

**Board Of Water Works
REGULAR CALLED MEETING MINUTES
February 19, 2019**

Board Members Present:

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

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
Mr. Mathew Griffith, Strategic Planning and Performance Specialist
Ms. Beverly Soice, Paralegal

Visitors:

The regular called meeting of the Board of Water Works (BOWW) was held on Tuesday, February 19, 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 12:02 p.m.

Minutes of the Previous Regular BOWW Meeting Approved

Mr. Craig Willman moved to approve the Regular Called Meeting Minutes of January 22, 2019 seconded by Dr. Sunny Dronawat and the motion unanimously carried.

It was announced that Kim Reed has been named the new Chief Innovation Officer, which is a One Water position. The Board members expressed their congratulations to Kim.

Dr. Sharon Kerrick advised that she is on the board of the national Small Business Institute and each year university's around the country submit for their "Project of the Year" Award. The Award recognizes the best MBA consulting/report project. With Spencer Bruce's prior approval, Dr. Kerrick submitted Kimberly Cox's Automated Metering project report to the judging committee which is comprised of university professors from around the country. Ms. Cox is Louisville

Water's Manager of Billing and Meter Support. She was notified that Ms. Cox was one of three finalists. Awards were presented in Orlando at the annual conference awards luncheon on Saturday, February 16 and Kim won second place nationally. The Board members and staff expressed their congratulations at Kim's accomplishment. Her project highlights how advanced technology, such as Automated Metering can improve Louisville Water's customer service business operations

Report Provided by the President/Chief Executive Office

Mr. Bruce advised Louisville Water continues to see positive returns from its strategic investment and partnerships around economic development. For partnerships, we expanded our work with Greater Louisville Inc. by contributing content and participating in "familiarity tours." In addition, we have begun identifying opportunities to partner with some of our wholesale customers for economic activity.

Budget Increased for Project No. 15035 – Condition 2017 – PCCP

Mr. Tim Kraus advised that in late 2017, Louisville Water completed the inspection of 16.92 miles of 24", 30", and 60" prestressed concrete cylinder pipe (PCCP) along multiple corridors. Upon review of the reporting received in February 2018, 70 pipe sections were identified as being damaged. Following a thorough review, the determination was made to replace and/or rehabilitate 45 of those pipe sections deemed to be most at risk with the remaining to be monitored and re-evaluated during the next inspection cycle.

During the inspection, a section of the 24-inch main running along Westport Road was identified with damages requiring repairs. This main will be temporary shut-off and drained to repair the damaged section(s), which will cut off supply to two dead end mains. A 500 ft. distribution grid-tie coupled with a permanent pressure zone shift is required to keep the affected customers in service during repairs. Proposals were requested from several contractors utilizing existing Master Agreements. MAC Construction & Excavating was selected to perform the grid tie and service work. The proposal was received on January 14, 2019, in the amount of \$300,606.95 and was 3.65% lower than the Project Engineer's cost estimate. Staff has determined the proposal is acceptable to complete repair work.

Mr. Paul Esselman moved that the project scope be increased to include the items listed and the budget of record for the Condition 2017-PCCP be increased to \$9,404,352.14. Mr. Willman seconded, and the motion unanimously carried.

Mr. Mershon advised that he would be taking the next two items out of order.

Contracts Awarded for Project No. 15458 – Condition 2019 – PCCP

Mr. Kraus advised that Louisville Water's 2019 Condition Assessment Project was initiated to perform electromagnetic condition assessment on 15.98 miles of 24" and 30" prestressed concrete cylinder pipe (PCCP) along multiple corridors. The program also replaces or rehabilitates valves, air valves, and drain assemblies to ensure these critical appurtenances are functioning properly.

As with past condition assessment projects, two contracts are issued for each project. One contractor handles the condition assessment, inspection, leak detection, and failure risk analysis, and the other contractor handles all appurtenance repair, tap installation, valve replacement, and

site assistance. Multiple contracts allow Louisville Water to coordinate and direct all activities.

