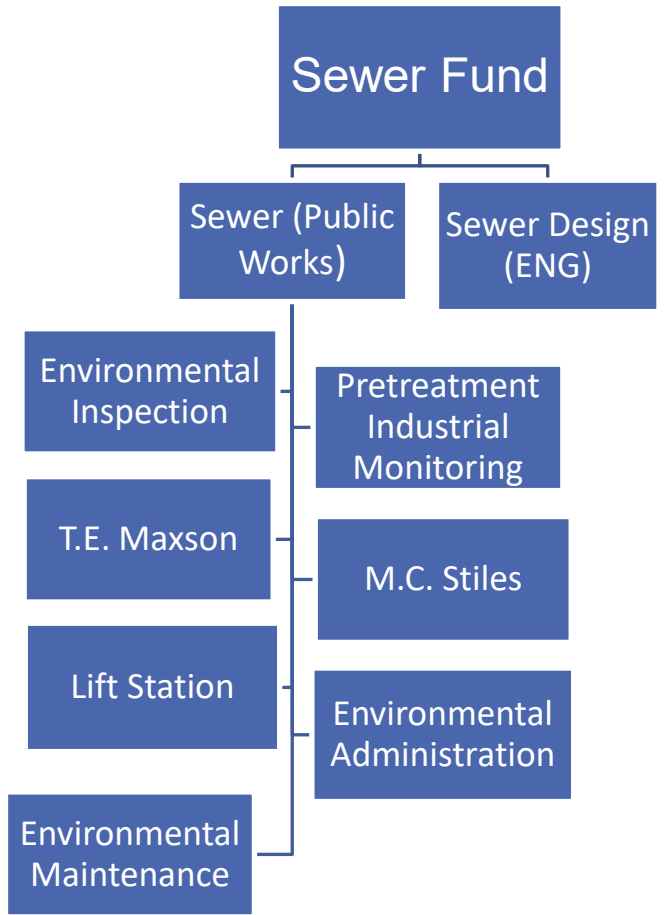
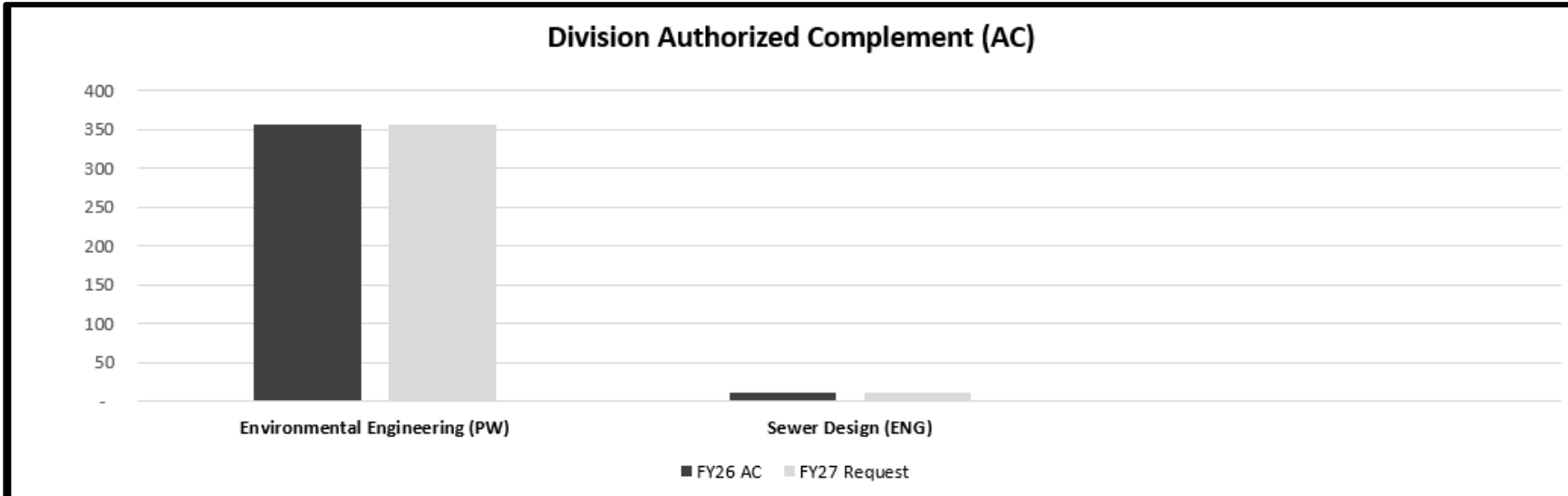


