

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

**Board Members Present:**

Mr. Creighton Mershon, Chair  
Dr. Sharon Kerrick, Vice Chair  
Dr. Sundeep “Sunny” Dronawat  
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. Michael Tigue, Vice President, General Counsel and Corporate Secretary  
Mr. Adam Carter, President, Local Union 1683 of the AFSCME  
Ms. Sue Purdy, Director, Finance and Accounting  
Ms. Jenni Schelling, Director, Internal Audit  
Mr. John Baum, Manager, Accounting  
Mr. Andrew Winslow, Supervisor, Budget Rates and Analysis  
Ms. Beverly Soice, Paralegal

**Visitors:**

Mr. Mike Herrington, Stites & Harbison  
Mr. Kevin Thompson, Raymond James

The regular called meeting of the Board of Water Works (BOWW) was held on Friday, September 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 11:08 a.m.

**Minutes of the Previous Regular BOWW Meeting Approved**

Craig Willman moved to approve the Regular Called Meeting Minutes of August 16, 2019 seconded by Dr. Sharon Kerrick and the motion unanimously carried.

**Report Provided by the President/Chief Executive Office**

Spencer Bruce advised the Kentucky/Tennessee Water Professionals Conference (WPC) was held August 18 – 21 at the Kentucky International Convention Center. The conference attracted nearly 2,000 people who work at a water utility or a company that provides services to the industry. Louisville Water and Louisville MSD served as the host utilities.

Over 30 Louisville Water employees participated in the conference, either working behind the scenes, attending sessions, or leading their own sessions to share their expertise with other water professionals. The conference featured a tour of the historic Louisville Water Tower Park property and the Crescent Hill Water Treatment Plant and a public water festival at Waterfront Park. Louisville Water received two awards at the conference. Louisville Water's Crescent Hill Water Treatment Plant received the honor for Large Treatment Plant of the Year. Our utility also received the award for Large Distribution System Operations of the Year.

Mr. Bruce advised that he joined a group of local business leaders on the Greater Louisville Inc. (GLI) GLIDE trip to San Francisco. This annual event provides insight into cities that are achieving success. This year's trip was to San Francisco and focused on technology and tourism. The three-day event included a look at San Francisco's tech-hub, its efforts for talent attraction and retention and the region's success with wine country. As Louisville Water and the city focus on regional collaboration and "bourbonism," this trip provided valuable insights to building deeper collaborations.

### **Issuance of Series 2019 Bonds Approved**

Lynn Pearson advised staff has been working with its Bond Counsel, Mike Herrington with Stites & Harbison and Financial Advisor, Kevin Thompson with Raymond James to prepare for a 2019 bond issuance.

Ms. Pearson advised that staff anticipates issuing 2019 Bonds in October in an estimated amount of \$155 million, but not to exceed \$190 million. The issuance amount includes \$88 million in new money for capital projects which include funding critical investment in infrastructure renewal and new technology. The remainder of the funds will be used to refund the 2009A and 2009B bonds and to fund other items such as costs of issuance and bringing the bond reserve fund to its required balance.

Mr. Herrington reviewed the proposed Sixth Supplemental Resolution authorizing the issuance of Series 2019 Water System Revenue Bonds. He also summarized the bond process to the Board which includes appointing a Pricing and Sale Committee made up of the BOWW Chair, Louisville Water President/CEO and Vice President of Finance and Treasurer. Mr. Herrington noted that in the Board chair's absence, his designee, Paul Esselman, will serve in his place.

Ms. Pearson recommended the Board approve the proposed resolution as prepared by Bond Counsel, Mr. Herrington and reviewed by Louisville Water's Financial Advisor, Mr. Thompson and the Louisville Water Finance team. Ms. Pearson specifically requested approval to issue Series 2019 Bonds in an estimated amount of \$155 million, but not to exceed \$190 million in October 2019. The issuance amount includes \$88 million new money for capital projects, with the remainder to be used to refund the 2009A and 2009B bonds and to fund other items such as costs of issuance and bringing the bond reserve fund to its required balance. Additionally, Ms. Pearson requested the Board delegate its approval authority to a Pricing and Sale Committee to approve the bond documents in final form, make any changes necessary to finalize the documents and accommodate the sale, and to award to the lowest and best bidder at the competitive bond sale. Mr. Willman moved to grant the authorizations requested by Ms. Pearson, Paul Esselman seconded, and the motion unanimously carried.