The project's inspection and condition assessment bid estimate was \$3,124,266.28. On January 31, 2019, a quote was received from Pure Technologies U.S., Inc., utilizing Louisville Water's existing Master Agreement 17-153, Electromagnetic Inspection and Leak Detection of Large Diameter Water Mains. The quote was \$293,524.83, or 9.4% higher, than the bid estimate. The project's construction bid estimate was \$2,743,847.40. On January 30, 2019, a quote was received from Southern Pipeline Construction Co., Inc., utilizing an existing Master Agreement 17-150, Transmission System Repairs and/or Capital Improvements. The quote was \$254,235.64, or 9.27%, higher than the bid estimate. An analysis of the costs was completed and confirmed by staff. The increases can be attributed to the multiple free-swimming inspection runs that are required as part of this year's inspection constraints. These runs are more labor intensive on the contractors as they require a higher degree of technology to operate, longer working hours, and more substantial traffic control measures. No change in the project budget is recommended at this time as the quotes were slightly over the project manager's estimates and current funding is adequate utilizing the budgeted contingency funds.

Mr. Willman moved to award a contract in the amount of \$2,998,083.04 to Southern Pipeline Construction Co., Inc., and to award a contract in the amount of \$3,417,791.11 to Pure Technologies U.S., Inc., for the construction, inspection, leak detection, and condition assessment work associated with Project 15458 – Condition 2019–PCCP. Dr. Kerrick seconded and the motion unanimously carried.

Contract Awarded, Project Change Action Approved, and New Budget of Record Established for Project No. 14321 - Eastern Parkway 48-inch Water Main Rehabilitation Project - Phase 3

Mr. Kraus advised staff is requesting BOWW authorization to award the construction contract for Phase 3 of the Eastern Parkway 48-inch Water Main Rehabilitation Project and to establish a new budget of record.

The original 48-inch main was installed in the 1920's and is composed of cast iron pipe with leadite joints. In recent years Louisville Water has experienced a series of failures of this main and as a result initiated a project to rehabilitate this main in a phased approach. Phases 1 and 2A have been completed. Phase 2B is currently in construction, extending the 42" outer diameter sliplining project on Eastern Parkway from I-65 to 3rd Street at Winkler Avenue.

Phase 3, the final phase of this rehabilitation project, begins at Crescent Hill Filter Plant and extends down Stiltz Avenue, to Lexington Road, to Grinstead Drive to the beginning point for Phase 1 of the project, at Grinstead Drive near Lexington Road. This project includes sliplining 8,630 feet of 42-inch outer diameter welded steel pipe inside the existing 48-inch inner diameter cast iron and prestressed concrete cylinder pipe main.

On February 6, 2019, Louisville Water received bids from prequalified contractors for construction of this project. The low bidder was Cleary Construction, Inc., with a bid of \$5,995,000. In May 2016, the Board approved a total project budget of \$25,761,000. The construction cost of all project phases is approximately \$1.83 million more than originally estimated and project interest has been about \$635,000 more than originally estimated, while design and project management costs have been \$1.14 million less than estimated, resulting in an overall proposed project budget of \$27,086,000 or \$1,325,000 more than the currently approved budget.

Mr. Kraus advised that this project should be completed in the of summer 2020. Ms. Kelley Dearing-Smith noted a communication effort will be implemented similar to those under taken for prior phases of this project.

Mr. Esselman moved to award the Phase 3 construction contract to Cleary Construction, Inc., for \$5,995,000, to approve a project Change Action for \$1,325,000 and to establish a new budget of record for the Eastern Parkway 48-inch Rehabilitation Project of \$27,086,000, seconded by Dr. Dronawat and the motion unanimously carried.