FY27 Budget: Public Works Sewer

FY27 Budget Org Chart at Legal Level: Sewer - Medium



Division Authorized Complement (AC)



Legal Level	FY26 AC	FY26 Council Approved Revisions	FY26 AC	FY27 Requested ISLs	FY27 AC Request	Vacant Position(s)	Status of Vacant Position(s)		*Number of Grant Position(s)
							Posted	Filled	
Environmental Engineering (PW)	356	-	356	-	356	58	23	-	-
Sewer Design (ENG)	12	-	12	-	12	1			-
Total	368	-	368	-	368	59	23	-	-

*Position(s) not funded by General Fund.

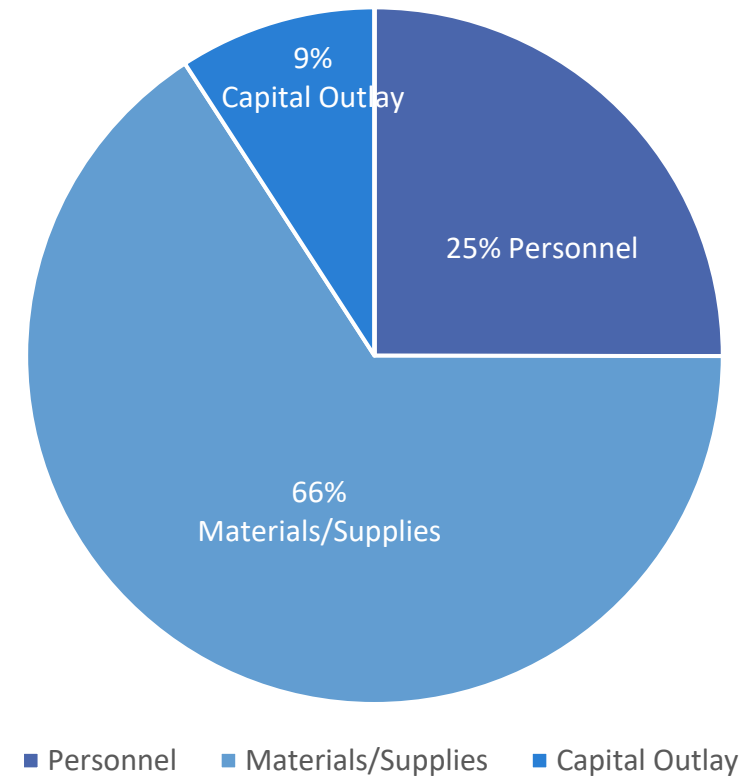
Budget Overview: Sewer

Total Requested Budget for the upcoming year

Key Budget Priorities

1. Finalize sewer rate increase to support expenses and future borrowing opportunities
2. Continue system-wide improvements within the collection system
3. Continue upgrades at T.E. Maxson WWTF

Breakdown of Major Spending Categories



Historical Budget Comparison: Sewer

Category	FY22 Adopted Budget	FY23 Adopted Budget	FY24 Adopted Budget	FY25 Adopted Budget	FY26 Adopted Budget	FY26 Forecast	FY27 Proposed Budget
Personnel Expenses	25,657,050	27,001,914	27,760,606	29,582,365	33,193,926	34,362,913	34,269,676
Materials and Supplies	75,027,714	81,591,696	81,637,535	83,967,549	85,488,370	82,964,746	82,707,768
Capital Outlay	19,847,000	17,012,000	10,022,000	12,000,000	11,862,000	13,040,667	14,140,000
Project Costs	-	-	-	-	-	13,825,205	-
Interest	4,934,000	12,181,056	11,393,233	10,787,384	13,668,469	13,668,469	13,401,859
Transfers Out	13,663,797	12,225,492	14,001,294	12,033,813	12,927,258	12,927,258	16,661,962
Depreciation on Own Funds	15,250,800	15,250,800	15,250,800	15,250,800	15,240,200	18,086,526	15,238,200
Total Expenditures	154,380,361	165,262,958	160,065,468	163,621,911	172,380,223	188,875,785	176,419,466
Total Revenues	154,380,361	164,655,626	160,065,468	163,621,911	172,380,223	172,380,223	171,340,568

