

**Board Of Water Works
REGULAR CALLED MEETING MINUTES
December 20, 2022
Louisville Water Company**

Board Members Present:

Mayor Greg Fischer
Dr. Sundeep “Sunny” Dronawat, Chair
Mr. Paul Esselman, Vice Chair
Mr. Greg Dearing
Ms. Jennifer Fust-Rutherford
Dr. Sharon Kerrick

Not Present:

Mr. William E. Summers, IV

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
Mr. Tim Kraus, Vice President, Engineering and Production Operations and Chief Engineer
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
Ms. Sue Purdy, Director, Finance
Ms. Jenni Schelling, Director, Internal Audit
Mr. Andrew Winslow, Manager, Finance
Mr. Brian Sturgeon, Computer Network Administrator
Ms. Beverly Soice, Paralegal

Visitors:

The meeting of the Board of Water Works (BOWW) was held on Tuesday, December 20, 2022 at the Louisville Water Company located at 550 South Third Street, Louisville, Kentucky and virtually via Microsoft Teams. Chair, Dr. Sunny Dronawat called 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 November 22, 2022. Seconded by Greg Dearing and the motion unanimously carried.

Fourth Quarter 2022 Dividend Declared

Lynn Pearson 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.

The annual audit was completed in the second quarter. 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 the fourth 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. Dr. Sharon Kerrick moved to recognize adjustment of the 2021 dividend and declare the fourth quarterly 2022 dividend in the amount of \$4,748,178. This resolution provides for a total quarterly payment of \$6,093,180 after the addition of \$1,345,002 for the adjustment for 2021. Jennifer Fust-Rutherford seconded, and the motion unanimously carried.

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 been completed which establishes the full dividend for 2021 as \$20,172,360 based on actual Adjusted Net Income of \$50,099,498 and the Board resolution of December 21, 2021 was amended on June 21, 2022 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 fourth quarter dividend of \$4,748,178; therefore, be it

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

RESOLVED, that the total difference of \$1,345,002 will be added to the fourth quarterly 2022 dividend payment, and

RESOLVED, that the President of the Company hereby is authorized and directed to pay \$6,093,180 to the Louisville / Jefferson County Revenue Commission on December 30, 2022, this being the fourth quarterly dividend for 2022.

2023 Tariff and Cost of Service Approved

Ms. Pearson advised that at its November 22, 2022 meeting, the Board adopted the 2023 Annual Budget and staff was directed to prepare rate schedules with an average rate increase of 4.25%, effective for water service beginning January 1, 2023 and thereafter.

The proposed 2023 Tariff and Water Rate Schedule was developed in accordance with a cost of service study based upon the methods promulgated in the American Water Works Association Manual M1, Water Rates.

Staff is recommending retail water rates increase January 1, 2023 and wholesale rates July 1, 2023. The wholesale rates will require approval by the Public Service Commission (PSC) for utilities that are under its jurisdiction. Upon Board approval, staff will meet with wholesale customers and begin the process of obtaining approval from the PSC.

Ms. Pearson noted that the Service Rules and Regulations authorize certain fees and charges for providing service to customers. Each year, staff reviews these charges and fees as part of the annual Tariff and Water Rate Schedule and recommends appropriate changes as needed. Mr. Vogel, Tim Kraus and Ms. Pearson reviewed the proposed changes with the Board.

Mr. Esselman moved to approve the proposed rates, service installation fees, customer account charges and deposits, system development charge effective January 1, 2023. Mr. Dearing seconded, and the motion unanimously carried.

Ms. Person thanked Sue Purdy, Andrew Winslow and the rest of her team for their work on the rate schedule.

Budget Increased for Project 16235 – 2022 MRRP – Sylvania Road Area

Tim Kraus stated he is requesting Board approval of a budget increase of \$800,919.25, from \$1,379,000 to \$2,179,919.25 for the Sylvania Road Area Main Replacement Project. The Sylvania Road Project consists of 6,860 linear feet of distribution water main replacement, located in the Terry Road area of southwestern Louisville Metro.

On October 27, 2021, Louisville Water received competitive bids from seven prequalified contractors for construction of this project. The low bidder was C Squared, Inc., with a bid of \$1,245,000. The contract was issued, and work commenced in March 2022. Work on the project was intermittent with the contractor occasionally demobilizing to work on other jobs. Construction ceased on the project on August 11, 2022. The Project Manager contacted C Squared conveying concerns about timely completion of the project and inquiring when construction would resume. C Squared provided a return-to-work date of October 3. Work was not restarted on the agreed upon date.