### **Third Quarter 2018 Dividend Declared**

Ms. 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 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. Dr. Sunny Dronawat moved to declare the third quarterly 2019 dividend in the amount of \$4,818,705.

**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 now been completed which establishes 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 third quarter dividend of \$4,818,705; therefore, be it

**RESOLVED**, the regular third quarter 2019 dividend of \$4,818,705 is hereby declared, and further

**RESOLVED**, that the President of the Company hereby is authorized and directed to pay \$4,818,705 to the Louisville / Jefferson County Revenue Commission on September 27, 2019, this being the third quarterly dividend for 2019.

Dr. Kerrick seconded and the motion unanimously carried.

### **Project Change Orders**

Tim Kraus stated during the July 23, 2019 Board meeting, some Board members expressed concern as to the number of change orders being submitted for Board approval. In response to those

concerns, Mr. Kraus conducted extensive research into the circumstances giving rise to the change orders presented to the Board over the past two years.

Mr. Kraus reviewed each of the change orders brought to the Board for its approval during 2018 - 2019.

Mr. Kraus advised the Board of the controls in place which include the Capital Projects Authorization Policy (CPAC) and its associated procedure, the CPAC Committee who reviews all projects, the Bids & Awards Committee which reviews and approves all procurements over \$10,000, an annual audit conducted by the Internal Auditor, Quarterly Reports provided to the BOWW by the President/CEO and annual goals contained in management's performance matrix.

Mr. Kraus advised that the change order percentage for 2018 (the last full year of data) was 0.64%. Mr. Kraus stated that the industry standard is 6.0%.

Mr. Kraus, noting that there is always room for improvement, reviewed a few action items which included evaluation of the transmission system repair project procedures, fine-tune company procedures, and develop a tool for generating change action reports which can be shared with the Board.

Mr. Kraus ended his presentation and answered questions presented by the Board.

### **Board Policies Reviewed and Approved**

Michael Tigue advised that the Executive Leadership Team (ELT) reviewed all of the Company's policies prior to the 2018 year-end. He noted some of the policies were in good shape and only needed small changes while others needed significant re-writing. Depending on the subject matter, some policies are approved by the BOWW, while others are approved by the President or Vice Presidents.

This month the two policies to be presented include the Capital Projects Authorization Policy and the Management Incentive Plan, Corporate Performance Award and Union Health Care Incentive Plan Policy. Mr. Tigue reviewed each policy with the Board.

After a thorough discussion, Dr. Kerrick moved to approve the Capital Projects Authorization Policy and the Management Incentive Plan, Corporate Performance Award and Union Health Care Incentive Plan Policy as proposed. Mr. Willman seconded and the motion unanimously carried.

### **Contract Awarded for Project 13109 – Zorn Pump Station Standby Generators**

Mr. Kraus advised that Capital Improvement Plan (CIP) includes funding for the construction of a new generator building that will supply standby electrical power to the Zorn Pump Station facility for pumping of raw water from the Ohio River to the Crescent Hill Filtration Plant.

The project scope includes construction of a new electrical/generator building housing three 2.5-megawatt diesel engine driven generators, three 12,000-gallon aboveground fuel tanks, and 15 kilovolt electrical switchgear. Also included in the scope is paving and site work associated with the new building and expanded parking for the Water Tower Park. A total of five bids were opened on August 7, 2019, and the submitted bids ranged from \$12,162,398 to \$13,795,000. The apparent low bidder was Pace Contracting, LLC with a bid of \$12,162,398, which is \$2,037,602 or 14.35% under the engineer's estimate.

