

Board Of Water Works
REGULAR CALLED MEETING MINUTES
August 15, 2017

Board Members Present:

Mr. Creighton Mershon, Chair
Dr. Sundeep “Sunny” Dronawat
Ms. Tierra Kavanaugh Wayne
Mr. Craig Willman

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
Ms. Kelley Dearing Smith, Vice President, Communications and Marketing
Mr. Tim Kraus, Vice President, Production Operations and Chief Engineer
Dr. Tom Lockett, 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. Kim Reed, One Water Liaison
Ms. Jenni Schelling, Director, Internal Audit
Ms. Kay Ball, Program Manager, Advanced Treatment Technology
Ms. Patti Kaelin, Program Manager, Regional Development
Mr. Adam Carter, Union President
Ms. Beverly Soice, Paralegal

Visitors: Mr. David Haas, Hazen & Sawyer
Mr. Trey DeRoche, Hazen & Sawyer
Mr. Peiffer Brandt, Raftelis Financial Consultants, Inc.
Mr. Vince Guenthner, Consultant

The regular called meeting of the Board of Water Works (BOWW) was held on Tuesday, August 15, 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 11:07 a.m.

Minutes of the Previous Regular BOWW Meeting Approved

Mr. Craig Willman moved to approve the Regular Called Meeting Minutes of July 18, 2017, seconded by Dr. Sunny Dronawat and the motion was unanimously carried.

Ms. Tierra Kavanaugh Wayne was welcomed to the BOWW by Mr. Mershon. Mr. Michael Tigue administered the oath to Ms. Wayne.

Report Provided by the President/Chief Executive Office

Mr. Spencer Bruce advised that in August, Louisville Water's work on economic development focused on regionalization and branding. Staff met with Shelby County Fiscal Court where members unanimously endorsed the pipeline project that will provide Louisville Water to Shelbyville Water and the water districts in Shelby County. When completed in 2019, Louisville Water could supply up to seven million gallons daily to Shelbyville Water.

Mr. Bruce reported Regional Development Director, Jim Smith recently met with members of the Kentucky Municipal Utility Association and highlighted our 30+ years of regional partnerships. This Association represents 47 municipal owned utilities and our presentation was part of the group's annual meeting. The Frankfort Plant Board is a member of this association and Vice President Kelley Dearing Smith recently presented our branding strategy around tap water to the board and will work with staff at the Frankfort utility to develop a campaign that highlights the value of tap water.

Louisville Water's regionalization efforts and low-cost rates were featured in the 2017 Louisville Market Review. Published by The Lane Report, this publication is provided to business leaders across the state.

Reimbursement of Federal Tax Subsidy on Build America Bonds Approved

Ms. Lynn Pearson advised 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.

Ms. Pearson stated 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 November 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. Dronawat moved to approve a resolution to file IRS Form 8038-CP for \$726,478.38, representing 35% of the interest payment, on August 16, 2017, seconded by Ms. Wayne 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 November 15, 2017

and

RESOLVED, that the Treasurer of the Company be authorized and directed to file IRS Form 8038-CP on August 16, 2017 for the subsidy payment from the federal government equal to 35% of the interest payment due on the 2009B Series Bonds.

Contract Increased for Project No. 14515 – Condition 2016 – Crescent Hill Yard Piping and Valves

Mr. Tim Kraus advised that Louisville Water's 2016 Condition Assessment Project was initiated to rehabilitate and/or replace valves and inspect yard piping at the Crescent Hill facility. The area covered by this project includes all yard valves and piping south of Frankfort Avenue, including evaluation of the 48-inch, 60-inch, and 78-inch Discharge Headers inside the Pump Station. A companion project was set up and approved for 2017 to address the piping and valves in the vicinity of the North and South Reservoir located north of Frankfort Avenue. This work was recommended in the Facilities Plan.