Election to Receive Build America Bonds Interest Subsidy Authorized

Ms. Lynn Pearson advised that the American Recovery and Reinvestment Act of 2009 authorized the Board to issue taxable bonds known as Build American Bonds (“BABs”) to finance capital expenditures for which it could issue tax exempt bonds and to elect to receive a subsidy payment from the federal government equal to 35% of the amount of each interest payment on such taxable bonds (“BABs Interest Subsidy Payment”). The Series 2009B Bond issue was issued as Federally Taxable BABs – Direct Payment.

The available subsidy for the Series 2009B Bonds will be paid to the Board; no holders of Series 2009B Bonds are entitled to a tax credit. The receipt of BABs Interest Subsidy Payments is subject to certain requirements, including the Board filing a form with the Internal Revenue Service prior to each interest payment. The next interest payment \$1,690,258.75 will be paid on May 15, 2019.

Mr. Esselman moved to approve the following resolution to file IRS Form 8038-CP for \$591,590.56, representing 35% of the interest payment, seconded by Mr. Willman and the motion unanimously carried. The full amount of the subsidy will be requested however, it is most likely the subsidy will be sequestered, reducing the payment by \$33,129.07 to \$558,461.49. This reduction was included in the Company’s 2019 budget approved in November of 2018.

WHEREAS, The American Recovery and Reinvestment Act of 2009 (the “Recovery Act”) authorizes the Board to issue taxable bonds known as Build American Bonds (“BABs”) to finance capital expenditures for which it could issue tax exempt bonds and elect to receive a subsidy payment from the federal government equal to 35% of the amount of each interest payment on such taxable bonds (“BABs Interest Subsidy Payment”)

WHEREAS, Louisville Water Company issued Series 2009B Bonds as Federally Taxable – Build America Bonds – Direct payment in December of 2009 to finance capital expenditures.

WHEREAS, the IRS requires Form 8038-CP be filed for each interest payment date no later than the date that is 45 days before the interest payment date but not more than 90 days before the interest payment.

WHEREAS, the next interest payment of \$1,690,258.75 will be paid on May 15, 2019

And

RESOLVED, that the Treasurer of the Company be authorized and directed to file IRS Form 8038-CP for the subsidy payment from the federal government equal to 35% of the interest payment due on the 2009B Series Bonds.

Investment Report

Ms. Pearson advised that Louisville Water’s Investment Guidelines require that, on a semi-annual basis (as of June 30th and December 31st), an update will be provided to the Board of Water

Works on investments held in the Portfolio.

Ms. Pearson reported on the Company's investment holdings as of December 31, 2018.

Metering and Billing

Mr. Mershon advised that this item will be covered in closed session.

Closed Session Held

Mr. Willman moved to go into Closed Session to discuss current or pending litigation pursuant to KRS 61.810(1)(g) at 11:50 p.m., seconded by Mr. Esselman and the motion unanimously carried.

Open Session Resumed

Mr. Willman moved to return to Open Session at 12:30 p.m., seconded by Dr. Kerrick 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 provided a summary of the customer service and distribution operations report for February.

Final field work for the audit of the 2018 financials commenced on January 28 and on-site work has concluded. However, the audit and the year-end financial statements cannot be completed until the final report is received from the Kentucky Retirement System. This report will provide updated liability numbers and other information related to pension and other post-employment benefits that we must have to finalize the audit and the financial statements. Based on prior year's timing, we would anticipate receiving preliminary, unaudited information in mid-March.

Ms. Pearson provided an overview of preliminary financial results for January which must be considered preliminary until the audit of the 2018 financial statements is complete.

Total consumption and water revenue for January 2019 were considerably lower than budget and prior year levels. Other operating revenue was also slightly under budget. The negative budget variance in operating revenue was offset to a small degree by favorable variances in other operating expense and non-operating income and expense. As a result, net income for the month was \$1.5 million lower than budgeted and \$1.2 million under prior year.

