

**Board Of Water Works
REGULAR CALLED MEETING MINUTES
DECEMBER 15, 2020
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. 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, Engineering and Production Operations, and Chief Engineer
Dr. Tom Lockett, Vice President, Information Technology
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
Ms. Sue Purdy, Director, Finance
Ms. Jenni Schelling, Director, Internal Audit
Ms. Shannon Tivitt, Director, Project Liaison, One Water
Mr. Andrew Winslow, Manager, Finance
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, December 15, 2020 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

Greg Dearing moved to approve the Regular Monthly Meeting Minutes of November 24, 2020. Seconded by Dr. Sunny Dronawat, and the motion unanimously carried.

Report Provided by the President/Chief Executive Office

Spencer Bruce advised that even in a pandemic, Louisville Water Company employees generously provided to their community. Our annual employee fundraiser, the Combined Giving Campaign, raised more than \$131,000 through employee payroll deductions, one-time contributions, and virtual events. The money will benefit four company-supported charities: Fund for the Arts, Metro United Way, Louisville Water Foundation, and Water for People.

Tim Kraus led a team of employees who virtually raised money for the charities. While the regular employee events, like a fish fry, barbeque, and cornhole tournament, were cancelled due to the pandemic, new virtual events were added, including an online silent auction and pet photo contest. Other events were modified, like the annual employee golf scramble. While the scramble was cancelled, the golf ball drop was held and broadcast online to employees.

Dr. Sharon Kerrick congratulated Mr. Kraus on leading a successful campaign.

Fourth Quarter 2020 Dividend Declared

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 2019, 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 adjustment is to be paid with or deducted from the regular quarterly dividend payments in 2020.

The annual audit has been completed. Net income of \$38,614,259 requires a total 2019 dividend to Louisville / Jefferson County Metro Government, Kentucky of \$19,019,796. The total dividends paid during 2019 were \$19,274,820. The difference between the dividend paid for 2019 and the actual dividend computed and declared for 2019 is \$255,024. The difference will be deducted from the dividend payment in the fourth quarter in 2020 as directed by Louisville Metro Office of Management and Budget.

The 2020 Annual Budget provides for a budgeted annual dividend of \$20,424,641. Mr. Dearing moved to approve the resolution to declare the fourth quarterly 2020 dividend in the amount of \$5,106,160.25. This resolution provides for a total quarterly payment of \$4,851,136.25 after the deduction of \$255,024 for the adjustment for 2019.

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 \$19,274,820 was paid in 2019 based on estimated Adjusted Net Income of \$39,215,000 and
WHEREAS, the annual audit for 2019 has now been completed which establishes the full dividend for 2019 as \$19,019,796 based on actual Adjusted Net Income of \$37,890,462, and the Board resolution of December 17, 2019 was amended on June 23, 2020 to decrease the 2019 annual dividend by \$255,024 from \$19,274,820 to \$19,019,796, the difference to be deducted from the fourth quarterly 2020 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 2020 Louisville Water Company Annual Budget reflects the 2020 annual dividend to be \$20,424,641, it would be in order at this time to declare a regular fourth quarter dividend of \$5,106,160.25; therefore, be it
RESOLVED, the regular fourth quarter 2020 dividend of \$5,106,160.25 is hereby declared, and
RESOLVED, that the total difference of \$255,024 will be deducted from the fourth quarterly 2020 dividend payment, and further
RESOLVED, that the President of the Company hereby is authorized and directed to pay \$4,851,136.25 to the Louisville / Jefferson County Revenue Commission on December 31, 2020, this being the fourth quarterly dividend for 2020.

William Summers seconded, and the motion unanimously carried.

2020 Tariff, Rate Schedule, Fees and Charges Approved

Ms. Pearson advised that at its November 24, 2020 meeting, the BOWW adopted the 2021 Annual Budget and staff was directed to prepare rate schedules with an average rate increase of 3.5%, effective for water service beginning January 1, 2021 and thereafter.

The proposed 2021 Tariff and Water Rate Schedule was developed in accordance with a cost of service study based upon the methods suggested in American Water Works Association Manual M1, Water Rates.

Staff is recommending retail water rates increase as of January 1, 2021 and wholesale rates as of July 1, 2021. The wholesale rates will require approval by the Public Service Commission (PSC) for utilities that are under its jurisdiction. Upon approval, staff will meet with wholesale customers and begin the process for obtaining approval from the PSC.

Ms. Pearson noted that Louisville Water's Service Rules and Regulations authorize certain fees and charges for providing service to customers. Staff reviews these charges and fees each year as part of the annual Tariff and Water Rate Schedule and recommends appropriate changes as needed. Ms. Pearson, Mr. Kraus and Dave Vogel reviewed the proposed changes with the Board.

