

**Board Of Water Works  
REGULAR CALLED MEETING MINUTES  
November 22, 2022  
Louisville Water Company**

**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 (via video teleconference)

**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  
Ms. Lynn Pearson, Vice President Finance and Treasurer  
Ms. Kelley Dearing Smith, Vice President, Communications and Marketing  
Mr. Terrence Spence, Vice President, Human Resources and Labor Relations  
Mr. Michael Tigue, Vice President, Compliance and General Counsel  
Mr. Adam Carter, Union President, Local 1683, AFSCME  
Ms. Shannon Tivitt, Executive Director, One Water  
Ms. Sue Purdy, Director, Finance  
Ms. Jenni Schelling, Director, Internal Audit  
Mr. Jordan Basham, Manager, Infrastructure Planning  
Mr. Andrew Winslow, Manager, Finance  
Ms. Ramiza Carpenter, Senior Financial Analyst  
Ms. Meghan Starnes, Budget Specialist II  
Mr. Brian Sturgeon, Computer Network Administrator  
Ms. Beverly Soice, Paralegal

**Visitors:**

Ms. Jyothi Shanbhag

The meeting of the Board of Water Works (BOWW) was held on Tuesday, November 22, 2022 at the Louisville Water Company located at 550 South Third Street, Louisville, Kentucky and virtually via Microsoft Teams. Chair, Dr. Sunny Dronawat called the meeting to order at 11:04 a.m.

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

Greg Dearing moved to approve the Regular Monthly Meeting minutes of October 18,2022, and special called meeting minutes held on November 9, 2022. Seconded by Paul Esselman, and the motion unanimously carried.

## **President/Chief Executive Officer Report Given**

Spencer Bruce stated that Mayor Greg Fischer will be attending the December Board meeting and will join them for lunch. He asked that the Board members try their best to attend the December meeting in person.

Mr. Bruce expressed how thankful we are for our Louisville Water employees. He knows we could not do what we do each and every day without their dedication and hard work.

He advised that three different Service Award breakfasts were held this month to honor employees who achieved milestones of being with the Company anywhere from five to 10, even as much as 30 years. He noted this tradition began in 2019, but COVID pre-empted celebrations in 2020 and 2021. He stated that we did not want to overlook the accomplishments of those who had anniversaries in the last two years, so we honored them along with the 2022 award recipients. Each employee received a certificate along with a gift of their choice.

Jenni Schelling advised it is time for the Board to complete the bi-annual Code of Conduct Compliance Certification. The Code of Ethic Policy applies to all Directors of the BOWW. The certification is designed to heighten the awareness of the Code of Ethics Policy and provide Directors with an opportunity to disclose conflicts of interest or other ethical violations. Ms. Schelling briefly reviewed the form with the Board.

## **2023 Operating and Capital Budget Approved**

Lynn Pearson stated the 2009 Master Bond Resolution requires that on or before the first day of the next fiscal year the Board adopt the annual budget for the ensuing year. She advised the organization has worked collectively to prepare the proposed budget for the next fiscal year. Upon approval of the budget, finance staff will prepare the cost of service study for the 2023 water rates to be presented at the December meeting.

Ms. Pearson provided an overview of the proposed 2023 Annual Operating Budget which included a presentation on budget trends for water consumption and sales, other operating revenue, operating expense, and non-operating income and expense.

Ms. Pearson reviewed highlights of the proposed operating budget for 2023 with the Board. The budgeted water consumption for 2023 is 33.6 billion gallons, which is up slightly from the 2022 budget and forecast for the year of 33.5 billion gallons.

Wholesale water consumption is budgeted at \$8.5 million for 2023, an increase of approximately 6 percent from the 2022 budget. Mt. Washington and the City of Taylorsville are our largest wholesale customers, both representing 21 percent of total budgeted wholesale consumption in 2023.

Other operating revenue budgeted in 2023 is down slightly from the current year, primarily due to the recognition of revenue from the release of the bridge reserve in 2022. Other operating revenue includes sewer billing charges, customer fees and charges, home service line protection revenue, and contract operations revenue.

Ms. Pearson also reviewed operating and maintenance (O & M) expense, pension expense and depreciation. The O & M budget for 2023 includes an increase of approximately \$9.7 million from the amount budgeted for 2022. Expenses are increasing more than normal as a result of high inflation. Labor and Non-labor each account for 50% of the O & M Budget. Non-Labor expenses

with the most significant increases are contractual services, power and chemicals, materials and supplies, equipment maintenance and bad debt expense. Budgeted depreciation and amortization expense will increase to \$53.4 million for 2023, as a result of ongoing investment in infrastructure and technology.