Consumption of 2.4 billion gallons for January is 324 million gallons lower than budget, and 436 million gallons lower than January 2018. All customer classes are under budget except for private fire services, with residential and commercial classes accounting for the majority of the difference.

Water Revenue for January 2019 is \$1.7 million lower than budget and \$1.3 million lower than the prior year as a result of the low consumption. A portion of the shortfall is due to timing differences – both with December and with February. The timing difference between January and February will reverse next month. Other Operating Revenue for January is \$25,000 lower than budget but is \$113,000 above year-ago levels. The variance to budget is primarily due to lower late fees and disconnect fees, offset by contract operations revenue running higher than

anticipated. The variance to prior year is driven by increases in service line protection and contract operations revenue.

Operating and Maintenance Expenses for January of \$6.4 million are \$45,000 higher than budget and \$105,000 higher than January 2018. The January variance to budget is primarily due to higher labor and labor related costs, as we currently have a lower number of vacancies company-wide as compared to budget. The budget overage in labor is partially offset by utilities, chemicals and materials and supplies costs, all of which came in under budget in January.

Total Operating Expenses for January of \$11.3 million are \$135,000 lower than budget and \$159,000 more than prior year. The budget variance is mainly due to lower depreciation and loss from disposition of property than anticipated, partially offset by higher operating and maintenance costs.

Non-Operating Income for January is \$117,000, which is \$1,600 higher than budget and \$23,000 less than January 2018. The variance to budget is due to slightly higher interest rates earned on funds than anticipated. The variance to prior year is due to a lower dollar amount invested as we continue to spend down cash on the capital program and move towards a bond issuance later in the year.

Non-Operating Expense for January of \$484,000 is \$59,000 less than budgeted and \$117,000 less than year-ago levels. Interest expense is less than prior year due to principal payments made on bonds during 2018. Variance to budget is due to higher amounts of interest capitalized than expected.

Net Income before Distributions and Contributions for January is \$2.9 million, which is \$1.5 million less than budgeted. In comparison between years, net income for January is \$1.2 million less than 2018.

Contributions for January of \$327,000 are \$128,000 more than budgeted and \$100,000 more than prior year.

Cash, Cash Equivalents and Short-term Investments totaled \$64.3 million at the end of January 2019, well in excess of 250 days of estimated Operations and Maintenance expense of \$53.7 million.

Ms. Pearson reported that on January 30, Moody's Investor Services issued an Annual Comment on Louisville Water. This report is an update commentary on the Company as opposed to an actual credit rating action. As was the case last year, the Annual Comment was exceedingly positive. Moody's states that "The credit position for Louisville Water is excellent..." and "Louisville Water's financial position is extremely strong and is slightly favorable in relation to its Aaa rating". We are pleased that Moody's Annual Comment recognizes the Company's exemplary financial condition, which is the result of many years of sound financial policies and practices at Louisville Water.

Communications and Marketing Report Given

Ms. Dearing Smith provided a summary of the communications and marketing report for January.

Louisville Water's newest branding is at the corner of 8th and Main Streets, inside Michter's Distillery experience. The Michter's exhibit is a focus on filtration, limestone and their connection

to bourbon. The exhibit also includes bedrock samples from Louisville Water's Riverbank Filtration project.

For the 11th year, Louisville Water's mascot, Tapper has participated in WDRB's "Mascot Bowl." This spin on the Super Bowl includes 20 costumed characters playing football.

A partnership with Louisville Metro Department of Public Health and Wellness focused on the importance of water and soap to fight the flu illness. Louisville Water visited schools and daycares with a program called "Clean Hands Up." Students and adults use fake, green germs to see just how well they wash their hands. In addition to the programming, this effort included a media day and a social media campaign on water's connection to overall health. A leave-behind from the program is a laminated instruction sheet on proper handwashing.

