



**Date:** August 15, 2024

**To:** Holly Christmann, Assistant Hamilton County Administrator

**From:** Diana Christy, MSD Director *DC*

**Copy:** Sheryl M.M. Long, City Manager  
 Natasha Hampton, Assistant City Manager  
 Jeff Aluotto, Hamilton County Administrator  
 Jennifer Richmond, Reese Johnson, Ryan Welsh, MSD

**Subject: MSD CY 2025 Recommended Operating Budget**

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Enclosed is the Calendar Year (CY) 2025 Recommended Operating Budget for the Metropolitan Sewer District (MSD) of Greater Cincinnati. The total request for CY 2025 inclusive of Personnel, Non-Personnel, Other Non-Personnel, Sewer Backup Response (SBU), and debt service obligations is \$246.5 million. This Recommended Operating Budget would represent a \$8,631,527 or 3.63% increase from the CY 2024 Approved Operating Budget.

It is the opinion of MSD that this increase is vital to the continued functioning of its core missions and maintenance of its capital assets. Many of these increases are related to personnel cost increases pursuant to pending union negotiations, overall supply cost for Wastewater Treatment operations, and facility security improvements.

**2025 Recommended Operating Budget Snapshot**

DEPT	2024 Approved	2025 Recommended	Change from Prior Year	Percentage Change
<b>Personnel</b>	<b>\$ 67,662,841.00</b>	<b>\$ 69,499,433.00</b>	\$ 1,836,592.00	2.71%
<b>Non-Personnel (without SBU)</b>	<b>\$ 69,064,466.00</b>	<b>\$ 73,755,401.00</b>	\$ 4,690,935.00	6.79%
<b>Other Non-Personnel</b>	<b>\$ 6,961,000.00</b>	<b>\$ 7,065,000.00</b>	\$ 104,000.00	1.49%
O&M TOTAL (w/o SBU & Debt Payments)	<b>\$ 143,688,307.00</b>	<b>\$ 150,319,834.00</b>	\$ 6,631,527.00	4.62%
SBU	\$ 11,213,263.00	\$ 11,213,263.00	\$ -	0.00%
DEBT PAYMENT	\$ 83,000,000.00	\$ 85,000,000.00	\$ 2,000,000.00	2.41%
<b>GRAND TOTAL</b>	<b>\$ 237,901,570.00</b>	<b>\$ 246,533,097.00</b>	\$ 8,631,527.00	3.63%

## Operating Expense Trends

MSD's operating budgets have remained conservative and constrained, despite high levels of Consumer Price Index (CPI) and Employment Cost Index (ECI) inflation. Compared to the cumulative rates of both benchmarks, MSD's operating expenses have increased at a substantially lower rate, as depicted in the table below. This has been possible through an increased focus on efficiency and careful cost management by MSD's leadership.

	2021	2022	2023	2024	OVERALL INCREASE (2021-2024)
<b>MSD O&amp;M Budget</b>	\$ 128,208,446.00	\$ 134,798,668.00	\$ 136,272,589.00	\$ 143,688,307.00	<b>(2021-2024)</b>
Change from Prior Year		\$ 6,590,222.00	\$ 1,473,921.00	\$ 7,415,718.00	<b>\$ 15,479,861.00</b>
Percentage Change		5.14%	1.09%	5.44%	12.07%
<b>CPI Rate*</b>	7.00%	6.50%	3.40%	<b>Cumulative CPI ('21 -'23)</b>	<b>17.70%</b>
<b>ECI Index*</b>	4.00%	5.10%	4.20%	<b>Cumulative ECI ('21 -'23)</b>	<b>13.89%</b>

\*Both the CPI Rate and ECI Index for each year are sourced from the US Department of Labor

In addition, MSD's recommendation for 2025 is consistent with Hamilton County's expectations regarding operating and maintenance expenses escalation used in its Phase 2B submittal to the Regulators in June of 2024. The below chart was included within the County's Phase 2B Financial Capability Analysis, Synario Model Key Assumptions (Pg. 78):

O&M EXPENSE ESCALATION				
Personnel	N/A - From MSD Budget	3.50%		Informed by Employment Cost Index, Moody's Analytics, City of Cincinnati Labor agreements, and general regional trends.
Contractual Services	N/A - From MSD Budget	3.00%		4.5% in 2025, Assumption largely informed by CPI. Considers largely personnel-intensive character of utilities and thus procurements for contractual services.
Materials and Supplies	N/A - From MSD Budget	2.50%		3.5% through '27. Incorporates assumptions for structural changes in costs leading to sustained price increases.
Equipment	N/A - From MSD Budget	2.50%		3.5% through '27, Informed by various factors effecting supply and costs of machinery.
Benefits	N/A - From MSD Budget	3.50%		Informed by Employment Cost Index, Moody's Analytics, City of Cincinnati Labor agreements, and general regional trends.
Inflation	N/A - From MSD Budget	3.00%		Same as Contractual Services
Gas/Oil/Fuel	N/A - From MSD Budget	4.50%		Drop to 2.5% in 27-30, informed by continued sector volatility, and challenges mitigating steep cost increases with customer rates.
Power	N/A - From MSD Budget	2.50%		Informed by Moody's Analytics. Current proposals pending with PUC could impact energy escalation rates in the near term.
Chemicals	N/A - From MSD Budget	3.50%		4.5% in 2025, 4% in 2026 --- Incorporates considerations for recent price volatility, and challenges mitigating volatility in real time.
Pension	N/A - From MSD Budget	18.50%		Reflects a % of Salaries and Increases annually based on CRS' March 7, 2024 Report.

