Board Of Water Works
REGULAR CALLED MEETING MINUTES
February 21, 2017

Board Members Present:
Mr. Creighton Mershon, Chair
Mr. Glenn Sullivan, Vice Chair
Dr. Sundeep "Sunny" Dronawat
Mr. Craig Willman
Ms. Marita Willis

Not Present:
Mayor Greg Fischer
Dr. Sharon Kerrick

Others Present:
Mr. Spencer Bruce, President and Chief Executive Officer
Mr. Daniel Frockt, CFO, Louisville / Jefferson County Metro Government
Mr. Dave Vogel, Executive Vice President, Customer Service and Distribution Operations
Mr. Jim Grunow, Interim Vice President, Production Operations and Chief Engineer
Mr. Tim Kraus, One Water, Director of Business Transformation
Dr. Tom Luckett, Vice President and Chief Information Officer
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, General Counsel and Corporate Secretary
Ms. Jenni Schelling, Director, Internal Audit
Ms. Beverly Soice, Paralegal

Visitors: Mr. Matthew Griffith
Dr. Rengao Song
Ms. Nicole Tremblay
Mr. Roger Tucker

The regular called meeting of the Board of Water Works (BOWW) was held on Tuesday, February 21, 2017 at the Louisville Water Company (Louisville Water) located at 550 South Third Street, Louisville, Kentucky. Chair Creighton Mershon called the meeting to order at 11:06 a.m.

Mr. Spencer Bruce expressed his sincere thanks to Mr. Jim Grunow for taking on the additional responsibilities of Chief Engineer while the Company found a permanent candidate.

Mr. Tim Kraus was sworn in as Vice President, Production Operation and Chief Engineer of the Louisville Water.

Minutes of the Previous Regular BOWW Meeting Approved

Ms. Marita Willis moved to approve the Regular Called Meeting Minutes of December 13, 2016, seconded by Mr. Glenn Sullivan and the motion was unanimously carried.

<u>Report Provided by the President/Chief Executive Officer</u>

Mr. Bruce advised that Louisville Water's laboratory and research division often receives high marks for its work. Recently, the Drinking Water Branch of the Kentucky Division of Water recognized two of Louisville Water's scientists for exceptional performance.

Ms. Nicole Tremblay received a Letter of Commendation from Patrick J. Garrity, the lab certification officer for the Division of Water. Mr. Garrity's recent audit of the laboratory was positive but he also included recognition for Nicole's work. Mr. Garrity noted that he has audited Ms. Tremblay's work on many occasions and she is cooperative and engaging.

In January, the Division of Water performed an on-site evaluation in the microbiology labs where scientist Mr. Roger Tucker evaluates daily samples and conducts research. The state officer spent over five hours auditing Mr. Tucker's work and found no problems or errors. This is a great achievement.

Ms. Tremblay and Mr. Trucker are part of a team that has a 24/7 focus on water quality and public health. Each day, scientists do approximately 200 tests on the drinking water supply before it leaves the treatment plants and then additional monitoring in the distribution system. Mr. Bruce and the Board congratulated Ms. Tremblay and Mr. Tucker for their outstanding work and to the entire water quality and research team for their commitment to excellence.

Mr. Bruce noted January 27 marked the 80th anniversary of the high water mark in the 1937 flood, the worst flood in Louisville's history. For Louisville Water, it was a disaster that trapped 13 men at the River Pumping Station, yet with a little luck and engineering, the men were able to keep providing the city with drinking water. To mark the anniversary, Louisville Water offered a behind-the-scenes look at its archives of the 1937 flood and the pumping operations today. The event received extensive local media attention and over 50 people visited the WaterWorks Museum.

Mr. Bruce reminded the Board that the museum is part of Louisville Water's ongoing educational outreach. 2016 was another successful year for the Adventures in Water program with over 120 schools in the region in attendance for hands-on programming in the classroom and field trips to the Waterworks Museum. Teachers consistently give the program high marks for its real-world examples to the curriculum. The program introduces students to the value of water and career opportunities. The Museum was part of the city Cultural Pass program in 2016 where during the summer an adult and child can get free admission to participating attractions. Data shows the WaterWorks Museum was the fourth most popular attraction with over 1,400 guests.

February is national Children's Dental Health Month and Smile Kentucky! Louisville Water's dental health partnership provided free dental screenings, education and treatment to students in Bullitt, Shelby and Jefferson counties. Local dentists and the UofL School of Dentistry provide the treatment. Louisville Water coordinates the education opportunities.

