

Board Of Water Works
REGULAR CALLED MEETING MINUTES
June 22, 2021
Virtual Meeting

Board Members Present:

Dr. Sharon Kerrick, Chair
Dr. Sundeep “Sunny” Dronawat, Vice Chair
Mr. Greg Dearing
Mr. Paul Esselman
Ms. Jennifer Fust-Rutherford
Mr. William E. Summers, IV

Not Present:

Greg Fischer

Others Present:

Mr. Spencer Bruce, President and Chief Executive Officer
Mr. Aaron Jackson, Budget Director, 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
Dr. Jeff Knott, Vice President, Information Technology
Mr. Tim Kraus, Vice President, Engineering and Production Operations, and Chief Engineer
Mr. Terrence Spence, Vice President, Human Resources and Labor Relations
Mr. Michael Tigue, Vice President, General Counsel and Corporate Secretary
Mr. Adam Carter, Union President, Local 1683, AFSCME
Ms. Sue Purdy, Director, Accounting and Finance
Ms. Jenni Schelling, Director, Internal Audit
Mr. Jeremy Stephens, Director, Risk Management
Ms. Shannon Tivitt, Director, Project Liaison, One Water
Mr. Brian Sturgeon, Computer Network Administrator
Ms. Beverly Soice, Paralegal

Visitors:

The regular called meeting of the Board of Water Works (BOWW) was held on Tuesday, June 22, 2021 by video teleconference via Zoom. Chair, Dr. Sharon Kerrick called the meeting to order at 11:00 a.m.

Minutes of the Previous Regular BOWW Meeting Approved

William Summers moved to approve the Regular Monthly Meeting Minutes of May 18, 2021 as presented, seconded by Greg Dearing and the motion unanimously carried.

Report Provided by the President/Chief Executive Officer

Spencer Bruce advised that in May, Louisville Water successfully awarded its’ first Small Business Equity Program Sheltered Market bid to Seven Seas Construction. Seven Seas is a local certified minority black owned firm. The success of this bid was the result of teamwork of staff in Communications, Engineering, Legal, and Procurement.

The Small Business Equity Program goals are to promote equitable economic opportunities in the Louisville market area and recognize the importance of small businesses in the local economy. Louisville Water launched this program in September 2020 and to date, there are 50 participants.

Six additional construction projects have been identified to be bid in the Small Business Equity Program Sheltered Market by the end of the year. We are proud of the success and plan to continue to promote and provide training workshops to local small businesses.

Second Quarter 2021 Dividend Declared

In Lynn Pearson's absence, Sue Purdy presented the proposed second quarter 2021 dividend.

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 2020, 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 2021.

The annual audit has been completed. Net income of \$33,044,204 requires a total 2020 dividend to Louisville / Jefferson County Metro Government, Kentucky of \$18,542,855. The total dividends paid during 2020 were \$20,424,641. The difference between the dividend paid for 2020 and the actual dividend computed and declared for 2020 is \$1,881,786. A portion of the difference will be deducted from the second quarter 2021 dividend payment and the balance from the fourth quarter 2021 dividend payment as directed by Louisville Metro Office of Management and Budget.

The proposed resolution provides for a total quarterly payment of \$3,250,053.50 after the deduction of \$1,456,786 for the initial adjustment for 2020.

Paul Esselman moved to declare the second quarterly 2021 dividend in the amount of \$4,706,839.50.

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 \$20,424,641 was paid in 2020 based on estimated Adjusted Net Income of \$39,746,000 and

WHEREAS, the annual audit for 2020 has now been completed which establishes the full dividend for 2020 as \$18,542,855 based on actual Adjusted Net Income of \$33,044,204, it would be in order at this time to amend the Board resolution of December 15, 2020 to decrease the 2020 annual dividend by \$1,881,786 from \$20,424,641 to \$18,542,855, a portion of the difference to be deducted from the second quarterly 2021 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 2021 Louisville Water Company Annual Budget reflects the 2021 annual dividend to be \$18,827,358, it would be in order at this time to declare a regular second quarter dividend of \$4,706,839.50; therefore, be it

RESOLVED, the 2020 annual payment is decreased from \$20,424,641 to \$18,542,855 and \$1,456,786 of the total difference of \$1,881,786 will be deducted from the second quarterly 2021 dividend payment, and

RESOLVED, the regular second quarter 2021 dividend of \$4,706,839.50 is hereby declared, and further

RESOLVED, that the President of the Company hereby is authorized and directed to pay \$3,250,053.50 to the Louisville / Jefferson County Revenue Commission on June 30, 2021, this being the second quarterly dividend for 2021.