Ms. Pearson advised that the preliminary budget information provided in October included an assumed 12 percent increase in the CERS pension contribution. She recently received additional information that the pension contribution rate will likely not increase in 2023. Ms. Pearson expressed her thanks to Aaron Jackson for passing on this good news which was incorporated into the final budget.

Ms. Pearson advised that the budget for interest income is going up to \$5.3 million as a result of the significant increase in market interest rates as well as the proceeds from the bond issuance which will be invested in the next month. Interest expense is also increasing as a result of the recent bond issuance and is budgeted at \$8.5 million, an increase of \$2.2 million over the 2022 budget.

Ms. Pearson presented a summary of full 2023 budget as compared to 2022. Budgeted net income is \$41.4 million for 2023 and Adjusted Net Income (which reflects a \$1.5 million investment in the Infrastructure Replacement Reserve) is \$39.9 million. Using the dividend formula from the Master Bond Resolution, this proposed budgeted Adjusted Net Income results in a budgeted dividend of \$22.231 million to Louisville Metro Government, an increase over 2022 budget and 2022 forecast.

Ms. Pearson advised that management is recommending an average rate increase effective January 1, 2023 of 4.25%. For a typical residential customer using 4,000 gallons, the increase is \$1.10 per month. Ms. Pearson presented a data that shows that the resulting average monthly residential water bill of \$26.88 compares very favorably to other water utilities.

Tim Kraus discussed the proposed 2023 Capital Budget.

The total proposed Capital Budget for 2023 is \$117.1 million before cash reimbursements, an increase of 4.7% from the 2022 Capital Budget.

Mr. Kraus also reviewed the amount of funding and the major areas of the Capital Budget. Infrastructure Renewal makes up the largest portion of capital projects at \$72.7 million (62.1%), followed by New Technology and Facilities at \$27.2 million (23.2%), Self-Financing Improvements at \$11.4 million (9.8%) and Growth-Related Improvements at \$5.8 million (4.9%).

Mr. Kraus also provided a summary of key projects planned under each of the above-mentioned categories.

#### Projects Approved as a Part of the Capital Budget

Mr. Kraus advised that there are three current-year projects that require specific Board action due to changes in the budget.

Mr. Kraus provided a summary of the three projects that require Board action which include Project Number 16081, Allmond Facility Renovation, Project Number 15027, 760 Plan – Oak Hill Road BPS and Peaceful Valley, and Project Number 16314 2022 Lead Service Line Pilot Project.

Mr. Esselman moved to adopt the following resolution for approval of the 2023 Capital and Operating Budget and to approve the requested change action items identified above. Mr. Dearing seconded, and the motion unanimously carried.

RESOLVED, that the Draft 2023 Operating Budget submitted by staff on November 22, be adopted as the approved 2023 Operating Budget, and  
RESOLVED, that the Draft 2023 Capital Budget submitted by staff on November 22, be adopted as the approved 2023 Capital Budget, and  
RESOLVED, that the 2023-2032 Financial Plan submitted by staff on November 22, be filed as the approved Financial Plan, and  
RESOLVED, that the rate schedules be developed and presented by staff based upon a cost-of-service rate study with an average rate increase of 4.25%, effective for water service beginning January 1, 2023, and thereafter

Ms. Pearson recognized her staff, Sue Purdy, Andrew Winslow, Ramiza Carpenter and Meghan Starnes for their hard work in preparing the proposed budget.

Mr. Esselman congratulated Ms. Pearson and her staff on the budget and thanked them for their work.

The Board took a break for lunch at 12:15 pm and resumed the meeting at 12:35 p.m.

#### **Contract Change Order Ratified for Project 15506 - 660 Plan – Jefferson County Improvements – Blanton Lane 20-inch**

Mr. Kraus stated he is requesting the Board ratify a contract change order resulting in a cumulative change order value greater than \$250,000 for the 660 Plan - Southwest Jefferson County Improvements - Blanton Lane 20-inch project. The contract change order increases MAC Construction's contract value in the amount of \$134,925.00 from \$3,064,463.00 to \$3,199,388.00.

