

Board of Water Works
REGULAR CALLED MEETING MINUTES
June 19, 2018

Board Members Present:

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

Not Present:

Mayor Greg Fischer
Dr. Sharon Kerrick

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
Ms. Kim Reed, One Water Liaison
Ms. Lisa Burnett, Director, Customer Service
Mr. Jim Grunow, Director, Engineering
Ms. Sue Purdy, Director, Finance
Ms. Jenni Schelling, Director, Internal Audit
Mr. John Baum, Manager, Accounting
Ms. Tonya Taylor, Manager, Business Operations
Mr. Matthew Griffith, Strategic Planning and Performance Specialist
Ms. Beverly Soice, Paralegal

Visitors: Scott Nickerson, Crowe Horwath
Alice Crowley, Crowe Horwath
Mark Slater, Serveline
Gerry Harstine, Serveline

The regular called meeting of the Board of Water Works (“BOWW”) was held on Tuesday, June 19, 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 11:12 a.m.

Minutes of the Previous Regular BOWW Meeting Approved

Mr. Craig Willman moved to approve the Regular Called Meeting Minutes of May 22, 2018, seconded by Mr. Paul Esselman and the motion was unanimously carried.

Report Provided by the President/Chief Executive Office

Mr. Spencer Bruce reported that the Partnership for Safe Water has recognized Louisville Water's commitment to outstanding quality. Last week at the American Water Works Association's (AWWA) annual conference, Mr. Bruce accepted an award for our efforts to maintain water quality in the distribution system.

Louisville Water produces an average of 117 million gallons of drinking water daily at our two treatment plants. In addition, there is a continued focus on maintaining water quality through the 4,200 miles of water main. In 2013, Louisville Water achieved the Phase III Director's Award for the distribution system and at the conference, the Partnership recognized our efforts to maintain this level for the past five years.

The Partnership for Safe Water is a unique cooperative effort between the Environmental Protection Agency, AWWA and other peer water associations. Water utilities subscribe to the partnership to ensure delivery of a high-quality supply of water. Louisville Water has been a subscriber since 1996 and our treatment plants are ranked as two of the top 16 in North America for achieving the Phase IV Excellence status in water quality.

Second Quarter 2018 Dividend Declared

Ms. Lynn Pearson advised Section 508 of the Series 2009 Water System Revenue Bond Resolution provides that the Louisville Water Company will pay to the Louisville / Jefferson County Revenue Commission an annual dividend on the Louisville Water Company stock owned by Louisville / Jefferson County Metro Government, Kentucky. The dividend declared for 2017, based upon estimated net income, is required to be adjusted after completion of the annual audit to reflect any difference between estimated and actual net income. The amount of such adjustments is to be paid with or deducted from the regular quarterly dividend payments in 2018.

The annual audit has been completed. Net income of \$38,905,852 requires a total 2017 dividend to Louisville / Jefferson County Metro Government, Kentucky of \$19,024,825. The total dividends paid during 2017 were \$20,827,200. The difference between the dividend paid for 2017 and the actual dividend computed and declared for 2017 is \$1,802,375. This difference will be deducted from the second quarter 2018 dividend payment as directed by Louisville Metro Office of Management and Budget.

The 2018 Annual Budget provides for a budgeted annual dividend of \$21,453,700. Mr. Esselman moved to declare the second quarterly 2018 dividend in the amount of \$3,561,050 after the deduction of \$1,802,375 for the adjustment for 2017.

WHEREAS, it has been the long-established policy of Louisville Water Company to pay a dividend on its common stock related to its net earnings, after giving consideration to any requirements for debt amortization and bond reserve requirements, and

WHEREAS, a covenant written into the 2009 Water System Revenue Bond Resolution sets forth a formula for determining the amount of any such dividend, and

WHEREAS, such covenant requires payment of a dividend each year based on estimated annual adjusted net income, with adjustment upon completion of the annual audit to reflect any difference between estimated and actual net income, such adjustment to be made in the quarterly dividend payments of the following year, and

WHEREAS, an estimated dividend of \$20,827,200 was paid in 2017 based on estimated Adjusted Net Income of \$43,740,600 and

WHEREAS, the annual audit for 2017 has now been completed which establishes the full dividend for 2017 as \$19,024,825 based on actual Adjusted Net Income of \$35,905,852, it would be in order at this time to amend the Board resolution of December 18, 2017 to decrease the 2017 annual dividend by \$1,802,375 from \$20,827,200 to \$19,024,825, the difference to be deducted from the second quarterly 2018 dividend payment, as directed by Louisville Metro, and

WHEREAS, the 2009 Bond Resolution requires that the Board of Water Works pay a quarterly dividend based on the formula contained therein, such quarterly payments to be as nearly equal in amount as possible, and

WHEREAS, the 2018 Louisville Water Company Annual Budget reflects the 2018 annual dividend to be \$21,453,700, it would be in order at this time to declare a regular second quarter dividend of \$5,363,425; therefore, be it

RESOLVED, the 2017 annual payment is decreased from \$20,827,200 to \$19,024,825 and the difference of \$1,802,375 will be deducted from the second quarterly 2018 dividend payment, and **RESOLVED**, the regular second quarter 2018 dividend of \$5,363,425 is hereby declared, and further

RESOLVED, that the President of the Company hereby is authorized and directed to pay \$3,561,050 to the Louisville / Jefferson County Revenue Commission on June 29, 2018, this being the second quarterly dividend for 2018.

Dr. Sunny Dronawat seconded and the motion unanimously carried.