Customer Service and Distribution Operations Report Given

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

The month of January ended with 77 main breaks which is significantly lower than last year and the five-year average. Last year, extreme weather conditions challenged our operations and put us at the verge of declaring a winter emergency. This year the weather has been much more favorable. Capital work continued in January with service installations, fire hydrant replacements, valve replacements, large meter renovations and service renewals.

The Call Center operations received 35,027 calls in January with an abandonment rate of 16.9% and an average speed of answer of 6:52 m:s. Performance was hindered due to staffing challenges driven by our new attendance policy. The policy change has been successful in improving our on-time arrivals, however several of our temporary staff were not meeting expectations and were released. A new class is currently in training and we are performing background checks on another group that will be brought in over the next few weeks. Performance is expected to be impacted through February and possibly into March while we recruit and train the new resources. The front lobby handled 11,733 transactions (8,879 cash and 2,854 check) for the month.

Total CSI declined in the 4th quarter while the Serviced CSI reached an all-time high. The Total CSI finished with an index score of 809 and saw drops in three of the five indices. The Serviced CSI finished up six index points to 961 driven by increases on the price/value and customer service components. Going forward we will begin using the JD Powers residential customer survey to measure our customer satisfaction levels. JD Powers allows us to identify trends in our own performance as well as benchmarking against 80 other water utilities across the United States.

Favorable weather helped productivity and allowed us to achieve lower than normal estimations. For the month our estimations came in at 1.7% versus 17.2% last year and 7.4% for the five-year average. Billing accuracy for the month finished at 99.90% versus 99.91% last year and 99.80% for the five-year average. Staff continues to be focused on our meter vault maintenance backlog in preparation for the start of the AMI project, and our metering test bench has been recertified by an outside vendor.

Engineering and Production Operation Report Given

Mr. Kraus provided a summary of the engineering and production operations report for January.

Draft 2018 capital program expenditures through December totaled \$104,842,319 which is \$21,681,686 or 26.07% higher than the same period last year. These expenditures equate to 94.49% of the 2018 total capital program of \$110,955,773.

2019 capital program expenditures through January totaled \$2,644,529 which is \$703,918 higher than the same period last year. These expenditures equate to 2.43% of the 2019 total capital program of \$108,979,178.

The amount of water produced and delivered to the system in January 2019 was 104.9 MGD, which was 13.9% lower than January 2018 and 5.9% lower than the January five-year average. For year-to-date, the amount of water delivered to the system was 13.9% lower than 2018, and 5.9% lower than the five-year average.

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

Water Quality staff monitored 1,218 water quality parameters of a required 1,058 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 110 main break samples on 55 repairs in the month, of which seven localized boil water advisories were issued due to field conditions and zero were issued due to water quality monitoring results. There was a total of six water quality customer complaints, in comparison to the five-year average of 19 complaints.

Human Resources Report Given

Mr. Terrence Spencer 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 are five active grievances filed by the Union. Two have proposals under review for possible resolution and three scheduled for labor management review.
- The Executive Union Management Alliance Council, which includes Union and Company leadership personnel, met on February 5, to discuss operational improvement partnership opportunities.
- The Executive Leadership Team and the Union President completed the review and revision of all Louisville Water Company's policies.
- The Company continues to recruit General Laborers to establish a feeder group of candidates for anticipated future vacancies.

Information Technology Report Given

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

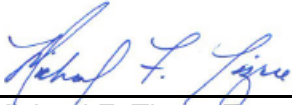
IT staff is working with Ernst & Young on Oracle Work & Asset Management (WAM) in support of Phase I and is working on Phase II high-level design.

Staff is starting a project to identify all IT assets which will include 24/7 monitoring of all assets on our network. Monitoring will identify malfunctions faster and help keep patching up-to-date for higher levels of performance and security.

Negotiations continue with the finalists of the Oracle Support Request for Proposal (RFP).

There being no further business for the Board, the meeting was adjourned at 1:10 p.m.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "Michael F. Tigue", is written above a horizontal line.

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