Historical Budget Comparison (Year Total Actuals): Sewer Fund

Category	FY22 YearTotal Actuals	FY23 YearTotal Actuals	FY24 YearTotal Actuals	FY25 YearTotal Actuals	FY26 Q3 Actuals	FY26 Forecast	FY27 Proposed Budget
Personnel Expenses	24,024,516	22,130,364	24,760,625	28,503,687	21,002,793	34,362,913	34,269,676
Materials and Supplies	70,224,953	72,243,779	75,381,263	72,665,440	51,814,314	82,964,746	82,707,768
Pension Expense	1,893,000	4,823,000	916,002	-	-	-	-
Capital Outlay	3,191,026	2,753,260	1,364,482	504,800	14,208	13,040,667	14,140,000
Grants and Subsidies	21,208	-	-	30,979	-	-	-
Investment Fees	3,230	1,710	3,560	3,985	2,395	-	-
Project Costs	-	-	-	-	-	13,825,205	-
Bond Issue Costs	-	-	-	1,010,602	-	-	-
Interest	7,086,466	7,489,028	2,323,282	6,862,245	11,535,564	13,668,469	13,401,859
Service Charges	7,300	3,300	2,900	5,480	6,490	-	-
Transfers Out	11,254,055	12,225,492	11,990,513	14,972,424	-	12,927,258	16,661,962
Depreciation on Own Funds	14,556,141	15,121,841	16,292,552	17,168,272	13,471,862	18,086,526	15,238,200
Misc Expense	151,270	774,793	6,284,510	1,086,151	104,580	-	-
Total Expenditures	132,413,165	137,566,567	139,319,689	142,814,065	97,952,206	188,875,785	176,419,466
Total Revenues	160,383,100	156,965,494	171,070,848	154,870,880	118,502,563	172,380,223	171,340,568

Historical Rate: Sewer

Last volumetric rate ordinance passed in 2017; two rate changes approved

- January 1, 2018 – ~\$3.16 increase (27%)
- January 1, 2020 – ~\$2.35 increase (16%)
- Max residential charge is \$50/month for June – Sept and \$75/month all other months

Last Additional Treatment Charge (ATC) passed

- June 8, 2010, for biochemical oxygen demand (BOD) charges and total suspended solids (TSS) charges
- December 30, 2019, for chemical oxygen demand (COD)

Fiscal Years	Minimum Monthly Charge	Volumetric Charge Per 100 Cubic Feet (Monthly)		Additional Treatment Surcharge (Monthly)		
		Dollars per 100 Cu. Ft.	Maximum Residential Charge	Dollars per Pound of BOD	Dollars per Pound of TSS	Dollars per Pound of COD
1981	\$1.50	\$0.2133	\$ 6.00	\$0.0170	\$0.0090	\$ -
1983	1.50	0.4389	12.00	0.0270	0.0460	-
2005	2.25	0.6545	18.00	0.0365	0.0596	-
2009	2.50	0.7166	18.00	0.0386	0.0621	-
2010	2.50	0.7876	18.00	0.0388	0.0661	-
2011	2.50	1.6957	50.00	0.0428	0.0716	-
2013	2.50	1.6957	50.00	0.0428	0.0716	-
2018	7.50	2.1466	65.00	0.0428	0.0716	-
2020	8.65	2.4834	75.00	0.0428	0.0716	0.03960
2021	8.65	2.4834	75.00	0.0428	0.0716	0.04821

Historical Credit Ratings: Sewer

March 2025: S&P downgraded the Sewer System Revenue credit from AA+ to A+ and revised the outlook to negative. The three-notch rating change represented a material change to the credit profile.

- Low number of days cash on hand
- System financials are weaker than AA-rated peers
- Aging Sewer System infrastructure
- No planned multi-year rate increase

March 2025: Moody's placed the Sewer System Revenue credit on a negative outlook.

February 2026: As part of the GO bond issue process, Moody's completed a full review of the City's credits and downgraded the Sewer System Revenue credit from Aa2 to Aa3 while keeping the negative outlook.

February 2026: As part of the Stormwater bond sale, S&P affirmed the AA rating for Stormwater Revenue credit; however, it revised the outlook from stable to negative.

- S&P has a negative outlook on the water and sewer sector nationwide, which includes the City's Sewer System and Stormwater System.

