

**Board Of Water Works
REGULAR CALLED MEETING MINUTES
September 21, 2021
Virtual Meeting**

Board Members Present:

Dr. Sharon Kerrick, Chair
Mr. Greg Dearing
Mr. Paul Esselman
Ms. Jennifer Fust-Rutherford
Mr. William E. Summers, IV

Not Present:

Greg Fischer
Dr. Sundeep “Sunny” Dronawat, Vice Chair

Others Present:

Mr. Spencer Bruce, President and Chief Executive Officer
Mr. Aaron Jackson, Chief Financial Officer, Louisville Metro
Mr. Dave Vogel, Executive Vice President, Customer Service and Distribution Operations
Mr. Jeff Knott, Vice President, Information Technology
Mr. Tim Kraus, Vice President, Engineering and Production Operations, and Chief Engineer
Ms. Lynn Pearson, Vice President and Treasurer
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
Mr. Jeremy Raney, Director, Engineering
Ms. Jenni Schelling, Director, Internal Audit
Ms. Shannon Tivitt, Director, Project Liaison, One Water
Mr. Obe Everett, Program Manager, Customer Information System
Mr. Jordan Basham, Manager, Infrastructure Management
Mr. Matthew Griffith, Manager, Strategic Business
Mr. Scott Clark, AMI Analyst
Mr. Chris Keil, Project Engineer
Mr. Brian Sturgeon, Computer Network Administrator
Ms. Beverly Soice, Paralegal

Visitors:

David Haas, Hazen and Sawyer
Russ Dalton, Hazen and Sawyer
Trey DeRoche, Hazen and Sawyer
Joe Crea, Raftelis

The regular called meeting of the Board of Water Works (BOWW) was held on Tuesday, August 24, 2021 by video teleconference via Zoom. Chair, Dr. Sharon Kerrick called the meeting to order at 11:03 a.m.

Minutes of the Previous Regular BOWW Meeting Approved

Aaron Jackson asked that the minutes be edited to reflect that he was in attendance at the August 24, 2021 meeting.

William Summers moved to approve the Regular Monthly Meeting Minutes of August 24, 2021 with the change requested by Mr. Jackson. Greg Dearing seconded and the motion unanimously carried.

Report Provided by the President/Chief Executive Officer

Spencer Bruce proudly recognized two Louisville Water employees who received prominent awards in the month of August.

Scott Clark received the Fuller Award, one of the most prestigious honors in the water industry. Scott is an AMI Analyst who came to Louisville Water two years ago after spending most of his career at Hardin County Water District No. 2 and a local engineering firm. Scott's work has helped improve customer service delivery and overall customer satisfaction. Named for George Warren Fuller, this award honors outstanding achievement in the water industry. Fuller is known as the "father of sanitary engineering" and did his landmark experiments in water treatment at Louisville Water in 1896.

Obe Everett was recognized with the Customer Service Week Expanding Excellence Rising Star Award. This award recognizes an emerging leader in utility customer service and/or supporting information technology (IT) whose record reflects ongoing contributions to their company, exceptional and/or accelerated growth and increased levels of responsibility. Obe was part of Louisville Water's implementation team that successfully installed multiple large IT application systems such as Customer Care & Billing, Work and Asset Management and Workforce Management.

Mr. Bruce thanked Scott and Obe for their dedicated service to both Louisville Water and the water industry.

Dr. Kerrick and the Board thanked the employees for their hard work and dedication.

Third Quarter 2021 Dividend Declared

Lynn Pearson advised that 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 was deducted from the second quarter 2021 dividend payment and the balance will be deducted from the fourth quarter 2021 dividend payment as directed by Louisville Metro Office of Management and Budget.

Mr. Summers moved to declare the third quarterly 2021 dividend in the amount of \$4,706,839.50. Jennifer Fust-Rutherford seconded and the motion unanimously carried.

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, and the Board resolution of December 15, 2020 was amended on June 22, 2021 to decrease the 2021 annual dividend by \$1,881,786 from \$20,424,641 to \$18,542,855, and \$1,456,786 of the difference was deducted from the second quarterly 2021 dividend payment, and the balance will be deducted from the fourth quarter 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 third quarter dividend of \$4,706.839.50; therefore, be it

RESOLVED, the regular third 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 \$4,706.839.50 to the Louisville / Jefferson County Revenue Commission on September 30, 2021, this being the third quarterly dividend for 2021.

