

Board Of Water Works
REGULAR CALLED MEETING MINUTES
March 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. 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
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. Kevin Kastensmidt, Director, Information Technology
Ms. Kim Reed, Director, Meter and Billing Services
Ms. Mary Susan Abel, Supervisor, Strategic Communications
Mr. Brian Sturgeon, Microcomputer and Network Analyst

The regular called meeting of the Board of Water Works (BOWW) was held on Tuesday, March 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 11:00 a.m.

Minutes of the Previous Regular BOWW Meeting Approved

Mr. Craig Willman moved to approve the Regular Called Meeting Minutes of February 21, 2017, seconded by Mr. Glenn Sullivan and the motion was unanimously carried.

Report Provided by the President/Chief Executive Officer

Mr. Spencer Bruce advised Louisville Water and the Kentucky Historical Society dedicated a new marker at Louisville Water Tower Park to signify the landmark water filtration experiments that occurred at the site in 1895-1897. The work, overseen by George Warren Fuller, would become the foundation for purifying drinking water. Louisville Water constructed wooden buildings and a laboratory near the

historic Louisville Water Tower to test four filter designs. Fuller's work at Louisville Water found that allowing river water to settle and then using a chemical to bring particles together and finally filtering the water through sand and gravel could produce drinking water that was 99% free of bacteria.

The work at Louisville Water became the foundation for modern-day water treatment and sparked the development of the Crescent Hill Treatment Plant. When the plant opened in 1909, the treatment and filtration produced an immediate benefit: a dramatic drop in the number of typhoid deaths from 71 deaths per 1,000 people to less than 45. In 1914, Louisville Water began using chlorine to further disinfect the water and suddenly water-borne diseases were not a public health concern. Fuller went on and continued his research in Cincinnati and became known as the "Father of Sanitary Engineering." Today, the Crescent Hill Plant and the B.E. Payne Water Treatment Plant are ranked as two of the top 14 in North America for superior water quality.

The month of March is the official kick-off of community outreach for runs and walks with the Louisville pure tap® program. Louisville Water coordinates water stops for the Triple Crown of Running series. The Communications & Marketing group along with Distribution Operations work with race coordinators on the water stop locations, training for volunteers, water quality sampling and publicity.

Three Louisville Water employees recently took on the roles of mentors under the nationwide program "Ambassadors of the Evers Academy for African American Males (A-TEAAM)," This leadership development program inspires young males of color to honor the life of noted civil rights leader Medgar Evers and live out his legacy. Terrence Spence, Nerrick Jackson and Keith Barnett were part of a team of 39 mentors who provided support and one-on-one guidance to 16 middle school students from Bridging the Gap Learning Academy and Frederick Law Olmsted Academy North.

First Quarter 2017 Dividend Declared

Ms. Lynn Pearson advised 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 2016, 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 adjustment is to be paid with or deducted from the regular quarterly dividend payments in 2017.

The annual audit has not been completed, as we await the release by the state of final audited pension liability numbers and other information, which we must have in order to finalize the audit and the financial statements. As a result, there will be no adjustment to the first quarter 2017 dividend. The adjustments will occur in subsequent quarters of Louisville Water's 2017 calendar year as directed by Louisville Metro Office of Management and Budget.

The 2017 Annual Budget provides for a budgeted annual dividend of \$20,827,200. Ms. Marita Willis moved to approve the following resolution to declare the first quarterly 2016 dividend in the amount of \$5,206,800.

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 \$20,805,070 was paid in 2016 based on estimated adjusted net income of \$44,200,042 and
WHEREAS, the annual audit for 2016 is not yet completed, no adjustment will be made to the first quarter 2017 dividend and adjustments will occur in subsequent quarters of LWC's 2017 calendar year 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 2017 Louisville Water Company Annual Budget reflects the 2017 annual dividend to be \$20,827,200, it would be in order at this time to declare a regular first quarter dividend of \$5,206,800; therefore, be it
RESOLVED, the regular first quarter 2017 dividend of \$5,206,800 is hereby declared, and further
RESOLVED, that the President of the Company hereby is authorized and directed to pay \$5,206,800 to the Louisville / Jefferson County Revenue Commission on March 31, 2017, this being the first quarterly dividend for 2017.

