

Board Of Water Works
REGULAR CALLED MEETING MINUTES
June 20, 2017

Board Members Present:

Mr. Creighton Mershon, Chair
Dr. Sundeep “Sunny” Dronawat
Dr. Sharon Kerrick
Mr. Craig Willman

Not Present:

Mayor Greg Fischer

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
Ms. Kelley Dearing-Smith, Vice President, Communications and Marketing
Mr. Tim Kraus, Vice President, Production Operations and Chief Engineer
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 Tighe, Vice President, Compliance, General Counsel and Corporate Secretary
Ms. Jenni Schelling, Director, Internal Audit
Mr. Jim Smith, Director, Regional Development
Ms. Kay Ball, Program Manager, Advanced Treatment Technology
Mr. Adam Carter, Union President
Ms. Beverly Soice, Paralegal

Visitors:

The regular called meeting of the Board of Water Works (BOWW) was held on Tuesday, June 20, 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 11:05 a.m.

Minutes of the Previous Regular BOWW Meeting Approved

Dr. Sunny Dronawat moved to approve the Regular Called Meeting Minutes of May 16, 2017, seconded by Dr. Sharon Kerrick and the motion was unanimously carried.

Mr. Mershon stated that he and Louisville Water President, Mr. Spencer Bruce recently meet with Mr. Ienn Sullivan for lunch at which time they thanked Mr. Sullivan for his years of service as a member of the Board of Water Works. Mr. Sullivan was appointed to the Board in March of 2009, served as Vice Chair from 2014 to 2017 and sat on most, if not all, of the Board’s subcommittees. As a token of appreciation, Mr. Mershon and Mr. Bruce presented Mr. Sullivan with a Louisville Stoneware replica of the Louisville Water Company Corporate office building.

Report Provided by the President/Chief Executive Office

Mr. Bruce advised that on May 25, 2017 Louisville Water and Hardin County Water District No. 2 formally announced the completion of a project that delivers Louisville Water to the southern part of Hardin County and Elizabethtown. Initially, the water district will purchase 160 million gallons of water annually. At a groundbreaking for a new pumping station, economic development leaders praised the partnership, calling it key for large growth potential in the region. The additional water supply is available for the Glendale Mega Site in Hardin County, one of only two Kentucky certified CSX mega sites.

Louisville Water will also begin delivering water to Hardin County Water District 1 later this year. We already partner with this district by operating the treatment facilities on the Fort Knox base.

Louisville Water's work in maintaining its infrastructure and our efforts on communicating the issues around lead were featured at the American Water Works Association's (AWWA) annual conference in Philadelphia. Louisville Water's lead program is considered a national model for our proactive approach in replacing our lead service lines and communicating with customers. Several presentations highlighted our success in this effort. Our work to replace the 1930 transmission main along Eastern Parkway was also highlighted as an example of an innovative approach in communicating a large-scale initiative. Our engineering group has worked closely with Communications and Marketing on a three-year plan around the replacement. The success achieved in Phase 1 has received national attention both at the AWWA conference and in media publications.

In addition, four of our employees were in the spotlight in the Women's Tapping Team competition. The women competed against 10 other teams in a race against the clock to tap a water main under pressure and connect a copper service line. The women's team has won the national title before and this year represented the Kentucky/Tennessee region in the national competition. The team's time was three minutes and 20 seconds to complete the tap. While it was a great time, it was not fast enough to make it to the finals.

Board of Water Works Vice Chair Elected

Mr. Mershon stated that with the expiration of Mr. Sullivan's term, the Board needs to elect a new Vice Chairperson.

Mr. Mershon accepted nominations for the position of Vice-Chair of the Board. Dr. Kerrick nominated Mr. Craig Willman for the position of Vice-Chair of the Board of Water Works. Dr. Dronawat seconded the motion. Mr. Mershon called for other nominations. There being no other nominations submitted, Mr. Mershon declared the nominations closed. Mr. Mershon called for the vote. The members of the Board voted unanimously to approve Mr. Willman as Vice-Chair of the Board until future action of the Board, at the next Annual Meeting.

Second 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 been completed. Net income of \$41,254,866 requires a total 2016 dividend to Louisville / Jefferson County Metro Government, Kentucky of \$19,821,376. The total dividends paid during 2016 were \$20,805,070. The difference between the dividend paid for 2016 and the actual dividend computed and declared for 2016 is \$983,694. This difference will be deducted from the second quarter 2017 dividend payment as directed by Louisville Metro Office of Management and Budget.