2021–2040 Comprehensive Facility Plan Accepted

Tim Kraus introduced Jordan Basham who provided an overview of the 2021–2040 Comprehensive Facility Plan (CFP).

In the Fall of 2020, Louisville Water contracted with Hazen and Sawyer, the Company's Engineer of Record to develop the 2021-2040 CFP. The CFP is Louisville Water's system management roadmap for the next 20 years and serves as a third-party assessment of the Company's current asset management and capital investment planning efforts.

This 20-year plan recommends significant capital outlays to maintain and upgrade the existing infrastructure and technology. The recommendations in the CFP will be evaluated for incorporation into the Company's long-range CIP. The CIP, which is updated annually, will be utilized in preparing the financial plan and pro forma that is presented to the Board each year.

Mr. Basham introduced David Haas, Trey DeRoche, and Joe Crea with Hazan and Sawyer and Russ Dalton with Raftelis who summarized each component of the plan.

The consultants responded to questions presented by the Board.

Mr. Basham thanked his staff, Chris Keil and members of Hazen & Sawyer and Raftelis for their work on the plan.

Mr. Jordan advised that staff recommends that the BOWW accept the 2021-2040 CFP as the 20-year planning guidance document for Louisville Water.

Dr. Kerrick thanked Louisville Water staff and the consultants for their hard work developing the plan and for the presentation.

Mr. Dearing moved to accept the 2021-2040 CFP as the 20-year facility planning guidance document for the Company. Paul Esselman seconded and the motion unanimously carried.

2021 Customer Assistance Funding to the Louisville Water Foundation Approved

Dave Vogel advised that each year Louisville Water makes a donation to the Louisville Water Foundation to use for water bill payment assistance and other water projects that serve to advance the Foundation's mission. The donation from Louisville Water has typically been funded by setting aside a portion of the HomeServe program revenue from the previous year. The largest percentage of the Foundation's annual contributions supports the Customer Assistance Program, "Drops of Kindness". MSD, HomeServe and employees also contribute funds for this effort. The recommended budgeted donation for 2021 is \$250,000.

Mr. Dearing moved to donate \$250,000 to the Louisville Water Foundation to fund the 2021 Customer Assistance Program and other water-related charitable activities. Mr. Summers seconded and the motion unanimously carried.

2222 Johnson Road Property Declared Surplus and Advertisement for Sale Approved

Mr. Kraus advised staff is requesting that the Board declare the vacant property located at 2222 Johnson Road as a surplus asset. This 8.48-acre parcel was purchased in 2005 as a potential tank site. After further evaluation, Louisville Water chose to construct a new tank on a different property along Old Henry Road. Louisville Water believes that there is no longer an operational need for the property at 2222 Johnson Road.

Hazen and Sawyer, the Company's Engineer of Record evaluated this property and issued a Retirement of Asset letter concurring with the position that 2222 Johnson Road can be declared as surplus property and advertised on the open market.

Mr. Esselman moved to declare this asset as surplus and authorize staff to proceed with advertisement on the open market. Ms. Fust-Rutherford seconded and the motion unanimously carried.

10311 Whipps Mill Road Property Declared Surplus and Advertisement for Sale Approved

Mr. Kraus advised that staff is requesting that the Board declare the vacant property adjacent to 10311 Whipps Mill Road as a surplus asset. This 0.45-acre parcel was purchased in 1996 as a potential tank site. After further evaluation, Louisville Water chose to construct a new tank on a different property along Old Henry Road. Louisville Water believes that there is no longer an operational need for the property adjacent to 10311 Whipps Mill Road.

Hazen and Sawyer, the Company's Engineer of Record evaluated this property and issued a Retirement of Asset letter concurring with the position that the property adjacent to 10311 Whipps Mill Road can be declared as surplus property and advertised on the open market.

Mr. Esselman moved to declare this asset as surplus and authorize staff to proceed with advertisement on the open market. Mr. Summers seconded and the motion unanimously carried.

Marketing Committee Report Given

Mr. Summers provided a summary of the discussions held at the Marketing Committee meeting held on September 1, 2021 which included a report on regionalization and strategic initiatives.

Compensation and Benefits Committee Report Given

Ms. Fust-Rutherford stated that during the Compensation and Benefits Committee meeting held on Monday, September 20, Mr. Bruce provided a brief summary of the current and anticipated year-end financial position of the Company and advised that he anticipates Louisville Water will meet or slightly exceed the budgeted dividend to its owner.

