

**Board Of Water Works
REGULAR CALLED MEETING MINUTES
August 16, 2022
Louisville Water Company and Virtually**

Board Members Present:

Dr. Sundeep “Sunny” Dronawat, Chair
Mr. Paul Esselman, Vice Chair
Mr. Greg Dearing
Ms. Jennifer Fust-Rutherford
Dr. Sharon Kerrick (via video teleconference)
Mr. William E. Summers, IV

Not Present:

Mayor Greg Fischer

Others Present:

Mr. Spencer Bruce, President and Chief Executive Officer
Mr. Aaron Jackson, Louisville Metro Budget Director
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. Pete Goodman, Director, Water Quality and Research
Ms. Sue Purdy, Director, Finance
Ms. Jenni Schelling, Director, Internal Audit
Ms. Shannon Tivitt, Executive Director, One Water
Mr. Brad Hart, Manger, Security and Emergency Preparedness
Mr. Pat Howard, Manager, Engineering MRRP
Ms. LeAnn Swanson, Manager, Accounting
Mr. Andrew Winslow, Manager, Finance
Mr. Brian Sturgeon, Computer Network Administrator
Ms. Beverly Soice, Paralegal

Visitors:

Mr. Mike Herrington, Stites & Harbison
Mr. Chad Meyers, Raymond James
Mr. Nick Roederer, Raymond James

The meeting of the Board of Water Works (BOWW) was held on Tuesday, August 16, 2022 at Louisville Water Company’s corporate offices located at 550 South Third Street, Louisville, Kentucky and virtually via Microsoft Teams. Chair, Dr. Sunny Dronawat called the meeting to order at 11:00 a.m.

Minutes of the Previous Regular BOWW Meeting Approved

Paul Esselman moved to approve the Regular Monthly Meeting minutes of July 26, 2022. Greg Dearing seconded, and the motion unanimously carried.

Report Provided by the President/Chief Executive Officer

Spencer Bruce advised that a Louisville Water team saw firsthand the widespread damage caused by the deadly floods in several counties in eastern Kentucky.

Brad Hart, Manager of Security and Emergency Preparedness, was part of Louisville Water's team that answered a request for help from Kentucky's Water/Wastewater Agency Response Network. Known as KYWARN. The organization helps coordinate emergency relief efforts and dispatches qualified personnel to the areas where they are needed.

Along with Mr. Hart, Director of Water Quality Research, Pete Goodmann, Director of Distribution Operations, Joe Schmitt, Cross Connection Control Specialist, Tim Meyer and Manager of Engineering MRRP, Pat Howard spent several days in Hazard. Their first assignment was to assess the damage to the water main system. Working with the Hazard Water Department, Louisville Water's team surveyed maps and toured the service area, scouting out broken or exposed water mains and pipes. They helped mark lines for repair, design a plan for next steps and set up portable water treatment devices.

Brad said one of the highlights of the team's work was helping restore water to hundreds of customers in part of Perry County. The folks they met were so grateful and happy to be able to take a shower again. "It's a simple act we often take for granted, but a strong reminder of how invaluable the work is that our team accomplished in eastern Kentucky", said Brad.

Kelley Dearing Smith shared a video of the devastation that resulted from the flooding in eastern Kentucky.

Issuance of Series 2022 Bonds

Lynn Pearson advised staff has been working with its Bond Counsel, Mike Herrington with Stites & Harbison and Financial Advisors, Nick Roederer and Chad Myers with Raymond James to prepare for a 2022 bond issuance.

Ms. Pearson advised that Louisville Water has three bond issues outstanding: Series 2014A, Series 2015 and Series 2019 with a total debt of \$284.2 million.

Ms. Pearson advised that Louisville Water is currently rated AAA by Standard & Poor's and Aaa Moody's, which is the highest rating categories for each rating agency. These top ratings allow for the Company to borrow funds at the lowest possible rates. As part of the process of issuing the new bonds, the Company will be re-evaluated and will receive new ratings.

Ms. Pearson provided a summary of 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.

Ms. Pearson advised that staff anticipates issuing 2022 Bonds in October in an estimated amount of \$125 million. The issuance amount includes \$90 million in new money for capital projects. The remainder of the funds will be used to refund all or a portion of the 2014A bonds to reduce debt service which will save the Company approximately \$2 million based on current market rates and will reduce debt service from 2022 to 2031.

