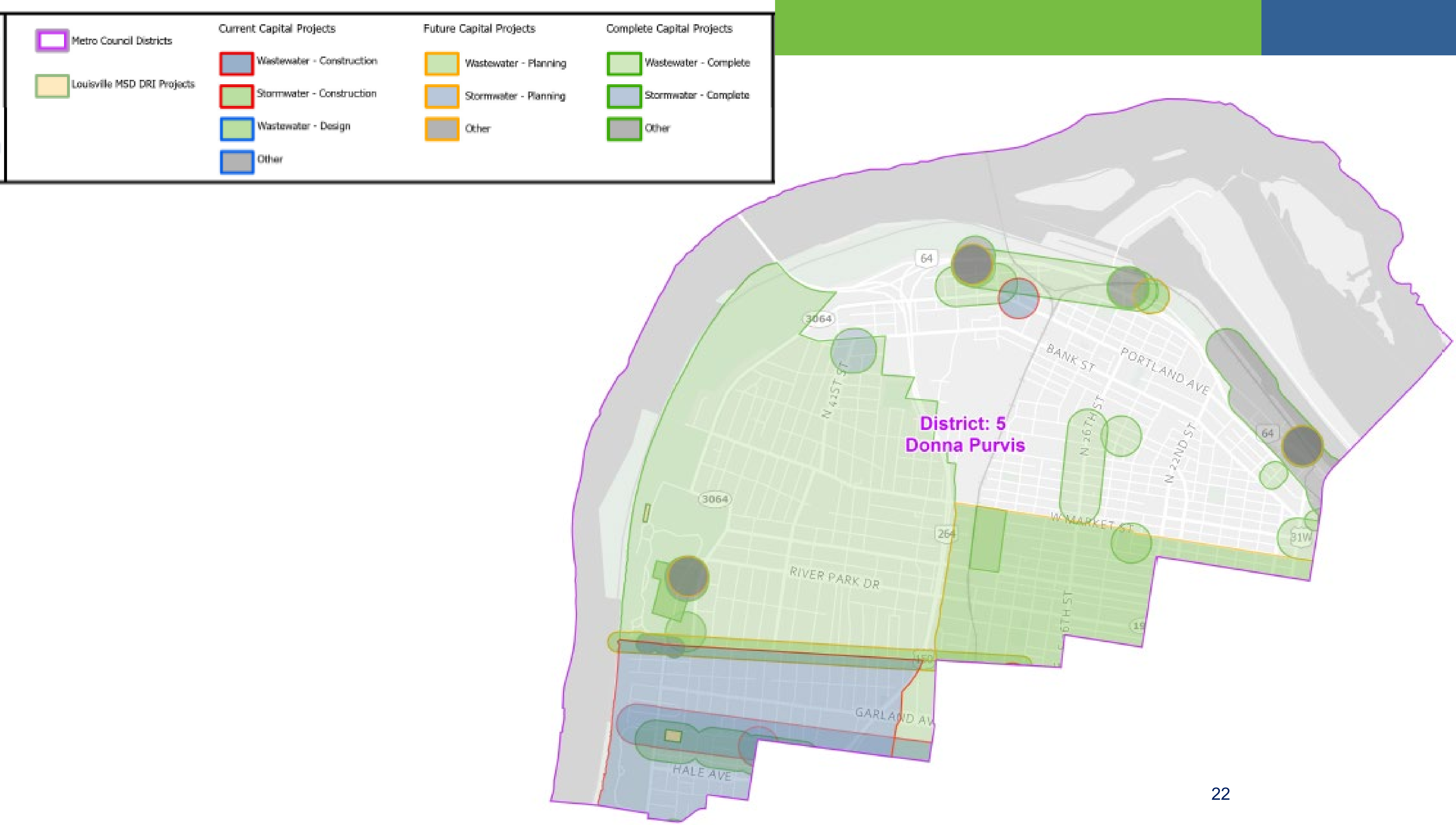
- MSD must use its best efforts to seek approval for anything over 7% (or CPI + 1% based on the proposal) that MSD determines are necessary to comply with the Consent Decree
- MSD shall notify the Cabinet and EPA within 15 days of the Denied Rate Action with an explanation of the denied rate action, rate increase justification, a description of its best efforts
- MSD shall continue to perform its obligations under the consent decree
- The Cabinet and EPA may move the court to order LMC to approve all necessary rate increases
- If the denials and enforcements continue, the EPA can take over MSD and Louisville will lose all local authority and oversight.

