

**Board Of Water Works
REGULAR CALLED MEETING MINUTES
December 18, 2018**

Board Members Present:

Mr. Creighton Mershon, Chair
Dr. Sundeep "Sunny" Dronawat
Mr. Paul Esselman
Dr. Sharon Kerrick
Ms. Tierra Kavanaugh Wayne
Mr. Craig Willman

Not Present:

Mayor 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, 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 Tigue, Vice President, General Counsel and Corporate Secretary
Ms. Kim Reed, Director, One Water Liaison
Ms. Jenni Schelling, Director, Internal Audit
Ms. Sue Purdy, Director, Finance and Accounting
Mr. Andrew Winslow, Supervisor, Budget, Rates and Analysis
Mr. Mathew Griffith, Strategic Planning & Performance Specialist
Mr. Adam Carter, President of Local 1683 (the Union)

Visitors:

The regular called meeting of the Board of Water Works (BOWW) was held on Tuesday, December 18, 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 11:04 a.m.

Minutes of the Previous Regular BOWW Meeting Approved

Mr. Craig Willman moved to approve the Regular Called Meeting Minutes of November 20, 2018, seconded by Dr. Sharon Kerrick and the motion unanimously carried.

Report Provided by the President/Chief Executive Office

Mr. Spencer Bruce advised that Louisville Water partnered with Greater Louisville Inc. (GLI) to host a "familiarity tour" (or, fam tour) for a small group of regional developers. This tour highlighted the region's assets for manufacturing, commercial development, healthcare and food and beverage industries. Louisville Water highlighted its business advantages with a presentation alongside Maker's Mark Bill Samuels. A bourbon and water tasting allowed guests to learn about two of the region's liquid assets.

This event is an example of how Louisville Water participates in GLI's economic development efforts. Unlike typical water utilities, Louisville Water works to promote the Louisville region as a great place for businesses to locate — especially given the abundance, affordability and high quality of the water. Louisville Water is a member of GLI's regional coalition that meets regularly with chambers in neighboring counties. Louisville Water is also participating in the development of a marketing and branding effort that will complement the work already under way. In addition to hosting this tour with GLI, Louisville Water has participated in two other familiarity tours – one in Chicago and the other in Atlanta.

2019 Tariff, Water Rate Schedule, Fees and Charges Approved

Ms. Pearson advised that at the November 20, 2018 meeting of the BOWW, the 2019 Annual Budget was adopted, and staff was directed to prepare rate schedules with an average rate increase of 3.9%, effective for water service beginning January 1, 2019 and thereafter.

The proposed 2019 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 recommends retail water rates increase January 1, 2019 and wholesale rates July 1, 2019. 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.

The 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. Staff recommends and requests the Board of Water Works approve the proposed customer installation fees and customer account charges and deposits effective January 1, 2019.

Mr. Willman moved to approve the 2019 Water Rate and Tariff effective January 1, 2019 for retail water customers and effective July 1, 2019 for wholesale customers, and the 2019 Customer Charges and Fees effective January 1, 2019. Ms. Tierra Kavanaugh Wayne seconded and the motion unanimously carried.

Fourth Quarter 2018 Dividend Declared

Ms. Pearson advised it is appropriate to declare the Fourth Quarter Dividend per Section 508 of the Series 2009 Water System Revenue Bond Resolution. The annual audit was completed during the second quarter. Net income of \$38,905,852 requires a total 2017 dividend to Louisville / Jefferson County Metro Government, Kentucky of \$19,024,825. The total dividends paid during 2017 were \$20,827,200. The difference between the dividend paid for 2017 and the actual dividend computed and declared for 2017 is \$1,802,375. This difference was deducted from the second quarter 2018 dividend payment as directed by Louisville Metro Office of Management and Budget.

The 2018 Annual Budget provides for a budgeted annual dividend of \$21,453,700. Mr. Willman moved to approve the following resolution to declare the fourth quarterly 2018 dividend in the amount of \$5,363,425.

