

**Board Of Water Works
REGULAR CALLED MEETING MINUTES
November 23, 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 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 Finance and Treasurer
Ms. Kelley Dearing Smith, VP, Strategic Communications
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, Finance
Mr. Andrew Winslow, Manager, Finance
Ms. Ramiza Carpenter, Senior Financial Analyst
Ms. Megan Starnes, Budget Specialist, II
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, October 19, 2021 by video teleconference via Zoom. Chair, Dr. Sharon Kerrick called the meeting to order at 11:01 a.m.

Minutes of the Previous Regular BOWW Meeting Approved

Paul Esselman moved to approve the Regular Monthly Meeting Minutes of October 19, 2021. Greg Dearing seconded, and the motion unanimously carried.

Report Provided by the President/Chief Executive Officer

Spencer Bruce advised that on Tuesday, November 9, 2021 Louisville Water was awarded the 2021 Business Impact Award by Louisville Business First. Louisville Water was selected due to our effective response to the COVID-19 pandemic and the work we have done in the community over the past year. Mr. Bruce provided a brief description of the activities that assisted customers during the pandemic.

Mr. Bruce also noted that during the summer of 2020, which brought renewed attention to issues of equality and justice, Louisville Water reaffirmed its commitment to a diverse, inclusive, and equitable organization. Mr. Bruce provided a brief summary of the company's efforts in 2020 and 2021 to connect with our customers through partnerships with several community organizations.

2022 Operating and Capital Budget Approved

Lynn Pearson stated the 2009 Master Bond Resolution requires that on or before the first day of the next fiscal year the Board adopt the annual budget for the ensuing year. She advised the organization has worked collectively to prepare the proposed budget for the next fiscal year. Upon approval of the budget, staff will prepare the cost of service study for the 2022 water rates to be presented at the December meeting.

Ms. Pearson provided an overview of the proposed 2022 Annual Operating Budget which included a presentation on budget trends for water consumption and sales, other operating revenue, operating expense, and non-operating income and expense.

Ms. Pearson reviewed highlights of the proposed operating budget for 2022 with the Board. The budgeted water consumption for 2022 is 33.7 billion gallons. The 2022 budgeted water consumption reflects continued recovery from the impact of the pandemic, though commercial and industrial consumption are expected to remain slightly below pre-pandemic levels.

Other operating revenue is budgeted at \$20.3 million for 2022, an increase of almost 3 percent from the 2021 budget. Other operating revenue includes sewer billing charges, customer fees and charges, home service line protection revenue, and contract operations revenue. This increase is the result of customer fees and charges being reinstated for the entire year of 2022, an increase in sewer billing charges based on the renegotiated contract, and higher home service line protection revenue.

Ms. Pearson also reviewed operating and maintenance (O & M) expense and depreciation. The O & M budget for 2022 includes an increase of approximately \$5 million from the amount budgeted for 2021. Non-labor expense accounts for \$4 million of the overall increase, with the most significant increases coming in contractual services, power and chemicals, materials and supplies and equipment maintenance. Expenses are increasing more than normal as a result of higher inflation. Budgeted depreciation and amortization expense will increase to \$51.2 million for 2022, as a result of ongoing investment in infrastructure and technology, including the AMI project which accounts for approximately 20 percent of the overall increase in 2022.

Ms. Pearson provided a brief summary of the increases in pension expense over the last few years and the amount included in the 2022 budget. She recently received additional information from Metro that the pension contribution rate will not increase on July 1, 2022 as we had anticipated. Ms. Pearson expressed her thanks to Aaron Jackson and Monica Harmon for passing on this good news which was incorporated into the final budget.

Ms. Pearson advised that the budget for interest income has been decreased in 2022 as we do not anticipate any significant increase in market interest rates in the coming year. She also stated that the budget for interest expense will be down slightly in 2022 despite the planned issuance of bonds in the second half of the year.

