

**Board Of Water Works
REGULAR CALLED MEETING MINUTES
June 21, 2022
Louisville Water Company and Virtually**

Board Members Present:

Mr. Paul Esselman, Vice Chair (via video teleconference)
Mr. Greg Dearing
Ms. Jennifer Fust-Rutherford
Dr. Sharon Kerrick (via video teleconference)

Not Present:

Mayor Greg Fischer
Dr. Sundeep "Sunny" Dronawat, Chair

Others Present:

Mr. Spencer Bruce, President and Chief Executive Officer
Mr. Aaron Jackson, Budget Manager, Louisville Metro Government
Mr. Dave Vogel, Executive Vice President, Customer Service and Distribution Operations
Mr. Jeff Knott, Vice President, Information Technology
Ms. Lynn Pearson, Vice President Finance and Treasurer
Ms. Kelley Dearing Smith, Vice President, Communications and Marketing
Mr. Adam Carter, Union President, Local 1683, AFSCME
Mr. Jeremy Raney, Director, Engineering
Ms. Jenni Schelling, Director, Internal Audit
Mr. Brian Sturgeon, Computer Network Administrator
Ms. Beverly Soice, Paralegal

Visitors:

Mr. Scott Nickerson, Crowe
Mr. Kevin McGill, Crowe

The meeting of the Board of Water Works (BOWW) was held on Tuesday, June 21, 2022 at the Louisville Water Company located at 550 South Third Street, Louisville, Kentucky and virtually via Microsoft Teams. Vice Chair, Paul Esselman called the meeting to order at 11:02 a.m.

Minutes of the Previous Regular BOWW Meeting Approved

Bill Summers moved to approve the Regular Monthly Meeting minutes of May 17, 2022. Dr. Sharon Kerrick seconded, and the motion unanimously carried.

Report Provided by the President/Chief Executive Officer

Spencer Bruce congratulated William E. Summers, IV as a recent recipient of the Mayor's 2022 Keepers of the Dream Freedom Award.

Mr. Bruce announced that Louisville Water recently received the highest award possible from the American Water Works Association's Partnership for Safe Water, the Phase IV Distribution Presidents Award. He added that he accepted the award last week at the AWWA's annual conference in San Antonio.

Louisville Water is one of only five water utilities in the country to receive this award. The Partnership for Safe Water (PfSW) gives the award to utilities that work rigorously to deliver superior quality drinking water above and beyond EPA standards. Louisville Water has a team-based approach for outstanding water quality. Testing the water daily at both treatment plants, maintaining the distribution system infrastructure, and providing quality customer service when potential problems arise are all part of the process. Achieving Phase IV Distribution status is a result of the continuous improvement and water quality culture established at Louisville Water.

Second Quarter 2022 Dividend Declared

Lynn Pearson advised that the 2021 annual audit has been completed. She was happy to report that the GASB 68/75 pension/OPEB actuarial expense came in significantly lower than budgeted.

Ms. Pearson also advised that 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 2021, 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 2022.

Net income of \$50,349,498 requires a total 2021 dividend to Louisville / Jefferson County Metro Government, Kentucky of \$20,172,360. The total dividends paid during 2021 were \$18,827,358. The difference between the dividend paid for 2021 and the actual dividend computed and declared for 2021 is \$1,345,002. The difference will be added to the dividend payment in a future quarter in 2022 as directed by Louisville Metro Office of Management and Budget.

The 2022 Annual Budget provides for a budgeted annual dividend of \$18,992,712. Jennifer Fust-Rutherford moved to recognize the adjustment of the 2021 dividend and declare the second quarterly 2022 dividend in the amount of \$4,748,178.

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 \$18,827,358 was paid in 2021 based on estimated Adjusted Net Income of \$40,324,622 and

WHEREAS, the annual audit for 2021 has now been completed which establishes the full dividend for 2021 as \$20,172,360 based on actual Adjusted Net Income of \$50,099,498, it would be in order at this time to amend the Board resolution of December 21, 2021 to increase the 2021 annual dividend by \$1,345,002 from \$18,827,358 to \$20,172,360, the difference to be added to a future quarterly 2022 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 2022 Louisville Water Company Annual Budget reflects the 2022 annual dividend to be \$18,992,712, it would be in order at this time to declare a regular second

quarter dividend of \$4,748,178; therefore, be it

RESOLVED, the 2021 annual payment is increased from \$18,827,358 to \$20,172,360 and the difference of \$1,345,002 will be added to a future quarterly 2022 dividend payment and

RESOLVED, the regular second quarter 2022 dividend of \$4,748,178 is hereby declared, and further

RESOLVED, that the President of the Company hereby is authorized and directed to pay \$4,748,178 to the Louisville / Jefferson County Revenue Commission on June 30, 2022, this being the second quarterly dividend for 2022.