<u>Revisions to Service Rules and Regulations Approved</u>

Mr. Dave Vogel advised that staff reviews the Company's Service Rules and Regulations annually 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.

The 2017 proposed changes, which are minor in nature, were reviewed with the Board. General Counsel has reviewed these proposed revisions and staff recommends approval by the Board, effective March 1, 2017.

Mr. Sullivan moved to approve the revisions to the Service Rules and Regulations, seconded by Mr. Craig Willman and the motion unanimously carried.

Election to Receive Build America Bonds Interest Subsidy Authorized

Ms. Lynn Pearson reported the American Recovery and Reinvestment Act of 2009 authorized the Board to issue taxable bonds known as Build American Bonds ("BABs") to finance capital expenditures for which it could issue tax exempt bonds and to elect to receive a subsidy payment from the federal government equal to 35% of the amount of each interest payment on such taxable bonds ("BABs Interest Subsidy Payment"). The Series 2009B Bond issue was issued as Federally Taxable BABs – Direct Payment.

The available subsidy for the Series 2009B Bonds will be paid to the Board; no holders of Series 2009B Bonds are entitled to a tax credit. The receipt of BABs Interest Subsidy Payments is subject to certain requirements, including the Board filing a form with the Internal Revenue Service prior to each interest payment. The next interest payment of $2,075,652.50 will be paid on May 15, 2017.The full amount of the subsidy will be requested, however, it is most likely the subsidy will be sequestered, reducing the payment by $50,127.02 to $676,351.36. This reduction was included in the Company's 2017 budget approved in November of 2016.

Dr. Sunny Dronawat moved to approve the following resolution to file IRS Form 8038-CP for $726,478.38 on February 22, 2017, seconded by Ms. Willis and the motion unanimously carried.

> **WHEREAS**, The American Recovery and Reinvestment Act of 2009 (the "Recovery Act") authorizes the Board to issue taxable bonds known as Build American Bonds ("BABs") to finance capital expenditures for which it could issue tax exempt bonds and elect to receive a subsidy payment from the federal government equal to 35% of the amount of each interest payment on such taxable bonds ("BABs Interest Subsidy Payment")
> **WHEREAS**, Louisville Water Company issued Series 2009B Bonds as Federally Taxable – Build America Bonds – Direct payment in December of 2009 to finance capital expenditures.
> **WHEREAS**, the IRS requires Form 8038-CP be filed for each interest payment date no later than the date that is 45 days before the interest payment date but not more than 90 days before the interest payment.
> **WHEREAS**, the next interest payment of $2,075,652.50 will be paid on May 15, 2017
> And
> **RESOLVED,** that the Treasurer of the Company be authorized and directed to file IRS Form 8038-CP on February 22, 2017 for the subsidy payment from the federal government equal to 35% of the interest payment due on the 2009B Series Bonds.

One Water Resolution Number 1, Series 2017 Approved

Mr. Kraus stated the One Water Board met on January 26, 2017 for its regularly scheduled meeting.

As reported at the January BOWW meeting, a temporary delay was placed on the transitioning of

Metropolitan Sewer District (MSD) employees in Customer Service, Information Technology (IT) and Communication to Louisville Water for the One Water initiative. MSD is currently in the process of developing an agreement between MSD and Louisville Water to allow for this transition to continue. A first draft has been presented to leadership at Louisville Water and is being reviewed. Additionally, as requested by the One Water Board, MSD is preparing a cost/benefit/risk analysis for transferring employees. The analysis is planned to be completed in March 2017.

On January 26, 2017 the One Water board passed Resolution Number 1, Series 2017, which requests that MSD and Louisville Water continue to seek savings in a proactive manner, using the shared services model, including but not limited to the areas of IT, Customer Service and Communications. The resolution requires a plan to be prepared and presented at the March 2, 2017 One Water Advisory Committee meeting for review and approval. The current expectation is for the Executive Director of Louisville & Jefferson County Metropolitan Sewer District and the President and CEO of the Louisville Water to approve the plan on or before March 16, 2017.

Dr. Dronawat moved to approve One Water Resolution Number 1, Series 2017, seconded by Mr. Willman and the motion unanimously carried.