Ms. Pearson stated the Master Bond Resolution allows Louisville Water to allocate money to an Infrastructure Replacement Reserve which may be used to fund infrastructure improvements. The amount contributed directly affects the dividend issued to our shareholder. She advised that

management is proposing a contribution of \$500,000 to the Infrastructure Replacement Reserve in 2022.

Budgeted net income is \$38.7 million for 2022. Using the dividend formula from the Master Bond Resolution, this proposed budget results in a budgeted dividend of \$18.993 million to Louisville Metro Government, an increase over 2021 budget and 2021 forecast.

Ms. Pearson advised that management is recommending an average rate increase effective January 1, 2022 of 3.5%. For a typical residential customer using 4,000 gallons, the increase is 93 cents per month.

Tim Kraus discussed the proposed 2022 Capital Budget.

The total Capital Budget for 2022 is proposed at \$111.9 million before cash reimbursements, a decrease of 0.4% from the 2021 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 \$82.1million (73.4%), followed by New Technology and Facilities at \$19.4 million (17.3%), Self-Financing Improvements at \$9.0 million (8.1%) and Growth-Related Improvements at \$1.4 million (1.2%).

Mr. Kraus also provided a summary of key projects planned under each of the above-mentioned categories.

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 two projects that require Board action which include Project Number 16094, Frankfort 60" Transmission, Project Number 16231 2022 MRRP – Mamaroneck Road Area and Project Number 16236 2022 MRRP Tucker Station Road Area.

Mr. Esselman moved to adopt the following resolution for approval of the 2022 Capital and Operating Budget and to approve the requested change action items identified above. Mr. Summers seconded, and the motion unanimously carried.

RESOLVED, that the Draft 2022 Operating Budget submitted by staff on November 23, be adopted as the approved 2022 Operating Budget, and
RESOLVED, that the Draft 2022 Capital Budget submitted by staff on November 23, be adopted as the approved 2022 Capital Budget, and
RESOLVED, that the 2022-2031 Financial Plan submitted by staff on November 23, 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 3.5%, effective for water service beginning January 1, 2022, and thereafter.

Ms. Pearson recognized her staff, Sue Purdy, Andrew Winslow, Ramiza Carpenter and Meghan Starnes for their hard work in preparing the proposed budget.

Mr. Esselman congratulated Ms. Pearson and her staff on the budget and thanked them for their work.

Project Scope Increased, Change Order Approved and New Budget of Record Established for Project No. 16094: Frankfort Avenue 60-inch Transmission Main

Mr. Kraus advised that the existing 36-inch main in Frankfort Avenue, adjacent to the Crescent Hill Filtration Plant, was installed in 1877. It is an unlined cast iron pipe that delivers water both west to downtown Louisville and east to Westport Road Pump Station, which makes it critical to our water distribution network. This main is undersized for current needs. In addition, the existing water main that crosses under the CSX Railroad at Reservoir Avenue has no casing pipe and many of the butterfly valves connected to this main do not fully operate.

The Frankfort Avenue 60-inch transmission main project was initiated to install a 60-inch main along Stilz Avenue to replace the existing 36-inch main. This project will provide redundancies that are paramount to better adjust to changes in the system and react to issues that arise at and around the pump station. Upsizing of the main in Frankfort Avenue will allow us to increase the output through the Frankfort Avenue corridor. It will also provide the ability to pass water from the front of the plant to the back to help facilitate another major capital project, the Crescent Hill Pump Station header modification project.

Design and construction of this project was divided into two phases due to the complexity of the project and its impact on plant production. Phase 1 was competitively bid and awarded to MAC Construction & Excavating (MAC Construction). Phase 2 was advertised during the contractor prequalification process and bidding of Phase 1 to be negotiated and awarded as a change order to the contractor that was awarded Phase 1. Design of Phase 2 has been completed and presented to the contractor for pricing. Mr. Kraus provided a summary of the scope of Phase 2 to the Board.

A change order quote was requested from MAC Construction to encompass the overall scope of Phase 2 along with items committed to during the construction of Phase 1. The final negotiated change order was developed using unit prices that were submitted during Phase 1 competitive bid. The change order in the amount of \$6,587,178.93 was 3.87% higher than the Project Engineer's cost estimate. Following staff review, the change order was found to be acceptable to complete the listed items.