After a short discussion, Paul Esselman moved to approve the 2021 Water Rate and Tariff effective January 1, 2021 for retail water customers and effective July 1, 2021 for wholesale customers, and the 2021 Customer Charges and Fees effective January 1, 2021. Mr. Dearing seconded, and the motion unanimously carried.

Amendment to Cafeteria Plan Approved

Terrence Spence advised that Louisville Water has an Internal Revenue Code, Section 125 "Cafeteria Plan" which allows Eligible Employees, as defined by the Plan, the opportunity to elect Flexible Benefit Options for themselves and their dependents.

In its continued efforts of being an "Employer of Choice", the Company is implementing non-traditional paid leave benefits to its regular part-time employees who meet specific eligibility criteria. Staff is requesting BOWW approval to modify the Plan's definition regarding employee eligibility for such benefits as paid leave time (PTO), Company observed paid holiday's, and paid parental leave. If approved, the effective date of the above listed changes will commence within the first quarter of Louisville Water's 2021 benefits plan year.

Mr. Spence added that these modifications only impact those benefits identified above and does not alter any other section or provision of the Plan.

Mr. Dearing moved to approve the proposed modifications to the Company's Amended and Restated Section 125 Cafeteria Plan. Dr. Dronawat seconded, and the motion unanimously carried.

Creation of Scholarship Approved

Mr. Kraus advised that since beginning its operations in 1860, Louisville Water has been an innovator in the drinking water sector. Louisville Water's history is filled with stories of distinguished employees whose work has improved water quality for our community and across the United States. In recent years, Dr. Rengao Song has been the principal force behind many of the innovations at Louisville Water in building a corporate water quality culture, developing advanced treatment technologies and improving the water quality management in the distribution system. To honor Dr. Song and his achievements, staff is requesting a contribution of \$15,000 to create the "Rengao Song Scholarship for Water Science and Technology." This scholarship will honor Dr. Song's contribution to advancing the science of drinking water quality and acknowledge the significance of partnerships that promote important research and advocacy. Louisville Water will work with its partners at the Kentucky-Tennessee Section of American Water Works Association (AWWA) and the Water Research Foundation (WRF) to launch and sustain this scholarship.

Mr. Dearing moved to fund the Rengao Song Scholarship for Water Science and Technology in the amount of \$15,000. Dr. Dronawat seconded and the motion unanimously carried.

Approve Payment Assistance Funding to the Louisville Water Foundation

Mr. Vogel advised that the COVID-19 pandemic and its impact to our customers has been extremely challenging. On December 10, Metro Council approved an ordinance that provides COVID-19 related payment assistance funding to Louisville utility customers. As part of this measure, \$4 million was allocated for Louisville Water Company / Metropolitan Sewer District (MSD) customers and will be provided to the Louisville Water Foundation.

Staff is requesting a special donation from Louisville Water to the Louisville Water Foundation that will be used to augment the funding provided by Metro, provide additional support to the Association of Community Ministries for Jefferson County residents and provide customer assistance in Louisville Water's service areas of Bullitt and Oldham counties. This funding will increase the amount of available assistance to customers who have been impacted by the pandemic. Staff is working closely with Metro's Office of Resiliency, MSD, and the Association of Community Ministries (ACM) on this effort.

Mr. Vogel explained that there is no income requirement to receive the payment assistance funding from Louisville Metro. The customer must declare that they have been financially impacted by the COVID-19 pandemic. Additionally, since there is no income requirement, we are establishing a portal so customers can apply for the funding on-line.

Kelley Dearing Smith provided a summary of the customer outreach efforts to reach those in need of assistance which includes working with the family resource centers at Jefferson County Public Schools and the Archdiocese of Louisville; provide training to the employees at the ACM so they can assist anyone in need with the on-line portals; and printing and distributing fliers. We are also

translating all information concerning the assistance available into Spanish and other languages, as needed.

Mr. Bruce stated the Louisville Water Foundation Board met last week and he has spoken with the Foundation Chair, Marita Willis concerning how the Foundation will be part of this effort.

Daniel Frockt thanked the Board for considering this donation and thanked Louisville Water for being such a great partner with this effort.

Mr. Summers moved to donate \$1,750,000 to the Louisville Water Foundation for this special COVID-19 customer assistance grant. Seconded by Mr. Dearing the motion unanimously carried.

Changes to the Service Rules and Regulations Approved

Mr. Kraus noted that annually, staff reviews Louisville Water's Service Rules and Regulations to determine if any changes should be made. This year, staff recommends changes in the service rules to incorporate new initiatives and to provide clarification to existing regulations. Highlights of these changes include removal of three service types from the flat fee grouping; allow charging for administrative expenses to process a new service; clarify the definition of a wholesale service; and, consent disclosure for contacting customers.

Mr. Kraus reviewed the proposed changes with the Board. He also advised that the General Counsel has reviewed the proposed revisions and staff recommends approval by the Board, effective January 1, 2021.