The change in project scope includes remediation of contaminated soils found at Blanton Lane and St. Andrews Church Rd. To continue with construction and avoid costly demobilization and remobilization cost of approximately \$35,000, the change order was approved as an exigent work request.

Mr. Esselman moved to approve a contract change order for MAC Construction & Excavating Inc. be ratified in the amount of \$134,925.00 and the total contract value be increased to \$3,199,388.00. Seconded by Jennifer Fust-Rutherford and the motion unanimously carried.

#### **Contract Increased, Budget Increased and a New Budget of Record Established for Project 16230 – MRRP – Steedly Drive Area**

Mr. Kraus stated he is requesting the Board approve a contract change order which will increase MAC Construction and Excavating, Inc.'s contract amount \$988,000, from \$2,293,000 to \$3,281,000, and increase the budget of record \$825,000, from \$4,363,000 to \$5,188,000, for the Steedly Drive Area Water Main Replacement Project.

Over the last several months, the water mains in the Steedly Drive area have experienced several main breaks including some beneath railroad tracks. Maintenance and Distribution Operations (MDO) has installed temporary pressure reducing valves to minimize additional main breaks. The isolation of these breaks resulted in a one-way supply for several large customer services.

The additional scope includes furnishing and installing +/- 200 linear feet of 8-inch ductile iron water main, +/- 55 linear feet of 16-inch steel casing under existing railroad tracks, +/- 1,400 linear feet of 12-inch PVC water main, gate valves, and appurtenances.

Mr. Dearing moved to approve an increase contract value exceeding \$250,000; therefore, we request authorization to increase the budget by \$825,000, establishing a new budget of record of \$5,188,000 and to increase the contract amount by \$988,000 from \$2,293,000 to \$3,281,000. Mr. Esselman seconded, and the motion unanimously carried.

### **Compensation and Benefits Committee Report Given**

Ms. Fust-Rutherford provided a summary of the discussions held during the October 12, 2022 meeting of the Compensation and Benefits Committee.

Lisa Dietrich and David Miller with Mercer attended the committee meeting and provided preliminary information concerning current labor market challenges and discussed planning for 2023.

Results were later received from Mercer that indicate companies project budgets for 2023 merit increases that range between 3.8 percent and 4.2 percent, regardless of the current economic impact. They advised that 4.2% seemed appropriate for Louisville Water as a budgeted merit increase for 2023.

Ms. Fust-Rutherford stated that Human Resources staff worked with independent insurance broker, Rob Gipperich with Aon to negotiate health insurance premiums for plan year beginning 2023. She noted that our current provider proposed a 50% increase in premiums rates for 2023, so Louisville Water issued a Request for Proposal (RFP) for the 2023 plan year. Proposals were received from Anthem, Humana, and United Healthcare.

Louisville Water's average annual premium increases from 2015 – 2022 averaged 4.8%.

The Compensation and Benefits Committee recommends the following for the 2023 calendar/budget plan year: (1) budget merit-based pay increases for front-line, non-union employees of 4.2 percent; (2) perform a salary range structure adjustment based on market analysis every two years versus every year; and, (3) utilize Humana as the Company's health insurance provider with a 10.95 percent premium increase for 2023 and zero increase for 2024.

Mr. Dearing moved to approve budgeting 4.2% overall for 2023 merit-based increases for front-line, non-union employees and utilizing Humana as the Company's health insurer for 2023 and 2024. Mr. Esselman seconded, and the motion unanimously carried.

### **Audit Committee Meeting**

Mr. Esselman provided a summary of the discussions held during the Audit Committee meeting on November 4, 2022.

Ms. Schelling and Jordan Basham were present to answer questions regarding the audits.

### **Financial Report Given**

Ms. Pearson advised that the Company had strong financial results in October 2022, with water revenue and other operating revenue coming in higher than budget. Total operating expenses

along with non-operating income also performed favorably to budget for the month. These positive budget variances were offset only to a small degree by an unfavorable variance in non-operating expense. As a result, net income for October is \$1.4 million higher than budget.

Consumption of 3.1 billion gallons for October is 63 million gallons more than budget, and 77 million gallons lower than October 2021. Irrigation consumption accounted for the majority of the favorable budget variance, with commercial contributing to a lesser degree. Year-to-date consumption remains under budget by 0.9% but is 0.3% higher than same period last year. Residential, and to a lesser extent, industrial, are the main drivers of the year-to-date budget shortfall. The positive variance compared to this time last year is due to higher consumption in commercial and Metro government offset by lower residential and wholesale consumption. The latter was a result of Hardin County Water District No. 1 bringing their plant back into service earlier than we anticipated.