Operating Revenue, Expenses, and Emergencies: Sewer

System Revenues (\$000)	FY2023	FY2024	FY2025	FY2026 ⁽⁶⁾
Operating Revenues	152,735	161,158	144,805	151,436
Other Revenues ⁽¹⁾	3,517	9,410	15,886	442
Total Revenues	156,252	170,568	160,691	151,878
Operating Expenses ⁽²⁾	(101,951)	(101,582)	(101,816)	(107,640)
Net Revenues	54,301	68,986	58,875	44,238
Debt Service Requirements				
Debt Service on Revenue Bonds ⁽³⁾	19,472	19,778	21,134	22,816
Debt Service on Other Sewer Debt ⁽⁴⁾	8,983	10,672	9,180	12,148
Total Debt Service	28,455	30,450	30,314	34,964
Net Revenues to Revenue Bond Debt Service ⁽⁵⁾	2.79x	3.49x	2.79x	1.94x
Net Revenues to Total Sewer Debt Service ⁽⁵⁾	1.91x	2.27x	1.94x	1.27x
Unrestricted Cash				
Ending Cash	40,705	2,775	12,822	771
Days Cash On Hand	146	10	46	3

Source: Division of Public Works

⁽¹⁾ Excludes capital contributions, includes fees and interest income.
⁽²⁾ Pursuant to the Bond Resolution, excludes in lieu of tax payments and depreciation.
⁽³⁾ Includes principal and interest on outstanding Sanitary Sewerage Revenue Bonds.
⁽⁴⁾ Projected principal and interest on SRF Loans.
⁽⁵⁾ Includes Operating Revenues, developer fees and Other Revenue.
⁽⁶⁾ Based on PFM's financial modeling of System financial performance. Forecasted System Revenues and financial performance are based on the System's current charges, number of customers, the CIP, along with assumptions that are based on FY2025 audited financial information.

- Reduction in the cash position in FY2024 was largely due to a \$26M emergency repair.
- The revenue decreases in FY2025 and FY2026 are largely due to faulty MLGW water meters, which caused a reliance on estimated billing rather than accurate, usage-based billing.
- System's unrestricted cash position increased in FY2025, but without a rate increase that is effective in FY2027, the cash reserves will not return to the City's target of 120 days cash on hand in the near term.
- The System's rating will not improve without a rate increase.
- FY2026 days cash on hand is expected to decrease

Proposed Rates: Sewer

System Revenues (\$000)	FY2027 ⁽⁶⁾	FY2028	FY2029	FY2030	FY2031
Operating Revenues	171,267	195,400	236,043	236,043	236,043
Other Revenues ⁽¹⁾	68	68	68	787	1,277
Total Revenues	171,335	195,468	236,111	236,830	237,320
Operating Expenses ⁽²⁾	(122,830)	(129,691)	(136,946)	(144,618)	(152,733)
Net Revenues	48,505	65,777	99,165	92,212	84,587
Debt Service Requirements					
Debt Service on Revenue Bonds ⁽³⁾	20,617	20,615	19,210	19,209	17,757
Debt Service on Proposed Revenue Bonds	-	4,415	4,802	9,164	9,544
Debt Service on Other Sewer Debt ⁽⁴⁾	12,144	12,134	12,130	12,125	12,121
Total Debt Service	32,760	37,165	36,142	40,498	39,422
Net Revenues to Revenue Bond Debt Service ⁽⁵⁾	2.35x	2.63x	4.13x	3.25x	3.10x
Net Revenues to Total Sewer Debt Service ⁽⁵⁾	1.48x	1.77x	2.74x	2.28x	2.15x
Unrestricted Cash					
Ending Cash	1,607	12,337	52,649	81,734	104,225
Days Cash On Hand	5	35	140	206	249

Source: Division of Public Works

⁽¹⁾ Excludes capital contributions, includes fees and interest income.

⁽²⁾ Pursuant to the Bond Resolution, excludes in lieu of tax payments and depreciation.

⁽³⁾ Includes principal and interest on outstanding Sanitary Sewerage Revenue Bonds.

⁽⁴⁾ Projected principal and interest on SRF Loans.

⁽⁵⁾ Includes Operating Revenues, developer fees and Other Revenue.