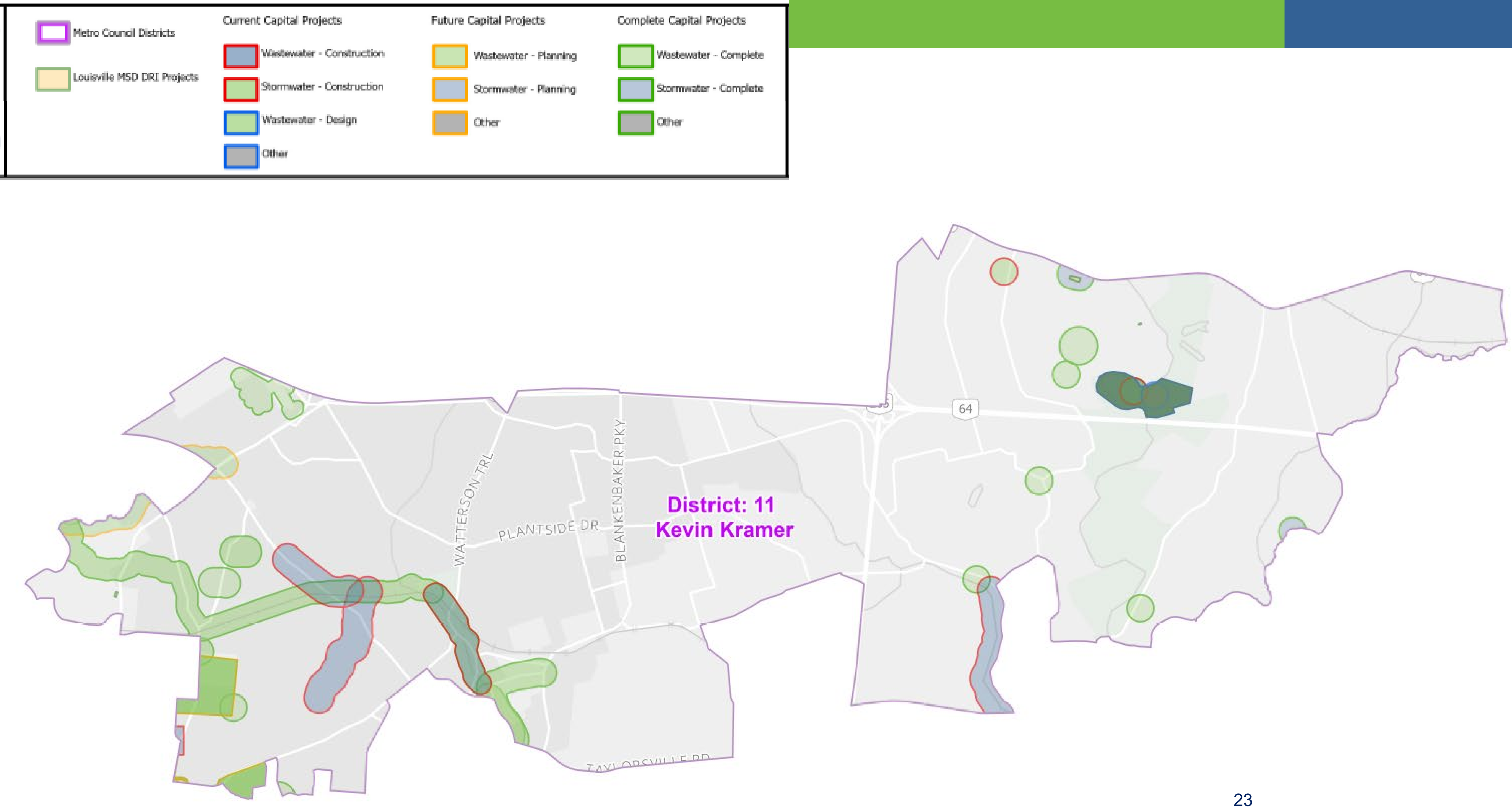
msd Safe, clean waterways

Questions


Metro Council Districts
Louisville MSD DRI Projects
Current Capital Projects
Wastewater - Construction
Stormwater - Construction
Wastewater - Design
Other
Future Capital Projects
Wastewater - Planning
Stormwater - Planning
Other
Complete Capital Projects
Wastewater - Complete
Stormwater - Complete
Other


District: 1
Tammy Hawkins
CANE RUN RD
1934


Metro Council Districts
Louisville MSD DRI Projects
Current Capital Projects
Wastewater - Construction
Stormwater - Construction
Wastewater - Design
Other
Future Capital Projects
Wastewater - Planning
Stormwater - Planning
Other
Complete Capital Projects
Wastewater - Complete
Stormwater - Complete
Other
District: 5
Donna Purvis
BANK ST
PORTLAND AVE
N 43ST ST
N 26TH ST
N 22ND ST
W MARKET ST
RIVER PARK DR
GARLAND AV
HALE AVE
64
3064
264
31W

