

Board Of Water Works
REGULAR CALLED MEETING MINUTES
November 20, 2018

Board Members Present:

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

Not Present:

Mayor Greg Fischer
Dr. Sharon Kerrick

Others Present:

Mr. Spencer Bruce, President and Chief Executive Officer
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
Ms. Lynn Pearson, Vice President, Finance and Treasurer
Mr. Terrence Spence, Vice President, Human Resources and Labor Relations
Mr. Michael Tighe, Vice President, General Counsel and Corporate Secretary
Mr. Kevin Kastensmidt, Director, Information Technology
Ms. Sue Purdy, Director, Finance and Accounting
Ms. Kim Reed, Director, One Water Liaison
Ms. Jenni Schelling, Director, Internal Audit
Mr. Andrew Winslow, Supervisor, Budget, Rates and Analysis
Mr. Mathew Griffith, Strategic Planning & Performance Specialist
Ms. Ramiza Carpenter, Senior Accountant
Dr. Rengao Song, Director, Water Quality & Research
Mr. Mark Campbell, Scientist II
Ms. Beverly Soice, Paralegal

Visitors: Ms. Tina Masters-Odum, Badger Meters

The regular called meeting of the Board of Water Works (BOWW) was held on Tuesday, October 23, 2018 at the Louisville Water Company (Louisville Water) located at 550 South Third Street, Louisville, Kentucky. Chair Creighton Mershon called the meeting to order at 11:05 a.m.

Minutes of the Previous Regular BOWW Meeting Approved

Dr. Sunny Dronawat moved to approve the Regular Called Meeting Minutes of October 23, 2018, seconded by Mr. Craig Willman and the motion unanimously carried.

Mr. Creighton Mershon acknowledged Ms. Tina Masters-Odum from Badger Meters, Inc. and asked if she had any questions.

Ms. Odum asked the status of the award for the Advanced Metering Infrastructure project. She stated that she understands it has been awarded and inquired who decides which meters will be used.

Mr. Michael Tigie responded that the contract has not yet been finalized and negotiations are ongoing, and it is Louisville Water's policy not to discuss contracts until they have been finalized.

Report Provided by the President/Chief Executive Office

Mr. Spencer Bruce reported that staff met with representatives of J.D. Power on Friday, November 16 at which time they provided a presentation on the 2018 Water Study. Louisville Water ranked number one in the Midwest Region for Customer Service.

Mr. Bruce announced that Louisville / Jefferson County Metropolitan Sewer District (MSD) held a Veterans' Day Program on Friday, November 9th. This is the second year Louisville Water has joined with MSD to participate. Veterans were treated to breakfast, a performance by the Fern Creek High School Marine Corp Drill team and remarks from representatives of each military branch. A special guest was World War II U.S. Navy veteran John Richard Mooney, who retired in 1947 as a Gunners Mate III. Mr. Mooney is 92-years old and shared his experience from a recent Honor Flight Bluegrass visit to our nation's capital. Retirees from Louisville Water and MSD are members of this volunteer organization that make these flights possible. Following the program, our employees also participated in the city's Veteran's Day Parade, proudly walking in front of hundreds who lined the downtown streets.

Mr. Mershon advised the Board will review the Amendment to the 2018 Budget item first and the Proposed 2019 Operating and Capital Budget next.

2018 Budget Amended

Ms. Lynn Pearson advised that the 2018 operating budget as approved by the Board of Water Works in November 2017 included \$3.5 million in Infrastructure Replacement Reserve (IRR) deposits. These deposits are cash transfers made to our infrastructure reserve account and are used to fund our infrastructure renewal program. These deposits are subtracted from net income prior to the dividend calculation, as directed by the 2009 Revised Master Bond Resolution.

Earlier this year when the Kentucky Retirement System released its report containing information on pension liability and related balances for 2017, we learned that the negative impact of GASB 68 on the Company's net income was close to \$7.9 million. This is more than double prior year levels, and we anticipate a similar impact in 2018. Based on the magnitude of the impact of GASB 68 to net income and the dividend, after the first quarter of 2018, monthly funding of the IRR was suspended to give the Company flexibility to amend the budgeted IRR later in the year, if needed.

Ms. Pearson advised that we have successfully implemented various strategies to reduce operating expenses to help offset the impact of GASB 68. As a result of these expense reduction efforts and favorable budget variances in a number of other categories, we do anticipate ending the year with net income higher than budgeted exclusive of GASB 68 expense. However, due to the extremely high amount of the GASB 68 expense in 2017 and anticipated for 2018, we were not able to offset the entire impact to the dividend.