Mr. Dearing moved to increase the project scope to include the items discussed, the change order for MAC Construction be approved setting a new contract amount of \$12,078,227.73, and the budget of record be increased to \$16,565,926.53. Mr. Esselman seconded, and the motion unanimously carried.

Contract Award Ratified for Project No. 16231: 2022 MRRP – Mamaroneck Road Area

Mr. Kraus advised that the purpose of this correspondence is to request Board ratification of award of the construction contract for Mamaroneck Road Area Main Replacement Project to Basham Construction & Rental Co. Inc. The Mamaroneck Road Project consists of 5,780 linear feet of distribution water main replacement, with pipe sizes ranging from 16-inch diameter to 4-inch diameter along seven different streets, located in the Hikes Lane area of Louisville Metro.

On October 20, 2021, Louisville Water received competitive bids from two prequalified contractors for construction of this project. The Project Manager's estimate for the project was \$1,306,000. The low bidder was Basham Construction & Rental Co. Inc. with a bid of \$1,553,000. This bid was 18.9% higher than the Project Manager's estimate and can be attributed to the current volatile material and labor market. The total approved project budget is \$1,256,000.

With the volatile material pricing market, it was imperative that Louisville Water proceeded in an

expeditious manner. An exigent work request to approve this contract was submitted to and approved by Louisville Water's President & CEO on October 28, 2021. It is estimated that this action saved approximately \$62,000 in material costs.

Mr. Dearing moved to ratify the contract award to Basham Construction & Rental Co. Inc. in the amount of \$1,553,000 and the budget of record for this project be increased to \$1,966,000. Mr. Summers seconded and the motion unanimously carried.

Contract Award Ratified for Project No. 16236: 2022 MRRP – Tucker Station Road Area

Mr. Kraus advised that similar to the previous project, he is requesting Board ratification of the award of the construction contract for the Tucker Station Road Area Main Replacement Project to MAC Construction. The Tucker Station Road Project consists of 6,655 linear feet of distribution water main replacement, with pipe sizes ranging from 8-inch diameter to 6-inch diameter along eight different streets, located in the Tucker Station Road area of eastern Louisville Metro.

On October 20, 2021, Louisville Water received competitive bids from four prequalified contractors for construction of this project. The Project Manager's estimate for the project was \$1,320,000. The low bidder was MAC Construction with a bid of \$1,540,000. This bid was 16.7% higher than the Project Manager's estimate and can be attributed to the current volatile material and labor market. The total approved project budget is \$1,413,000.

Mr. Kraus advised that with the volatile material pricing market, it was imperative that Louisville Water proceeded in an expeditious manner. An exigent work request to approve this contract was submitted to and approved by the President & CEO on October 28, 2021. It is estimated that this action saved approximately \$50,000 in material costs.

Mr. Dearing moved to ratify the contract to MAC Construction & Excavating Inc. in the amount of \$1,540,000 and the budget of record for this project be increased to \$1,812,000. Seconded by Mr. Summers and the motion unanimously carried.

Audit Committee Report Given

Mr. Esselman provided a summary of the discussions held during the Audit Committee meeting on November 10, 2021.

Oldham County Advisory Board

Dave Vogel provided a summary of the discussion held during the Oldham County Advisory Board meeting held on November 9, 2021.

Financial Report Given

Ms. Pearson advised that total consumption and water revenue for October were higher than both budget and prior year. However, other operating revenue and operating expense performed unfavorably to budget. As a result, net income for October is \$909,000 lower than budget.

Consumption of 3.1 billion gallons for October is 72 million gallons in excess of budget, and 376 million gallons higher than October 2020. Irrigation, wholesale and Metro government customer classes were the drivers of the favorable budget variance for the month. Year-to-date, consumption is 62 million gallons under budget with shortfalls in residential, commercial, and industrial offset to a great extent by favorable variances in wholesale and irrigation. For the year-to-date period, consumption shows

continuing recovery from the pandemic coming in 5.3% higher than prior year, with all customer classes contributing to the increase except for residential.