Greg Dearing seconded and the motion unanimously carried.

2021 Financial Audit Report

Ms. Pearson advised that the audit has been completed. It was delayed this year due to the delay in the release of the audited pension/OPEB reports by the Kentucky Retirement System.

Ms. Pearson thanked Sue Purdy who led the audit effort this year, and her staff. Ms. Pearson also introduced LeAnn Swanson, Manager of Accounting, who replaced John Baum who left Louisville Water at the end of last year.

Ms. Pearson introduced Scott Nickerson and Kevin McGill with the independent auditing firm of Crowe, LLP (Crowe) who provided a summary of the audit report.

Mr. Nickerson advised that Crowe conducted an audit of Louisville Water's financial statements for the year ended December 31, 2021 and has issued an unqualified opinion. He reviewed the financial highlights in the Management Discussion & Analysis (MD&A), the Statements of Net Position, Changes in Net Position and Cash Flow, and discussed key performance indicators.

Mr. Nickerson advised Crowe found no significant deficiencies or material weaknesses. He also stated no difficulties were encountered during the audit and no disagreements with management. Mr. Nickerson commented that the Board could rely on the monthly reporting provided by staff.

Mr. Nickerson answered questions of the Board members.

Paul Esselman congratulated Ms. Pearson and her staff on the clean audit. Dr. Kerrick also congratulated the team on their excellent job.

Dr. Kerrick moved to approve the 2021 audited financial statements. Mr. Dearing seconded, and the motion unanimously carried.

Restrictions Released on the 2020 Donation to Louisville Water Foundation

Ms. Pearson stated the COVID-19 pandemic created challenges for many of our customers and significantly impacted their ability to make timely bill payments. On December 10, 2020, Metro Council responded by approving an ordinance that allocated \$4 million of funding to the Louisville Water Foundation to provide assistance to Louisville Water and MSD customers. On December 15, 2020, the Board of Water Works donated \$1.75 million to the Louisville Water Foundation to be used specifically for COVID-19 water and wastewater bill payment assistance.

Subsequent to the donations made to the Foundation in 2020 by Metro and Louisville Water, Louisville Water became the subrecipient of federal Coronavirus State and Local Fiscal Recovery Funds (CSLFRF) received by Metro Louisville to provide services under the ARP Utility

Assistance Program. These funds were utilized by the Company to provide assistance to customers to pay water and wastewater charges. As a result of the availability of this additional funding, and as the impact of the pandemic has subsided, some of the \$1.75 million in funding provided by Louisville Water remains unused.

Ms. Pearson requested that the Board remove the COVID-19 restriction on the funds so that the Foundation may access these funds for customer assistance programs, administrative support and other purposes as approved by the Foundation Board. The Foundation will continue to work closely with its community partners to distribute these customer assistance funds to those in need according to established program guidelines.

Mr. Dearing asked how much of the funds remain unused. Ms. Pearson stated approximately \$916,000.

Mr. Bruce advised that we used the funds provided by Metro first because we knew we would have more flexibility with the funds donated by Louisville Water.

William Summers moved to approve lifting the restrictions on the balance of the funds remaining. Ms. Fust-Rutherford seconded and the motion unanimously carried.

Budget Increase Approved for Project No. 14325 – Crescent Hill Filter Plant Chemical and Lab Building

Tim Kraus requested Board authorization to increase the Crescent Hill Filter Plant: Chemical & Lab Building Fire Protection and Office Space Improvement project budget by \$3,900,000, establishing a new total project budget of \$18,007,740 to complete all three phases.

This project was included in the CIP as a multi-year, multi-phased project to help manage cash flow and to minimize the impact of the construction on water production. The project began design in 2015 and was to be constructed in three phases. Construction of Phase 1 focused on the relocation of critical Plant operation services. It was bid in 2019 and completed at the beginning of 2021. Construction of Phase 2, which was bid in 2021, will provide new infrastructure, new usable floor space and installation of a fire pump and fire suppression in the facility. Phase 2 is currently under construction and anticipated to be completed in the 1st quarter of 2023. Phase 3, anticipated to begin in early 2023, will provide the final finishes and new furniture for the newly constructed infrastructure, new floor space and all existing space renovations.