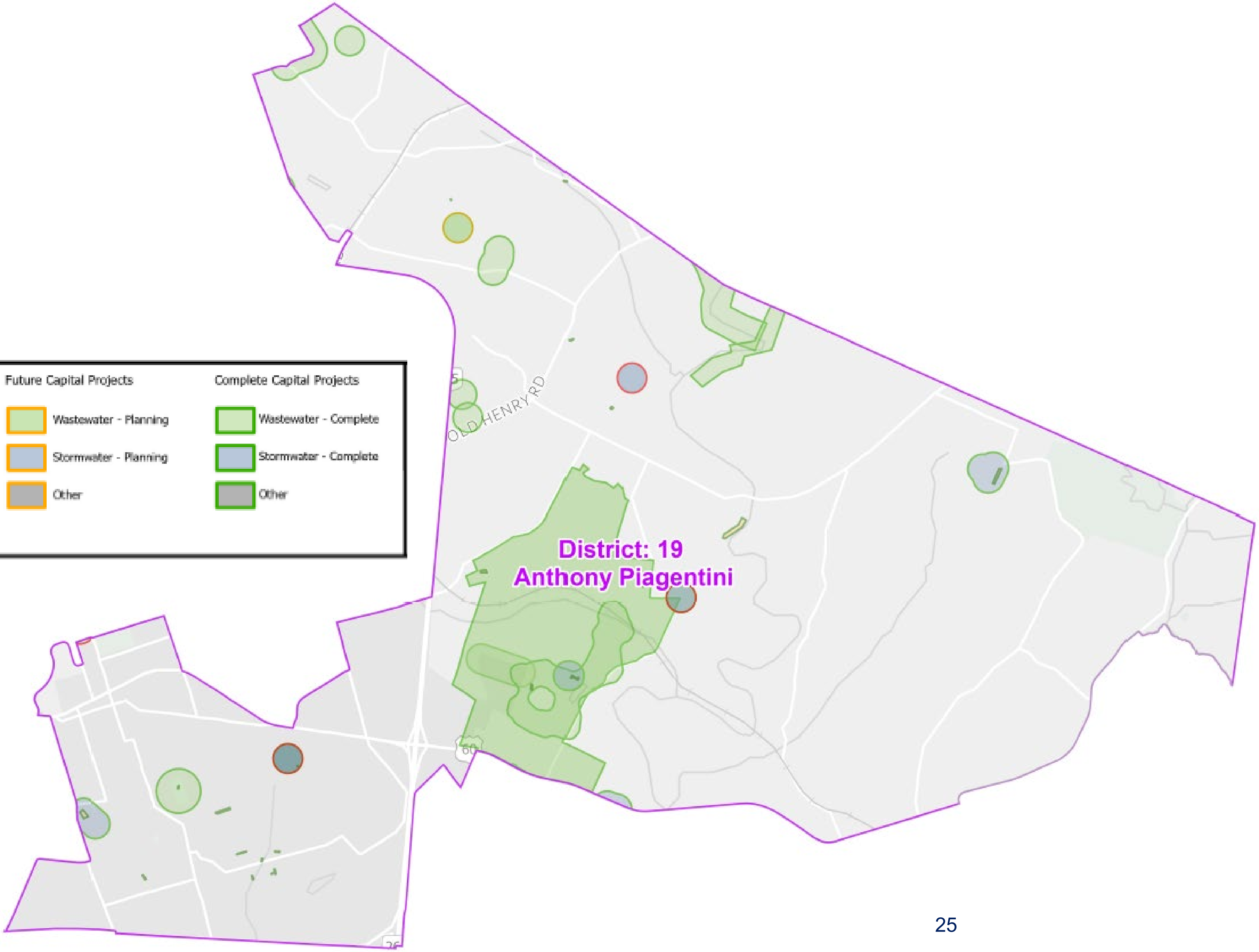

Metro Council Districts
Louisville MSD DRI Projects
Current Capital Projects
Wastewater - Construction
Stormwater - Construction
Wastewater - Design
Other
Future Capital Projects
Wastewater - Planning
Stormwater - Planning
Other
Complete Capital Projects
Wastewater - Complete
Stormwater - Complete
Other
64
WATTERSON TRL
PLANTSIDE DR
BLANKENBAKER PKY
District: 11
Kevin Kramer