The 2017 Annual Budget provides for a budgeted annual dividend of \$20,827,200. Dr. Kerrick moved to approve the following resolution to declare the second quarterly 2017 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 \$40,700,042 and

WHEREAS, the annual audit for 2016 has now been completed which establishes the full dividend for 2016 as \$19,821,376 based on actual Adjusted Net Income of \$37,754,866, it would be in order at this time to amend the Board resolution of December 13, 2016 to decrease the 2016 annual dividend by \$983,694 from \$20,805,070 to \$19,821,376, the difference to be deducted from the second quarterly 2017 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 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 second quarter dividend of \$5,206,800; therefore, be it

RESOLVED, the 2016 annual payment is decreased from \$20,805,070 to \$19,821,376 and the difference of \$983,694 will be deducted from the second quarterly 2017 dividend payment, and

RESOLVED, the regular second 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 \$4,223,106 to the Louisville / Jefferson County Revenue Commission on June 30, 2017, this being the second quarterly dividend for 2017.

Mr. Willman seconded and the motion unanimously carried.

Overall Project Budget Increased and Proceeding to Final Design and Solicit Bids for Project 15011 – Bethany Booster Pumping Station Authorized

Mr. Tim Kraus stated that late in the 4th Quarter of 2016, it was determined that a booster pumping station would be necessary to meet water demand obligations set forth in an agreement with Hardin County Water District #1 (HCWD1). As part of this agreement, HCWD1 will purchase water supplied at the Hardin County line along Louisville Water’s southern Dixie Highway corridor. An unbudgeted project was approved by the BOWW in December 2016 to design and construct a ‘temporary’ booster pumping station (BPS) and associated piping to enable Louisville Water to adequately satisfy this new demand. Staff now requests a project scope change to a ‘permanent’ style BPS and to increase project budget accordingly.

The original scope and budget for the temporary BPS was initially based on a single, mobile pumping unit rented for a portion of the year, and within a few years, to construct a more permanent BPS. As hydraulic research and design developed, the temporary BPS evolved into a more ‘permanent’ style BPS with multiple pumps, structure/housing, and year-round capability. This change was based upon cost effectiveness and schedule requirements. In addition to upgrading the BPS from temporary to permanent, existing distribution system improvements are required to operate the BPS, including a check valve installation at a separate site, and a parallel suction water main at the BPS site.

The project scope includes constructing an above-ground, 8MGD BPS, electrical, piping, telemetry controls, and minor site work in addition to a separate check valve station site, both in pending easements.

This advancement of scope (temporary to permanent) increases the overall project budget from the currently approved \$516,000 to \$1,300,000.

Dr. Dronawat moved to increase Project 15011 – Bethany Booster Pumping Station in the amount of \$784,000, and establish a new budget of record of \$1,300,000 for this project in time to solicit bids. Dr. Kerrick seconded and the motion unanimously carried.

Marketing Committee Report Provided

Dr. Dronawat summarized topics covered at the Marketing Committee meeting held on May 23, 2017, which included leak protection, marketing and regional development.

Audit Committee Report Provided

Ms. Jenni Schelling summarized the topics covered during the Audit Committee meeting held on June 2, 2017, which included results of the following: 2016 Financial Audit, 2016 Capital Project and Procurement Procedures Audit, 2016 Return on Equity Calculation Audit, Sales and Use Tax Audit, 2017 Water Rates Audit, Water Main Project Agreed Order Audit, Drinking Water Laboratory Audit, OFCCP Audit, Biennial Inspection Update, End User Security Reviews Update, 2016 President and CEO Business Expenses Report, 2016 Executive Travel and Training Report, and Approval of the 2017 Audit Plan.

Break

The Board took a short break at 11:55 a.m. for lunch and resumed the meeting at 12:10 pm.

Regionalization, Revenue and Economic Development Update Provided

Ms. Kelley Dearing-Smith summarized the Company's growth in regional water sales.

Louisville Water's first expansion was to the Portland area in the 1870's, which, at that time, was considered out of town.

In 1970, the City of Mt. Washington became Louisville Water's first wholesale customer. Soon thereafter, North Shelby Water District, the City of Taylorsville, West Shelby Water District and North Nelson Water District were added as wholesale customers.

During 1990 – 2000, Louisville Water merged and/or acquired six nearby utilities in Oldham and Bullitt Counties, which included West Oldham Utilities, Oldham County Water District #1, Kentucky Turnpike Water District #1, Kentucky Turnpike Water District #2, the City of Shepherdsville, and the City of Goshen.

And, more recently, the City of Lebanon Junction, Hardin County Water District 1, Hardin County Water District No. 2 and the City of Shelbyville have all become wholesale customers.

