

**Board Of Water Works
REGULAR CALLED MEETING MINUTES
December 17, 2019**

Board Members Present:

Mr. Creighton Mershon, Chair
Dr. Sharon Kerrick, Vice Chair (via video teleconference)
Dr. Sundeep "Sunny" Dronawat (via video teleconference)
Mr. Paul Esselman
Mr. Craig Willman

Not Present:

Greg Fischer
Ms. Tierra Kavanaugh Wayne

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 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
Mr. Adam Carter, President, Local Union 1683 of the AFSCME
Ms. Kim Reed, Chief Innovation Officer, One Water
Ms. Sue Purdy, Director, Finance and Accounting
Ms. Jenni Schelling, Director, Internal Audit
Ms. Shannon Tivitt, Director, Project Liaison, One Water
Mr. John Baum, Manager, Accounting
Ms. Beverly Soice, Paralegal

Visitors:

Hank Alford, Middleton Reutlinger
Mike Herrington, Stites & Harbison

The regular called meeting of the Board of Water Works (BOWW) was held on Tuesday, December 17, 2019 at the Louisville Water Company (Louisville Water or the Company) 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

Paul Esselman moved to approve the Regular Called Meeting Minutes of November 19, 2019 seconded by Dr. Sharon Kerrick and the motion unanimously carried.

Craig Willman announced that as of January 1, 2020 he will be retiring from the Board of Water Works and the One Water Board. Daniel Frockt presented Mr. Willman with a proclamation issued by Mayor Fisher in recognition of Mr. Willman's service on the Board of Water Works, various Board committees and the One Water Board.

Report Provided by the President/Chief Executive Office

Spencer Bruce introduced Judy Sherer, a project manager working on the Automated Metering Infrastructure (AMI) project, who was recently interviewed by WaterWorld Magazine. The resulting article which was included in the magazine's December edition, focuses on Louisville Water's \$62 million AMI project.

Mr. Bruce noted that although Louisville Water had an overall excellent year, we did sustain a tremendous loss with the death of Jimmy Stone. Adam Carter advised that Carla Stone, widow of Louisville Water employee Jimmy Stone, employees and Local 1683 have partnered with the Rajon Rondo Foundation Community Locker Room Project. Ms. Stone donated \$5,000 to the program. For future years, the Union and the Company will work together to raise \$10,000 to keep the project funded.

In November, Louisville Water helped to host over 250 economic development professionals at the Kentucky Association for Economic Development (KAED) fall conference. The event highlighted best-practices for recruiting and retaining businesses and allowed our staff to network with potential partners. A new program, Product Development Initiative, is a proactive approach to upgrade industrial and office sites for growth. A third-party review process by a national site selection company chose nine communities out of 45 applications for a total investment of \$2.95 million in grant funds. The communities must match dollar-for-dollar the investment, thereby allowing the state to leverage nearly \$6 million for upgrades. Two sites in Louisville Water's service area were chosen for investment: RiverPort Phase V in Jefferson County and the T.J. Patterson Industrial Park in Hardin County. Louisville Water will continue to work with KAED and its partners to identify opportunities to build our brand around economic development.

Declared Fourth Quarter 2019 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 2018, 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 2019.

The annual audit has been completed. Net income of \$41,052,036 requires a total 2018 dividend to Louisville / Jefferson County Metro Government, Kentucky of \$18,997,197. The total dividends paid during 2018 were \$21,453,700. The difference between the dividend paid for 2018 and the actual dividend computed and declared for 2018 is \$2,456,503. A portion of the difference was deducted from the second quarter 2019 dividend payment and the balance will be deducted from the fourth quarter 2019 dividend payment as directed by Louisville Metro Office of Management and Budget.

The 2019 Annual Budget provides for a budgeted annual dividend of \$19,274,820. Mr. Willman moved to declare the fourth quarterly 2019 dividend in the amount of \$4,818,705, seconded by Mr. Esselman and the motion unanimously carried. This resolution provides for a total quarterly payment of \$3,678,887 after the deduction of \$1,139,818 for the adjustment for 2018.