Water Revenue for October 2022 is \$578,000 higher than budget and \$445,000 higher than the prior year. Consumption is the key factor resulting in higher water revenue for this period as compared to budget. Commercial and irrigation were the main drivers of the positive budget variance for October. For the year-to-date period, water revenue is 1.5% less than budget and 3.8% higher than prior year levels.

Other Operating Revenue for October is \$18,000 higher than budget and \$102,000 above year-ago levels. The variance to budget is due to higher revenue from late charges and service line protection partially offset by lower revenue from disconnect fees. The increase from prior year is driven by higher revenue from sewer billing, service line protection and disconnect fees, partially offset by lower contract revenue. Year-to-date, other operating revenue is \$615,000 higher than budget and \$1.4 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 to an extent by lower disconnect fees.

Operating and Maintenance Expenses for October are \$119,000 under budget and \$322,000 lower than October 2021. The October favorable variance to budget is driven by labor and labor related, materials and supplies and contractual services costs, partially offset by budget overages in power and insurance reserves. The impact of inflation continues to be evident in the increase in costs in numerous categories over October 2021, including power, chemicals, contractual services and equipment maintenance. However, total expenses were lower than in the prior year due to the Covid appreciation bonuses paid to employees in October 2021 that were not paid in 2022. October year-to-date operating and maintenance expenses are essentially flat to budget but are \$7.0 million or 10.0% higher than year-ago levels. Chemicals, power, contractual services, bad debt and fleet expenses are all higher than budget through October, but the overages are offset by lower labor and labor related, insurance reserves, materials and supplies, equipment maintenance and employee training costs. The year-to-date variance to prior year reflects the significant impact of inflation with higher costs in almost every category.

Total Operating Expenses for October of \$13.9 million are \$663,000 lower than budget and \$6,500 less than prior year. The favorable budget variance is due to lower operating and maintenance expenses, along with depreciation expense and net loss on disposition of property coming in below budgeted levels, mostly due to timing of projects. The variance to prior year is mainly a result of lower operating and maintenance expense offset by higher depreciation and net loss on disposition of property. Total operating expenses year-to-date are 1.9% lower than budget and 7.1% over year-ago levels. The year-to-date budget variance is primarily the result of lower depreciation and net loss from disposition of property. Year-to-date net gain from disposition of property includes \$230,000 gain from sale of property on Johnsontown Road recognized in March, along with 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 of closing capital projects along with timing related to the AMI metering project.

Non-Operating Income through October is \$321,000 higher than budget and \$19,000 more than the same period in October 2021. The favorable variance to budget is due to a treasury investment made at the end of February which is earning at a higher rate than budgeted levels along with higher interest earned on our 'sweep' account at PNC as well as interest earned on our bond service/reserve funds. The variance to prior year is also due to the higher interest rate earned on temporary cash investments along with bond fund interest.

Non-Operating Expense through October is \$16,000 more than budgeted and \$49,000 or 1.0% lower than year-ago levels. Interest expense is more than budget due to higher rate of interest paid on the new bond issuance than budgeted, offset by lower capitalized interest. Total interest expense is lower than prior year due to higher bond principal payments made in 2021, offset by lower capitalized interest.

Net Income before Distributions and Contributions for October is \$5.7 million, which is \$1.4 million more than budgeted. In comparison between years, net income for October is \$442,000 higher than prior year. October year-to-date net income of \$45.6 million is \$1.0 million more than budget and \$1.3 million lower than prior year.

### **Communication and Marketing Report Given**

Kelley Dearing Smith advised that during October, Louisville Water received positive earned and digital media in connection with completion of the Frankfort Avenue water main replacement, features on Louisville Water's fire hydrant crews, and the annual Jimmy Stone Memorial Golf Scramble. The scramble is in honor of Stone who died in 2019 from injuries after he was hit by a car on a job site. Proceeds benefit the Jimmy Stone Locker Room at the Portland Neighborhood House. Overall, Louisville Water's media efforts garnered 157 million impressions.