Louisville Water began contract operations for River Ridge Commerce Center in 2011 and Ft Knox Military Base in 2012.

Louisville Water's wholesale customers benefit from not only its water, but by access to on-call services in response to storms, emergency operations, and critical water main breaks; technical support provided by water quality, customer service, media relations; and an annual meeting with all wholesale customers.

Over the years, the number of community water systems in Kentucky has dropped from 868 in 1974 to 358 in 2017. The consolidation of water systems happens for a variety of reasons: financial issues (a desire to monetize assets, water system subsidized, lack of funding for needed infrastructure investments, insufficient rate capacity; compliance issues (water quality regulations, administrative regulations, and environmental) and/or a lack of qualified personnel.

Louisville Water's success in regional development stems from years of building long-term relationships with its neighboring water districts and communities. Additionally, Louisville Water provides low rates, high product quality and level of service; technical support and expertise; an abundant supply and reserve capacity; willingness to utilize alternative financing methods; addressed the chloramine/free chlorine issue; and supports regional economic development.

Mr. Jim Smith, Director of Regional Development, summarized the current opportunities staff is working on which include wholesaling water to non-contiguous counties, and additional contract operations and partnerships.

Louisville Water staff is currently assisting Hardin County Water District No. 2 to develop a Long Range Water Supply Plan.

Louisville Water has been highly successful pursuing contiguous opportunities based on building long-term relationships over time.

As part of the One Water Initiative, Louisville Water can partner with MSD to develop future opportunities by offering combined water and wastewater services.

Mr. Smith noted that staff from both Communications & Marketing and Regional Development continue to work on developing business relationships with regulators (KDOW, IDEM), economic regulators (KY PSC & IURC), KY & IN Rural Water Association, KY/TN & IN Section of AWWA, Southern Indiana Water Professionals, KY Water & Wastewater Operator Association, and Area Development Districts.

Staff continues to research and identify regional opportunities by profiling water and wastewater utilities in region and researching tracking PSC and IURC cases and developing and prioritizing a list of opportunities.

Employee Safety

Mr. Bruce advised this matter would be discussed in closed session later in the meeting.

Sales Tax Review

Mr. Bruce advised this matter would be discussed in closed session later in the meeting.

Oldham County Advisory Board Meeting Update Provided

In the interest of time, Mr. Bruce asked that this report be taken under advisement.

Financial Report Given

Ms. Pearson summarized the Financial report for May.

The audit of the Company's 2016 financial statements is complete. The audited financial statements were presented to the Audit Committee by Crowe Horwath on June 2, 2017. A copy of the Annual Report was distributed to each Board member.

Water revenue for May 2017 is slightly higher than budget, despite water consumption coming in just under budget for the month. Other operating revenue fell short of budget in May, while operating expenses performed very favorably to budget. As a result, net income for the month is \$520,000 higher than budgeted.

Consumption of 2.8 billion gallons for May 2017 is 33 million gallons less than budget, and 22 million gallons less than May 2016. Consumption for residential and commercial customer classes in May is over budget reflecting the resolution of a timing difference from April along with strengthening trends in actual customer usage. Industrial and Metro classes are driving the majority of the under budget variance. Year-to-date consumption is under budget and prior year by 2.4% and 0.9% respectively. Through May, lower consumption in the residential, commercial and Metro customer classes are the primary drivers of the unfavorable budget variance.

Water Revenue for May 2017 is \$58,000 over budget and \$631,000 higher than the prior year. Water revenue through May is \$840,000 lower than budget and \$1.9 million higher than last year. Lower consumption is the key factor driving lower water revenue compared to budget for the year-to-date

period.

Other Operating Revenue for May is \$39,000 lower than budget, but is \$104,000 higher than year-ago levels. For the period-to-date, other operating revenue is \$287,000 below budget and \$249,000 over prior year. The year-to-date variance to budget is primarily due to contract operations revenue running lower than anticipated. A large portion of this shortfall to budget is a timing difference related to amounts charged by the Company for cleaning the lagoons at Ft. Knox. This shortfall is offset by a corresponding timing difference in operating expense. The variance in other operating revenue to prior year is driven by higher sewer billing and contract revenue offset by lower late charges and property lease revenue.

Operating and Maintenance Expenses for May of \$6.0 million are \$297,000 lower than budget and \$308,000 higher than May 2016. The May variance from budget is driven by lower contractual services, labor and labor related costs and insurance reserves, offset by higher bad debt expense. The May variance to prior year is primarily due to higher labor and labor related costs, which were partially due to one more working day in May 2017, along with higher materials and supplies expense. These higher costs somewhat offset by lower contractual services.