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 \$21,453,700 was paid in 2018 based on estimated Adjusted Net Income of \$43,890,000 and
WHEREAS, the annual audit for 2018 has been completed establishing the full dividend for 2018 as \$18,997,197 based on actual Adjusted Net Income of \$40,322,463, and the Board resolution of December 18, 2018 was amended on June 18, 2019 to decrease the 2018 annual dividend by \$2,456,503 from \$21,453,700 to \$18,997,197, and a portion of the difference was deducted from the second quarterly 2019 dividend payment and the remainder will be deducted from the fourth quarterly 2019 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 2019 Louisville Water Company Annual Budget reflects the 2019 annual dividend to be \$19,274,820, it would be in order at this time to declare a regular fourth quarter dividend of \$4,818,705; therefore, be it
RESOLVED, the regular fourth quarter 2019 dividend of \$4,818,705 is hereby declared, and
RESOLVED, that \$1,139,818 of the total difference of \$2,456,503 will be deducted from the fourth quarterly 2019 dividend payment, and further
RESOLVED, that the President of the Company hereby is authorized and directed to pay \$3,678,887 to the Louisville / Jefferson County Revenue Commission on December 27, 2019, this being the fourth quarterly dividend for 2019.

Approved 2020 Tariff, Rate Schedule, Fees and Charges

Lynn Pearson advised that at the November 19, 2019 meeting of the BOWW, the 2020 Annual Budget was adopted and staff was directed to prepare rate schedules with an average rate increase of 3.5%, effective for water service beginning January 1, 2020 and thereafter.

The proposed 2020 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 January 1, 2020 and wholesale rates July 1, 2020. 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 advised that Louisville Water's Service Rules and Regulations authorize certain fees and charges for providing service to customers. Service Rule 1.03.3 authorizes service installation fees for specific sizes installed under typical construction conditions. Service Rules 1.14.1 through 1.14.16 authorizes service deposits and other account charges for items including late payments, returned checks, and service activation or deactivation. Service Rule 3.07 authorizes a system development charge for all new services installed on public mains. Each year, staff reviews these charges and fees as part of the annual Tariff and Water Rate Schedule and recommends appropriate changes as needed. Ms. Pearson, Tim Kraus and Dave Vogel reviewed the proposed

changes with the Board.

Mr. Willman moved to approve the 2020 Water Rate and Tariff effective January 1, 2020 for retail water customers and effective July 1, 2020 for wholesale customers, and the 2020 Customer Charges and Fees effective January 1, 2020. Mr. Esselman seconded and the motion unanimously carried.

Approved 2020 Board of Water Works Regular Meeting Dates

Mr. Mershon advised that the dates for 2020 Board meetings have been proposed as follows: Tuesday, January 21, Tuesday, February 18, Tuesday, March 17, Tuesday, April 21, Tuesday, May 19, Tuesday, June 23, Tuesday, July 28, Tuesday, August 18, Tuesday, September 22, Tuesday, October 20, Tuesday, November 24, and Tuesday, December 15.

Mr. Esselman moved to approve the above referenced meeting dates for regular meetings of the Board of Water Works for 2020. Seconded by Mr. Willman and the motion unanimously carried.

All 2020 regular monthly meetings will begin at 11:00 a.m. The annual meeting in April will begin at 12:30 p.m., but the regular meeting will occur beforehand at 11:00 a.m. All meetings will be held at the John L. Huber Corporate Headquarters.

Approved Service Rules and Regulation

Mr. Vogel advised that annually, staff reviews the Service Rules and Regulations to determine if any changes should be made. Staff recommends changes in the service rules to incorporate new initiatives and to provide clarification to existing regulations.

Mr. Vogel reviewed the additions and edits with the Board. Highlights of these changes include the addition of the definition for Wholesale customers; language regarding charges incurred when enlarging services; additional fee and language pertaining to Temporary Meters; clarification between discontinue and cancellation of service; and, requirement for minimum participation for two-thirds majority contracts.