Mr. Kraus stated Louisville Water's site contractor, MAC Construction & Excavating, has been working on making all of the yard valves accessible for inspection, and recently has begun to work on the large diameter pipe tie-ins located at the rear of the Crescent Hill property. Once construction on the large diameter pipe work began, it was apparent that several items led to the slowing of work on the property that caused the contract amount to be completely expended prior to the completion of work. Some of these items include excess mechanical rock removal, tree removal, proximity and depth of large diameter in-service mains causing custom solutions, etc. Every attempt was made on Louisville Water's part to keep the work moving, including the stationing of an inspector onsite daily to monitor and address situations as they arose. These items necessitated a change order for funding the completion of the remaining work items.

Mr. Kraus advised a change order quote was requested from MAC Construction & Excavating to complete the remaining work items. Following negotiations, MAC will absorb \$97,244.73 worth of incurred costs via discounts and credits, will modify the current work crew for remaining large pipeline work to utilize personnel that has been more involved on large diameter pipeline work, and will work with the Louisville Water Project Manager and Construction Inspector to reduce costs where possible on the remaining work. The change order, as presented, is acceptable for the completion of the remaining scope of work listed in conjunction with the upcoming condition assessment work performed at Crescent Hill. The change order was received on July 27, 2017, in the amount of \$576,723.77 and was 16.26% lower than the Project Engineer's cost estimate. Mr. Kraus noted the budget of record for the project does not need to be adjusted as this increase in cost is accounted for by utilizing the contingency funds previously included in the project budget.

Dr. Dronawat moved to approve the award of the contract change order with a value of \$576,723.77 increasing MAC Construction & Excavating's contract to \$2,639,201.91, seconded by Mr. Willman and the motion unanimously carried.

2017 Biennial Inspection Approved

Mr. Kraus introduced Ms. Kay Ball who advised the Amended and Restated Revenue Bond Resolution adopted November 10, 2009 for Louisville Water specifies that an inspection report be completed every other year and shall accompany the BOWW Annual Report to the Trustees, which is to be filed October 31 of each year. A further stipulation of the bond covenants is that Louisville Water retain a Consulting Engineer to perform the inspection of the water works system every other year, and to report whether the properties of the water works system has been maintained in good repair and sound operating condition. This Biennial Inspection includes a Facilities Inspection, Insurance Audit, and a review of Financial Management, Rates and Charges.

In May 2017, staff selected Hazen & Sawyer (Hazen) as Louisville Water’s Engineer of Record. Subsequently, an assignment was issued to Hazen to perform the inspection and to report the adequacy and condition of the water works system.

Hazen commented favorably concerning the condition of the facilities inspected stating “based on our inspection, Louisville Water is adequately maintaining the inspected facilities in such a way that facilitates exceptional drinking water production and supply.”

Dr. Dronawat moved to approve the 2017 Biennial Inspection Report, seconded by Mr. Willman and the motion unanimously carried. Mr. Kraus noted in accordance with the bond requirements, staff will file the subject Biennial Inspection report with the Issuer, the Trustee and Metro Louisville.

Easement Condemnation Authorized for Project No. 14545

Mr. Tighe reported the above-referenced project was designed to install a transmission main on the property owned by Trio Realty, located at Buck Creek Road, Shelby County, Kentucky. The project requires Louisville Water to secure an easement on the property. After numerous discussions with the owner, the requested easement is the least intrusive measure needed to achieve the foregoing objectives. Good faith discussions have taken place over the course of the past year to acquire the easement at a fair market value, but the parties have not been able to reach a suitable agreement. Time is of the essence and the project now needs to move forward. The easement is necessary for the public purpose of providing adequate fire protection and a reliable potable water source for the residents in this area.