Mr. Willman moved to award Project 13109 – Zorn Pump Station Standby Generators to Pace Contracting, LLC in the amount of \$12,162,398. Mr. Esselman seconded and the motion unanimously carried.

### **Property Formerly Known as the Zoneton Tank Site Declared Surplus and Disposal Authorized**

Tim Kraus advised that Louisville Water acquired the 1.26-acre Zoneton Tank property from Kentucky Turnpike Water District as part of our merger in August 2000. This 150,000-gallon elevated water storage tank was officially decommissioned, demolished and removed by Louisville Water in April 2016.

Staff has determined that this property is no longer necessary for existing or future operations of Louisville Water and may be declared surplus and sold. In 2017, the Company's Engineer of Record, CH2M, evaluated the property and issued a letter recommending that the property be declared surplus.

Dr. Dronawat moved to declare the subject property surplus and authorize the sale of the property in accordance with Louisville Water's purchasing procedures. Mr. Willman seconded and the motion unanimously carried.

### **Financial Report Given**

Ms. Pearson provided a summary of the financial report for August.

The Company had strong financial results in August 2019, with water revenue and other operating revenue performing very favorably to budget. These positive budget variances were offset only to a small degree by unfavorable variances in operating expenses, non-operating income and expense. As a result, net income for August is \$1.2 million higher than budget.

Consumption of 3.4 billion gallons for August 2019 is 265 million gallons higher than budget, and 220 million gallons more than August 2018, reflecting the impact of hot, dry weather in July and August. All customer classes are higher than budget in August, with the exception of irrigation and Metro government. Year-to-date consumption remains under budget and prior year, by 3.0% and 5.3% respectively, with all customer classes with the exception of private fire services contributing to the unfavorable budget variance. Both residential and irrigation were significantly impacted in the first half of the year due to the high levels of rainfall.

Water Revenue for August 2019 is \$1.2 million higher than budget and \$1.8 million more than prior year. Water revenue through August is \$3.0 million lower than budget and is \$1.0 million higher than last year. Lower consumption is the key factor driving decreased water revenue for the year-to-date period as compared to budget.

Other Operating Revenue for August is \$65,000 higher than budget and \$185,000 more than year-ago levels. The favorable performance to budget in August was the result of a performance bonus received related to the service line protection program. Through August, other operating revenue is lower than budget by \$154,000 but is \$829,000 higher than 2018. The year-to-date variance to budget is primarily attributable to late fees and strategic initiatives revenue coming in lower than expected, partially offset by favorable variances in revenue from contract operations and service line protection. The favorable year-to-date variance to prior year is driven by higher cross connection, service line protection, sewer billing and contract operations revenue, offset to a small degree by lower late fees.

Operating and Maintenance Expenses for August of \$6.9 million are \$86,000 lower than budget and \$498,000 higher than August 2018. The favorable variance to budget for the month is driven by lower labor related and fleet expense offset by chemical expense which was up due to turbidity levels in the river and higher materials and supplies expense. August year-to-date operating and maintenance expenses are \$2.3 million under budget and \$834,000 above year-ago levels. Many expense categories, including labor and labor related, utilities, fleet, contractual services, materials and supplies and travel and training continue to run lower than budget reflecting the cost reduction efforts which have been implemented throughout the Company. Materials and supplies and contractual services are lower partially due to the timing of purchases, so we do expect a portion of those savings to reverse in future months. These favorable variances are partially offset by higher insurance reserves due to a large amount reserved for workers compensation in July.

Total Operating Expenses for August of \$12.4 million exceeded budget by only \$43,000 and was \$941,000 higher than August 2018. Total operating expenses year-to-date are lower than budget by 2.8% and higher than prior year by 3.1%. The unfavorable variance for the month of August as compared to budget is mainly due to higher loss on disposition of property as a result of the demolition of the Goshen tank on Highway 1793 budgeted to occur earlier in the year. The unfavorable variance to prior year is mainly due to higher operating and maintenance expense, higher depreciation and higher loss on disposition of property. The year-to-date favorable variance to budget is a result of lower than anticipated operating and maintenance expense, depreciation and loss on disposition of property. The year-to-date variance to prior year is primarily due to higher operating and maintenance expense, depreciation and loss on disposition of property.

