

**Board Of Water Works**  
**REGULAR CALLED MEETING MINUTES**  
**April 17, 2018**

**Board Members Present:**

Mr. Creighton Mershon, Chair  
Dr. Sundeep “Sunny” Dronawat  
Mr. Paul Esselman  
Dr. Sharon Kerrick  
Ms. Tierra Kavanaugh Wayne  
Mr. Craig Willman

**Not Present:**

Mayor Greg Fischer

**Others Present:**

Mr. Spencer Bruce, President and Chief Executive Officer  
Mr. Daniel Frockt, CFO, Louisville / Jefferson County Metro Government  
Mr. Dave Vogel, Executive Vice President, Customer Service and Distribution Operations  
Ms. Kelley Dearing Smith, Vice President, Communications and Marketing  
Mr. Tim Kraus, Vice President, Production Operations and Chief Engineer  
Dr. Tom Luckett, Vice President and Chief Information Officer  
Ms. Lynn Pearson, Vice President, Finance and Treasurer  
Mr. Terrence Spence, Vice President, Human Resources and Labor Relations  
Mr. Michael Tigue, Vice President, Compliance, General Counsel and Corporate Secretary  
Mr. Jim Grunow, Director, Engineering  
Ms. Kim Reed, One Water Liaison  
Ms. Mary Susan Abell, Manager, Communications and Marketing  
Mr. Daniel Tegene, Manager, MRRP  
Mr. Mike Meyer, Project Engineer  
Mr. Matthew Griffith, Strategic Planning and Performance Specialist  
Ms. Beverly Soice, Paralegal

**Visitors:**

The regular called meeting of the Board of Water Works (“BOWW”) was held on Friday, April 17, 2018 at the Louisville Water Company (“Louisville Water” or “Company”) located at 550 South Third Street, Louisville, Kentucky. Chair Creighton Mershon called the meeting to order at 11:25 a.m.

**Minutes of the Previous Regular BOWW Meeting Approved**

Dr. Sunny Dronawat moved to approve the Regular Called Meeting Minutes of March 20, 2018, seconded by Mr. Paul Esselman and the motion was unanimously carried.

**Report Provided by the President/Chief Executive Office**

Mr. Spencer Bruce recognized the Engineering and Communication staff who has worked together on the Eastern Parkway project. Louisville Water is executing the largest pipe replacement project in our history, installing a new water main inside the original 1930 main that runs along Eastern Parkway. We have

finished installing the pipe for Phase 2A and will complete this project in 2019. Over the three years of this project, we will install 6.4 miles of water main with a slip-lining technique that minimizes environmental impacts and neighborhood disruptions.

The engineering aspect has included extensive coordination with multiple local agencies and the state highway department. The communication and stakeholder engagement plan has multiple layers from face-to-face conversations, over-sized postcards, digital media, project signage and, of course, social media. The team has worked with several dozen neighborhood groups, businesses, the media, environmental organizations and even steel manufacturers.

What's impressive about this effort is the coordination between departments here at Louisville Water and our external partners. Before we finalized the project, Communication and Engineering were already developing a plan on how we would talk about this first-of-its-kind replacement for Louisville Water. The Eastern Parkway project has set a new standard for how cross-functional teams work and how we communicate projects.

Mr. Bruce advised efforts with the Eastern Parkway project have received extensive national attention with media and other utilities looking to learn how we work with stakeholders, communicate to the public and execute large-scale engineering projects.

While this project has created traffic detours and some inconvenience, the community has overwhelmingly embraced the innovation and appreciated the transparent and proactive communication.

Mr. Bruce introduced several members of the engineering and communications department that were present at the meeting. The Board congratulated them on the success.

### **Compensation and Benefits Committee Report Given**

Dr. Sharon Kerrick provided a report on the Compensation and Benefits Committee meeting held on April 16, 2018.

Dr. Kerrick reported that staff presented the Executive Shared Operating Goals, the Management Incentive Goals and the Corporate Performance Goals for review. Staff also presented the Union goals which are part of the Collective Bargaining Agreement for informational purposes only.

Dr. Kerrick advised the committee recommends approval of the proposed Executive Shared Operating Goals, the Management Incentive Goals, and the Corporate Performance Goals as presented.