On October 13, 2022, Louisville Water initiated the process to cancel C Squared's construction contract. Following a meeting with Louisville Water and C Squared management, C Squared was allowed to resume work imposing liquidated damages. During the initial week back working, the contractor committed a safety violation and had issues installing water facilities per Louisville Water technical specifications. C Squared was directed to stop all work and to make the site safe prior to leaving while Louisville Water contemplated the future of this project.

Following a meeting with Louisville Water management and General Counsel, the contract with C Squared was terminated, and the Project Manager obtained quotes utilizing Louisville Water's existing Master Agreement to complete the work. Quotes were received, and a new contractor was selected. Per the contract with C Squared, Louisville Water can recoup costs in excess of the original contract with C Squared and liquidated damages for delays in completing the work.

Following a brief discussion, Ms. Fust-Rutherford moved to increase the budget of record to \$2,179,919.25 to complete the work. Mr. Dearing seconded, and the motion unanimously carried.

Changes to Service Rules and Regulations Approved

Mr. Vogel advised that annually staff reviews the Louisville Water Company Service Rules and Regulations to determine if any changes should be made. Staff recommends changes in the service rules to incorporate new initiatives and to provide clarification to existing regulations.

A detailed list of the proposed changes were provided to the Board. Mr. Vogel and Mr. Kraus provided highlights of the changes. Examples included various modifications to address sentence structure, modifications to clarify use of fire services, and modifications to temporary service meters and existing processes.

Mr. Vogel advised that General Counsel has reviewed these proposed revisions and staff recommends approval by the Board, effective January 1, 2023.

Mr. Esselman moved to approve the proposed revisions to the Company's Service Rules and Regulation as proposed. Dr. Kerrick seconded and the motion unanimously carried.

Approve Union Contract

Spencer Bruce advised this item will be covered in closed session.

Resolution Approved for Lockbox Services

Mr. Vogel advised that Louisville Water currently contracts lock box services which includes the processing and remittance of customer payments that are sent by mail. This vendor receives the incoming mail, opens the envelopes, records the payments, deposits the checks in a Louisville Water account at their bank and after a brief time, transfers the funds to Louisville Water's account at our main commercial bank, PNC. Approximately 360,000 payments, totaling more than \$130 million, are processed through this channel annually. Staff recently conducted an RFP for the lock box services contract and has awarded it to a new local vendor, Independence Bank.

Louisville Water's master bond resolution requires Board approval of any depository of Company funds which are held under the provision of the resolution, which includes customer payments. A copy of the resolution adopting Independence Bank to provide Treasury Management Services related to the lock box arrangement was shared with the Board. Staff is recommending that Mr. Bruce, Ms. Pearson, and Mr. Vogel be listed as agents of the Company for this purpose, with Michael Tigue executing the certification portion of the resolution in his capacity as Secretary to the Board.

Mr. Esselman moved to approve the execution of the proposed resolution required to obtain lockbox services. Mr. Dearing seconded and the motion unanimously carried.

2023 Board of Water Works Regular Meeting Dates Approved

Mr. Bruce advised that under the By Laws, the annual schedule of BOWW meetings are to be approved by the Board. The following dates were proposed for 2023 Board meetings: January 24, February 21, March 21, April 18, May 23, June 20, July 18, August 22, September 19, October 17, November 21, and December 19. The Annual meeting will be held immediately prior to the April Board meeting.

Mr. Esselman move to approve the regular meeting date schedule for 2023 as proposed. Dr. Kerrick seconded, and the motion unanimously carried.

Oldham County Advisory Board

Mr. Vogel provided a summary of the discussions that took place during the Oldham County Advisory Board meeting on November 30, 2022.

Financial Report Given

Ms. Pearson advised that the Company had another month of strong financial results in November 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 are offset only to a small degree by an unfavorable variance in non-operating expense. As a result, net income for November is \$1.0 million higher than budget.

Consumption of 2.9 billion gallons for November is 59 million gallons more than budget, and 21 million gallons higher than November 2021. Irrigation and wholesale consumption accounted for the favorable budget variance, with commercial partially offsetting that favorable variance. Year-to-date consumption remains under budget by 0.6% 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, irrigation 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 anticipated.

Water Revenue for November 2022 is \$141,000 above budget and \$573,000 higher than the prior year. Consumption is the key factor resulting in higher water revenue for this period as compared to budget. Irrigation and to a lesser extent wholesale were the main drivers of the positive budget variance for November. For the year-to-date period, water revenue is 1.3% less than budget and 3.8% higher than prior year levels.