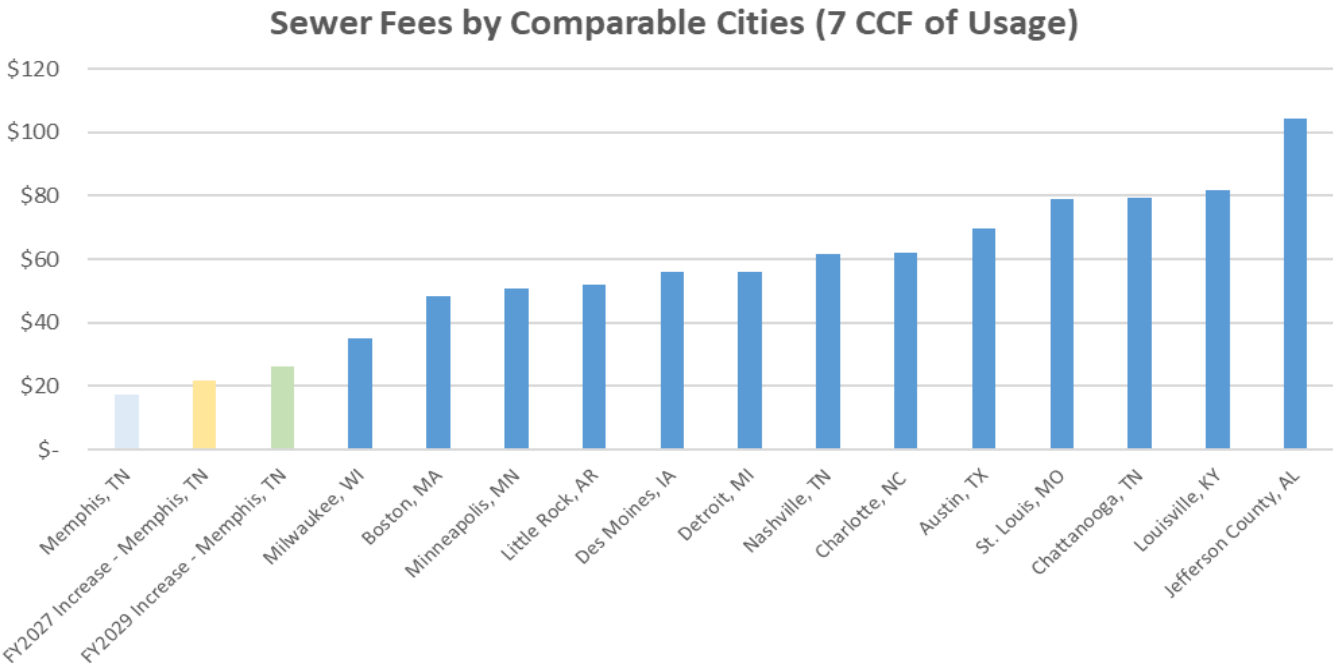
⁽⁶⁾ Based on PFM's financial modeling of System financial performance. Forecasted System Revenues and financial performance are based on the System's current charges, number of customers, the CIP, along with assumptions that are based on FY2025 audited financial information.

PFM is recommending that the City pursue a multi-year rate increase under the existing rate structure during the FY27 budget process. Sewer fees are calculated based on usage.

- The first recommended rate increase of 35% would become effective 1/1/2027 (FY2027). Average increase is \$6.09/month or \$73.08/year.
- The second recommended rate increase of 25% would become effective 7/1/2028 (FY2029). Average increase is \$5.86/month or \$70.32/year.
- With these increases, the System's cash position/reserves are projected to reach 120 days cash on hand by FY2029.
- S&P is focused on asset condition and emergency event risks; the rate increase will allow the City to increase investment in Sewer infrastructure that will lower and help mitigate emergency event risks.