Mr. Roederer reviewed the debt structure and the debt service coverage ratio with the Board.

Ms. Pearson requested approval of the resolution as prepared by Bond Counsel, Mike Herrington of Stites & Harbison PLLC and reviewed by Financial Advisors, Chad Myers and Nick Roederer of Raymond James and the Louisville Water Finance team. Specifically, she requested approval to issue Series 2022 Bonds in an estimated amount of \$125 million, but not to exceed \$140 million, in October 2022. The issuance amount includes \$90 million new money for capital projects, with the remainder to be used to refund all or a portion of the 2014A bonds and to fund other items such as costs of issuance and bringing the reserve fund to its required balance. Additionally, she 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. Esselman moved to grant the authorizations requested by Ms. Pearson. William Summers seconded, and the motion unanimously carried.

Budget Increase Approved for Project No. 16125: Mud Lane Area Water Main Abandonment

Tim Kraus advised the original Mud Lane Area Water Main Abandonment Project consisted of renewing and transferring 51 customer services to a parallel 16-inch main along the same roads, installing two new fire hydrants, and abandoning 2,650 feet of eight-inch main. Transferring the services to the existing 16-inch main is the most cost effective option for replacing the eight-inch main. The scope was expanded to include an additional 2,040 feet of eight-inch water main being abandoned, one fire hydrant being transferred, eight services being transferred, and three services being discontinued, along with additional valves to allow redundancy and addressing some broken valves discovered during construction.

Mr. Dearing moved to increase the budget of record from \$338,000 to \$578,000. Dr. Sharon Kerrick seconded, and the motion unanimously carried.

Contract Increase Approved for Project No. 15252: Water Tower Restoration and Museum Renovation

Mr. Kraus advised he is requesting the Board approve a contract change order for the Water Tower Restoration and Museum Renovation project. The contract change order will increase K. Norman Berry Architect's contract value in the amount of \$271,716 from \$360,080 to \$631,796. The project budget was amended May 2022 by the Board of Water Works and does not need to be increased.

Mr. Kraus reviewed the design and inspection items included in the Change Order.

Mr. Summers moved to approve K. Norman Berry Architect's contract increase in the amount of \$271,716, from \$360,080 to \$631,796 to address the items noted above. Mr. Esselman seconded and the motion unanimously carried.

Budget Increase Approved for the Roe Hill Road Area Main Extension and Booster Pump Station

Mr. Kraus advised the Roe Hill Road Booster Pump Station and Water Main Extension project is located in Bullitt County off Knob Creek Road. Currently, an eight (8) inch water main extends from Knob Creek Road onto Roe Hill Road and stops at the base of Roe Hill. Past this point, there

are 37 residential homes that have long expressed an interest in a connection to drinking water but have not been financially able to do so.

The scope of work for this project is to furnish all labor, tools, equipment, and materials required by the contract documents to supply and install 12,400+/- LF of water main, one fire hydrant, a booster pump station, and appurtenances. This project is funded through an unprecedented combination of a Community Development Block Grant, State Revolving Fund Loan, Bullitt County 2021 American Rescue Plan Act funds, Bullitt County Fiscal Court Land Development funds, and a Louisville Water Foundation grant which will be applied to interest payments on the State Revolving Fund loan. The entire project budget to date is \$2,397,354.

Louisville Water opened bids on August 10, 2022. Two bids were received with the low bidder coming in at \$2,620,000, which is \$525,146 higher than the engineer's estimate. The estimate for this project was created using current market rates from similar projects and consultation on costs from contractors, two of which bid on this project. The significant price discrepancy can be attributed to a sharp increase in booster pump station costs and severe market volatility.

The amount of collaboration and diversity of funding sources for this project has never been achieved on any other Louisville Water project. Failure to award this bid will result in the loss of the Community Development Block Grant funding and force the cancellation of the project.

Following a brief discussion, Mr. Esselman moved to approve a budget increase of \$660,000 to cover the bid discrepancy and provide contingency for additional labor costs of the Roe Hill Road Area Water Main Extension & Booster Pump Station Project, which will create a revised project budget of \$3,057,354. Mr. Dearing seconded, and the motion unanimously carried.

Eastern Kentucky Relief Approved

Mr. Bruce advised the damage from the July floods that swept through 12 eastern Kentucky counties is massive. Thousands of homes and businesses were damaged or destroyed, piles of heavy mud still cover widespread areas, and many roads, bridges and utilities that support communities are gone.