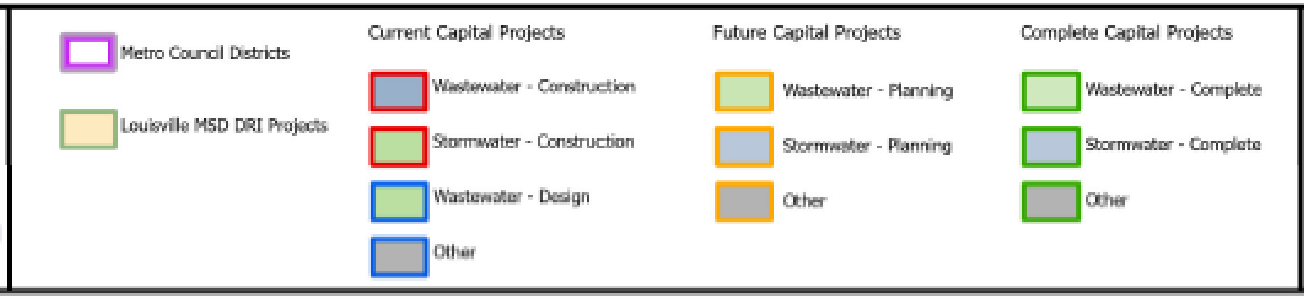
Metro Council Districts
Louisville MSD DRI Projects
Current Capital Projects
Wastewater - Construction
Stormwater - Construction
Wastewater - Design
Other
Future Capital Projects
Wastewater - Planning
Stormwater - Planning
Other
Complete Capital Projects
Wastewater - Complete
Stormwater - Complete
Other
District: 16
Scott Reed
U.S. HIGHWAY 42
265
111
42
RIVER RD
BROWNSBORO