Mr. Vogel advised that the General Counsel has reviewed these proposed revisions and staff recommends approval by the Board, effective January 1, 2020.

Mr. Esselman moved to approve the proposed changes to the Service Rules and Regulations, seconded by Mr. Willman and the motion unanimously carried.

Renewed Contract with RA Consultants

Mr. Kraus advised that the Construction Inspections Department is currently composed of 17 inspectors, of which nine are full time employees and eight are furnished through a contract with RA Consultants. Contract inspectors have been utilized each year since the first contract was awarded to Quest Engineering in 2000, to supplement the construction inspection.

A competitive Request For Proposal (RFP) process was initiated in 2018 to select a contractor to provide construction inspection services. Contract P2433 was awarded to RA Consultants as the lowest cost proposal. The Contract was awarded for a period of one year with the option to renew up to four additional years. Procurement Department has determined the CPI hourly rate increase for the renewal to be 1.8%. Given this low increase and the quality of service provided, staff requests to renew the contract for an additional year.

It is anticipated that Louisville Water may utilize up to 14 contract inspectors from the RA Consultants contract in 2020. Most of these inspectors will be utilized by the Construction Inspections Department to inspect pipeline projects constructed by contractors obtained through our bidding process. In addition, up to four inspectors are budgeted to be utilized by MDOL to inspect various maintenance repairs and projects. If needed, this budget also includes inspectors that may be utilized by the Metering Department to inspect the AMI project anticipated to begin in early 2020.

Mr. Esselman moved to approve renewal of our contract with RA Consultants in the amount of \$1,671,196.80. Mr. Willman seconded and the motion unanimously carried.

Closed Session Held

Mr. Willman moved to go into Closed Session to discuss a business opportunity pursuant to KRS 61.810(1)(g) 11:46 a.m., seconded by Mr. Esselman and the motion unanimously carried.

Open Session Resumed

Mr. Esselman moved to return to Open Session at 12:55 p.m., seconded by Mr. Willman and the motion unanimously carried. No action was taken in closed session.

Discuss WaterMark Advancement, LLC

Per discussions held in closed session, Mr. Willman moved to approve Michael Tigue as manager of the limited liability company, seconded by Mr. Esselman and the motion unanimously carried.

Mr. Tigue advised that he will formally submit his written resignation as the Corporate Secretary in the coming months so as not to conflict with his new position as manager of the limited liability company. A new Corporate Secretary will be appointed at a future BOWW meeting.

Reviewed Affirmative Action Plan

Terrence Spence provided a summary of the Affirmative Action plans for all Louisville Water facilities for 2019.

Financial Report Given

Ms. Pearson summarized the Financial report for November.

Water sales were strong in November, resulting in total operating revenue coming in \$138,000 higher than budget. This positive budget variance, however, was offset by unfavorable variances in operating and non-operating expenses. As a result, net income for November is \$325,000 lower than budget.

Consumption of 2.8 billion gallons for November 2019 is 43.3 million gallons higher than budget, and 82.3 million gallons more than November 2018. The higher volume of water sales is driven largely by the irrigation customer class, reflecting the impact of hot, dry weather that lasted well into autumn. Year-to-date consumption remains slightly under budget and prior year. Excluding the negative variance in Metro government water consumption which is offset on the expense side, water consumption actually exceeds budget by a small margin.

Water Revenue for November 2019 is \$173,000 higher than budget and \$895,000 more than prior year. Water revenue through November is very close to budget, falling short by only \$370,000 and is \$6.3 million higher than last year. Slightly lower consumption is the key factor driving decreased water revenue for the year-to-date period as compared to budget.

Other Operating Revenue for November is \$34,000 lower than budget but is \$86,000 more than year-ago levels. The unfavorable variance to budget is mainly due to lower turn-off activity offset by higher contract operations. Through November, other operating revenue is within \$108,000 of budget and is \$1.3 million higher than 2018.

Operating and Maintenance Expenses for November of \$6.8 million are \$256,000 higher than budget and \$141,000 higher than November 2018. The unfavorable variance to budget for the month is driven by contractual services. November year-to-date operating and maintenance expenses are \$705,000 under budget and \$3.5 million above year-ago levels.