Net Income before Distributions and Contributions for August is \$6.5 million, which is \$1.2 million higher than budgeted. In comparison between years, net income is \$1.0 million higher than August 2018. August year-to-date net income of \$31.7 million is very close to budget, coming within \$362,000 and is \$1.1 million lower than the eight months ended August 2018.

### **Communications and Marketing Report Given**

Kelley Dearing Smith provided a summary of the communications and marketing report for August.

Ms. Dearing Smith apologized for her late arrival and advised she had been at the Water Tower attending a training session with the rural water providers.

On Saturday, September 7, over 1,000 walkers and runners started and ended a 5k at Louisville Water Tower Park. The pure tap 5k is the first leg of the Fall Runathon, produced by the Louisville Sports Commission. This is the ninth year for the pure tap 5k and the pace car for the event was a large Louisville Water hydrant truck. The addition of the truck was to honor employees Jimmy Stone and Chad Harper. Jimmy was killed in late July when a car crashed into the work site where he and Chad were repairing a fire hydrant. Chad is still recovering from his injuries. Jimmy's wife, Carla did the honorary "start" of the race.

Ms. Dearing Smith advised that Louisville Water recently partnered with Louisville Forward (the city's economic development agency) to host the "Trustbelt" conference, a two-day event that brings together national business developers, site selectors and company leadership that is focused on technology and building the local economy. More than 200 guests attended the event that included an overview of the city's advantages for business and Louisville Water's story of abundance and high-quality water at affordable rates.

The thousands of guests to the three-weekend concert series produced by Danny Wimmer productions will enjoy Louisville Water hydration stations. Through a partnership with the producer, we will provide free Louisville pure tap® with mobile water stations. A social media campaign and content creation accompanies this brand activation that will reach more than 150,000 people in September.

September is National Bourbon Month and Louisville Water's story is part of two events: the Kentucky Bourbon Sampler in Bardstown and the Bourbon Women "Sipsosium." At both events, staff provided water tastings and an overview of our work with the 15 distillers in our service area.

In addition, one of our scientists, Mark Campbell joined two bourbon distillers for the Frazier History Museum's "Master Series." The ticketed event gives guests a sense of what it takes to produce some of Louisville's favorite liquids and the chance to meet the masters who create the recipe. Mark is a scientist who is part of a team in our EPA-certified lab that monitors water quality and conducts ongoing research. We included two water samples in our profile: Louisville's tap water and a bottled water. The tasting was not so much about detecting the difference (although most could easily pick out Louisville's water), but rather understanding how the nose and mouth factor into finishing touches of our product.

Louisville Water has an ongoing partnership with the Frazier Museum that includes a display and video in the Spirit of Kentucky, the kick-off exhibit for the Kentucky Bourbon Trail and school partnerships on the city's history with water.

Ms. Dearing Smith advised the Board of a media event that will take place on October 3 to celebrate the reopening of the Pumping Station No. 3 at the Louisville Water Tower Park. The 100-foot tall steam engine was installed and began operations in 1919.

### **Customer Service and Distribution Operations Report Given**

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

Mr. Vogel noted that the payment Kiosk has been installed in the lobby and is up and running for our customers to use.

The Call Center operations received 31,231 calls in August with an abandonment rate of 4.9%. The average speed of answer (ASA) came in at 2:16 m:s for the month which is lower than last year and the five-year average. The Call Center performance was driven by full staffing levels as a result of our recruitment efforts. After four years of CC&B, our old billing system was shut down. The front lobby processed 7,815 payments (5,264 cash and 2,551 check) for the month.