May year-to-date operating and maintenance expenses are \$1.3 million under budget and \$1.1 million higher than year-ago levels. The majority of the year-to-date favorable budget variance is in labor and labor related costs, chemicals, materials and supplies, and contractual services, partially offset by higher bad debt expense. The labor variance is a result of full time vacancies and lower overtime costs. Contractual services are lower primarily due to projects in IT budgeted to begin earlier in the year, but not started until late April. Various other contractual services in Communications, Facilities Maintenance, Customer Information Systems, Economic Development and Contract Operations were also budgeted in the first five months of 2017, but will be incurred later in the year. The year-to-date favorable variance in materials and supplies is due to lower main breaks, lower purchases of metering supplies, lower materials for the lab and various operations and safety equipment budgeted to be purchased earlier in the year, but now anticipated to be purchased in future months. Bad debt expense remains higher than budget through May, though the trend is improving.

Net Income before Distributions and Contributions for May is \$4.4 million, which is \$520,000 more than budgeted. In comparison between years, net income for May is \$578,000 higher than May 2016. May year-to-date net income of \$15.9 million is \$645,000 higher than budget and \$613,000 more than the five months ended May 2016.

Temporary Cash and Reserves totaled \$69 million at the end of May 2017, well in excess of 250 days of estimated Operations and Maintenance expense of \$52 million.

Communications and Marketing Report Given

Ms. Dearing-Smith summarized the Communications and Marketing report for May.

Louisville Water Tower and Pumping Station No. 1 are one of eight National Historic Landmarks in Jefferson County. Recently, staff helped develop a new program to highlight the historical significance of these sites. The National Historic Landmarks of Louisville is a program that encourages people to visit six of the eight sites that are currently open to the public. Louisville Water hosted a media launch for this program at the WaterWorks Museum. Each year, more than 38,000 people visit our National Historic Landmark. This summer, hundreds of guests will come to the site for the Cultural Pass program, an effort

coordinated through Louisville Metro that provides free admission for one adult with a child at more than 30 cultural attractions.

This year marks the 225th anniversary of Kentucky's statehood and Louisville Water is featured in a special exhibit at the Kentucky Historical Society called "Kentucky 225." The exhibit features the stories of 225 places and individuals that are unique to the state. Louisville Water Chief Engineer Charles Hermany's story is highlighted. Hermany was chief engineer from 1858 to 1908 and oversaw the design and construction of the Louisville Water Tower, Pumping Station No. 1, Crescent Hill Reservoir and Gatehouse and the Crescent Hill Treatment Plant. Perhaps even more significant, Hermany brought George Warren Fuller to Louisville Water for the landmark experiments in filtration that paved the way for modern-day water treatment.

In May and June, Louisville Water customers receive the 2016 Annual Water Quality Report along with their statement. This report, required by the EPA, highlights the Company's water quality and explains the sampling and analysis for EPA regulated contaminants. As part of the distribution, staff works with community groups and the media to share the water quality information.

Customer Service and Distribution Operations Report Given

Mr. David Vogel summarized the Customer Service and Distribution Operations report for May.

The Call Center operations had a challenging month in May driven primarily by staffing issues, process changes, and a few technical problems. Staff levels have been declining since the first of the year through attrition (our last class of CSRs were hired in November 2016) and we have experienced a significant amount of off-duty. A new class of CSRs will begin training on June 19, which will have a positive impact on our service levels going forward. The Call Center received 35,508 calls in May with an abandonment rate of 19%. Year-to-date, the abandonment rate is running at 13.7%, which is approximately 15% better than last year and the five-year average.

The number of disconnections for non-pay was 1,842 in May, which is consistent with both last year and the five-year average. The number of service order work units accomplished was 11.6% higher for the month than last year, and staff is actively using the CC&B analytic tool to better assign, track, and prioritize field work activities. Billing continues to maintain stable operations even with the absence of two critical resources (Billing Lead and Billing Associate). Billing accuracy continues to run at all-time highs and was 99.94% in May.

There were 27 main breaks for the month of May, which is slightly higher than last year (22) and the five-year average (25). Crews have been focused on new service installations, which have seen an increase for the month. Other significant activities for the month have included lead service renewal projects and fire hydrant replacements. Distribution will begin capital improvements in June at the Louisville Zoo. It is estimated this work will take one crew approximately six (6) weeks to complete.