Volumetric Charge by Comparable Cities: Sewer

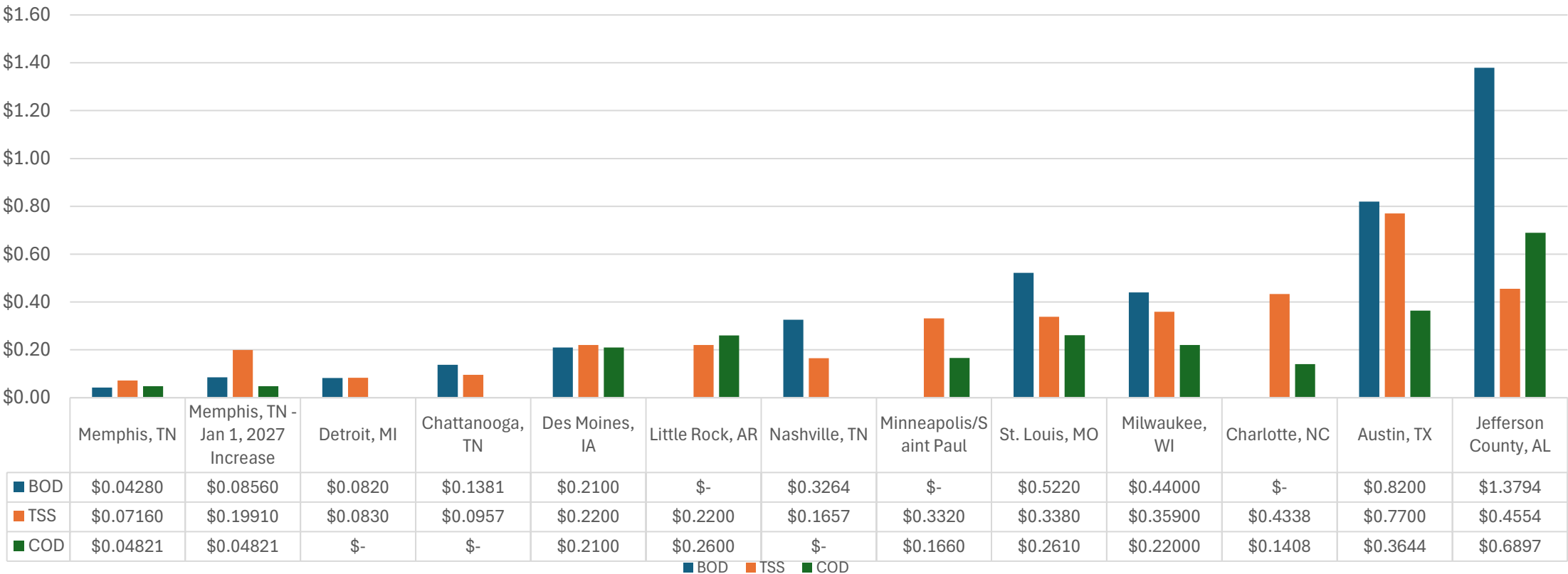
City	7 CCF of Billing
Memphis, TN	\$17.38
FY2027 Increase - Memphis, TN	\$23.47
FY2029 Increase - Memphis, TN	\$29.33
Milwaukee, WI	\$34.95
Boston, MA	\$48.13
Minneapolis, MN	\$50.74
Little Rock, AR	\$51.95
Des Moines, IA	\$55.92
Detroit, MI	\$56.06
Nashville, TN	\$61.61
Charlotte, NC	\$62.16
Austin, TX	\$69.58
St. Louis, MO	\$78.96
Chattanooga, TN	\$79.27
Louisville, KY	\$81.67
Jefferson County, AL	\$104.19



Under the current rates, the minimum is \$8.65, and the maximum residential charge is \$75. With the proposed FY2027 and FY2029 rate increases, the minimum charge will increase to \$12, and the maximum residential charge will increase to \$102 in FY2027 and \$15 and \$128 in FY2029, respectively. No other city has a maximum charge for usage.

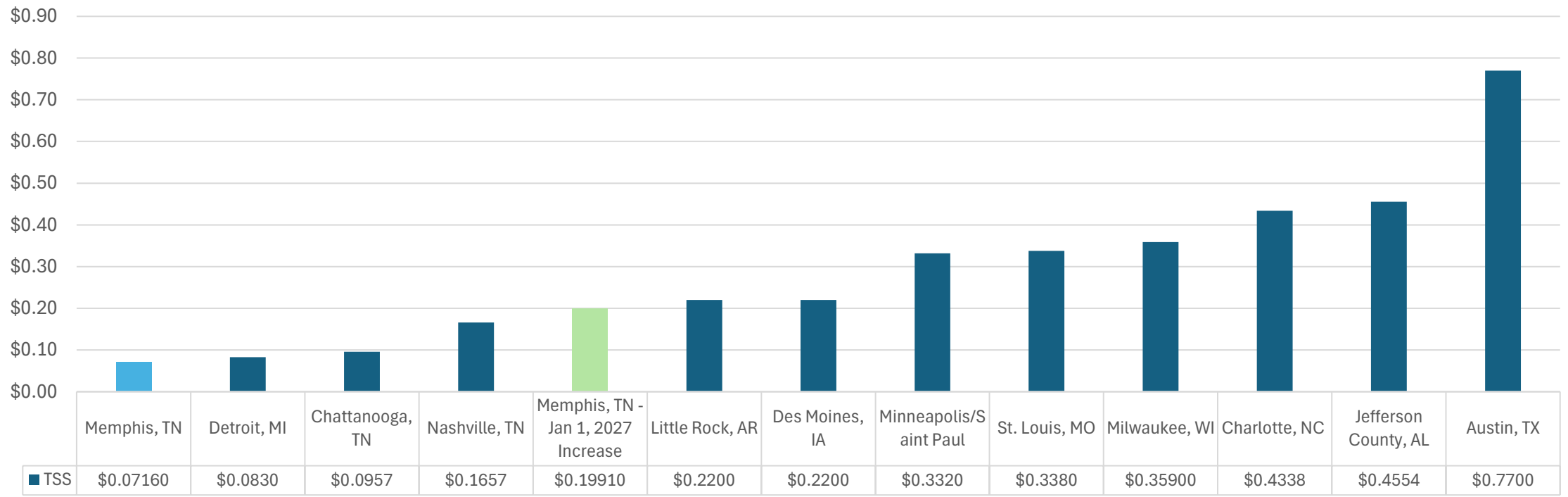
Additional Treatment Charge (ATC) by Comparable Cities: Sewer