Contracts Awarded for Project No. 15035 – Condition 2017 – PCCP

Mr. Kraus advised Louisville Water's 2017 Condition Assessment Project was initiated to perform electromagnetic condition assessment on 16.92 miles of 24", 30", and 60" prestressed concrete cylinder pipe (PCCP) along multiple corridors in Louisville Water's service area. Timely assessment results in the repair, rehabilitation, and/or replacement of distressed PCCP pipe sections in advance of catastrophic failures. When determined necessary, the projects for the PCCP Condition Assessment Program also replace or rehabilitate valves, air valves, and drain assemblies to ensure these critical appurtenances are functioning properly.

Keeping in line with past condition assessment projects, two contracts are issued for each project. One contractor handles the condition assessment, inspection, leak detection, and failure risk analysis, and the other contractor handles all of the appurtenance repair, tap installation, valve replacement, and site assistance. Multiple contracts allow Louisville Water to coordinate and direct all activities. During the initial pilot projects for the PCCP Condition Assessment Program, Louisville Water experimented with bidding the projects with all work performed by one general contractor with multiple subcontractors. This arrangement led to increased costs for Louisville Water as the contractor had to include all unknowns in the bid price, and issues arose with chain of command decision making and scheduling during the assessment of the pipelines. To better control costs, management decided to proceed with multiple master agreements allowing Louisville Water to do the work at cost and allow it the flexibility to mix and match contractors based on experience and scheduling needs.

The project's inspection and condition assessment bid estimate was $2,343,421.06. On January 23, 2017, a quote was received from Pure Technologies U.S., Inc., utilizing Louisville Water's existing Master Agreement 12-119, Electromagnetic Inspection and Leak Detection of Large Diameter Water Mains. The quote was $177,833.38, or 5.6% higher, than the bid estimate. The project's construction bid estimate was $3,380,000. On February 1, 2017, a quote was received from Southern Pipeline Construction Co., Inc., utilizing Louisville Water's existing Master Agreement 13-15, Transmission System Repairs and/or Capital Improvements. The quote was $179,414.97, or 5.3%, higher than the bid estimate. No change in the project budget is recommended at this time as the quotes were slightly over the project manager's estimates and current funding is adequate utilizing the budgeted contingency funds.

Dr. Dronawat moved to award a contract in the amount of $3,559,414.97 to Southern Pipeline Construction Co., Inc., and to award a contract in the amount of $2,475,253.26 to Pure Technologies U.S., Inc., for the construction, inspection, leak detection, and condition assessment work associated with Project 15035 – Condition 2017–PCCP. Mr. Sullivan seconded and the motion unanimously carried.

Unbudgeted Project No. 15073- KY 480 Phase 2 Relocation Project Approved

Mr. Kraus reported the Kentucky Transportation Cabinet (KYTC) plans to widen a portion of Highway 480, which is also known as Cedar Grove Road, between Cedar Grove Elementary School and Valley View Drive in Bullitt County. The road widening project includes the relocation of utilities and the construction of two traffic lanes in each direction and a center turn lane. Louisville Water's existing 10-inch water main must be relocated to accommodate this road widening project. Louisville Water plans to upsize the existing 10-inch water main with approximately 4,035 LF of 16-inch transmission main. KYTC will pay for the size-on-size replacement of the water main and Louisville Water will pay for the upsized betterment cost. The new transmission main is sized to meet the immediate demands for the Industrial Park and anticipated growth and development in areas to the east of this location.

KYTC has retained QK4, an engineering consulting firm, for the design of roadway improvements. KYTC has authorized Louisville Water, through an interagency agreement, to begin design of the water main relocation using QK4. As part of this agreement, KYTC has agreed to reimburse Louisville Water 100% of the design cost.

The total cost of the proposed water relocation project with betterment, including design, materials and construction labor, is estimated to be $879,350. The total cost for size-on-size water main replacement is estimated to be $568,542. The total cost to Louisville Water for betterment will be $310,809. The cost for internal design and impact to the 2017 Capital Improvement Plan (CIP) is estimated be $22,000 and is available in the current budget. The cost for upsizing of the transmission main from 10-inch to 16-inch will be addressed in the future CIP, to coincide with project construction.

Mr. Sullivan moved to approve the KY Highway 480 Phase 2 Relocation project with a total budget of $879,350 and a Louisville Water net cost of $310,809. Dr. Dronawat seconded and the motion unanimously carried.

Public Affairs & Customer Satisfaction Committee Given

Mr. Willman provided a summary of the items discussed at the Public Affairs and Customer Satisfaction Committee meeting held on January 20, 2016.