Dr. Dronawat moved to adopt the condemnation resolution authorizing the commencement of eminent domain proceedings including the submission of a Petition for Condemnation to obtain the easement,

RESOLVED, that it is hereby determined to be necessary that the Louisville Water Company, acting through the agency of the Board of Water Works, obtain a permanent easement on certain land located at Buck Creek Road, Shelby County, Kentucky for the purpose of using such land for installing, operating, monitoring, maintaining, repairing, and upgrading a water transmission main and related water facilities, which will provide a more reliable potable water supply, enhance water quality and improve fire protection service; it being the determination of the Louisville Water Company that such land is needed from:

Trio Realty Company	Buck Creek Road	Deed Book 552, Page 876, Deed Book 552, Page 870, Deed Book 552, Page 867, Deed Book 552, Page 864, Deed Book 552, Page 861, Deed Book 552, Page 858, Deed Book 552, Page 855, Deed Book 552, Page 852, Deed Book 552, Page 873, Deed Book 553, Page 007, Deed Book 553, Page 004, and Deed Book 553, Page 001. Parcel ID: 016-00-037
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Or so many of those who have not or will not convey their statutory interest in such property and any or all other lawful owners of such property, the need for such land being to allow the Louisville Water Company to fulfill the public use and purpose as set forth herein for the residents of Shelby County,

Kentucky and surrounding areas, the Louisville Water Company being hereby authorized, if reasonable efforts to purchase the necessary easements having failed, to bring a condemnation action against the owners of such land pursuant to Kentucky Revised Statutes 416.540 *et. seq.* and any and all other lawful statutory and common law rights to do so.

Ms. Wayne seconded, and the motion unanimously carried.

Unbudgeted Capital Project Proposal 264-17-0008 ZPS – Rewind ZPS #3 Motor Approved

Mr. Kraus reported the Zorn Pump Station, having a total of seven pumps, transfers water from the Ohio River to the Crescent Hill Water Treatment Plant for treatment. Motor #3 failed in June 2017 and is in need of a complete rewind. The motor is a 2750 HP, 13.8 kilovolt, synchronous motor. It was last rewound in 2000. Since that time, it has had numerous issues including failed exciter components, the need for more robust exciter components, failed insulation between phase wires, and problems with synchronizing. Recently, the motor has had more insulation issues causing 13.8 kilovolts to arc during motor start-up. The proposed work will correct these issues. The scope of work includes new stator coils, new rotor components, and new exciter. A contingency contract will be executed using an existing master services agreement to complete this work. This will help expedite the completion of the work and bring this equipment back into service as quickly as possible.

Mr. Willman moved to approve the unbudgeted project 264-17-0008: ZPS – Rewind ZPS #3 Motor in the amount of \$560,000, seconded by Dr. Dronawat, and the motion unanimously carried.

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 be provided to the BOWW on investments held in the Portfolio. The Guidelines require the reports be presented to the Board of Water Works by the second board meeting following June 30 and December 31.

Ms. Pearson provided the report on investments.

Regionalization, Revenue and Economic Development Update Given

Ms. Dearing Smith provided a summary of Liquid Assets program and integration with local and statewide business and economic development associations.

Equal Employment Opportunity Commission Claim

Mr. Terrence Spence advised that on January 31, 2017, the Louisville Water received a notice of a charge of discrimination from the U.S. Equal Employment Opportunity Commission (EEOC) filed by a former employee. The Company submitted, per the instructions from the EEOC, all information/facts pertaining to the claim on May 31, 2017.

On July 27, 2017, the Company received an official notice of dismissal and closure of their file on the claim of discrimination based on the results of their investigation and review of the information provided.

Employee Safety

Mr. Bruce advised this item will be discussed in Closed Session.

Closed Session Held

Ms. Wayne moved to go into Closed Session to discuss proposed or pending litigation pursuant to KRS 61.810(c) at 12:58 p.m., seconded by Mr. Willman, and the motion unanimously carried.

Open Session Resumed

Dr. Dronawat moved to return to Open Session at 1:25 p.m., seconded by Mr. Willman and the motion unanimously carried.

Financial Report Given

Ms. Pearson summarized the Financial report for July.

July 2017 performance came in very close to budget in almost every category. Water consumption was under budget by less than 1%, and water revenue for the month fell short by only \$22,000 to an overall budget of nearly \$16 million. Other operating revenue was also under budget for the month, contributing to an overall shortfall in operating revenue of \$104,000. Operating and maintenance expenses were slightly higher than budget in July, but that overage was offset by other operating expenses which were slightly under budget. As a result, net income for the month is only \$94,000 lower than budgeted. Details of the Company's financial performance as compared to budget and prior year are as follows.