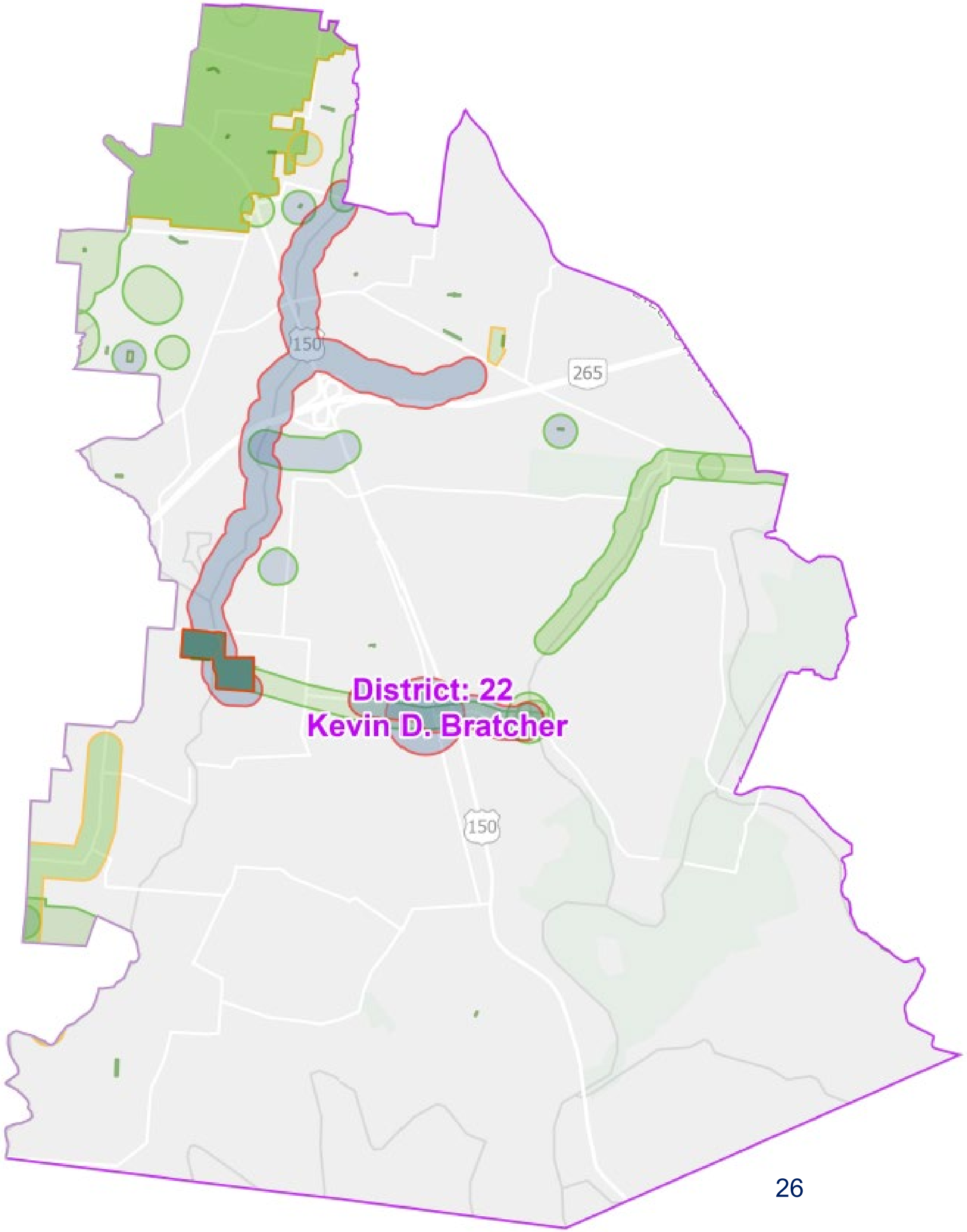
Metro Council Districts

Louisville MSD DRI Projects

Current Capital Projects	Future Capital Projects	Complete Capital Projects
Wastewater - Construction	Wastewater - Planning	Wastewater - Complete
Stormwater - Construction	Stormwater - Planning	Stormwater - Complete
Wastewater - Design	Other	Other
Other		




Metro Council Districts
Louisville MSD DRI Projects
Current Capital Projects
Wastewater - Construction
Stormwater - Construction
Wastewater - Design
Other
Future Capital Projects
Wastewater - Planning
Stormwater - Planning
Other
Complete Capital Projects
Wastewater - Complete
Stormwater - Complete
Other


150
265
District: 22
Kevin D. Bratcher
150