Total Operating Expenses for November of \$12.4 million exceeded budget by \$357,000 and were \$745,000 higher than November 2018. Total operating expenses year-to-date are lower than budget by 0.9% and higher than prior year by 5.3%.

Non-Operating Income through November is \$1.2 million, which is \$27,000 lower than budget and \$461,000 less than the same period in 2018. The variance to budget is mainly due to a lower dollar amount invested than anticipated.

Non-Operating Expense through November of \$6.2 million is \$81,000 less than budgeted and \$97,000 more than year-ago levels. Interest expense is less than budget due the 2019 bond issuance taking place later than anticipated, along with higher amounts of interest capitalized. Interest expense is more than prior year due to the issuance of bonds in late October.

Net Income before Distributions and Contributions for November is \$3.7 million, which is \$325,000 lower than budgeted. In comparison between years, net income is \$30,000 lower than November 2018. November year-to-date net income of \$47.5 million is \$741,000 higher than budget and is \$377,000 higher than the eleven months ended November 2018.

Contributions through November of \$11.6 million are \$4.6 million higher than budgeted and \$2.3 million more than prior year. Contributions are higher than budget and prior year primarily due to increased activity.

Communications and Marketing Report Given

Kelley Dearing Smith summarized the Communications and Marketing report for November.

Louisville Water employees, educators and community partners reached thousands of customers this year with a message of healthy, great-tasting, affordable drinking water. The community outreach initiative compliments our programming in schools and at the WaterWorks Museum. In 2019, the communication staff coordinated over 200 community outreach efforts which included a work from home summer challenge for young scientists to do "Science in the Sink" and share experiment results on-line; a "Living Green Wall" planted at the Southwick Community Center in the Park Duvalle neighborhood combats air pollution and we provide education on-site for volunteers; health fairs at large employers including UPS and Louisville Metro focus on hydration and handwashing; and, public libraries in Jefferson and Bullitt Counties include summer reading programs with Louisville Water.

In addition, we create community partnerships for outreach. The Louisville Zoo, Bernheim Forrest, Catholic Charities, Frazier History Museum, Girl Scouts of Kentuckianna, the Louisville Visual Arts Association and the Blackacre State Nature Preserve all deliver Louisville Water programming at their facilities.

Social media is also an important part of our content marketing strategy. Jack Harlow grew up in Louisville and now, at 21 years old, he has a recording contract, his own independent record label and couldn't be prouder of his hometown and its water. In advance of a Louisville performance during the Thanksgiving holiday, Harlow was interviewed on a national podcast and didn't hold back on bragging about Louisville's drinking water. "Louisville tap's as good as it gets," proclaimed Harlow. "We've got the number one water in the U.S." Harlow's endorsement was picked up by a Louisville twitter fan who posted the clip and then watched it go viral with over 90,000 impressions. Our communication team followed up with a story and additional social media. Opportunities like these create a national platform to talk about the value of Louisville's water.

Customer Service and Distribution Operations Report Given

Mr. Vogel summarized the Customer Service and Distribution Operations for November.

Call Center operations received 22,121 calls in November with an abandonment rate of 0.4%. The monthly call volume was the lowest in the last five years driven by the implementation of the new IVR and lower field disconnect activity. The Average Speed to Answer for the month was 15 seconds which is also the lowest in recent history. Last year the Average Speed of Answer was 3:46 m:s and the five-year average was eight minutes. The Monday after the Thanksgiving holiday was one of the busiest days of the year and the entire staff worked from 8:00 am to 6:00 pm to manage the call volume. Staffing levels remain stable and we have still not experienced any turnover from the last recruitment class. The front lobby handled 8,553 transactions for the month (6,057 cash and 2,496 check).

The main break activity for the month of November was typical of past periods. For the month we experienced 67 main breaks versus 75 last year and 69 for the five-year average. Year-to-date our break activity (570) is running significantly lower than last year (643) and slightly higher than the five-year average (549). Winter planning activities continued in November, and all preparations are on schedule for the upcoming months. The priority backlogs are also in good shape as we enter the cold weather season. Hiring for eight general laborers and one supervisor continued in November and is expected to conclude in December, with anticipated start dates in January.