Consumption of 3.3 billion gallons for July 2017 is 30 million gallons lower than budget, and 27 million gallons above July 2016. Consumption for the commercial customer class was the primary driver of the negative variance to budget. Year-to-date consumption is under budget 1.2%, but over prior year by 0.6%. The residential, commercial, industrial and Metro Government customer classes all contributed to the unfavorable budget variance for the year-to-date period.

Water Revenue for July 2017 is \$22,000 under budget and \$752,000 higher than the prior year. Water revenue through July is \$382,000 lower than budget and \$3.9 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 July is \$82,000 lower than budget and \$103,000 higher than year-ago levels. The unfavorable budget variance for the month is driven by a timing difference in contract operations revenue related to the amount charged by the Company for cleaning the lagoons at Ft. Knox. This variance is offset by a corresponding timing difference in operating expense. The variance in other operating revenue to prior year is due to higher sewer billing, contract operations revenue and late charges. For the period-to-date, other operating revenue is \$50,000 lower than budget and \$825,000 over prior year. The year-to-date variance to budget is primarily due to lower service line protection and contract operations revenue, offset by higher late fees.

Operating and Maintenance Expenses for July of \$6.3 million are \$59,000 higher than budget and \$237,000 lower than July 2016. The July variance from budget is driven by higher bad debt expense along with increased insurance reserves, which rose primarily due to a claim related to a six inch split main. These unfavorable

variances are offset by lower labor, materials and supplies and contractual services costs. The July variance to prior year is attributable to lower contractual services and miscellaneous expense, partially offset by higher labor and labor related costs and increased insurance reserves. Miscellaneous expense is lower than prior year due to a timing difference on the annual contribution to the Louisville Water Foundation, which was made in July in 2016 vs. April in 2017.

July year-to-date operating and maintenance expenses are \$1.6 million under budget and \$1.2 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 and part-time vacancies. Contractual services are lower primarily due to consulting expenses in Customer Information Systems budgeted as O&M expense but ultimately classified as part of a capital project. Various other contractual services in Communications, Facilities Maintenance, and Economic Development were also budgeted in the first seven months of 2017, but will be incurred later in the year. The year-to-date favorable variance in materials and supplies is due to fewer main breaks than anticipated, a lower amount of purchases of metering supplies and materials for the lab, along with various materials and supplies for communications area budgeted to be purchased earlier in the year, but now anticipated to be purchased in future months.

Total Operating Expenses for July of \$11.2 million are \$8,000 lower than budget and \$213,000 less than July 2016. Total operating expenses year-to-date are 2.5% lower than budget, but are 3.4% 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 July is \$34,000 higher than budget and \$25,000 more than same period through July 2016. Interest income is above budget primarily due to higher cash position than planned and more than prior year due to investment of bond funds in April and May of 2016.

Non-Operating Expense through July of \$4.9 million is \$25,000 less than budgeted and \$536,000 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 July is \$5.6 million, which is \$94,000 less than budgeted. In comparison between years, net income for July is \$1.2 million higher than July 2016. July year-to-date net income of \$25.6 million is \$1.6 million higher than budget and \$2.9 million more than the seven months ended July 2016.

Contributions through July of \$5.0 million are \$1.1 million higher than budgeted and \$31,000 less than prior year.

Temporary Cash and Reserves totaled \$69.7 million at the end of July 2017, well in excess of 250 days of estimated Operations and Maintenance expense of \$52.1 million.

Communications and Marketing Report Given

Ms. Dearing Smith summarized the Communications and Marketing report for July.

In the summer, Louisville Water's education program has a large community footprint with staff visiting each branch location of the Louisville Free Public Library, Louisville Zoo camps, YMCA programs and a variety

of academic enrichment camps. At the Zoo, Louisville Water also produces an event, “Water Wows” where visitors participate in hands-on science activities, take pictures with Tapper and receive a Louisville pure tap® bottle. This year, over 3,000 people attended the Water Wows event in late July.