Other Operating Revenue for November is \$43,000 higher than budget and \$858,000 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 and cross connection fees. The increase from prior year is driven by revenue recognized from the east end bridges project which was received when the bridge was built and held in reserve until it was determined we would have no issues. Higher revenue from sewer billing, service line protection, late fees and disconnect fees slightly offset by lower contract revenue also contributed to the increase. Year-to-date, other operating revenue is \$658,000 higher than budget and \$2.3 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 November are \$15,000 under budget and \$279,000 higher than November 2021. The November favorable variance to budget is driven by labor and labor related, contractual services, materials and supplies, bad debt, and insurance reserves partially offset by budget overages in power and chemicals. The impact of inflation continues to be evident in the increase in costs in numerous categories over November 2021, including power, chemicals and equipment maintenance. November year-to-date operating and maintenance expenses are essentially flat to budget but are \$7.3 million higher than year-ago levels. Power, chemicals, bad debt and fleet expenses are all higher than budget through November, but the overages are more than offset by lower labor and labor related, materials and supplies, insurance reserves, 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 November of \$14.3 million are \$410,000 lower than budget and \$787,000 higher than prior year. The favorable budget variance is mainly due to depreciation expense and net loss on disposition of property which are below budgeted levels, primarily due to the timing of closing projects. The variance to prior year is mainly a result of higher operating and maintenance expense, depreciation and net loss on disposition of property. Total operating expenses year-to-date are 2.0% lower than budget and 7.0% 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 losses from disposition of property were partially offset by unbudgeted gains including a \$230,000 gain from sale of property on Johnstontown 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 November is \$740,000 higher than budget and \$455,000 more than same period in November 2021. The favorable variance to budget is due to market interest rates that are significantly higher than budgeted. As a result, interest earned on funds invested during the year, as well as on recently received bonds proceeds are much higher than budgeted. The variance to prior year is also due to the higher interest rates, along with the receipt of \$90 million in bond funds in early October.

Non-Operating Expense through November is \$28,000 more than budgeted and \$239,000 higher than year-ago levels. Interest expense is more than budget due to higher rate of interest incurred on the new bond issuance than budgeted, offset by lower capitalized interest. Total interest expense is higher than prior year due to interest incurred on the recent bond issue, offset by lower capitalized interest.

Net Income before Distributions and Contributions for November is \$5.4 million, which is \$1.0 million more than budgeted. In comparison between years, net income for November is \$793,000 higher than prior year. November year-to-date net income of \$50.9 million is \$2.0 million more than budget and \$517,000 lower than prior year.

Communication and Marketing Report Given

Kelley Dearing Smith advised that Louisville Water enjoyed primarily positive media attention in November with diverse content.

Louisville Water launched a children's book. "Tapper's Big Adventure" follows Tapper, Louisville Water's mascot, as it learns how people in the community use water. A group of employees wrote the book and worked with students and teachers to "test the message." The book launch included an employee event, visits to six schools and earned media. Copies of the book will be donated to public libraries and the book will be part of Louisville Water's school and community education program. "Tapper's Big Adventure" is also available for purchase for \$5 with proceeds going to the Louisville Water Foundation.

Education and outreach efforts reached 40 schools and community groups in Jefferson, Bullitt and Shelby counties in November. Central High School dental magnet students delivered programs on water and oral health and Bellarmine nursing students visited elementary schools for a hand washing program.

Ms. Dearing Smith reported that as part of ongoing Brand Perception Research, Louisville Water completed its second annual brand perception study. This quantitative survey measured customer

sentiment and attachment to their drinking water. Just over 350 customers throughout the service area participated. Results of the survey reflect that Louisville Water has strong brand perception; 53-percent participants say Louisville's drinking water is by far the best they've tasted (increase of 4 points); customers have an emotional attachment to Louisville Water with 70-percent thinking about Louisville Water when they drink water in another city (drop of 4 points); and, the overall customer experience declined from 56-percent of customers ranking their experience with a score of 8, 9 or 10 to 47-percent. This sentiment is similar to research in other surveys. However, the value customers perceive from Louisville Water is steady with 57-percent saying it's excellent or very good.

Customer Service and Distribution Operations Report Given

Mr. Vogel advised that Call Center operations received 28,229 calls in November with an abandonment rate of 21.8%. Performance was hindered by collections-related call volume, staffing and off duty challenges. Five new Customer Service Representatives began taking calls in November and two additional representatives are currently in training. Staff plan to attend another job fair in January to continue our recruitment efforts. Staff has been extremely busy working on the residential utility tax changes associated with House Bill 8, Kentucky Tax Reform Bill. Activities have included developing customer communications and web forms, training for our staff, and changes to our billing system.