Dr. Kerrick for the Compensation and Benefits Committee moved to approve the Executive Shared Operating Goals, the Management Incentive Goals and the Corporate Performance Goals as proposed, Mr. Esselman seconded and the motion unanimously carried.

### **Financial Report Given**

Ms. Lynn Pearson advised the Kentucky Retirement System (KRS) has provided a preliminary financial report for fiscal year ending June 30, 2017 enabling staff to update our financial statements for December and full year 2017. However, the KRS report is unaudited and subject to change. Issuance of the Company's audited financial statements and annual report will be delayed until the final, audited KRS financial report is released.

Financial statements for December and full year 2017 are complete with the exception of the impact of adjustments to the net pension liability and related balances required by GASB 68. These adjustments cannot be completed until final audited numbers are released by the state. Once the audited GASB 68 report is received, staff will work with our external audit team to finalize our 2017 audited financials.

Total consumption and water revenue came in strong this month, exceeding both budget and prior year levels. Non-operating income and expense also performed favorably to budget in March. These positive budget variances were only partially offset by unfavorable variances in other operating revenue and operating expenses. As a result, net income for the month was \$639,000 higher than budgeted. Details of the Company's financial performance as compared to budget and prior year follow.

Consumption of 2.5 billion gallons for March 2018 is 170 million gallons higher than budget, and 15 million gallons higher than March 2017. All customer classes are over budget in March with the exception of irrigation and Metro Government, both of which were under budget due to some prior months' adjustments posting in March. Year-to-date consumption remains over budget and prior year by 4.9% and 2.8% respectively, with residential, commercial and wholesale customer classes driving the favorable variance.

Water Revenue for March 2018 is \$799,000 higher than budget and \$443,000 above prior year. Water revenue through March surpassed budget by \$981,000 and is \$1.7 million more than last year. Higher consumption is a key factor driving increased water revenue for the year-to-date period as compared to both budget and prior year levels.

Other Operating Revenue for March is \$49,000 lower than budget but is \$22,000 higher than year-ago levels. For the period-to-date, other operating revenue is lagging budget by \$102,000, but is beating prior year by \$81,000. The year-to-date variance to budget is primarily due to disconnect fees and contract operations revenue running lower than anticipated. The variance to prior year is driven by higher service line protection and sewer billing revenue offset by lower late charges and disconnect fees.

Operating and Maintenance Expenses for March of \$6.8 million are \$243,000 higher than budget and \$573,000 higher than March 2017. The March variance from budget is primarily in labor and labor related, power and contractual services costs, offset by lower materials and supplies and insurance reserves. Elevated main break activity earlier in the year continues to drive budget overages in contractual services and labor. Power costs are more than anticipated due to increased pumping and higher facility heating costs. March year-to-date operating and maintenance expenses are \$452,000 over budget and \$2.1 million over year-ago levels. The majority of the year-to-date unfavorable budget variance is in labor and labor related, power and contractual services costs, offset by lower materials and supplies and memberships. Increased main break activity resulted in a higher portion of labor charged to O&M vs. capital than anticipated. Overtime and contractual services are also higher due to main breaks. Materials and supplies and memberships are lower mainly due to the timing of purchases.

Total Operating Expenses for March of \$11.5 million are \$216,000 higher than budget and \$766,000 more than March 2017. Total operating expenses year-to-date are higher than budget and prior year, by 1.1% and 8.6%, respectively. The year-to-date budget variance is due to higher operating and maintenance and depreciation costs. More than half of the budget overage in these areas is offset by a favorable budget variance in losses from disposition of property.

Non-Operating Income through March is \$457,000, which is \$59,000 higher than budget and \$206,000 more than the same period in 2017. The variance to prior year is due to funds reinvested in treasury securities at a substantially higher effective rate than those which matured late in 2017. The variance to budget is due to receiving a higher rate on the new treasuries than anticipated.

Non-Operating Expense through March of \$1.8 million is \$185,000 less than budgeted and \$344,000 less than year-ago levels. Interest expense is less than prior year and budget due to higher amounts of interest capitalized. Principal payments made on bonds during 2017 also reduced interest expense as compared to prior year levels.