Combined Additional Treatment Charge (ATC) by Comparable Cities



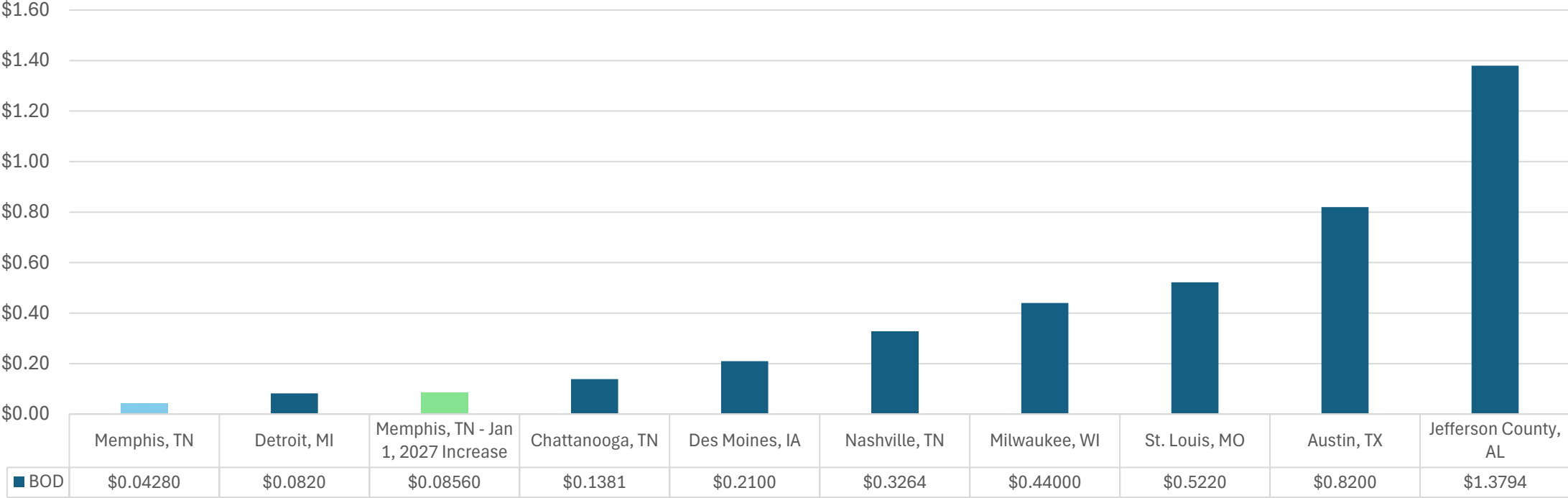
Comparison of Total Suspended Solids (TSS): Sewer