Similar to the western Kentucky tornados in 2021, there is a need for financial assistance. Mr. Bruce proposed to allocate \$25,000 for a donation to eastern Kentucky relief efforts. The Board originally approved an allocation of \$50,000 for western Kentucky tornado relief and currently that fund has \$30,000 remaining. Louisville Water will use \$25,000 of this money for a donation to a charitable organization(s) supporting the eastern Kentucky relief effort.

Mr. Dearing moved to approve using \$25,000 of the funds allocated for western Kentucky tornado relief to the eastern Kentucky flood relief. Mr. Summers seconded, and the motion unanimously carried.

Investment Report

Ms. Pearson provided a semiannual report to the Board on Louisville Water's investment portfolio.

IT REPORT GIVEN

Jeff Knott referred the Board to his officer's report and added that he had nothing significant to add.

Financial Report Given

Ms. Pearson advised that total operating revenue for the month fell slightly short of budget, driven primarily by water revenue. Total operating expense and non-operating revenue performed favorably to budget offsetting the majority of the shortfall. As a result, net income for the month came in very close to budget. Details of the Company's financial performance as compared to budget and prior year are as follows.

Consumption of 3.5 billion gallons for July is 106 million gallons more than budget, and 356 million gallons higher than July 2021. Wholesale consumption accounted for the majority of the favorable budget variance, with commercial contributing to a lesser degree. Residential consumption however continues to fall short of budget. Year-to-date consumption remains under budget by 2.0% but is 0.5% higher than same period last year. Residential, industrial and wholesale are the main drivers of the year-to-date budget shortfall. The positive variance compared to last year is due to higher consumption in commercial and irrigation offset by lower residential and wholesale consumption, the latter resulting from Hardin County Water District No. 1 bringing their plant back into service earlier than anticipated.

Water Revenue for July 2022 is \$229,000 lower than budget and \$2.2 million higher than the prior year. Revenue was under budget for the month despite consumption being over budget as a result of the breakdown of the variance among individual customer categories. Residential and irrigation, which have higher priced water came in under budget on consumption while wholesale which is lower priced water was significantly higher than budget for the month. For the year-to-date period, water revenue is 2.6% less than budget and 3.9% higher than prior year levels.

Operating and Maintenance Expenses for July are \$71,000 higher than budget and \$277,000 higher than July 2021. The July unfavorable variance to budget is driven by utilities, chemicals, bad debt and insurance, partially offset by lower contractual services and materials and supplies. The impact of inflation is clearly evident in the increase in costs over July 2021 in almost every category including utilities, chemicals, materials and supplies, and equipment maintenance. July year-to-date operating and maintenance expenses are \$464,000 higher than budget and \$4.4 million higher than year-ago levels. Chemicals, contractual services, bad debt and fleet expenses were all higher than budget through July, offset to an extent by lower insurance reserves, materials and supplies, equipment maintenance and employee training costs. The year-to-date variance to prior year also reflects the significant impact of inflation with higher costs in almost every category including labor and labor related, chemicals, utilities, contractual services, materials and supplies, equipment maintenance, and bad debt expense.

Total Operating Expenses for July of \$14.2 million are \$214,000 lower than budget and \$506,000 more than prior year. The favorable budget variance is due to depreciation expense and net loss on disposition of property coming in under budgeted levels, slightly offset by operating and maintenance expenses which are higher than budget. The variance to prior year is mainly due to higher operating and maintenance expense along with higher depreciation, offset by a net gain from disposition of property vs. a net loss in 2021. Total operating expenses year-to-date are 1.4% lower than budget and 5.8% over year-ago levels. The year-to-date budget variance is primarily the result of lower depreciation and net loss from disposition of property slightly offset by higher operating and maintenance expenses. Year-to-date net gain from disposition of property includes \$230,000 gain from sale of property on Johnsonstown Road recognized in March, along with a total gain of \$365,000 from the sale of the properties on Minor Lane and the Bullitt County office recognized in June. 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 July is \$7.2 million, which is \$17,000 less than budgeted. In comparison between years, net income for July is \$1.8 million more than prior year. July year-to-date net income of \$26.0 million is \$1.1 million less than budget and \$236,000 higher than prior year.

Mr. Esselman inquired to the status of the bad debt numbers. Ms. Pearson advised that bad debt is a little over budget but not materially.