As noted in Hamilton County's analysis, personnel cost increases are projected to increase 3.5% per year on average, based on the overall Employment Cost Index as well as City specific trends regarding labor agreements. Non-personnel costs are expected to increase anywhere from 2.5% to 4.5% per year depending on cost category, with noted challenges in containing price volatility for key industrial scale inputs. Due to MSD's large scale and niche purpose, expenses will often escalate due to a low number of suppliers or lack of industry competition, leading to unpredictable demand-based pricing.

## Recommended Operating Budget Breakdown

The MSD Operating Budget consists of five parts: Personnel, Non-Personnel, Other Non-Personnel, Sewer Backup Response (SBU), and debt service obligations.

## I. Personnel

DEPT	2024 Approved	2025 Recommended	Change from Prior Year	Percentage Change
<b>Personnel</b>	<b>\$ 67,662,841.00</b>	<b>\$ 69,499,433.00</b>	\$ 1,836,592.00	2.71%
Office of the Director	\$ 2,052,448.00	\$ 2,289,737.00	\$ 237,289.00	11.56%
Wastewater Engineering	\$ 6,368,441.00	\$ 6,824,612.00	\$ 456,171.00	7.16%
Wastewater Administration	\$ 5,657,804.00	\$ 5,549,750.00	\$ (108,054.00)	-1.91%
IT Division	\$ 3,830,694.00	\$ 4,139,590.00	\$ 308,896.00	8.06%
Wastewater Treatment	\$ 26,984,261.00	\$ 27,580,772.00	\$ 596,511.00	2.21%
Wastewater Collection	\$ 14,290,139.00	\$ 15,929,506.00	\$ 1,639,367.00	11.47%
Compliance Services	\$ 7,630,563.00	\$ 6,571,710.00	\$ (1,058,853.00)	-13.88%
Sewer Backup Program	\$ 848,491.00	\$ 613,756.00	\$ (234,735.00)	-27.66%

The CY 2025 Recommended Operating Budget for personnel is projected to require an increase of \$1,836,592 or 2.71%, when compared to the CY 2024 Approved Budget. The primary drivers for this increase are assumptions related to pending union negotiations. Those assumptions are as follows:

- AFSCME (American Federation of State, County and Municipal Employees) represented employees to receive a 2.0% cost-of-living adjustment (COLA) in August 2025.
- The CODE (Cincinnati Organized and Dedicated Employees) represented employees to receive a 2.0% cost-of-living adjustment (COLA) in March 2025.

In addition, a 2% cost of living increase for non-represented employees is projected for July 2025, and all employees remain eligible for step and merit increases related to their position. Lastly, benefits costs related to contributions to the Cincinnati Retirement System (CRS) are projected to increase by 0.75% in July 2025 to address unfunded pension obligations. When combined, these factors are expected to expand MSD's budgetary needs to the levels indicated. This CY 2025 Recommended Budget for personnel also includes the assumption that 62.0 FTE of vacant positions will remain vacant during CY 2025, and funding for those positions is not included in this budget request. Lastly, the CY 2025 Recommended Budget for personnel includes the internal transfer of 9.0 FTE from Compliance Services to Wastewater Engineering.

Should the CY 2025 Recommended Budget for personnel not be approved at the level requested, this may result in hiring freezes or position elimination to remain within a reduced appropriation.

## II. Non-Personnel

DEPT	2024 Approved	2025 Recommended	Change from Prior Year	Percentage Change
<b>Non-Personnel (without SBU)</b>	<b>\$ 69,064,466.00</b>	<b>\$ 73,755,401.00</b>	\$ 4,690,935.00	6.79%
Office of the Director	\$ 769,605.00	\$ 794,605.00	\$ 25,000.00	3.25%
Wastewater Engineering	\$ 802,414.00	\$ 6,044,009.00	\$ 5,241,595.00	653.23%
Wastewater Administration	\$ 7,435,396.00	\$ 7,859,896.00	\$ 424,500.00	5.71%
IT Division	\$ 4,750,231.00	\$ 4,895,726.00	\$ 145,495.00	3.06%
Wastewater Treatment	\$ 35,487,319.00	\$ 38,323,883.00	\$ 2,836,564.00	7.99%
Wastewater Collection	\$ 10,897,586.00	\$ 11,142,022.00	\$ 244,436.00	2.24%
Compliance Services	\$ 8,921,915.00	\$ 4,695,260.00	\$ (4,226,655.00)	-47.37%