Mr. Dearing moved to approve the proposed changes to the Service Rules and Regulations as presented. Dr. Dronawat seconded and the motion unanimously carried.

Approve 2021 Board of Water Works Regular Meeting Dates

Mr. Bruce advised that under the By Laws, the annual schedule of BOWW meetings are to be approved by the Board. The following dates were proposed for 2021 Board meetings.

Tuesday, January 19, Tuesday, February 16, Tuesday, March 16, Tuesday, April 20, Tuesday, May 18, Tuesday, June 22, Tuesday, July 20, Tuesday, August 24, Tuesday, September 21, Tuesday, October 19, Tuesday, November 23, and Tuesday, December 21.

Mr. Summers moved to approve the above meeting dates for regular meetings of the BOWW for 2021. The Annual meeting will be held immediately prior to the April Board meeting. Mr. Dearing seconded, and the motion unanimously carried.

One Water Update

Shannon Tivitt provided a summary of the items discussed at the Louisville One Water Partnership Board meeting held on October 29, 2020 which included the following:

A copy of the 2020 One Water Work Plan 3rd Quarter Summary was given to the board and each functional area leader provided the board with an update on their initiatives.

Ms. Tivitt outlined the 2021 approach recommended by the One Water Advisory Council (OWAC) to better align the One Water annual work plan with the Partnership's four goals: *Improve Every*

Customer Experience, Sustain Partnership/Partner For Progress, Drive Revenue Growth, and Create Efficiencies.

Ms. Tivitt will be leading prep sessions with OWAC members through the end of the year to review new ideas and evaluate current projects. In the first quarter of 2021, OWAC plans to hold a workshop with Mayor Fischer to unveil the 2021 One Water Work Plan and Impact.

Financial Report Given

Ms. Pearson provided a summary of the Finance Report.

The COVID-19 pandemic continued to significantly impact Louisville Water's financial performance in November, although not to the degree seen in prior months. Total consumption and water revenue for the month are under budget, as is other operating revenue and non-operating income. These unfavorable budget variances are more than offset by a favorable variance in total operating expenses. As a result, net income for November is \$84,000 higher than budget.

Consumption of 2.6 billion gallons for November 2020 is 184 million gallons under budget, and 203 million gallons lower than November 2019. Commercial, industrial, wholesale and Metro Government customer classes all contributed to the budget shortfall this month. Year-to-date consumption remains under budget and prior year, by 5.9% and 5.3% respectively. All customer classes except residential and private fire services are contributing to the unfavorable budget variance, with the majority of the shortfall coming from commercial and industrial.

Water Revenue for November 2020 of \$15.2 million is \$509,000 under budget and \$35,000 higher than prior year. Water revenue through November is \$5.4 million or 3.1% lower than budget but remains above prior year by \$1.2 million. Lower consumption due to the pandemic is the key factor driving decreased water revenue for the year-to-date period as compared to budget.

Other Operating Revenue for November of \$1.7 million is \$35,000 lower than budget but is \$193,000 more than year-ago levels. The budget variance for November continues to reflect the reduction in revenue resulting from the Company's suspension of late fees and service deactivations during the pandemic, however these losses are almost totally offset by a favorable variance in contract revenue. For year-to-date, other operating revenue is lagging budget by \$2.1 million and is \$369,000 lower than 2019. Lower revenue from late fees and service deactivation fees are also driving the year-to-date variance to budget, with every other category with the exception of contract operations and temporary service fees also coming in below budget. The unfavorable year-to-date variance to prior year is also a result of lower revenue from late fees and service deactivation fees, offset by higher cross connection, contract operations, sewer billing and service line protection revenue.

Operating and Maintenance Expenses for November of \$7.1 million are \$79,000 lower than budget and \$352,000 higher than November 2019. The favorable November variance to budget is due to lower chemicals and power, labor and labor related and equipment maintenance costs, offset by higher bad debt expense. November year-to-date operating and maintenance expenses are \$2.8 million under budget and \$1.6 million over year-ago levels. The majority of the year-to-date favorable budget variance is in labor and labor related costs, contractual services, equipment maintenance, chemicals, materials and supplies and travel and training, partially offset by higher insurance reserves and bad debt expense. A low number of main breaks continues to be a key driver of the favorable variance in contractual services and materials and supplies, with the elimination of temporary labor in the call center also contributing to the favorable variance in

contractual services. The favorable variance in equipment maintenance is a result of a reclass entry moving expense to capital. Many other categories are also contributing to the favorable variance as a result of ongoing cost reduction efforts. The year-to-date variance to prior year is mainly in labor and labor related costs, contractual services, power and bad debt expense, partially offset by lower equipment maintenance, materials and supplies and chemicals costs.