Mr. Sullivan seconded and the motion unanimously carried.

Property at Zoneton Declared Surplus and Authorized to be Sold

Mr. Tim Kraus handed out new documentation for this matter and asked that the Board replace pages 14-21 in their agendas books with the materials handed out in meeting.

Louisville Water owns two tracts of land in Lake Columbia Estates Section 2 in Bullitt County, Kentucky. Tract 1 is comprised of Lots 14 and 15 of Lake Columbia Estates Section 2. These two lots are .54 acres and .53 acres, respectively. Tract 2 consists of an additional .19 Acres. The total acreage under consideration for this surplus action will thus be 1.26 acres. This property was formerly occupied by the 150,000 gallon elevated Zoneton water storage tank, which was declared surplus and removed from the site in April 2016. Staff has determined that this property is no longer necessary for existing or future operations of Louisville Water and may be declared surplus and sold. CH2M, the Company's Engineer of Record, has evaluated this matter and has issued a letter concurring with Staff's recommendation that this property be declared surplus and sold.

Mr. Sullivan moved to declare the subject property surplus and authorize the sale of this property in accordance with Louisville Water's purchasing policy. Dr. Sunny Dronawat seconded, and the motion unanimously carried.

Mr. Bruce introduced Mr. Kevin Kastensmidt and Mr. Brian Sturgeon who provided a report on paperless Board Books for BOWW meetings. The proposal included the use of an existing program to upload documentation that Board members would access using a tablet provided by the Company.

Mr. Mershon requested that certain reference materials be posted in addition to the committee and monthly BOWW meetings.

Mr. Sturgeon distributed the tables to each Board member who was present at the meeting.

Compensation and Benefits Committee Report Given

Ms. Willis reported the Compensation and Benefits Committee met on March 6, 2017 at which time staff presented detailed results of the 2016 Executive Shared Operating Goals, Management Incentive Goals and Corporate Performance Goals, as well as the proposed 2016 Merit Matrix for Non-Union Employees.

Ms. Willis advised staff provided background regarding merit increases and the compensation structure movement. The committee recommends approval of the merit matrix with an overall 3.0% increase and a 2.2 % market movement. Mr. Bruce advised that the increase is a 3% overall, but that the actual raise for each employee is based on the results of individual performance goals. Mr. Willman moved to approve and Mr. Sullivan seconded the Committee's motion to approve a 3.0% overall merit increase for non-union employees and the 2.2% market movement. The motion unanimously carried.

Ms. Willis advised that overall, the Executive Shared Operating Goals Fully Achieved expectations. In addition, the Management Incentive Goals achieved 38% of the eligible goals and the employee Corporate Performance Goals achieved 33.33% of the eligible goals. Ms. Willis stated the committee recommends approval of the Executive Shared Operating Goals, the Management Incentive Goals and the employee Corporate Performance Goals as presented. Mr. Willman moved to approve and Mr. Sullivan seconded the Committee's motion.

Executive Session Held With the President to Review Executive Performance

Mr. Bruce reviewed the individual performance reviews of the Vice Presidents.

Mr. Bruce provided a summary of the vice presidents' performance evaluations and made recommendations regarding salary adjustments. He advised that staff started the year with many unique challenges. During the course of the year the executives have worked together to normalize activities. Communications efforts have been significant.

Staff is now focused on moving forward with the Work Asset Management (WAM) project, and exploring new revenue opportunities, while at the same time maintaining high water quality.

Mr. Mershon stated that the Board is very complimentary with regard to the professionalism of the executives, stating they have made a lot of strides to put the Company on tract.