The CY 2025 Recommended Operating Budget for non-personnel is projected to require an increase of \$4,690,935 or 6.79%, when compared to the CY 2024 Approved Budget. Several new, emerging, or exigent needs on the part of MSD’s core operations have led to this increased request. They include, but are not limited to:

- Continued increases in costs related to the core chemicals necessary for wastewater treatment. This increase assumes that no changes will occur to National Pollutant Discharge Elimination System (NPDES) Permit limits that would mandate the use of more expensive treatment methods.
- Increases to other critical Wastewater Treatment Operational expenses, including solids disposal, utility services, repair services, treatment supplies, and replacement parts.
- Increased security contracting costs to enable higher quality security at all MSD facilities, as well as the expansion of security to 24/7 at the Little Miami Wastewater Treatment Plant.
- Elevated costs related to the collection of sewer revenue via MSD’s billing partner, the Greater Cincinnati Water Works (GCWW).
- Inflationary increases across industries for nearly every kind of consumable good and service, particularly in specialized and technical fields where suppliers are limited.

Where possible, MSD has reduced or eliminated non-personnel expenditures to minimize the overall increase. Should the CY 2025 Recommended Budget for non-personnel not be approved at the level requested, this may result in disruptions to core operations being significantly impaired and or inoperable, inability to maintain consistent levels of service to customers, and new capital assets being unable to be maintained at expected levels.

### III. Other Non-Personnel

DEPT	2024 Approved	2025 Recommended	Change from Prior Year	Percentage Change
<b>Other Non-Personnel</b>	<b>\$ 6,961,000.00</b>	<b>\$ 7,065,000.00</b>	\$ 104,000.00	1.49%
Non-Departmental (ERIP)	\$ 561,000.00	\$ 564,000.00	\$ 3,000.00	0.53%
General Fund Overhead (GFOH)	\$ 2,700,000.00	\$ 3,200,000.00	\$ 500,000.00	18.52%
Fleet Replacements	\$ 2,475,000.00	\$ 2,001,000.00	\$ (474,000.00)	-19.15%
Office, Technology, and Equipment (OTEA)	\$ 1,225,000.00	\$ 1,300,000.00	\$ 75,000.00	6.12%

The CY 2025 Recommended Operating Budget for other non-personnel is projected to require an increase of \$104,000 or 1.49% increase when compared to the CY 2024 Approved Budget. This change reflects an increase to General Fund Overhead (GFOH) of \$500,000 based on increased overall operating expenses for jointly utilized City services for which MSD is required to provide contribution. Lastly, the Fleet budget has been decreased by (\$474,000) to match the projected replacement costs of the pieces of equipment in MSD’s inventory that are the most critical to replace due to age, operational necessity, and deterioration.

### IV. Sewer Backup Program

Based on anticipated program expenditures for CY 2025, MSD recommends no increase to the SBU Non-Personnel Budget. However, because the SBU Program expenditures are reactive and largely dependent on the weather, additional funding could be necessary.

## **Conclusion and Summary**

MSD remains dedicated to its steadfast compliance with the state and local requirements of maintaining a safe and healthy workforce and operating MSD facilities to ensure essential services are provided and maintained to fulfill the mission to provide safe and reliable wastewater collection and treatment services while returning clean water to area rivers and streams.

While all efforts were made during the budget development process to meet Hamilton County's budget target of \$145.0 million (Personnel – \$67.6 million, Non-Personnel - \$70.1 million, Other Non-Personnel - \$7.3 million) communicated on June 14, 2024, MSD has concluded it is unable to meet this target without risk of non-compliance and service interruptions. First, MSD's proposed Personnel budget already accounts for known vacancies and restrains MSD's ability to fully staff all divisions. Meeting the County's proposed Personnel target of zero increase would require a hiring freeze, which would lead to staffing shortages in the operating divisions. With an inability to fill high turnover positions like treatment plant operators and sewer maintenance crews, MSD would expect permit violations at its facilities and delays in its ability to complete emergency collection system repairs, among other consequences.

Second, to meet the County's proposed Non-Personnel target of \$70.1 million, MSD would have to cut operating expenses resulting in insufficient funds for core treatment chemicals, parts and supplies, again jeopardizing permit compliance, insufficient funds for routine solids disposal resulting in off-site odor impacts, and insufficient funds for security placing MSD employees and inventory at greater risk of harm.

It is the judgement of MSD that the communicated targets do not make due consideration of the expenditures needed to operate a utility of this size nor do they consider MSD's low rate of budget increases relative to national trends

The CY 2025 Recommended Operating Budget represents the appropriations MSD believes will be required to fully staff and maintain this critical infrastructure, and reflects a restrained, conservative approach towards the maximization of efficiency to keep operating costs as low as possible.

## CY 2025 Recommended Operating Budget

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<b>GRAND TOTAL</b>	<b>\$ 237,901,570.00</b>	<b>\$ 246,533,097.00</b>	\$ 8,631,527.00	3.63%