The volume of non-payment turn-offs was significantly down in November due primarily to shifting to a new mobile workforce management system. This implementation went extremely well and was completed in less than 25% of the average industry time. All Metering field personnel are now using the Kloudgin system which was deployed to plant personnel in October 2018. Staff worked through design issues with composite lids and a software upgrade to our meter reading software is underway. Both activities are needed as part of the AMI implementation efforts.

Engineering and Production Operations Report Given

Mr. Kraus summarized the Engineering and Production Operations report for November.

Capital program expenditures through November totaled \$78,051,101 which is \$12,415,846 or 13.72% lower than the same period last year. These expenditures equate to 71.62% of the 2019 total capital program of \$108,979,178.

The amount of water produced and delivered to the system in November 2019 was 110.9 MGD, which was 6.3% higher than November 2018 and 2.5% higher than the November five-year average. For year-to-date, the amount of water delivered to the system was 0.6% lower than 2018, and 0.5% higher than the five-year average.

All water quality goals were achieved for November 2019. There were zero water quality violations.

There were four chemical spills reported upstream of the Zorn intake; none prompted additional treatment. Staff monitored 1,133 water quality parameters of a required 973 per federal and state regulatory requirements. Staff collected 280 compliance distribution samples. There were zero Total Coliform and zero E-Coli detections. Staff also collected 126 main break samples on 63 repairs in the month, of which seven localized boil water advisories were issued due to field conditions and one was issued due to water quality monitoring results. There were a total of three water quality customer complaints, in comparison to the five-year average of eight complaints.

Human Resources and Labor Relations Report Given

Mr. Spence provided a summary of the 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).

- Currently there are three active grievances filed by the Union; two are pending results from arbitration hearings and one in discussion for possible resolution.
- Union and Company representatives reconvened to establish Union employee's Health Incentive Plan goals for the 2020 benefit year.
- The Executive Union Management Alliance Council (EUMAC) met and reviewed the completion/status of various initiative action items.
- The Company posted two regular full-time classified positions for the internal Union personnel bidding process. The Company extended offers for eight full-time general laborer positions.
- Union President and Vice-President, Adam Carter and Bart Matherly along with Louisville Water Executive Vice-President, Dave Vogel, facilitated the communication roll-out of the 2019-2025 Strategic Partnership Plan drafted by the Company and the Union.

Information Technology Report Given

Tom Luckett summarized the Information Technology (IT) Report for November.

IT staff continues to support Phase One of the Oracle Work & Asset Management (WAM) Implementation work while developing Phase Two. The virtualized platform for WAM and CC&B was rearchitected and the platform is much more stable.

Advanced Metering Infrastructure (AMI) work is progressing on the interfaces necessary to integrate AMI with the existing Louisville Water applications. Testing will begin in January.

Cisco's Identity Services Engine (ISE) is a network administration product that enables the creation and enforcement of security and access policies for endpoint devices connected to the Company's routers and switches. This implementation is on schedule to be completed by the end of the year.

Louisville Water has, for the past four years, utilized MSD's Cedar Creek location as an offsite data backup site with limited computing capabilities. The goal of the Data Recovery (DR) project is to move out of MSD's Cedar Creek location and expand our computing capabilities at our offsite location. Phase one, to vacate Cedar Creek, was accomplished last week. We will begin implementing a full failover DR function next year with a maximum target recovery point of ten minutes and recovery time of one hour. This means that, in the event of a disaster, we will lose no more than ten minutes of data, and the systems will be back up within one hour.

Over 125 desktops, all-in-ones, and laptops with Windows 10 were ordered from Dell to replace computers still using Windows 7. Included in the order were systems to replace call center thin clients with new computers, and dual monitors. The replacements should be completed by mid-January.

There being no further business for the Board, the meeting was adjourned at 1:30 p.m.

Respectfully submitted,



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