He also advised that following discussions held by the Executive Leadership Team, he proposed that all full-time employees (union and non-union) as of April 1, 2021 be awarded \$2,500 in 2021 and five COVID-19 appreciation days to be used during 2022. Employees hired after April 1, 2021 and part-time employees would receive prorated awards and appreciation days based on their schedule.

Mr. Bruce added that due to operations and maintenance expenses being underbudget, funds exist in the current budget to cover the cost of the award. O&M expenses for the year are under budget due to lower labor and labor related expenses, in addition to other factors. The Company currently has 42 open positions which have not been filled and current employees are taking on extra work and responsibilities as a result.

Ms. Fust-Rutherford advised that the committee moved to bring the proposed awards to the BOWW for its consideration.

After a short discussion, Mr. Esselman moved to approve the COVID-19 monetary award and appreciation days as requested. Mr. Summers seconded and the motion unanimously carried.

Financial Report Given

Ms. Pearson stated the Company had strong financial results in August, with water revenue, other operating revenue and operating and non-operating expenses performing very favorably to budget. These positive budget variances were offset only to a small degree by an unfavorable variance in non-operating income. As a result, net income for August is \$1.8 million higher than budget.

Consumption of 3.5 billion gallons for August is 125 million gallons higher than budget, and 365 million gallons higher than August 2020. Commercial, irrigation and wholesale customer classes are higher than budget in August. Year-to-date, consumption is 76 million gallons under budget driven by shortfalls in residential, commercial, industrial and Metro government offset to a great extent by favorable variances in wholesale and irrigation. For the year-to-date period, consumption is 4.2% higher than prior year, with all customer classes higher with the exception of residential and private fire service.

Water Revenue for August 2021 is \$370,000 higher than budget and \$2.2 million higher than the prior year. Irrigation and wholesale are the main drivers of the favorable budget variance for August. For the year-to-date period, water revenue is 0.6% lower than budget and 5.8% higher

than prior year levels.

Other Operating Revenue for August is \$57,000 higher than budget and \$397,000 higher than August 2020. The variance to budget is due to higher contract operations, late charge and property lease revenue, somewhat offset by lower service deactivation fees. The favorable variance to prior year is driven by higher late charges, service deactivation fees and contract operations revenue. Year-to-date, other operating revenue is \$445,000 below budget and \$28,000 less than prior year. The year-to-date variance to budget is primarily due to lower revenue from late charges and service deactivation fees, which were budgeted to resume in April. These shortfalls were partially offset by higher revenue from contract operations, property leases and sale of materials. The variance to prior year for the year-to-date period is driven by lower service deactivation fees and contract operations revenue, though these shortfalls were largely offset by higher revenue in most other categories including cross connection fees, late charges, consulting services and service line protection.

Operating and Maintenance Expenses for August are \$1.1 million lower than budget and \$276,000 lower than August 2020. The August variance to budget is primarily due to lower insurance reserves, bad debt, contractual services and labor and labor related costs. The favorable variance to August 2020 is driven by lower insurance reserves, bad debt and equipment maintenance expenses partially offset by higher labor and labor related expenses. Insurance reserves were lowered in August to adjust the amount receivable from our insurance carrier on two workers compensation claims. Bad debt was impacted by new grant funds for customer assistance that became available this month. August year-to-date operating and maintenance expenses are \$3.0 million lower than budget and \$1.2 million higher than year-ago levels. Labor and labor related, bad debt, contractual services, materials and supplies, and insurance reserves were all considerably lower than budget through August. The variance to prior year for the year-to-date period is mainly due to higher contractual services, labor and labor related, utilities and chemical costs, offset by lower bad debt expense, insurance reserves and equipment maintenance costs.

Total Operating Expenses for August are \$1.3 million lower than budget and \$279,000 lower than prior year. Total operating expenses year-to-date are 4.0% lower than budget and 3.3% over year-ago levels. The August budget variance is primarily the result of lower operating and maintenance expenses. The year-to-date budget variance is primarily due to lower operating and maintenance expenses along with lower depreciation and loss from disposition of property, with the latter two mostly due to timing.

Non-Operating Income through August is \$75,000 lower than budget and \$745,000 less than prior year. The budget shortfall is the result of the termination of two repurchase agreements held in the bond reserve account which had very favorable rates as compared to the current market rates in which the funds were reinvested. 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 2020.