Mr. Kraus reviewed the changes experienced over the past few years since the inception of the original scope.

The required additional project budget estimated to address the items listed above and to complete this project is \$3,900,000.

Ms. Fust-Rutherford inquired as to the completion date. Mr. Kraus advised the project is scheduled for completion in 2024.

Mr. Summers moved to increase the project budget by \$3,900,000, which will increase the current budget to \$18,007,740. Dr. Kerrick seconded and the motion unanimously carried.

Contract Awarded for Project No. 16227: 2022 MRRP – Derby Avenue Area

Mr. Kraus requested the Board award the construction contract for Derby Avenue Area Main Replacement Project to Basham Construction & Rental Co., Inc.

The Derby Avenue Area project consists of 6,345 linear feet of distribution water main replacement, with pipe sizes ranging from six-inch diameter to 12-inch diameter along five different streets, located in the Buechel area of Louisville Metro.

On May 25, 2022, Louisville Water received competitive bids from three prequalified contractors for construction of this project. The Project Manager's estimate for the project was \$2,225,000. The low bidder was Basham Construction & Rental Co., Inc. with a bid of \$2,022,000. This bid was 9.1% lower than the Project Manager's estimate.

Mr. Summers moved to award the contract to Basham Construction & Rental Co., Inc. in the amount of \$2,022,000. Mr. Dearing seconded and the motion unanimously carried.

2023 Main Replacement and Rehabilitation Program Approved

Mr. Kraus advised he is requesting approval and authorization to fund the 2023 Main Replacement and Rehabilitation Program.

The Program consists of nine projects with an estimated budget of \$26,117,146. The scope of work includes replacement of 500 lineal feet of four-inch water main, 8,770 lineal feet of six-inch water main, 22,180 lineal feet of eight-inch water main, 10,180 lineal feet of 12-inch water main, renewal of water services, and replacement of fire hydrants.

These projects will continue Louisville Water's effort to improve resiliency in the distribution system and will reduce maintenance costs by reducing water main breaks.

The Program is being accelerated to allow for bidding in September and October due to material delivery issues extending seven to eight months.

Mr. Dearing moved to proceed with the 2023 Main Replacement and Rehabilitation Program and to establish a budget of record of \$26,117,146. Dr. Kerrick seconded and the motion unanimously carried.

Unbudgeted BE Payne Water Treatment Plant Expansion and Renovation Project Approved and Budget of Record Established

Mr. Kraus requested Board authorization of an unbudgeted capital project and to establish a new budget of record in the amount of \$29,730,000 for the BE Payne Water Treatment Plant Expansion and Renovations project.

The project scope includes clearwell renovation and a new 7.5 million gallon clearwell chamber expansion, nine million gallon per day pump expansion, and basin and chemical feed modifications to increase BE Payne treatment capacity from 60 million gallons per day to 75 million gallons per day. The current estimated cost of the project is \$29,730,000.

Following a short discussion, Mr. Summers moved to approve the unbudgeted BE Payne Water Treatment Expansion and Renovation Project and to establish a budget of record of \$29,730,000. Mr. Dearing seconded and the motion unanimously carried.

Audit Committee

Mr. Esselman provided a summary of the items discussed during the May 10, 2022 Audit Committee meeting.

Financial Report Given

Ms. Pearson advised total consumption and water revenue were under budget for May. Total operating expense, along with other operating and non-operating revenue performed favorably to budget, but this was not enough to offset the shortfall in water revenue. As a result, net income for the month was under budget by \$1.0 million. Details of the Company's financial performance as compared to budget and prior year are as follows.

Consumption of 2.4 billion gallons for May is 260 million gallons less than budget, and 168 million gallons lower than May 2021. The unfavorable budget variance was driven primarily by a shortfall in residential and wholesale, however commercial, industrial and irrigation were also under budget. A considerable portion of the negative variance in residential is attributable to the timing of meter reads. The majority of the shortfall in wholesale consumption comes from Hardin County Water District No. 1, as their plant came back into service earlier than anticipated. Year-to-date consumption remains under budget and prior year by 5.4% and 3.5%, respectively, with residential and wholesale being the main drivers of the year-to-date budget variance.