The Work and Asset Management implementation project is proceeding well and the combined team from EY and Louisville Water is making good progress. There are three (3) concurrent high-level work streams at this point: the technology of the system, the functionality of the system, and Organizational Change Management (OCM). The technical aspects are being handled by EY's Infrastructure Lead with Louisville Water's IT personnel providing significant support. The functional support team has been leading a broad group through the discovery process, analyzing current Louisville Water business

processes related to Enterprise Asset Management. The Discovery phase of the project is now complete and there were no surprises in the process (thus no changes to the scope of work that was originally planned).

Engineering and Production Operation Report Given

Mr. Kraus summarized the Engineering and Production Operations report for May.

Capital expenditures through May totaled \$23,752,242, which is \$832,664 higher than the same period last year. These expenditures equate to 22.63% of the 2017 current capital program of \$107,688,879.

The amount of water produced and delivered to the system in May 2017 was 114.5 MGD, which was 2.4% higher than May 2016 and 5.1% lower than the May five-year average. Year-to-date, the amount of water delivered to the system is 1.3% lower than in 2016, and 4.5% lower than the five-year average.

There were a total of 18 chemical spills reported by ORSANCO during the month of May: 12 upstream and 6 downstream of Louisville Water's Zorn intake. All the upstream spills were minor and had no impact on Louisville Water. In addition, pesticides have been detected in the Ohio River and activated carbon treatment was employed. There were no impacts to the finished water.

Staff monitored 1,153 water quality parameters of a required 993 per federal and state regulatory requirements with zero violations, including Fort Knox and River Ridge systems.

Staff collected 280 compliance distribution samples. There were no positive total coliform or *E-Coli* results. All internal water quality goals were also met. Staff also collected 38 main break samples on 19 repairs in the month, of which five localized boil water advisories were issued due to field conditions. There were a total of 13 Water Quality customer complaints, in comparison to the five-year average of 20 complaints.

Louisville Water construction crews have begun work to enhance the internal water distribution system at the Louisville Zoo. The work is being done for water reliability and quality improvements and is funded by Louisville Water capital improvement programs as set forth in the 2004 agreement between Louisville Water and the Louisville Zoo. The scope of work includes installing isolation valves and flushing points, replacing fire hydrants and installing additional check valves. The estimate for this work is \$75,640. The work is expected to be complete by the fall of 2017.

Human Resources Report Given

Mr. Terrence Spence summarized the Human Resources and Labor Relations report for May, which included activity between the Company's Labor Management and Local Union 1683 of the American Federation of State, County and Municipal Employees, AFL-CIO (the Union).

Currently, there are six (6) active grievances filed by the Union. Two (2) of those grievances are in the final steps of resolution; three (3) are in process steps to resolution as stated in the Collective Bargaining Agreement (CBA); and one (1) grievance is in the pre-arbitration process for final resolution.

The Company and Union Contract Steering Team are in the process of reviewing and updating union classified job descriptions for minimum skills requirements.

The Company posted three union classified jobs that were filled internally with senior level union employees.

The Company has hired eight (8) external candidates as part of the Company's Summer Work Program that includes one (1) candidate from the Mayor's Summer Works Program.

Union President, Mr. Adam Carter, summarized the remaining items on the report.

Mr. Carter advised he is coordinating one of the Company's Combined Giving Campaign events, a Golf Scramble at Iroquois Golf Course on July 14.

In an effort to continue to improve the partnership between the Company and Union leadership, both parties agreed to institute an Executive Union-Management Alliance Council (EUMAC) to be comprised of Louisville Water executive level staff and senior level union leadership. EUMAC's objective will be to establish recommendations for initiatives, projects, strategies and goals.

The Company and Union revised the Commercial Driving License Training Manual.

The Decision Partnership sub-Team (DPT) recently reviewed the Apprenticeship Program and agreed to necessary improvements to be implemented for program enhancement. Improvements include increased job-shadowing of classified positions prior to allowing employees to perform those job duties in a solo capacity.

Closed Session Held

Mr. Willman moved to go into Closed Session to discuss proposed or pending litigation pursuant to KRS 61.810(c) at 1:34 p.m., seconded by Dr. Dronawat, and the motion unanimously carried.

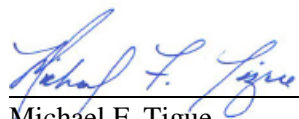
Open Session Resumed

Dr. Dronawat moved to return to Open Session at 2:04 p.m., seconded by Mr. Willman and the motion unanimously carried.

No action was taken in Closed Session.

There being no further business for the Board, Dr. Kerrick moved to adjourn at 2:05 p.m., seconded by Dr. Dronawat, and the motion unanimously carried.

Respectfully submitted,



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