WHEREAS, it has been the long established policy of Louisville Water Company to pay a dividend on its common stock related to its net earnings, after giving consideration to any requirements for debt amortization and bond reserve requirements, and

WHEREAS, a covenant written into the 2009 Water System Revenue Bond Resolution sets forth a formula for determining the amount of any such dividend, and

WHEREAS, such covenant requires payment of a dividend each year based on estimated annual adjusted net income, with adjustment upon completion of the annual audit to reflect any difference between estimated and actual net income, such adjustment to be made in the quarterly dividend payments of the following year, and

WHEREAS, an estimated dividend of \$20,827,200 was paid in 2017 based on estimated Adjusted Net Income of \$43,740,600 and

WHEREAS, the annual audit for 2017 has now been completed which establishes the full dividend for 2017 as \$19,024,825 based on actual Adjusted Net Income of \$35,905,852, and the resolution adopted in June 2018 amended the Board resolution of December 18, 2017 to decrease the 2017 annual dividend by \$1,802,375 from \$20,827,200 to \$19,024,825, and the difference was deducted from the second quarterly 2018 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 2018 Louisville Water Company Annual Budget reflects the 2018 annual dividend to be \$21,453,700, it would be in order at this time to declare a regular fourth quarter dividend of \$5,363,425; therefore, be it

RESOLVED, the regular fourth quarter 2018 dividend of \$5,363,425 is hereby declared, and further

RESOLVED, that the President of the Company hereby is authorized and directed to pay \$5,363,425 to the Louisville / Jefferson County Revenue Commission on December 31, 2018, this being the fourth quarterly dividend for 2018.

Mr. Paul Esselman seconded and the motion unanimously carried.

2019 Board of Water Works Regular Meeting Dates Approved

Mr. Michael Tigue advised that the dates for the 2019 Regular Board of Water Works meetings have been proposed as follows: Tuesday, January 22, Tuesday, February 19, Tuesday, March 19, Tuesday, April 16, Tuesday, May 21, Tuesday, June 18, Tuesday, July 23, Friday, August 16, Tuesday, September 17, Tuesday, October 22, Tuesday, November 26, and Tuesday, December 17.

After a short discussion, Mr. Esselman moved to approve the schedule of meeting dates proposed with the exception of the November meeting which he suggested be held on November 19, instead of November 26. Ms. Wayne seconded, and the motion unanimously carried.

All 2019 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.

Audit Committee Report Given

Mr. Willman provided a summary of the items discussed at the Audit Committee meeting held on November 30, 2019.

Availability Study / Small Business Program Report Given

Mr. Tigie summarized the findings of the availability study previously performed by Griffin and Strong including the resultant recommendations for implementation of a small business program and amendments to the existing Good Faith Efforts program.

Mr. Tigie noted that the success of Louisville Water's existing Good Faith Efforts program is largely vendor dependent. This circumstance can at times impair Louisville Water's ability to realize its corporate small business development and diversity goals. Based on consultant recommendations, Mr. Tigie highlighted opportunities to improve Louisville Water's engagement in identifying and developing small businesses in our local community as well as increasing minority and women owned business participation in Louisville Water's activities. This includes: defining minority/women business enterprise aspirational goals and objectives, benchmarking future performance against objective standards and increasing Louisville Water engagement and the development in its local supplier network.

Review of Account Delinquencies

Mr. Bruce advised that this item will be discussed in closed session.

Closed Session Held

Mr. Willman moved to go into Closed Session to discuss specific proposal pursuant to KRS 61.810(1)(g) at 12:47 p.m., seconded by Ms. Wayne and the motion unanimously carried.

Open Session Resumed

Mr. Willman moved to return to Open Session at 1:25 p.m., seconded by Dr. Sunny Dronawat and the motion unanimously carried. No action was taken in closed session.

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

Financial Report Given

Ms. Pearson reported that consumption was well under budget in November, resulting in a significant negative impact on water sales and overall financial results. Other operating revenue were also under budget, contributing to an overall shortfall in operating revenue of 7.2%. Non-operating income and expense performed favorably to budget for the month, but only offset a portion of the shortfall. As a result, net income for November was 22.6% lower than budgeted.