Non-Operating Expense through August is \$523,000 less than budgeted and \$947,000 lower than year-ago levels. Variance to budget is due to higher amounts of interest capitalized than anticipated. Interest expense through August is lower than prior year mainly due to higher capitalized interest along with lower principal payments on bonds made in 2020.

Communication and Marketing Report Given

Kelley Dearing Smith advised that guests from five states learned of Louisville Water's connection with the Kentucky Bourbon industry during a water tasting and tour at Louisville Water Tower Park. The guests were part of a "Bourbon Symposium" with Bourbon Women.

Louisville Water continues to see a steady increase in brand ambassadors, customers who share positive comments about our Company either on social media or in person. Two recent examples from social media: a local baker made a cake with a Louisville Water theme for the Kentucky State Fair and shared her masterpiece on Facebook; UofL Athletics put Louisville Pure Tap bottles in its media room, one sportscaster thanked Louisville Water on Twitter for keeping him hydrated.

In customer newsletters and with local media, staff focused on highlighting why many bills are higher. The proactive communication is key in strengthening public trust. Overall, traditional and social media reach soared to 237 million people in August, largely due to national coverage of the announcement of the Frankfort Avenue water main replacement project.

Staff participated in more than 20 events in August that featured Louisville Pure Tap™ and education, reaching more than 22,000 people. The annual Walking Wednesday program at the Crescent Hill Reservoir and Gatehouse ended in August with our highest attendance of the year. We have developed a good partnership with JCPS to help with making water available to students by providing refillable bottles.

Recently, Louisville Water partnered with the Louisville Sports Commission to offer the first race in the Fall Runathon series, the Pure Tap 5k. This family-friendly race starts and ends at Louisville Water Tower Park.

Customer Service and Distribution Operations Report Given

Mr. Vogel advised the Call Center operations received 28,906 calls in August with an abandonment rate of 11.1%. The average speed of answer (ASA) came in at 4:03 m:s for the month which is lower than last year and the five-year average. We have started to see the impact of disconnection activity on our Call Center performance, and we continue our efforts to bring in more staff. We are also working to add a feature to the IVR to allow customers to self-serve for pay plans and other functionality. Call Center staff attended Pure Connect portal training on July 31 with plans to launch the portal in December. Data from the most recent Metro grant effort shows that we have helped 1,782 customers for a total distribution of \$850,000.

The level of disconnections for non-payment continued to ramp up in August with 1,064. Estimations were slightly higher than last year and the five-year average and finished at 2.69%.

We have had a significant challenge with staffing the Meter Reading area and are planning on bringing in a contractor to assist. Five contractors responded to our Request For Proposal and we are going through the evaluation process. We are using a planning tool to help stay current and offering overtime when needed to fill the gaps.

There are 53,156 AMI Endpoints in the ground with 97.7% registered as of the end of August. All customers in Cycle 42 received their last bi-monthly bill in August and will receive their first monthly bill in mid-September.

Engineering and Production Operations Report Given

Tim Kraus stated that 2021 capital program expenditures through August totaled \$46,549,885, which is \$1,123,877 or 2.36% lower than the same period last year. These expenditures equate to 39.73% of the 2021 total capital program of \$117,158,160.

All water-quality goals for August 2021 were achieved. No water-quality violations occurred.

Human Resources Report Given

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

Mr. Spence advised that the COVID-19 vaccination rate of Louisville Water employees is approximately 30% to 35%. This figure is based on the number of employees who have provided a copy of their vaccination cards to HR. He stated there are most likely more employees that have been vaccinated but have not provided copies of their cards to HR.

Leadership has developed an incentive program to encourage employees to get a COVID-19 vaccine shot. The program will be rolled out soon. Company policies and procedure are also being revised to encourage employees to get vaccinated.

Legal Report

Michael Tigue stated he had nothing to report this month.

Information Technology Report Given

In the interest of time, Jeff Knott advised that one thing he and his staff have learned as the result of the pandemic is that outside consultants do not have to be at our location for an implementation. We can save money by conducting implementations with the consultants working remotely and not have to incur the expense of airfares and lodging.

There being no further business, Ms. Fust-Rutherford moved to adjourn the meeting at 12:41 pm. Mr. Summer seconded and the motion unanimously carried.

Respectfully submitted,



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