Mr. Summers seconded and the motion unanimously carried.

Contract Awarded for Project 16212–Belmar Drive Area Water Main Replacement Project

Tim Kraus advised that the Belmar Drive Project consist of 6,040 linear feet of distribution water main replacement, with pipe sizes ranging from 12-inch diameter to 4-inch diameter along seven different streets located in the south-central end of Louisville Metro. These mains were selected for replacement utilizing our cohort analysis paired with a net present value analysis to select candidates for replacement. The mains are of the same vintage and experiencing failures in similar corrosive soils, which tends to be a major driver for pipe failure in our distribution system.

The apparent low bid for this project is \$1,866,200, which is 21.2% higher than the engineers estimate of \$1,470,000. This difference is due to the increase in PVC and ductile iron materials.

Mr. Dearing moved to award the contract for the Belmar Drive Area Water Main Replacement Project to Southern Pipeline Company. Mr. Summer seconded and the motion unanimously carried.

Customer Delinquency Update and Plan Given

Dave Vogel provided a summary of modifications made to regular operations during the COVID-19 pandemic which included suspending disconnections for non-payment; the Board of Water Works approving special payments to the Louisville Water Foundation for the Customer Assistance Program and the Drops of Kindness Campaign; introducing Promise Pay to our customers; and, assisting Metro with the State Healthy at Home Fund Distribution of \$1.4MM and the Metro Grant Fund Distribution of \$4.0MM.

Mr. Vogel discussed the anticipated challenges we expect to face when we return to normal operations. He then explained planned efforts to mitigate the expected impact.

Mr. Vogel asked the Board members to forward any complaints they receive to him.

Enterprise Risk Management Report Given

Michael Tigue introduced Louisville Water's Director of Risk Management, Jeremy Stephens. Mr. Stephens provided an overview of Risk Management at Louisville Water.

Oldham County Advisory Board

Mr. Vogel provided a summary of the matters discussed at the Oldham County Advisory Board meeting held on May 27, 2021.

Financial Report Given

In Lynn Pearson's absence, Ms. Purdy provided a summary of the Financial Report.

Financial results are favorable for May with total consumption and water revenue coming in higher than budget and total operating and non-operating expenses coming in below budget. These favorable budget variances are only partially offset by unfavorable variances in other operating revenue and non-operating income. As a result, net income for the month exceeds budget by \$584,000.

Consumption of 2.6 billion gallons for May is 61 million gallons higher than budget, and 429 million gallons higher than May 2020. Residential, irrigation and wholesale customer classes all contributed to the favorable budget variance for the month. Year-to-date, consumption is 12.2 billion gallons and is on budget through May with the residential, irrigation and wholesale classes being over budget. For the year-to-date period, consumption is 3.9% higher than prior year, mainly a result of the strength of wholesale.

Water Revenue for May 2021 is \$284,000 higher than budget and \$2.3 million higher than the prior year. Residential and wholesale are the main drivers of the favorable budget variance for May. For the year-to-date period, water revenue is 0.2% higher than budget and 5.7% higher than prior year levels.

Other Operating Revenue for May is \$234,000 lower than budget and \$216,000 lower than May 2020. The variance to budget is due to shortfalls in late charges and service deactivation fees, slightly offset by higher cross connection fees. The unfavorable variance to prior year is driven by lower contract operations revenue slightly offset by higher cross connection fees and service deactivation fees. Year-to-date, other operating revenue is \$424,000 below budget and \$678,000 less than prior year. The year-to-date variance to budget is primarily due to lower revenue from late charges and service deactivation fees, partially offset by higher consulting services. The variance to prior year for the year-to-date period is driven by lower late charges, service deactivation fees and contract operations revenue offset by higher revenue from cross connection, consulting services, service line protection and sewer billing.