Main break activity was higher for the month driven by dry conditions and higher than normal pumping. We finished with 53 main breaks for August which is significantly higher than last year (22) and the five-year average (40). New service installations continued to be busy for the month with three crews, plus a contractor, installing new services. Staff worked closely with Wimmer Productions and the Kentucky Fair and Expo Center to install three new services along Phillips Lane to accommodate their three weekend concert series.

Staff continues to work closely with our union leadership to develop a pilot program to resolve call out issues. Several meetings took place in July and are continuing in August to bring this to conclusion. The Plumber Leader Assessment was revamped and rolled out in August. This new assessment will be used in determining eligibility for employees to move into this classification.

Meter Reading performance was very strong for the month as a result of a new incentive plan implemented in August. Estimations were very low for the month at 0.91% and our route status which usually runs a route behind schedule finished the month ahead of plan. Reader morale has been extremely high with the vast majority speaking very positively about the new pilot program. Billing accuracy for the month came in at 99.95% which is higher than past periods and the team continues to focus on reducing the number of average pending bills to 150 or less. The Field Services team completed 12,152 orders for field activities during the month of August (highest of the year) and experienced a nice reduction in average days to complete disconnection orders.

### **Engineering and Production Operation Report Given**

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

2019 capital program expenditures through August totaled \$50,309,984 which is \$13,411,429 or 21.05% lower than the same period last year. These expenditures equate to 46.16% of the 2019 total capital program of \$108,979,178.

The amount of water produced and delivered to the system in August 2019 was 142.1 MGD, which was 4.6% higher than August 2018 and 4.9% higher than the August five-year average. For year-to-date, the amount of water delivered to the system was 4.0% lower than 2018, and 1.5% lower than the five-year average.

All treatment and water quality goals were achieved for August 2019. There were 11 chemical spills reported upstream of the Zorn intake. There were no spill incidents that prompted additional treatment. An ongoing river taste and odor event has impacted treatment for 18 days. All treatment goals continue to be achieved.

Staff monitored 1,145 water quality parameters of a required 985 per federal and state regulatory requirements. There were zero water quality violations. All internal water quality goals were met. Staff collected 280 compliance distribution samples. There were zero Total Coliform and zero *E-Coli* detections. Staff also collected 98 main break samples on 49 repairs in the month, of which four localized boil water advisories were issued due to field conditions and one was issued due to water quality monitoring results. There was a total of 10 water quality customer complaints, in comparison to the five-year average of 18 complaints.

### **Human Resources Report Given**

The following is a summary outline regarding 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 seven active grievances filed by the Union. Five have tentatively accepted a proposed resolution which are under review and two are in pre-arbitration discussions.
- Louisville Water Management and Union representatives remain in discussion to resolve the existing emergency call-out/overtime response issues.
- Company and Union representatives participated in the Maintenance/Distribution Operation work area quarterly Safety Blitz event.

- Union and Company representatives attended the annual Kentucky Labor Management Conference held at the Kentucky Dam Lake.

### **Information Technology Report Given**

Tom Lockett provided a summary of the Information Technology (IT) report for August.

Work continues to support Phase One, which is in production, of the Oracle Work & Asset Management (WAM) implementation while developing Phase Two. Staff is currently evaluating hardware and network capacity requirements.

Work continues to outsource the support of Louisville Water's Oracle Application portfolio to Oracle Managed Services. Preliminary workflows and Service Level Agreements (SLAs) have been developed. The focus now is on the Service Oriented Architecture (SOA) environment. We expect to be fully implemented by the end of October.

Work continues with the deployment of CISCO's Advanced Malware Protection (AMP) for Endpoints on our desktops and servers. Initial testing with the Information Technology Department was successful. We will begin deploying to Main Office users before the end of September.

Staff is finalizing plans and costs for Louisville Water's disaster recovery project. A final review is due by the end of September. If approved, we expect to have all Cedar Creek capabilities moved by the end of the year.

Jeff Knott started as Louisville Water's Director of Information Systems on August 19.

There being no further business for the Board, the meeting was adjourned at 1:35 p.m.

Respectfully submitted,



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