Net Income before Distributions and Contributions for March is \$3.1 million which is \$639,000 more than budgeted. In comparison between years, net income is \$74,000 less than March 2017. March year-to-date net income of \$10.0 million is \$762,000 higher than budget and \$347,000 less than the three months ended March 2017.

Contributions through March of \$1.9 million are \$35,000 lower than budgeted and \$178,000 more than prior year.

Cash, Cash Equivalents and Short-term Investments totaled \$73.7 million at the end of March 2018, well in excess of 250 days of estimated Operations and Maintenance expense of \$52.1 million

### **Communications and Marketing Report Given**

Ms. Smith summarized the Communications and Marketing report for March.

During April, May and June, customers receive Louisville Water's annual water quality report. Required by the Environmental Protection Agency (EPA), the report provides an overview of 2017 water quality testing and results. Louisville's drinking water quality meets the EPA's standards and, in many cases,, our water quality is much better than the standards. Our communication and water quality staff work together to produce the report. Customers' bills include a link for the report and we produce copies to distribute at community events.

As part of the One Water initiative, Louisville Water and MSD will offer a joint school-based education program, "River to River" that highlights the work of both utilities with real-world examples. Louisville Water's Education and Outreach Manager has developed the curriculum and we are piloting the program this spring at the WaterWorks Museum and in classrooms. Each year, Louisville Water visits more than 100 schools with its education efforts. The River to River opportunity will become part of our offering to teachers.

The WaterWorks Museum marked its 4<sup>th</sup> anniversary in March. Since 2014, Louisville Water has used its original pumping station as a venue for education and events. Recently, the museum hosted a special event to highlight the history of Camp Zachary Taylor, the World War I training camp in Louisville. Author Ken Maguire shared stories on the camp's role in the war. One of the reasons the U.S. government located the camp in Louisville was the city's outstanding water quality. Louisville Water's work at the Crescent Hill Water Treatment Plant caught the attention of the government who called our drinking water "best in the country."

As we work to eliminate our remaining lead service lines, staff has worked closely with engineering and water quality to develop communication plans that highlight the work we are doing and the quality of our water. These efforts are highlighted as a best-practice in the April issue of *OpFlow*, a publication of the American WaterWorks Association. The cover feature for this issue is Louisville Water's story on how communication is key to building customer support. In May, this magazine will feature our work with local schools to proactively test drinking water fountains for lead.

## **Customer Service and Distribution Operations Report Given**

Mr. Vogel summarized the Customer Service and Distribution Operations report for March.

The Call Center operations received 30,063 calls in March with an abandonment rate of 8.3%. Year to date our abandonment rate is running at 10.5%, which is significantly lower than last year (13.4%) and also lower than the five-year average (17.5%). The average speed of answer (ASA) came in at 4:14 m:s for the month, which is improved from past periods. Year to date our ASA is running at 4:25 m:s, which is lower than both last year (5:09 m:s) and the five-year average (5:18 m:s). The front lobby processed 11,406 payments (8,493 cash and 2,913 check) for the month.

Total CSI rose significantly from the 4<sup>th</sup> quarter finishing up 37 index points at 844. All components were up from the previous quarter and the biggest gains were seen in the Price/Value and Water Quality components.

The Serviced CSI also saw significant gains from the 4<sup>th</sup> quarter and increased 70 index points. The Serviced CSI index increased to 952 which is an all-time high for the index. All components were up significantly from the previous quarter led by the Price/Value and Customer Service measures. Staff is reviewing the data and verbatim responses to determine the key factors that drove these increases.

March bad debt came in under budget for the second month in a row at \$106K. Staff has placed a great deal of emphasis on reducing our bad debt through improvements in the collections process and focusing on our field activities. Additionally, a new employee started in the collections area in March and will be working reports specifically designed to proactively pursue accounts prior to moving to write-off status.

We finished with 32 main breaks for the month of March which is moderately higher than last year (22) and in line with the five-year average (30). Capital work picked up significantly in March due to catching up on our leak backlog after the high main break activity in January. New service work continues to be strong and we had four crews assigned to this activity during the month. As expected, we had four union retirements in March and we expect several more over the coming months.