Operating and Maintenance Expenses for May are \$337,000 lower than budget and \$102,000 higher than May 2020. The May variance to budget is primarily due to lower labor and labor related expenses, utilities, materials and supplies and contractual services. These favorable variances are slightly offset by higher bad debt expenses for the month. The unfavorable variance to May 2020 is driven by higher bad debt and insurance reserves. May year-to-date operating and maintenance expenses are \$1.7 million lower than budget and \$524,000 higher than year-ago levels. Labor and labor related, utilities, contractual services, materials and supplies, and bad debt costs were all lower than budget through May, with the favorable variance only slightly offset by an overage in insurance reserves. The variance to prior year through May is mainly due to higher contractual services, labor and labor related expenses and insurance reserves, offset by lower bad debt expense, equipment maintenance, materials and supplies and miscellaneous expense.

Total Operating Expenses for May are \$474,000 lower than budget and \$196,000 higher than prior year. Total operating expenses year-to-date are 3.5% lower than budget and 2.8% over year-ago

levels. The May and year-to-date budget variances are primarily the result of lower operating and maintenance expense.

Non-Operating Income through May is \$11,000 higher than budget and \$421,000 less than May 2020. The favorable variance to budget is due to the transfer of earnings from the bond escrow fund to our current bond service accounts. This additional income was not factored into the budget. The variance to prior year is due to lower interest earned as a result of market rates declining significantly due to the pandemic's impact on the economy, along with a lower dollar amount invested than in May 2020.

Non-Operating Expense through May is \$305,000 less than budgeted and \$493,000 lower than year-ago levels. Variance to budget is due to higher amounts of interest capitalized than anticipated. Interest expense is lower than prior year mainly due to principal payments on bonds made in 2020.

Communications and Marketing Report Given

Kelley Dearing Smith stated in addition to the items mentioned in her letter, Louisville Water's annual report has been completed and will be provided to the Board at the July meeting.

Customer Service and Distribution Operations Report Given

Mr. Vogel advised that our contractor has resumed installation of endpoints for the Advanced Metering Infrastructure project. There are now approximately 40,000 completed installations.

Engineering and Production Operations Report Given

Mr. Kraus advised the amount of water produced and delivered to the system in May 2021 was 126.4 MGD, which was 13.5% higher than May 2020 and 8.7% higher than the May five-year average. For year-to-date, the amount of water delivered to the system was 7.2% higher than 2020, and 6.7% higher than the five-year average.

Herbicide run-off in the river impacted treatment for 16 days. All treatment goals continue to be achieved.

Human Resources Report Given

Terrence Spence advised that currently, there is only one active grievance filed by the Union and it is in discussion for possible resolution.

Mr. Dearing asked if Louisville Water is experiencing any difficulty in filling open positions. Mr. Spence replied that yes, we have experienced difficulties filling some positions.

Information Technology Report Given

Jeff Knott stated that staff will be concentrating on a regular cadence for testing of the Disaster Recovery (DR) plan. We will be migrating off Oracle's version of high availability for our main databases to a comparable solution that will also enable our targets of a ten minute recovery point objective (RPO) and a ten minute recovery time objective (RTO).

A project to remove McAfee and AMP security products and replace them with SentinelOne is underway. The rollout method is currently being tested to ensure limited disruption to the business. This will be completed in the 2nd quarter 2021. SentinelOne will also add next generation end point protection for increased security.

A second data line from CenturyLink to Franklin, TN has been added to our network. This is providing a second path to our DR site and will be used for both high availability and extra capacity for data transfers to our DR site in Franklin.

An Oracle PeopleSoft upgrade is underway and on track for completion by the end of July.

Upgrade and enhancement projects for our Oracle Customer Care and Billing (CC&B), Oracle E-Business Suite (EBS), and Oracle Work Asset Management (WAM)/KloudGin solutions are in progress and on track.

Ms. Dearing Smith advised that a conversation at a swim class resulted in a Louisville Water partnership with two local swimmers competing for a spot on Team USA at the Tokyo Olympics. The swimmers appeared in a video endorsing the quality and value of Louisville Pure Tap™. The video is part of a social media and earned media campaign and was played for the Board at the close of the meeting.

There being no further business, the meeting adjourned at 12:45 p.m.

Respectfully submitted,



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