Communications and Marketing Report Given

Ms. Kelley Dearing Smith reported that in 2018, Louisville Water will record a successful outreach effort with over one million people reached through Louisville pure tap® and community education. Recently, staff was part of "Splat Out Cancer" at Waterfront Park where 1,000 people participated in a fundraising event. As holiday travel began, our mascot Tapper greeted guests at Louisville International Airport with the help of the airport's new mascot. In areas where we have branding, we're building on these partnerships with on-site activation.

As part of the One Water partnership, Louisville Water's education manager developed "River to River," a program that highlights MSD and Louisville Water's work with a classroom experience that's

tailored to national science standards. We piloted the program in the spring and since then, 23 schools have participated. Louisville Water educators deliver the programming. River to River is part of our Adventures in Water program that visits over 100 schools annually.

Customer Service and Distribution Operations Report Given

Mr. Dave Vogel provided a summary of the customer service and distribution operations report for November.

Call Center operations received 31,046 calls in November with an abandonment rate of 9.4%. The Average Speed to Answer for the month was 3:46 m:s which is significantly better than last year and the five-year average. We saw some of our busiest days the week after the Thanksgiving holidays and the entire staff worked to manage the volume. Eight new CSRs started on December 3 and will begin taking calls in January. The front lobby handled 11,532 transactions for the month (8,398 cash and 3,134 check).

The main break activity for the month of November was typical of past periods. Year to date our break activity is running 50% higher than last year and 13.6% higher than the five-year average. Winter planning activities continued in November, and all preparations are on schedule for the upcoming winter season. As part of this effort, capital work was limited in order to reduce high priority tickets.

The volume of non-payment turn-offs was down in November due to vacancies, off duty, and holidays. Heavy emphasis continues to be on safety and Metering Services experienced no OSHA recordable injuries, and had no preventable motor vehicle accidents, during the month. Billing estimates were slightly higher than last year and the five-year average.

Engineering and Production Operation Report Given

Mr. Tim Kraus reported that 2018 capital program expenditures through November totaled \$90,466,947 which is \$27,611,206 or 43.93% higher than the same period last year. These expenditures equate to 81.53% of the 2018 total capital program of \$110,955,773.

The amount of water produced and delivered to the system in November 2018 was 104.3 MGD, which was 9.3% lower than November 2017 and 4.0% lower than the November five-year average. For year-to-date, the amount of water delivered to the system was 2.8% higher than 2017, and 1.9% higher than the five-year average.

There were four chemical spills reported by ORSANCO during the month of November; three occurred upstream of Louisville Water's Zorn intake. There were no incidents that prompted additional treatment. All treatment goals were achieved.

Water Quality (WQ) staff monitored 1,133 water quality parameters of a required 973 per federal and state regulatory requirements. There were zero water quality violations.

Staff collected 280 compliance distribution samples. There were zero Total Coliform and zero E-Coli detections. All internal water quality goals were met. Staff also collected 156 main break samples on 78 repairs in the month, of which 13 localized boil water advisories were issued due to field conditions and two were issued due to water quality monitoring results. There was a total of seven water quality customer complaints, in comparison to the 5-year average of 12 complaints.

Human Resources Report Given

Mr. Terrence Spence provided the following summary regarding recent and current activity between the Louisville Water Company's (the Company) Labor Management and Local Union 1683 of the American Federation of State, County and Municipal Employees, AFL-CIO (the Union).

- Currently there are six active grievances filed by the Union. Four have proposals under review for possible resolution and two recently submitted for scheduled discussion.
- On November 29 Union and Company representatives met to discuss the Union's 2019 Safety & Wellness Incentive Program goals.
- The Union's strategic planning committee reconvened to review and revise the first draft plan document on December 12.
- The Company posted one regular full-time position for the internal Union personnel bidding process on December 5.
- The Company is recruiting General Laborers to continue to establish a feeder group of candidates to prepare for potential union retirements.

Information Technology Report Given

Mr. Tom Lockett reported that Information Technology (IT) is supporting Phase I of the Oracle Work and Asset Management system implementation that went live on October 15. Staff is planning the Phase II work with E&Y.

Final decisions have been made for Oracle support vendors and negotiations are proceeding with three vendors.

There being no further business for the Board, the meeting was adjourned at 1:41 p.m.

Respectfully submitted,



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