Total Operating Expenses for November of \$12.6 million are \$726,000 lower than budget but exceed prior year by \$247,000. Total operating expenses year-to-date are lower than budget by 3.7% and higher than prior year by 2.9%. The favorable budget variance for the month of November is mainly due to lower depreciation and loss from disposition of assets while the variance for the year-to-date period is mainly due to lower operating and maintenance expenses along with lower depreciation and loss from disposition of assets. The year-to-date variance to prior year is primarily due to higher operating and maintenance expense and depreciation costs.

Net Income before Distributions and Contributions for November is \$3.8 million, which is \$84,000 more than budget. In comparison between years, net income is \$99,000 more than November 2019. November year-to-date net income of \$44.0 million is \$3.1 million lower than budget and \$3.4 million less than the eleven months ended November 2019.

The negative impact of the COVID-19 pandemic that began in May 2020 continues, with water revenue, other operating revenue and non-operating revenue all falling well short of budget. Cost reduction efforts initiated in response to the situation are ongoing and have resulted in a significant decline in operating expenses. We anticipate the negative trends experienced since the second quarter of this year will continue through the end of 2020 and well into 2021 until the economy improves and eventually returns to normal.

Communications and Marketing Report Given

Ms. Dearing Smith provided a summary of the Communication and Marketing Report.

Louisville Water conducted consumer research in the 3rd and 4th quarters on two topics for the COVID-19 pandemic: customer perceptions of Louisville Water and strategic communications. Nearly 500 customers from 45 zip codes participated in a COVID-19 pulse survey. Key findings showed that 80% of customers believed Louisville Water was “empathetic” in the pandemic and customers used positive attributes to describe the Company’s response to the pandemic.

Customers were also asked about topics where they would like to hear from Louisville Water:

This research reinforced the importance of strategic communications on the safety and quality of our water. The data also shows Louisville Water has garnered good will for listening to customers. In the empathy score, customers noted how Louisville Water was asking for feedback, had not turned off water service for non-payment and offered financial assistance.

Staff will use this data for messaging with the Drops of Kindness program. We will conduct another COVID pulse survey in the first quarter of 2021.

A partnership with UofL Health highlighted the quality and importance of water for good health and preventing the spread of COVID-19. During National Handwashing Week, December 1-7, UofL and Louisville Water hosted a media event and a social media campaign with dozens of partners. This campaign also highlighted Louisville Water’s handwashing jingle that’s 20 seconds long – the amount of time you should wash your hands.

Customer Service and Distribution Operations Report Given

Mr. Vogel advised that staff have completed preparation and are ready for the winter months. Call Center representatives are actively calling customers with outstanding balances to inform them of the financial assistance available to pay their water and sewer bills.

Engineering and Production Operations Report Given

Mr. Kraus advised that 2020 capital program expenditures through November totaled \$78,250,299, which is \$199,199 more than the same period last year. These expenditures equate to 64.58% of the 2020 total capital program of \$121,176,319. Staff expect to end the year at approximately \$94M.

All water quality goals for November 2020 were achieved. No water quality violations occurred.

Human Resources and Labor Relations Report Given

Mr. 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.
- Human Resources met with the Union's Benefit Committee to establish the Union's 2021 Health & Wellness Incentive Goals.
- Union President, Adam Carter participated in a Water Equity Taskforce virtual meeting to discuss the Spring 2021 Utility Workforce Development Event.

Information Technology Report Given

Tom Luckett provided a summary of the Information Technology (IT) report.

All business reports from legacy reporting applications will be migrated to a common new platform by the end of December. This will save the cost of supporting multiple reporting platforms.

There has been a delay in obtaining the latest release for the Oracle Work & Asset Management (WAM) system; we are currently expecting two patches from Oracle in mid-December. Due to this delivery schedule and the upcoming holidays, the estimated go live for the latest release is mid-January.

Louisville Water Operations and Finance departments have agreed to a joint upgrade proposal for Oracle Customer Care & Billing (CCB) and Enterprise Business Systems (EBS). We have secured the necessary funding and are now working on an overall project plan to begin in early 2021.

IT is continuing to work on implementing a full warm failover Disaster Recovery (DR) function that is targeted for completion by the end of the year. On December 9 a successful failover test was conducted. This was a small test under very controlled conditions, but it tested every aspect of a full recovery. We are continuing to build out the full DR capability.

Due to the increased criminal cyber activity, IT is closely monitoring network traffic both from internet usage as well as emails.

Mr. Bruce thanked the Board for its support through this very unusual, but successful year. He also thanked them for challenging us to improve as it makes us a better organization. In lieu of providing the Board members with a holiday gift, Louisville Water will be donating \$500 in the Board's name to the Family & Children's Place.

There being no further business for the Board, the meeting was adjourned at 12:58 p.m.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "Michael F. Tigue".

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