Water Revenue for October 2021 is \$377,000 above budget and \$2.4 million higher than the prior year. Irrigation, wholesale, private fire services and Metro government were the major drivers of the favorable variance for the month. For the year-to-date period, water revenue is 0.6% lower than budget and 6.7% higher than prior year levels.

Other Operating Revenue for October is \$893,000 lower than budget and \$234,000 higher than October 2020. The variance to budget is due to revenue from the release of the bridge reserve budgeted but not realized. It is anticipated that this revenue will be recognized next year. The unfavorable variance to prior year is driven by higher revenue from late charges and service deactivation fees, slightly offset by lower contract revenue and profit on sale of materials. Year-to-date, other operating revenue is \$1.3 million below budget and \$457,000 higher than prior year. The year-to-date unfavorable variance to budget is primarily due to the unrecognized revenue from the release of the bridge reserve and lower revenue from late charges and service deactivation fees which were budgeted to resume in April.

Operating and Maintenance Expenses for October are \$698,000 higher than budget and \$285,000 higher than October 2020. The October variance to budget is due to higher labor related costs as a result of the COVID-19 appreciation payments to employees that were paid in October. Close to half of the overage was offset by lower costs in numerous areas including utilities, contractual services, materials and supplies, equipment maintenance and insurance reserves. The unfavorable variance to October 2020 is driven by higher labor related expenses partially offset by lower contractual services and insurance reserves. October year-to-date operating and maintenance expenses are \$3.4 million lower than budget and \$1.7 million higher than year-ago levels.

Communication and Marketing Report Given

Kelley Dearing Smith advised that Louisville Water's most recent service product, WaterPro was launched last week. Digital advertising began this week and approximately a dozen customer have signed up for the service.

The most recent consumer research in Louisville Water's Voice of the Customer initiative measured brand perception, the overall sentiment/feeling for our brand. More than 500 customers were surveyed including a segment of students from the University of Louisville. The survey showed that Louisville Water customers possess a strong brand perception and a strong loyalty component. However, only 25% of customers say they have a high emotional attachment to Louisville Water. While this may be common for utility services, emotion is a driver of brand perception and something we will focus on to improve. 77% of college students consider Louisville's water better than the drinking water in other areas.

In October, Louisville Water reached more than 60 million people with stories on the state's award of infrastructure funding and the Frankfort Avenue project.

More than a dozen schools participated in virtual or in-person programming in October. We continue to see a steady increase in the return of our school-based education effort. A partnership with Bellarmine University will include their nursing students visiting 10 elementary schools and delivering our "Clean Hands Up" curriculum that focuses on proper hand washing.

Customer Service and Distribution Operations Report Given

Mr. Vogel advised the Call Center operations received 31,479 calls in October which represents a 29% increase in volume compared to last year. The abandonment rate was also up this year at 20.7% versus 7.6% in October of 2020. Driving factors include the resumption of disconnection activity, staffing challenges, and phone system issues. A new class of Customer Service Representatives started the second week of November and are currently in training. Staff is also working closely with our phone vendor to solve our system issues.

Mr. Vogel advised that approximately \$1 million dollars of the latest Metro COVID grant funds were distributed to customers in October and we expect the remaining funds to be available through year end. The first week of October was "Customer Service Week" and we recognized staff for their outstanding efforts this year.

The percentage of estimated bills in October came in at 2.78% which is higher than past periods due to new meter readers, staffing issues related to COVID, and uneven workflow challenges resulting from the AMI implementation. We continue working on our transition to Olameter to provide us with meter reading services and we anticipate that this will begin on November 30. Our second planned AMI analyst was hired in October to assist us in the operation of the AMI technology.

Over the past two years, customer issues surrounding COVID-19 have played a significant role in our operations and frequent updates have been provided to the Board. As a result, we have not been holding regular Public Affairs and Customer Satisfaction Committee meetings. As the pandemic related customer issues continue to reduce, we plan on reinstating these meetings in 2022.