Mr. Mershon stated the BOWW would like to see a specific goal concerning new revenue. The Board would like to see regular discussions and/or reports regarding new revenue opportunities to understand the Company's progress on non-traditional revenue growth.

Dr. Dronawat moved to provide the following salary increases set the executives' salaries as follows:

Dave Vogel – 1.8%

Tom Lockett – 3.0%
Lynn Pearson – 3.9%
Kelley Dearing Smith – 4.6%
Terrence Spence – 4.5%
Michael Tigue – 0.75%

Ms. Willis seconded, and the motion unanimously carried.

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) and (g) at 11:59 p.m., Dr. Dronawat seconded, and the motion unanimously carried.

Open Session Resumed

Dr. Dronawat moved to return to Open Session at 1:25 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 February.

Financial statements for December and full year 2016 are complete with the exception of the impact of adjustments to the net pension liability and related balances required by GASB 68. These adjustments cannot be completed until final audited numbers are released by the Kentucky Retirement System. Once the audited GASB 68 report is received, staff will work with our external audit team to finalize our 2016 audited financials.

Total consumption and water revenue, along with other operating revenue, came in slightly under budget for February 2017. However, operating expenses and non-operating income and expense all performed favorably to budget for the month. As a result, net income for the month is \$103,000 or 4% higher than budgeted.

Consumption of 2.3 billion gallons for February 2017 is 108 million gallons less than budget, and 90 million gallons less than February 2016. All customer classes are under budget in February with the exception of private fire services. Year-to-date consumption remains over budget and prior year 2.1% and 3.8% respectively. Through February, all customer classes are over budget with the exception of industrial and wholesale, both of which are only slightly under budget.

Water Revenue for February 2017 is \$259,000 lower than budget and \$173,000 higher than the prior year. Water revenue through February is \$759,000 higher than budget and \$1.8 million higher than last year. Higher consumption is a key factor driving increased water revenue for the year-to-date period as compared to both budget and prior year levels.

Other Operating Revenue for February is \$72,000 lower than budget and \$18,000 higher than year-ago levels. For the period-to-date, other operating revenue is \$132,000 below budget and \$7,000 over prior year. The year-to-date variance to budget is primarily due to disconnect fees, service line protection and contract operations revenue running lower than anticipated. The variance to prior year is driven by lower late charges and contract operations revenue offset by higher sewer billing revenue.

Operating and Maintenance Expenses for February of \$5.6 million are \$418,000 lower than budget and \$10,000 higher than February 2016. The February variance from budget is primarily due to lower labor, chemicals, insurance reserves and contractual services costs, partially offset by higher bad debt expense. The labor variance is mainly due to full time vacancies and lower overtime due to fewer main breaks. Contractual services are under budget for the month mainly due to expenses budgeted in IT, primarily SOA Design and development services and PeopleSoft upgrade support services, which will be incurred in a later month. Also impacting the variance are various other contractual services in Communications, Facilities Maintenance, and Metering, which were budgeted to begin in February, but will not be incurred until the second quarter or later. February year-to-date operations and maintenance expenses are \$697,000 under budget and \$770,000 over year-ago levels. The majority of the year-to-date favorable budget variance is in labor and labor related costs and contractual services, offset by higher bad debt expense. The year-to-date favorable budget variances in labor and contractual services are driven by the same factors affecting the month of February discussed above.

Total Operating Expenses for February of \$10.1 million are \$427,000 lower than budget and \$271,000 more than February 2016. Total operating expenses year-to-date are 3.7% lower than budget and 6.9% over year-ago levels. The year-to-date budget variance is mainly due to lower operating and maintenance costs and loss from disposition of property.

Non-Operating Income through February is \$174,000, which is \$8,000 higher than budget and \$60,000 more than same period through February 2016. Interest income is higher than prior year due to investment of bond funds in April and May of 2016.