Water Revenue for May 2022 is \$1.3 million lower than budget and \$10,000 higher than the prior year. Lower consumption is the key factor driving lower water revenue for this period as compared to budget. All customer classes were under budget for the month except Metro government. For the year-to-date period, water revenue is 4.2% less than budget and 1.2% higher than prior year levels.

Other Operating Revenue for May is \$46,000 higher than budget and \$281,000 above year-ago levels. The variance to budget is mainly due to higher revenue from late charges and consulting services, along with profit on sale of materials, which exceeded budget due to the sale of some older meter-reader jeeps sold using the Government Deals auction website. The increase over prior year is also driven by revenue from late charges and to a lesser extent, disconnect fees and service line protection. Year-to-date, other operating revenue is \$418,000 higher than budget and \$1.2 million higher than prior year. The year-to-date variance to budget is primarily due to higher revenue from late charges and service line protection offset slightly by lower disconnect fees.

Operating and Maintenance Expenses for May of \$7.6 million are \$153,000 lower than budget and \$748,000 higher than May 2021. The May favorable variance to budget is driven by materials and supplies, contractual services, insurance reserves, and labor and labor related costs, partially offset by higher bad debt expense. The impact of inflation is clearly evident in the increase in costs over the prior year. Costs were up compared to May 2021 in almost every category including utilities, chemicals, materials and supplies, contractual services and labor and labor related. May year-to-date operating and maintenance expenses are \$194,000 higher than budget and \$3.2 million higher than year-ago levels. Labor and labor related expense, chemicals, and fleet expenses were all higher than budget through May, offset to an extent by lower insurance reserves, contractual services, bad debt expense, equipment maintenance and materials and supplies. The year-to-date variance to prior year is mainly due to higher labor and labor related, chemicals, utilities, contractual services, materials and supplies, fleet and bad debt expenses, partially offset by lower insurance reserves.

Total Operating Expenses for May of \$13.5 million are \$218,000 lower than budget and \$1.0 million more than prior year. The budget variance is due to lower operating and maintenance expense and loss on disposition of property. The variance to prior year is mainly due to higher operating and maintenance expense along with higher depreciation, offset by lower loss from disposition of property. Total operating expenses year-to-date are 1.4% lower than budget and 6.4% over year-ago levels. The year-to-date budget variance is primarily the result of lower depreciation and loss from disposition

of property slightly offset by higher operating and maintenance expenses. Year-to-date loss from disposition of property includes \$230,000 gain on sale of property on Johnsontown Road recognized in March. The remaining favorable variance is due to timing with closing capital projects along with timing related to the AMI metering project.

Net Income before Distributions and Contributions for May is \$3.2 million, which is \$1.0 million less than budgeted. In comparison between years, net income for May is \$731,000 less than prior year. May year-to-date net income of \$14.4 million is \$1.9 million less than budget and \$2.0 million lower than prior year.

Communication and Marketing Report Given

Kelley Dearing Smith advised the Water Grows KY campaign, sponsored by Louisville Water continues to gain momentum with key stakeholders. Staff at the Kentucky Cabinet for Economic Development and the Bardstown Rotary received presentations on the campaign that highlights water's link to the success of the state's economy. Additionally, new video content explains the water connection to healthcare, advanced manufacturing, and brewing.

Louisville Water's education team was at more than 20 community programs including visits at the Louisville Zoo, Roots 101, Bernheim Forest, Frazier History Museum and the Louisville Free Public Library's "How-to-Fest." At the library, the programming centered on how to spot a water leak at your home.

The end of the school year is a very popular time for serving Louisville Pure Tap® at field days. For the first time since 2019, we had to deny requests for Louisville Pure Tap® products.

Customer Service and Distribution Operations Report Given

Dave Vogel advised the Call Center operations received 22,647 calls in May with an abandonment rate of 6.0%, which is in line with last year's performance. Overall performance continues to improve as we have experienced some moderation in call volumes as normal business practices have returned and grant funding questions subsided. All staff were trained in CC&B 2.8 prior to our conversion in May. New service applications for the month were lower than last year which may be indicative of a slowing in the new housing market. We will monitor this as the year progresses. Staffing continues to be a challenge and we are working to bring in new employees through our recruitment process.