Comparison of Total Suspended Solids (TSS) charges

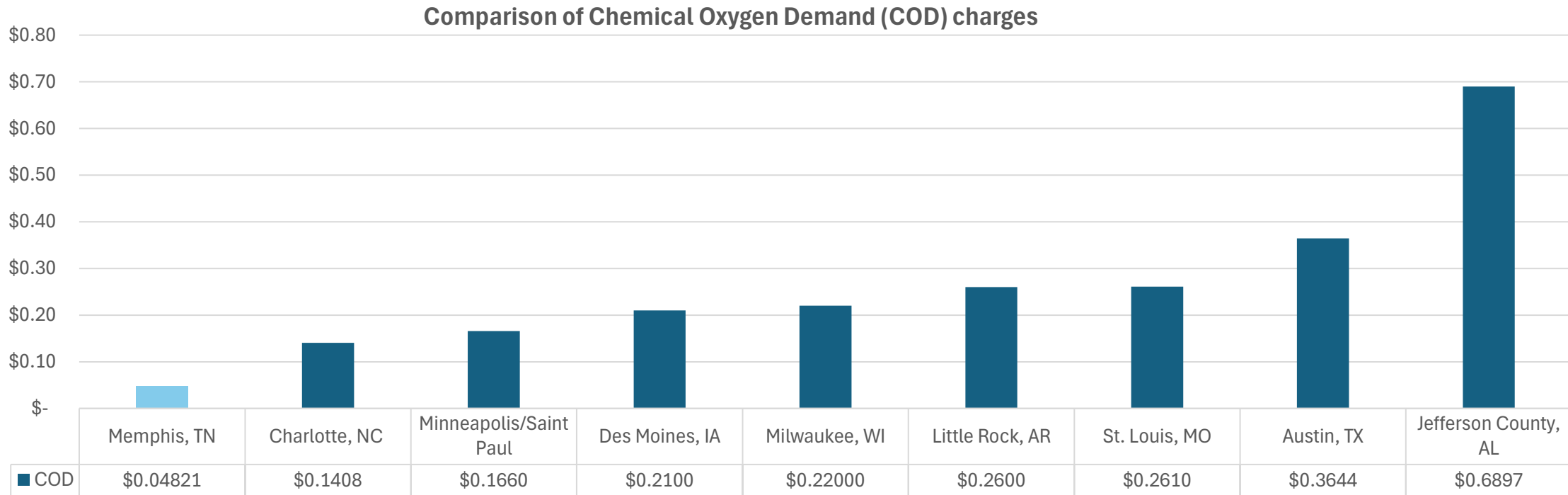


Comparison of Biochemical Oxygen Demand (BOD): Sewer

Comparison of Biochemical Oxygen Demand (BOD) charges



Comparison of Chemical Oxygen Demand (COD): Sewer



Summary Multi-Year Rate Increase: Sewer

Continue to deliver needed improvements to the sewer system, which is imperative to stay in compliance with State and Federal permit requirements.

By having approved rate increases that will generate additional revenue, the City will be on track to restore the sewer system bond rating from our recent downgrade in March 2025 and improve the overall financial portfolio of the City. This results in reduced risk and more favorable interest rates on bond issuances.

Replenishment of cash reserves of the sewer system, which is imperative to address sewer system emergencies

Fiscal Years	Minimum Monthly Charge	Volumetric Charge (Monthly)			Additional Treatment Surcharge (Monthly)		
		Dollars per 100 Cu. Ft.	Dollars per 1,000 gallons	Maximum Residential Charge	Dollars per Pound of BOD	Dollars per Pound of TSS	Dollars per Pound of COD
2020 (1-1-2020)	8.65	2.4834	3.32	75.00	0.0428	0.0716	0.03960
2021 (1-1-2021)	8.65	2.4834	3.32	75.00	0.0428	0.0716	0.04821
2027 (1-1-2027)	12.00	3.353	4.48	102.00	0.0856	0.1991	0.04821
2029 (7-1-28)	15.00	4.191	5.60	128.00	0.0856	0.1991	0.04821

Key Budget Drivers: Sewer

- The Sewer Enterprise Fund is self-funded and is paid by user fees on the MLG&W utility bills. The fees are used for collection and treatment, maintenance, operation, education, enforcement, and capital improvements for the sewer system.
- Proposed rate increase. There has not been a rate increase since January 1, 2020.
- M&S: Increase in costs for materials and services due to higher costs

Challenges and Risks: Sewer

- To provide the critical services for the citizens of Memphis, increase the System's cash position, and ultimately the City's bond rating, Public Works requests approval of the proposed budget and rate increase.
- Modifications to the presented budget would:
 - Regulatory penalties related to sewer overflows or WWTF violations
 - Impact core services
 - Create risks associated with infrastructure deterioration and emergency failures
 - Higher future costs
 - Future downgrades to the City's bond rating