Non-Operating Expense through February of \$1.4 million is \$18,000 less than budgeted and \$120,000 less than year-ago levels. Interest expense is less than prior year due to significant payments on bonds made in November 2016.

Net Income before Distributions and Contributions for February is \$2.7 million, which is \$103,000 more than budgeted. In comparison between years, net income for February is \$6,000 more than February 2016. February year-to-date net income of \$7.2 million is \$1.4 million over budget and \$666,000 more than the two months ended February 2016. Contributions through February of \$1.1 million are \$225,000 higher than budgeted and \$262,000 less than prior year.

Temporary Cash and Reserves totaled \$71.5 million at the end of February 2017, well in excess of 250 days of estimated Operations and Maintenance expense of \$49 million.

Customer Service and Distribution Operations Report Given

Ms. Kim Reed summarized the customer service report for the month of February.

The Call Center operations received 31,677 calls in February with an abandonment rate of 13.4%. Year-

to-date, the abandonment rate is running at 14.8%, which is significantly lower than last year (25.7%) and also lower than the five-year average (20.1%). The average speed of answer came in at 3:50 m:s for the month, which is an improvement from last year (5:30 m:s) and slightly better than the five-year average.

The Customer Service department closed its offices on Presidents Day holiday (February 20th) for training. The entire group participated in an all-day training session that focused on soft skills, goal setting and accountability, business process training, cross-connection and control, water quality, communications, and training resources available to CSRs. There were several guest speakers including Spencer Bruce and Dave Vogel.

The percentage of estimated bills in February came in at 3.76%, which is slightly higher than last year and significantly lower than the five-year average. Billing accuracy for the month finished at 99.96% versus 99.67% last year. The Field Services team is using the new CC&B analytics tool and has reduced the backlog of non-pay orders. To date, we have the fewest number of customers in the severance process since go-live of the new system.

February ended with 47 main breaks for the month, which is slightly higher than last year (39) and significantly lower than the five-year average (72). Warmer temperatures have continued to help minimize the break activity. The lower break activity has allowed our crews to focus more on capital activities and working down the O&M backlog.

The WAM project held its official team kick-off on February 22nd at Water Tower Park. This event included the entire project team, the project sponsors, and participants from Oracle and our implementation partners. Activities included team introductions, a message from the President, team structure and roles, change management and communications, and finalizing the project charter. There is a great deal of excitement surrounding this project and, going forward, there will be regular updates to the BOWW regarding its progress.

Engineering and Production Operations Report Given

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

Expenditures through February totaled \$8,551,636, which is \$2,535,158 or 42.14% higher than the same period last year. These expenditures equate to 7.87% of the 2017 current capital program of \$108,648,549.

The amount of water produced and delivered to the system in February 2017 was 101.3 MGD, which was 4.3% lower than February 2016 and 6.4% lower than the February 5-year average. For year-to-date, the amount of water delivered to the system is 3.5% lower than 2016, and 1.3% lower than five-year average.

Staff collected 280 regular distribution samples in February. There were no positive total coliform or E. Coli samples. All of Louisville Water's internal water quality goals were met. Staff also sampled for 43 main break repairs in the month, of which five localized boil water advisories (BWAs) were issued due to field conditions.

A group of ten water quality and regulatory experts from USEPA and Kentucky Division of Water met with staff at Louisville Water on March 16, 2017 to view several presentations of Louisville Water's corrosion control plan. The presentations provided the basis for Louisville Water's corrosion control plan

and described how the plan is being implemented. The specific objectives include 1) the existing Optimal Corrosion Control Treatment (OCCT) plan; 2) the Optimal Water Quality Parameters and why and how they were selected; 3) the specifics of sampling site selection, sampling and analytical schedules, logistics, and general cost; 4) data collection, storage, analysis and reporting.

There being no further business for the Board, Ms. Willis moved to adjourn at 1:52 p.m., seconded by Dr. Dronawat, and the motion unanimously carried.

Respectfully submitted,



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