Communication and Marketing Report Given

Ms. Dearing Smith advised that collaboration with several local partners produced positive media attention in July along with education and outreach opportunities. Louisville Water had 139 press mentions in July with the highest number coming from the Buy Local event at Louisville Water Tower Park. The restoration project for the Louisville Water Tower also generated local and national stories.

Louisville Water hosts the Buy Local event for the Louisville Independent Business Alliance at Louisville Water Tower Park. Throughout the month, staff reached more than 15,000 people through events where we served Louisville Pure Tap®. In addition to Buy Local, the outreach team was at the Parkland Plaza opening, and Jeffersontown Beer Fest.

More than 3,200 children participated in programming with Louisville Water in July through summer camp programs and the city's Cultural Pass. Partnerships with Louisville Zoo, LouCity Soccer, Frazier History Museum, and the Louisville Free Public Library provide an opportunity to share Louisville Water's story.

Louisville Water measures customer satisfaction, brand perception and brand reputation with Voice of Customer, a series of surveys distributed throughout the year. The 2022 second quarter data show good overall customer satisfaction with improvements in each category measured. Positive customer sentiment with media coverage, the increase in people reached through education and outreach, and the general satisfaction with customer service experiences also contribute to the overall satisfaction.

Customer Service and Distribution Operations Report Given

Dave Vogel advised that Louisville Water is essentially tied for 2nd place in the J.D. Powers Midwest Ranking of Water Utilities.

Mr. Vogel advised that they have made offers to six candidates for the Call Center (five temporaries and one full-time) and are awaiting background checks. This class is expected to start training on August 15. Staff will continue to maintain a heavy push on recruiting for permanent positions in this tight job market. The new services team met with the Louisville Building Industry Association, and they were very pleased with the new service application and installation performance.

The first two metering specialists have completed their AMI maintenance training and we have started this training with the next two employees. As more employees are trained, we will be able to manage our overall workload better by performing this work during AMI cycles where there are fewer meter reads needed. Using AMI technology, we eliminated 709 truck rolls for the month and 2,827 year-to-date.

Main break activity for the month was higher than past periods. There were 59 main breaks for July versus 34 last year and 30 for the five-year average. Staffing levels continue to be an issue with 23 union vacancies including three recent crew leader retirements. Staff is well into our recruitment process and anticipate a class of six new hires starting in the coming weeks.

Engineering and Production Operations Report Given

Tim Kraus advised that the 2022 capital program expenditures through July totaled \$49,210,592 which is \$10,201,617 or 26.15% higher than the same period last year. These expenditures equate to 44.12% of the 2022 total capital program of \$111,534,377.

The amount of water produced and delivered to the system in July 2022 was 146.4 MGD, which was 4.8% higher than July 2021 and 7.2% higher than the July five-year average. For year-to-date, the amount of water delivered to the system was 2.6% higher than 2021, and 7.5% higher than the five-year average.

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

The highest atrazine level detected in finished water was 0.601 ppb on July 13 (Goal < 0.80 ppb). All treatment goals continue to be achieved. Two (2) water-quality customer complaints were received in July (the five-year average is eight complaints).

Mr. Kraus added that Frankfort Ave is open for two-way traffic. It is not fully open but traffic is flowing. There is still some restoration work left to complete.

Human Resources Report Given

Terrence Spence 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 four active grievances filed by the Union.
- Union and Company representative are continuing negotiations for the next collective bargaining agreement (CBA).
- Executive Union Management Alliance Council (EUMAC) conducted their monthly meeting to review the strategic goal status for 2022.
- The Company posted three temporary full-time classified union positions.

Integrity Development Corporation (IDC) conducted on-site Diversity, Equity, and Inclusion (Unconscionced Bias) training to Louisville Water's CORE Council, Wednesday, August 10.

Louisville Water's Service Board members supported the Neighborhood Place FRYSC Back-to-School Fest! Employees helped fill and distribute approximately 1,400 backpacks with school supplies donated by various organizations (including Louisville Water) on July 30 and August 6.

Louisville Water's Human Resource's Department is working with the University of Louisville to establish a partnership that will provide scholarship funding to eligible employees to help supplement the Company's current tuition assistance program.

Human Resource's Learning & Development team will host Louisville Water's Leadership Academy. The program includes four, one-half day sessions that provide new and emerging leaders with the tools and skills they can use in their current jobs or for future Company endeavors.

There being no further business, the meeting adjourned at 12:15 p.m.

Respectfully submitted,

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

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