The preparation checklist and planning for the Kentucky Derby activities continued prior to the events. As in past years, we will maintain a dedicated crew and first responder personnel to cover any water-related issues should they arise on Derby day.

Estimated bills for the month came in at 2.1% which is an improvement over last year and the five-year average. Meter reading productivity increased with the improved weather in March and has moved us much closer to our planned reading schedule. Staff continues to be focused on our disconnection backlog, which grew during the first two months of the year due to cold weather (where we suspend disconnections) and customer work driven by frozen pipes.

## **Engineering and Production Operation Report Given**

Mr. Tim Kraus summarized the Engineering and Production Operations report for March.

Capital expenditures through March totaled \$17,056,886, which is \$1,514,120 or 9.74% higher than the same period last year. These expenditures equate to 15.37% of the 2018 total capital program of \$110,955,773.

The amount of water produced and delivered to the system in March 2018 was 106.6 MGD, which was 5.5% higher than March 2017 and 1.1% higher than the March five-year average. For year to date, the amount of water delivered to the system is 10.8% higher than 2017, and 6.0% higher than five-year average.

There were eight chemical spills reported by ORSANCO during the month of March; six occurred upstream of Louisville Water's Zorn intake. There were no impacts on water quality and treatment.

Water Quality staff monitored 1,206 water quality parameters of a required 1,000 per federal and state regulatory requirements. There were zero violations.

Staff collected 280 compliance distribution samples. There were zero total coliform and zero *E-Coli* results. All internal water quality goals were met. Staff also collected 56 main break samples on 28 repairs in the month, of which five localized boil water advisories were issued due to field conditions and zero were issued due to water quality monitoring results. There was a total of seven water quality customer complaints, in comparison to the five-year average of 16 complaints.

As of April 4, 2018, there are approximately 3,353 residential lead service lines that are known in our service area. A total of 2,090 services are planned to be addressed in 2018, leaving a total of 1,263 known residential lead services remaining at the end of 2018.

### **Human Resources Report Given**

Mr. Terrence Spence provided a summary of recent and current activity between the Louisville Water's Labor Management and Local Union 1683 of the American Federation of State, County and Municipal Employees, AFL-CIO (the Union).

As of today, there are eight (8) active grievances: five (5) filed by one grievant, a proposal was submitted by management on March 12 to resolve all five (5) grievances and is under review by the Union; one (1) pilot program under committee review for resolution; one (1) scheduled for committee review and discussion for resolution/clarity; and, one (1) Step #4 response submitted (union voted to proceed to arbitration).

The Union President participated in the Company's strategic business planning workshop conducted by third party facilitator Raftelis Consulting on March 21 and the Company's Executive Leadership Team's off-site team building session on March 9.

The Union President and Vice President provided assistance hosting the One Water Career Fair at the Louisville Water Tower on March 23.

The Company posted one (1) regular full-time classified and one (1) temporary classified positions for the internal union personnel bidding process.

### **Information Technology Report Given**

Dr. Tom Luckett summarized the Information Technology (IT) Report for March.

IT staff continues integration support with the Ernst & Young implementer on Oracle Work & Asset Management Implementation, ensuring consistency with existing standards. Connectivity to the mobile technology partner including authentication services and system access has been successfully implemented in the test environment. This was a significant effort with both Technical Services and Application staff

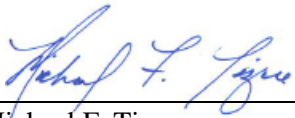
leveraging existing systems so no new server deployments were needed. New mobile tablets have been ordered for Phase 1 users.

Staff is currently evaluating the responses to the Request For Proposal (RFP) for support of Louisville Water's Oracle software suite. Final interviews were completed last week and the selection process should be completed by the end of April.

This month staff started the implementation of outsourced management of Louisville Water's network and security systems. The vendor is Volta. The implementation will be complete in thirty days.

There being no further business for the Board, Mr. Craig Willman moved to adjourn at 12:50 p.m., seconded by Ms. Tierra Kavanaugh Wayne and the motion unanimously carried.

Respectfully submitted,



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Michael F. Tighe  
Vice President, Compliance, General Counsel  
and Corporate Secretary