Estimated bills for the month were 2.1%, which is slightly higher than past periods. Disconnections for non-pay (DNPs) continued in May but fewer were completed due to staffing constraints and other priority work (i.e. irrigation service turn-on's). Staff continues to work with our meter reading vendor to improve their performance and assist them in bringing on new employees. As all other businesses, they are struggling with recruiting and retaining personnel. Two of our full-time employees are now trained in diagnosing and repairing AMI equipment. In May they completed 107 of these tickets. We continue to use the AMI system to reduce truck rolls for move-in and move-out situations. In April and May, we eliminated a combined 1,311 truck rolls by working these tickets in the office.

There were 23 main breaks for the month of May, which is lower than last year (30) and the five-year average (32). Year to date break activity (270) is running lower than last year (328) and in-line with the five-year average (271). Capital work continued to increase in May with new service installations along with fire hydrant replacements and renovations, fire service renewals, valve replacements, and domestic service renewals.

Engineering and Production Operations Report Given

Tim Kraus advised that 2022 capital program expenditures through May totaled \$30,712,520, which is \$6,625,993 higher than the same period last year. These expenditures equate to 27.54% of the 2022 total capital program of \$111,534,377.

The amount of water produced and delivered to the system in May 2022 was 126.7 MGD, which is 0.3% higher than May 2021 and 6.3% higher than the May five-year average. For year-to-date, the amount of water delivered to the system was 1.4% higher than 2021, and 6.3% higher than the five-year average.

All water quality goals for May 2022 were achieved. No water quality violations were incurred.

Water Quality personnel analyzed 1,133 water quality parameters; 973 of which were required pursuant to federal and state regulations. Personnel collected 280 routine distribution system compliance samples. Zero Total Coliform and zero E. coli detections were noted. Personnel also collected 40 main-break compliance samples for 20 repairs. Four localized boil-water advisories (BWAs) were issued due to field conditions. No BWAs were issued due to water quality monitoring results.

Five chemical spills were reported upstream of the Zorn intake; none impacted water treatment. Herbicide run-off in the river impacted treatment for 12 days. The highest atrazine level detected in finished water was 0.497 ppb on June 1 (cf. Goal < 0.80 ppb). All treatment goals continue to be achieved. No water-quality customer complaints were received in May (cf. the five-year average is six complaints).

Human Resources Report Given

In Terrence Spence absence, Adam Carter provided a summary 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 four active grievances filed by the Union.
- Union and Company representatives attended the monthly labor management meeting and discussed various work-related topics.
- Union and Company representative are continuing negotiations for the next collective bargaining agreement (CBA).
- A team of union and management employees participated in the James T. Reddington Labor Crisis Fundraiser hosted by the Metro United Way and Greater Louisville Central Labor Council.
- The Company posted six temporary full-time classified union positions.

Louisville Water's Human Resources staff attended the Louisville Urban League's Kentuckiana Builds 2022 Cohort Heavy Construction Training Class graduation event.

Louisville Water's Thomas Family Scholarship winner, Eniayo "Enny" Lyun, was featured on local TV news station, WDRB.

Integrity Development Corporation (IDC) conducted an on-site Diversity, Equity, and Inclusion Leadership Training session on May 26.

Human Resources management attended a benefits strategy meeting with insurance broker Aon Inc., to review 2021 claims experience and prepare for 2023 premium projections.

Louisville Water's Employee Activities Committee (EAC) hosted an all-employee appreciation breakfast at each company facility location.

Information Technology Report Given

Jeff Knott advised Information Technology (IT) staff has installed a backup service for the corporate office building in case of an AT&T outage and are now considering options for a similar backup for our other facilities.

Over the last several months we have had an increase in phishing attempts from external sources. In addition to enhancing our cybersecurity rules, we will be requiring all employees to go through training over the next two quarters as well as perform phishing testing for all employees by the end of the year. Staff is implementing additional security on our SCADA network as recommended by Homeland Security.

Upgrades to the Work order and Asset Management (WAM) and Geographic Information System (GIS) have begun that will include further enhancements to improve support for our business processes.

E-Business Suite (EBS) Phase 2 enhancements are now underway.

An upgrade of the Customer Care and Billing (CC&B) system has been completed and further enhancements and additional functionality are being discussed.

Legal Report Given

Michael Tigie reported that a new philanthropy team, the Louisville Water Service Board, has been established consisting of nine Louisville Water employees. The team will be attending a retreat over the next couple of days during which they will develop a vision for the team.

Aaron Jackson added that Metro Council will be voting on a proposed budget at this evening's meeting.

There being no further business, the meeting adjourned at 12:45 p.m.

Respectfully submitted,



Michael F. Tigie
Vice President, General Counsel and
Corporate Secretary