Mr. Willman noted one correction to the Public Affairs and Customer Satisfaction Committee minutes. Dr. Sharon Kerrick was not present and Dr. Sunny Dronawat was present.

General Assembly Update Given

Ms. Kelley Dearing Smith reported the 2017 Session of the General Assembly convened on Tuesday January 3. The "short" year session includes 30 working days divided into two parts. Part I ran from January 3 to January 7 and Part II runs from February 7 to March 30.

Strategic Communications monitors the activities of the 2017 session and regularly attends pertinent committee meetings and participates in legislative functions including the Kentucky Rural Water Association Legislative Breakfast and the Louisville Night Legislative Reception. Ms. Smith reported to date, over 400 bills have been introduced including HB 1: Right-to-Work, and HB 3: Prevailing Wage.

Investment Report Given

Ms. Pearson advised the Investment Guidelines adopted by Louisville Water in April of 2016 require that, on a semi-annual basis (as of June 30th and December 31st), an update will be provided to the BOWW on investments held in the Portfolio. The Guidelines require the reports be presented to the BOWW by the second board meeting following June 30th and December 31st.

Ms. Pearson reported on the current investment holdings by the Company.

Report on Utility Breaks

Mr. Mershon advised this item would be discussed during Closed Session later in the meeting.

Status Report on Strategic Initiatives

Mr. Mershon advised this item would be discussed during Closed Session later in the meeting.

The Board took a short break for lunch at 11:45 a.m.

Closed Session Held

Mr. Sullivan moved to go into Closed Session to discuss proposed or pending litigation and a specific proposal pursuant to KRS 61.810(1)(c), (g) and (m) at 12:00 p.m., Mr. Willman seconded, and the motion unanimously carried.

Open Session Resumed

Mr. Willman moved to return to Open Session at 1:00 p.m., seconded by Mr. Sullivan, and the motion unanimously carried. No action was taken in closed session.

Financial Report Given

Ms. Pearson provided a summary of the Financial Report for January.

Financial statements for December and full year 2016 will not be final until the annual audit by our external auditors, Crowe Horwath, is complete. Final field work for the audit commenced on January 30th and on-site work has now concluded. The audit and the year-end financial statements cannot be completed until the GASB 68 report is received from the Kentucky Retirement System.

Ms. Pearson provided a preliminary overview of the financial results for January. Results must be considered preliminary until the audit of the 2016 financial statements is complete.

Total consumption and water revenue for January 2017 is notably higher than both budget and prior year. Other operating revenue is slightly under budget for the month, offsetting a small portion of the higher water sales. Operating expenses, along with non-operating income and expense all performed favorably to budget. As a result, net income for the month is $1.3 million more than budgeted and $661,000 higher than prior year. Consumption of 2.7 billion gallons for January is 212 million gallons more than budget, and 273 million gallons higher than January 2016. All customer classes are over budget with the exception of private fire services.

Water Revenue for January 2016 is $1 million over budget and $1.6 million higher than the prior year. The positive variance to budget is entirely due to higher consumption. A portion of the increase over prior year is due to the 3.5% rate increase that was effective January 1, 2017, however higher consumption is the main driver. Other Operating Revenue for January is $61,000 lower than budget and $11,000 below year-ago levels. The variance to budget is primarily due to disconnect fees, service line protection and contract revenue running lower than anticipated, offset by late charges which are higher than budgeted levels. The variance to prior year is driven by lower late charges, disconnection fees and contract revenue, offset by higher sewer billing charges stemming from an increase in the contract amount for 2017.

Operating and Maintenance Expenses for January of $5.5 million are $279,000 lower than budget and $760,000 higher than January 2016. The January variance from budget is primarily due to lower labor, materials and supplies and contractual services costs, partially offset by higher bad debt expense. The favorable variance in labor costs is driven by lower overtime due to fewer main breaks, which also is driving the positive variance in materials and supplies cost. Contractual services are lower than budget due to projects in IT, Communications, Facilities Maintenance, Regional Development and HR that are budgeted to begin in January but will not start until later in the first quarter. Total Operating Expenses for January of $10 million are $339,000 lower than budget and $1 million more than January 2016. The budget variance is mainly due to lower operating and maintenance costs and loss from disposition of property.

Non-Operating Income for January is $89,000, which is $4,000 higher than budget and $27,000 more than January 2016. Interest income is significantly higher than prior year due to investment of bond funds in April and May of 2016.