In October, 43 schools and organizations took part in a Louisville Water education program. Since construction at Louisville Water Tower Park has cancelled school field trips, staff developed and debuted an "in-class" field trip that includes a video tour and hands-on science experiments.

Louisville Water is a member of Kentucky United, a collaboration with the Cabinet for Economic Development and economic development entities. Kentucky United highlights the advantages of doing business in the Commonwealth with in-person events in peer cities. In October, more than a dozen site selectors in Chicago met with the Kentucky United team and Louisville Water was part of the program with a "water and bourbon tasting." Working with Beam Suntory, guests sampled Louisville Pure Tap® (that was shipped to Chicago) along with Chicago's water and two of Beam Suntory's bourbons. The goal is to highlight the abundance, reliability, and quality of water for new and expanding businesses.

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

Dave Vogel advised that the Call Center is still struggling with staffing. The Call Center received 27,353 calls in October and struggled operationally with low staffing levels, employee turnover, and off duty. Five new CSRs completed their training and have started answering calls as of the first week of November. Another class of new hires have been recruited and staff has approached temporary agencies for additional resources. Applicant flow has been good however, a high no

show rate has impacted our ability to interview. The abandonment rate for the month was 30.3% and the year to date abandonment rate is running at 13.6%.

The percentage of estimated bills in October came in at 2.31% which is lower than last year but higher than the five-year average. Staff continues to work with Olameter and have seen some performance improvements. There are four fully trained Metering Specialists to diagnose and address AMI tickets. The Field Services team completed 8,292 orders in October with 868 of these being worked in the office using AMI. Since March, 5,416 orders have been worked in the office eliminating an equal number of truck rolls. Staff began testing some of our AMI remote disconnection valves. As of the end of October, approximately 120,000 AMI endpoints have been installed, which represents 40% of our service territory.

Winter preparation activities continued in October and our priority backlogs are in good shape, although slightly higher than last year, as we enter the cold weather season.

### **Engineering and Production Operations Report Given**

Mr. Kraus advised that 2022 capital program expenditures through October totaled \$75,003,173 which is \$18,642,731 or 33.08% higher than the same period last year. These expenditures equate to 67.25% of the 2022 total capital program of \$111,534,377.

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

Eight chemical spills were reported upstream of the Zorn intake; none that impacted water treatment. The highest atrazine level detected in finished water YTD was 0.60 ppb on July 13 (Goal < 0.8 ppb). All treatment goals continue to be achieved. Four water-quality customer complaints were received in October (the five-year average is seven complaints).

### **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 three active grievances filed by the Union.
- Union and Company representative are concluding negotiations for the next collective bargaining agreement (CBA).
- Union and Company leadership conducted their monthly Labor Management meeting to review various on-going and future joint initiatives and status updates.
- The Company posted five temporary and one regular full-time classified union positions.

Integrity Development Corporation (IDC) launched Phase III of Louisville Water's Diversity, Equity, Inclusion and Belonging (DEI&B) initiative conducting management and supervisor training and one-on-one coaching sessions.

Louisville Water's Human Resources Department partnered with the Louisville Urban League's "Kentuckiana Builds Heavy Construction Training" program by providing an overview of the Company's apprenticeship program and facilitated mock interviews with program trainees.



The Executive Union Management Alliance Council (EUMAC) connected with Louisville Metro Parks to organize a cleanup day at Louis Ben Israel Park. The park on South First Street is just a few blocks away from Louisville Water's Allmond Avenue Distribution Center.

Human Resources conducted new employee orientation for recently hired employees and participated in an open panel of questions and answers with the Executive Leadership Team.

Human Resources kicked off the company's 2023 Open Enrollment process to allow all employees the opportunity to learn about and enroll in insurance benefits provided by Louisville Water. The Open Enrollment period ran from November 11 – 21.

Louisville Water's Employees Activities Committee (EAC) coordinated the annual employee Thanksgiving Luncheon at each Company location.

### **Information Technology Report Given**

In Jeff Knott absence, Mr. Bruce referred the board to Mr. Knott's report included in the agenda book.

Michael Tigue reported this is the first year that the Company has participated in the Angel Tree (Adopt an Angel) holiday campaign. Our target was to have 25 Angels adopted. We far exceeded our expectations. Employees really stepped up and a total of 65 Angels have been adopted! We are very proud and grateful to our employees for the generosity.

There being no further business, the meeting adjourned at 1:21 p.m.

Respectfully submitted,



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