Meter reading efforts continue to be a challenge due to resourcing issues both internally and externally, along with managing the workload fluctuations resulting from our AMI implementation. AMI progress continues with almost 130,000 endpoints installed to date. Approximately 62,000 Jefferson County customers have been converted to monthly billing.

Mr. Vogel added that staff continues to prepare for the anticipated cold weather this weekend.

Engineering and Production Operations Report Given

Mr. Kraus advised that 2022 capital program expenditures through November totaled \$86,159,733 which is \$15,031,616 or 21.13% higher than the same period last year. These expenditures equate to 77.25% of the 2022 total capital program of \$111,534,377.

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

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 leadership conducted their monthly Labor Management meeting to review various on-going and future joint initiatives and status updates.
- The Company posted eleven temporary and one regular full-time classified union positions.

Louisville Water's CORE Council concluded their training, and each participant received a certificate of completion.

Louisville Water employees participated in the Kentucky/Tennessee "Water for People Bowling Event" fund raiser.

Louisville Water's Employee Activities Committee (EAC) hosted the company's "Holiday Spirit Week" with various events that included a workspace decoration contest, ugliest holiday sweater, holiday treats, and a virtual employee holiday party.

Information Technology Report Given

Jeff Knott reported that IT has developed a full failover plan and staff is evaluating the requirements for a complete system test. Each of the main systems have been failed over successfully to our Disaster Recovery site. Our next focus is to ensure all applications start automatically when the servers are brought online. Staff is working with the DBA and development teams to automate this process.

Mayor Greg Fischer arrived at 12:15 pm. Mr. Bruce, the Board and staff welcomed the Mayor. Mr. Bruce thanked the mayor for his support over the last 12 years.

Mr. Bruce then read the following resolution into the record to be included in the minutes of the Board of Water Works:

WHEREAS, Greg Fischer was elected by the people to serve as the second Mayor of Louisville Metro Government and the 50th Mayor of Louisville in November 2010, and has gone on to serve three distinguished terms in that capacity;

WHEREAS, Ellen Heslen has served as his Deputy Mayor, and provided invaluable service to this Board while stewarding the implementation of the Mayor's plans to help Louisville Water succeed;

WHEREAS, the Mayor's administration has consistently prioritized initiatives related to economic growth and public health that both rely upon and highlight Louisville Water's value to the community;

WHEREAS, the administration has supported Louisville Water's ongoing research and innovation, which has ensured the continued delivery of the best-tasting and highest-quality drinking water to the citizens of this community;

WHEREAS, in 2012 the administration created the One Water Partnership between Louisville Water and MSD, producing millions of dollars in benefits to the community every year through shared services, contracts, and labor;

WHEREAS, in response to the COVID-19 pandemic the administration allocated \$4 million for water and sewer relief through the Metro Grant Relief Program, allowing Louisville Water to offer vital assistance to nearly 12,000 customers;

WHEREAS, Mayor Fischer's commitment as a public official to the betterment of the community's water environment and water workforce development has garnered multiple national awards, including from the U.S. Water Alliance in 2018 and from the Water Environment Federation in 2022;

NOW, THEREFORE, BE IT RESOLVED that the Board of Water Works does hereby convey its deepest appreciation for the distinguished services rendered by Mayor Greg Fischer and Deputy Mayor Ellen Heslen, to be forever remembered in the Minutes of this institution.

Mr. Bruce presented Mayor Fischer with a Louisville Stoneware replica of Zorn Pump Station No. 1.

Mayor Fischer thanked Mr. Bruce and the Board. He particularly thanked them for recognizing Deputy Mayor Ellen Hessen. The Mayor stated that Ms. Hessen carried a great deal of the load in the Mayor office and she does not get enough appreciation for her work. Mayor Fischer stated Louisville Water has been easy to work with and he thanked the Board and Staff for all they do for the Company and the community. He considers the BOWW one of the more important boards in the City.

Mayor Fischer added that he believes the One water initiative has a bright future.

The Board took a break for lunch at 12:25 pm. The meeting reconvened at 12:50 pm.

Closed Session Held

Mr. Dearing moved to go into closed session to discuss collective bargaining negotiations pursuant to KRS 61.810(1)(e) at 12:51 p.m., seconded by Mr. Esselman and the motion unanimously carried.

Open Session Resumed

Ms. Fust-Rutherford moved to return to Open Session at 1:35 p.m. Mr. Dearing seconded, and the motion unanimously carried.

Union Contract Approved

Mr. Dearing moved to approve the Collective Bargaining Agreement with Local 1683, AFSCME. Mr. Esselman seconded, and the motion unanimously carried.

There being no further business, the meeting adjourned at 1:40 p.m.

Respectfully submitted,



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