Mr. Paul Esselman moved to amend the 2018 budget to reduce the IRR to the \$875,000 deposits that were made prior to suspending monthly funding. This will increase the adjusted net income used in the dividend calculation, further offsetting the negative impact from GASB 68. Mr. Willman seconded, and the motion unanimously carried.

2019 Annual Operating and Capital Budget Approved

Ms. Pearson provided an overview of the proposed 2019 Annual Operating Budget. The summary included a presentation on budget trends for water consumption and sales, other operating revenue, and operating expense.

Ms. Pearson advised that the organization has worked collectively to put together the proposed budget for the next fiscal year. The 2019 – 2025 Strategic Business Plan drives the Operating and Capital Budget. Upon approval of the budget, staff will prepare the cost of service rate study for the 2019 water rates to be presented in December.

Highlights of the proposed operating budget for 2019 were reviewed. The budgeted consumption for 2019 is 33.4 billion gallons, which is based on a three-year average retail consumption less a 1.25% trend adjustment, plus additional gallons projected to be sold to Hardin County Water District No. 1 and Shelbyville. Overall, wholesale revenue is projected to be \$5.9 million in 2019, an increase of \$582,000 from the 2018 budget.

Other Operating revenue is budgeted at \$18.4 million, an increase of \$1.1 million from 2018 budget. Other operating revenue includes sewer billing charges, customer fees and charges, home service line protection revenue, and contract operations revenue. Ms. Pearson also reviewed increases in operating and maintenance expense and depreciation.

Ms. Pearson stated that management is recommending an average rate increase effective January 1, 2019 of 3.9%. For a residential customer using 4,000 gallons, the increase is \$0.91, resulting in a monthly water bill of \$23.16.

Budgeted net income is \$39.965 million for 2019. Using the dividend formula from the Master Bond Resolution, this budget results in a budgeted dividend of \$19.275 million to Louisville Metro Government, Louisville Water's sole shareholder.

Mr. Tim Kraus discussed the proposed 2019 Capital Budget.

The total Capital Budget for 2019 is proposed at \$105.4 million before cash reimbursements. This represents an increase of 3% over the 2018 Capital Budget. Mr. Kraus also reviewed the amount of funding and the major areas of the Capital Budget. Infrastructure renewal makes up the largest portion of capital projects at \$56.4 million (54%), followed by new technology and facilities at \$38.3 million (36%), growth-related improvements at \$6.0 million (6%), and self-financing improvements at \$4.7 million (4%).

A summary of the projects planned under each of the above-mentioned categories was also provided.

Projects Approved as a Part of the Capital Budget

Mr. Kraus advised that there are three current-year projects that require specific Board action due to changes in the budget.

Mr. Kraus provided a summary of the three projects that require Board action which include Project 15055: Property Acquisition for Spoil Disposal - Site B; Project 14325: Crescent Hill Filter Plant - Chemical Building and Lab Fire Protection and Office Space Improvements for Productions; and, Project 13109: Zorn Pump Station – Standby Generator.

Mr. Esselman moved to adopt the following resolution for approval of the 2019 Capital and Operating Budget and to approve the requested change action items identified above. Mr. Willman seconded, and the motion unanimously carried.

RESOLVED, that the Draft 2019 Operating Budget submitted by staff on November 20, be adopted as the approved 2019 Operating Budget, and

RESOLVED, that the Draft 2019 Capital Budget submitted by staff on November 20, be adopted as the approved 2019 Capital Budget, and

RESOLVED, that the 2019 – 2028 Financial Plan submitted by staff on November 20, be filed as the approved Financial Plan, and

RESOLVED, that rate schedules be developed and presented by staff based upon a cost-of-service rate study with an average rate increase of 3.90%, effective for water service beginning January 1, 2019, and thereafter.

Break

The Board took a short break at 12:10 p.m. for lunch and resumed at 12:25 p.m.

Billing Service Report Given

Mr. Matthew Griffith reported that the executive leadership team has been actively exploring opportunities to generate new revenue for the Company. Each year, leadership prioritizes a select number of high potential strategic initiatives and sets specific executive shared operating goals to guide the development of those initiatives.