Dr. Kerrick asked if the company has a customer forum. Ms. Dearing Smith advised that we did have a Customer Advisory Council which centered around the Riverbank Filtration Project. However, it was discontinued a few years ago due to a lack of participation by community members.

Engineering and Production Operations Report Given

Mr. Kraus advised that 2021 capital program expenditures through October totaled \$59,800,2764, which is \$6,769,523 or 10.16% lower than the same period last year. These expenditures equate to 51.04% of the 2021 total capital program of \$117,158,160. He estimates we will reach \$90 million expended by year-end.

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

Louisville Water responded to a Request for Interest and Qualifications to perform contract operations and maintenance for the Peaks Mill Water District, a community northeast of Frankfort, KY. We were interviewed on November 9, 2021 and have been asked to prepare a proposal. Peaks Mill serves approximately 1,200 customers through 105 miles of water main and purchases wholesale water from the Frankfort Plant Board. This pursuit is strategic to support our efforts to grow.

Kentucky's Cleaner Water Program allocated \$250 million in grant funding to improve Kentucky's water infrastructure. Louisville received \$7 million for two projects in Jefferson County, \$600,000 for two projects in Bullitt County, and \$756,000 for one project in Oldham County. These projects address aging infrastructure and extend water service to unserved areas in Bullitt County and Oldham County.

Human Resources Report Given

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).

- Currently there is one active grievance filed by the Union in discussion for possible resolution.
- Management and Union leadership participate in weekly COVID-19 update meetings to discuss the pandemic's impact on Louisville Water employees, work schedules, and operations.
- Louisville Water participated in Fairdale High School's Student Career Day with representative from Local 1683, management and the Human Resources Department.
- Union and non-union members of Louisville Water's Employee Activities Committee provided approximately 500 water bottles, as a Halloween event, filled with candy and masks to the Rajon Rondo Foundation Neighborhood House in the Portland area.
- The Company hired six regular full-time General Laborers.

Mr. Spence noted that Louisville Water's employee open enrollment period took place November 12 through the 22. All regular full-time employees had the opportunity to add, change and/or terminate insurance and other benefits for the 2022 benefits calendar year.

He also noted that Louisville Water partnered with the Louisville Urban League's Kentuckiana Builds heavy construction training program. The company provided financial sponsorship, work readiness training, and apprenticeship education summaries to the program.

Mr. Spence stated with the recent announcement of the Occupational Health & Safety Association's (OSHA) "Emergency Temporary Standard" (ETS) pertaining to the federal vaccination mandate from President Biden, Louisville Water is making preparation to adhere to compliance guidelines.

Information Technology Report Given

Jeff Knott advised Cohesity will provide a disaster recovery/backup environment that is secured from intrusion, has strong protections against insider attack, and provides anomaly detection via machine learning to provide alerts when data patterns are deemed suspicious. An airgap will be created in the backup environment so that even if internal security accounts are compromised, the protected data cannot be overwritten or deleted. In addition, through intelligent management of incremental changes, this solution will greatly enhance our ability to quickly restore lines of business during a data loss or compromised event. The vendor will provide end to end management, which includes deployment, backup management, backup compliance, restoration and recovery services.

Information Technology (IT) continues to concentrate on regular cadence testing of disaster recovery plans.

Due to ongoing issues with phones timing out, upgrades were made to a newer version of the phone system software and to our IVR solution. The upgrades resolved some, but not all our

ongoing issues. We continue to work on short term solutions for these remaining issues while we determine the long-term solution to our phone problems.

Mr. Knott provided a brief summary on the status of upgrades to various business systems.

IT staff is working with Customer Service to improve our new application process. This will be accomplished by automating much of the manual research done within our systems. Additionally, staff will be able to create applications within the billing system from a central location, simplifying the number of steps and the amount of manual work. This enhancement is in development and will be in production at the beginning of 2022.

Legal Report

Michael Tigue stated he had nothing to report this month.

There being no further business, the meeting adjourned at 12:40 pm.

Respectfully submitted,



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