Non-Operating Expense for January of $689,000 is $15,000 less than budgeted and $67,000 less than year-ago levels. Interest expense is less than prior year due to significant principal payments on bonds made in November 2016.

Net Income before Distributions and Contributions for January is $4.5 million, which is $1.3 million more than budgeted. In comparison between years, net income for January is $661,000 more than January 2016. Contributions for January of $117,000 are $123,000 less than budgeted and $220,000 less than prior year. There were no projects closed in January with contributed capital. This is expected to catch up in February.

Temporary Cash and Reserves totaled $68 million at the end of January 2017, well in excess of 250 days of estimated Operations and Maintenance expense of $49 million.

<u>Customer Service and Distribution Operations Report Given</u>

Mr. Vogel summarized the customer service report for the month of January.

The Company experienced zero OSHA recordable injuries for the month of January. The focus on safety continues to take center stage with our employees and management team.

The Call Center operations received 37,144 calls in January with an abandonment rate of 15.9%. The average speed of answer came in at 6:17 m:s for the month, which is significantly better than last year (15:26 m:s) and in line with the five-year average. We continue to get positive feedback form our customers regarding the new payment processor IVR, and this improvement is helping to reduce call volumes to our agents. The new Director of Customer Service started in January and became immediately involved by participating in employee meetings, developing rapport with the rest of the team, and assisting with our collections agency Request for Proposal (RFP).

The percentage of estimated bills in January came in at 5.4% which is significantly lower than last year and the five-year average. Billing accuracy is running at an all-time high for the month and finished at 99.92% versus 99.62% last year and the five-year average of 99.67%. Billing management remains focused on timely and accurate bills by actively working to-dos and limiting the number of and length of time accounts are placed on hold. The Field Services team is also using the new Customer Care and Billing (CC&B) analytic tool to better assign and track field work activities.

January ended with 68 main breaks for the month, which is significantly lower than last year (110) and the five-year average (130) primarily driven by warmer temperatures. This lower activity allowed us to focus more efforts on large service installations, small service installations, lead service renewal projects, fire hydrant replacements, and other activities during the month. Staff, along with MSD and LG&E, continues to work on reducing our locating services costs and improving the quality of locates.

Bad debt for January was $276K compared to the five-year average of $149K. The higher write off was driven by heavy disconnection of older orders with larger balances last November. Metering Services and Collections are triaging the orders based on size and age. The Collections team is also working with our outside agency to accelerate their efforts in working these accounts that have been written off.

<u>Engineering and Production Operations Report Given</u>

Mr. Kraus summarized the engineering and operations report for the month of January.

Capital Program expenditures through December totaled $69,661,207 which is $13,995,754 or 16.73% lower than the same period last year. These expenditures equate to 99.58% of the 2016 current capital program of $69,951,696.

January Capital Program expenditures through January totaled $5,193,006 which is $3,710,035 or 250.18% higher than the same period last year. These expenditures equate to 4.79% of the 2017 current capital program of $108,484,554.

The amount of water produced and delivered to the system in January 2017 was 104.1 MGD, which was 3.0% lower than January 2016 and 3.6% lower than the January five-year average.

Staff collected 280 regular distribution samples in January. There were no positive total coliform or E. Coli samples. All of Louisville Water's internal water quality goals were also met. Staff also sampled for 59 main break repairs in the month, of which nine (9) localized boil water advisories (BWAs) were issued due to field conditions.

On February 8, 2017 the Division of Water conducted an audit of Louisville Water's Water Main Project Review Agreed Order dated January 26, 2015. No significant deficiencies were found during the audit and Louisville Water was found to be in full compliance with the requirements of the Agreed Order.

Human Resources Report Given

Mr. Terrence Spencer reported that on August 29, 2016, the Louisville Water received written notice from the U.S. Department of Labor, Office of Federal Contract Compliance Programs (OFCCP), indicating the Company was selected for a compliance review audit regarding Executive Order 11246 pertaining to Affirmative Action/Equal Employment Opportunity.

On February 13, 2017, the OFCCP provided the Company with a written Notice of Compliance as official documentation that the audit results show no violations were identified regarding the Company's equal employment opportunity policies and practices

There being no further business for the Board, Dr. Dronawat moved to adjourn at 1:35 p.m., seconded by Ms. Willis, and the motion unanimously carried.

Respectfully submitted,

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