In 2018, leadership began exploring the viability of the “Billing Services” concept, where Louisville Water would provide billing and related services to utility partners through a Software-as-a-Service (“SaaS”) model by leveraging the robust functionality and configurability of the Oracle Customer Care and Billing (CC&B) system. To evaluate this opportunity, Louisville Water contracted with a consulting firm with extensive billing system experience and knowledge of Louisville Water’s systems to conduct a feasibility study. To date, Louisville Water has completed five of the seven steps of the project.

In October, Louisville Water executive leadership made the strategic decision to “pause” the project following the completion of Step 5 to allow the One Water Chief Innovation Officer an opportunity to review the Company’s extensive work product and potentially engage in the critical remaining steps of the project. Once the Chief Innovation Officer is hired, Steps 6 and 7 will be completed to finalize the study so a path forward can be developed.

Public Affairs and Customer Satisfaction Committee Report Given

Mr. Willman provided a summary of the items discussed during the Public Affairs and Customer Satisfaction Committee meeting held on Wednesday, October 31, 2018.

Closed Session Held

Dr. Dronawat moved to go into Closed Session to discuss a specific proposal pursuant to KRS 61.810(g) at 12:50 p.m., seconded by Mr. Esselman, and the motion unanimously carried.

Open Session Resumed

Mr. Willman moved to return to Open Session at 1:40 p.m., seconded by Mr. Esselman and the motion unanimously carried.

In the interest of time, Mr. Mershon asked that the Officers provide very brief verbal reports.

Financial Report Given

Ms. Pearson stated financial results in October 2018 were driven by consumption and water sales that were well under budget. Other operating revenue was also slightly less than budget, contributing to an overall shortfall in operating revenue of 7.2%. Operating expenses and non-operating income and expense, however performed

favorably to budget for the month, but only offset a portion of the shortfall. As a result, net income for the month was 15.3% lower than budgeted.

Communications and Marketing Report Given

Ms. Kelley Dearing Smith reported that Louisville Water used the Gothic gatehouse and Halloween as a backdrop to create a customer engagement opportunity. “Trick or Treatment” at the Crescent Hill Reservoir featured not-so-spooky water experiments, a peek inside the gatehouse and treat stations around the reservoir’s walking path. Nearly 3,000 adults, princesses, superheroes and witches attended the event on October 24.

Ms. Dearing Smith added that Louisville Water created Trick or Treatment four years ago to take advantage of the public’s interest in the Crescent Hill facilities and highlight how we make drinking water. Each year, the event has grown in popularity. In addition to the public outreach, Trick or Treatment is also a good earned media opportunity with local, regional and national press highlighting the event.

Customer Service and Distribution Operations Report Given

Mr. Dave Vogel reported that J.D. Power was on site last month to provide a presentation on their Water Study for 2018. He also noted that staff is working to close out tasks associated with our winter plan and we are on track with these efforts.

Engineering and Production Operation Report Given

Mr. Kraus reported that Capital Program expenditures through October totaled \$83,931,875, which is \$27,461,489 or 48.63% higher than the same period last year. These expenditures equate to 75.64% of the 2018 total capital program of \$110,955,773.

Human Resources Report Given

Mr. Terrence Spence reported that the union submitted a first draft of the Union strategic plan.

Information Technology Report Given

Mr. Kevin Kastensmidt reported that Information Technology (IT) is supporting the Oracle Work & Asset Management (WAM) Implementation system that went live on October 15 and is planning the Phase II work as well as defining the managed services agreement for Phase I support.

Mr. Kastensmidt also noted IT is currently testing a multi-factor authentication technology on a test group. Multi-factor security will improve the security of its computer systems by providing an additional element of security above using just a username and password.

Mr. Kastensmidt stated that final decisions have been made for Oracle support vendors. Negotiations with individual vendors are proceeding with the initial emphasis on the Work and Asset Management (WAM) module.

One Water Board Update

Ms. Kim Reed reported that a Louisville One Water Board meeting was held on October 25, 2018 during which several updates were provided on the progress of the One Water effort. A summary of the items discussed included:

- Progress made to date on an internal communication plan that includes communicating to the employees

- at both organizations on the One Water Partnership vision and the strategic plan initiatives; and
- Recommendations from the One Water audit conducted earlier this year were reviewed as well as management's response and the actions taken to satisfy 10 of the 11 recommendations. The last item should be completed by the end of the year.

An update on the 2018 strategic plan objectives was also provided.

There being no further business for the Board, Mr. Willman moved to adjourn at 1:53 p.m., seconded by Dr. Dronawat, and the motion unanimously carried.

Respectfully submitted,



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