2017 Financial Audit Report

Mr. Scott Nickerson, a partner with the independent auditing firm of Crowe Horwath (Crowe) advised that Crowe conducted an audit of Louisville Water's financial statements for the year ended December 31, 2017 and has issued an unqualified opinion. He reviewed the financial highlights in the Management Discussion & Analysis (MD&A). He complimented staff on the thorough, well written MD&A.

Mr. Nickerson advised Crowe has provided two letters, one regarding internal controls and one regarding the manner in which the audit was conducted. The first letter provides an opinion on internal control over financial reporting. Crowe found no significant deficiencies or material weaknesses. He also stated no significant difficulties were encountered during the audit and no disagreements with management. Mr. Nickerson commented that the Board could rely on the monthly reporting provided by staff.

Mr. Nickerson answered questions of the Board members.

Ms. Pearson thanked Mr. John Baum and Ms. Sue Purdy for their work on the financial audit.

Staff distributed copies of Crowe's audited financial report for the year ending 2017 as well as copies of Louisville Water's 2017 Annual Report.

Mr. Mershon thanked Ms. Kelley Dearing Smith for including an acknowledgement to Ms. Marita Willis and Mr. Glenn Sullivan, prior Directors of the BOWW who rolled off the Board during 2017.

Mr. Esselman moved to approve the 2017 Annual Report. Ms. Tierra Kavanaugh Wayne, seconded and the motion unanimously carried.

Scope and Contract Increase Approved for Project No. 14517: Greenwood Road 30' Water Main Condition Assessment and Establish New Budget of Record

Mr. Tim Kraus advised Louisville Water's 2016 Condition Assessment Project was initiated to perform electromagnetic condition assessment on 14.27 miles of 30" and 60" prestressed concrete cylinder pipe (PCCP) along the Greenwood Rd, Tyler-Durrett Lane, and Palatka Road corridors. Timely assessment results in the repair, rehabilitation, and/or replacement of distressed PCCP pipe sections in advance of catastrophic failures. The program also replaces or rehabilitates valves, air valves, and drain assemblies to ensure these critical appurtenances are functioning properly.

Louisville Water's condition assessment contractor, Pure Technologies, completed the inspection of the scheduled mains except for 2.84 miles of the 30" along the Greenwood Road corridor in June 2016 due to low pressure issues in the south Dixie Hwy area and an inoperable 30" valve at the intersection of Palatka Road and Cardinal Hill Road. In addition, a section of the distribution system east of Dixie Hwy is only served by the Greenwood Rd 30" main. When the 30" is out-of-service, ninety-eight (98) customers do not have water service. In order to complete the inspection of the Greenwood 30", a distribution system grid-tie on St. Andrews Church Road west of Sand Drive and replacement of the inoperable 30" valve at the intersection of Palatka Road and Cardinal Hill Road were recently completed.

Pure Technologies remobilized on May 14, 2018, to complete the robotic inspection. During the isolation of the Greenwood 30", the pressures in the south Dixie Hwy area dropped to an unacceptable level. The decision was made to switch the inspection platform method from robotic to free-swimming. The switch allows the main to remain in service thus negating the low-pressure concerns.

A change order quote was requested from Pure Technologies to inspect the remaining section of the Greenwood 30" with the free-swimming PipeDiver apparatus. The change order was received on June 1, 2018, in the amount of \$409,863.78 and was 18.45% lower than the Project Engineer's cost estimate. Following staff review, the change order was found to be acceptable to complete the remaining inspection work.

Mr. Esselman moved to expand the project scope to include the items listed, the contract change order for Pure Technologies be approved setting a new contract amount of \$685,857.98, and the budget of record for the Condition 2016-PCCP-Greenwood Road, Tyler-Durrett Lane, Palatka Road Project be increased to \$6,282,839. Ms. Wayne seconded and the motion unanimously carried.

Increase Approved for Project 15023: BE Payne New Filter Influent Valves

Mr. Kraus reported that the BE Payne Water Treatment Plant (BEPWTP) filter influent valves have reached the end of their useful life. These valves are original to the plant and have been in-service since 1977. Multiple repairs on these valves have occurred to maintain operability. A recent inspection confirmed the poor conditions of these valves and recommended that these valves be replaced before plant operation is compromised.

In 2017, a project was developed to remove and install new filter influent valves for all eight (8) filters at the BEPWTP. The original project proposal was developed internally and was based on the best engineering judgement of the project manager. As the project was investigated further, it became clear that original estimates for both equipment and installation were low. Upgrades including specialized materials for the valves, valve seats, seals and adaptor flanges were deemed necessary by the project manager to maximize asset life. It was also determined that the original estimate underestimated the amount of diving that would be required for the installation of these valves.

After a brief discussion, Mr. Esselmen moved to increase the project budget of Project 15023: BEP – New Filter Influent Valves by \$403,000 to \$943,000. Ms. Wayne seconded and the motion unanimously carried.

Leak Protection

Mr. Bruce advised this matter will be discussed during closed session.

Closed Session

Mr. Willman moved to go into closed session at 11:55 a.m. pursuant to KRS 61.810(1)(g) to discuss a specific business proposal, Dr. Dronawat seconded and the motion unanimously carried.

Resume Open Session

Ms. Wayne moved to return to open session at 1:45 p.m., seconded by Mr. Willman and the motion unanimously carried. No action was taken in closed session.

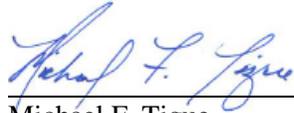
Physical Security

In the interest of time, the Board decided to defer this item until the next BOWW meeting.

The Board took the remaining agenda items under advisement, which included the Oldham County Advisory Board Report and the other Officers' Reports.

There being no further business for the Board, Mr. Esselman moved to adjourn at 1:55 p.m., seconded by Mr. Willman and the motion unanimously carried.

Respectfully submitted,



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