Throughout the past month, the Louisville pure tap® program participated in over a dozen community events including National Night Out, Frankfort Avenue Trolley Hop, West Louisville Appreciation Festival and the Louisville Sports Commission’s new Parkway Mile. The pure tap program typically has the highest customer reach in the 2nd quarter. In 2017, over 429,000 people attended an event with Louisville pure tap®.

In the summer months, Louisville Water opens the Crescent Hill Gatehouse the second Wednesday of the month for a special tour program called “Walking Wednesday.” It’s an opportunity for customers to step inside the Gothic structure and learn how we produce drinking water. In July, Louisville Water invited a group of 25 local photographers to capture this facility in photos on the social media platform Instagram. The event was a resounding success with more than 100 photos shared and thousands of followers engaged. Based on the feedback, we will provide additional “Instagram Meet-Up” events at other Louisville Water locations.

Customer Service and Distribution Operations Report Given

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

Louisville Water’s year-to-date safety performance continues to be strong. Through continued focus, education, and a commitment to safety, our employees are exceeding all of our safety measures. The Company is on track for its best safety performance ever recorded. Front-line employee buy-in and involvement, as well as management’s daily reminder that safety is a necessary part of every job, has gone a long way to producing these outstanding results.

Additionally, on July 20th, a field safety blitz was held that started at the Allmond operations center and involved a dozen teams of two that visited crews on site and discussed a variety of safety topics. This was well received by both our front-line employees and the management staff that participated.

With new staff moving to the phones, we experienced an improvement in our abandonment rate and average speed of answer from the previous month. The monthly abandonment rate was 22.7% and the Average Speed to Answer (ASA) was 11:21 m:s. We have continued to experience staff turnover and retirements and have initiated the hiring of replacement staff. Work continues on enhancing our IVR to accommodate improved self-service options for customers to minimize agent call volume.

After seeing improvement over the last few months, bad debt retreated in July and came in higher than budget. Bad debt for the month came in at \$254K which is lower than last year and higher than the five year average. Factors that influenced this were several large write offs as well as an adjustment to our bad debt provision which is based on our aged receivable levels. Staff continued its focus on delinquent accounts specifically working to better identify larger balances and collecting payments.

Meter reading estimations continue to trend lower since the beginning of the year due to favorable weather and increased resources. The number of non-payment turn off orders for the month was higher than last year despite several white flag days where we suspended our activities. Billing accuracy continues to run at all-time highs with our year to date accuracy running at 99.94% compared to a five year average of 99.76%.

July ended with a total of 39 main breaks for the month, which is in-line with last year and the five-year average. Approximately nine crews performed capital work consisting of large service installations, small service installations, Lead Service Renewal (LSR) projects, main replacement projects, and fire hydrant replacements in July. New service installations continued to be busy for the month with approximately three to four Louisville Water Crews plus our contractor performing this work. Several of our distribution employees retired, or announced retirement, in July. The replacement of these positions will come from the group of employees who recently completed their apprenticeship programs. Our improvement efforts at the Louisville Zoo continued in July and are estimated to be completed later this summer.

Engineering and Production Operation Report Given

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

Capital program expenditures through July totaled \$38,918,610, which is \$4,857,215 higher than the same period last year. These expenditures equate to 36.14% of the 2017 original capital program of \$107,688,879.

The amount of water produced and delivered to the system in July 2017 was 137.0 MGD, which was 5.6% higher than July 2016 and 0.9% higher than the July five-year average. For year to date, the amount of water delivered to the system was 0.2% higher than 2016, and 3.1% lower than five-year average.

There were a total of seven chemical spills reported by ORSANCO during the month of July; seven upstream and zero downstream of Louisville Water's Zorn intake. Louisville Water applied activated carbon treatment for seven days due to a spill in the Cincinnati area. In addition, there was a fish kill reported on Harrods Creek due to a spill on Hite Creek at the same time frame as the Cincinnati incident. There were no impacts to the finished water since powdered activated carbon was applied.

Staff monitored 1,005 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 and all internal water quality goals were also met. Staff also collected 74 main break samples on 37 repairs in the month, of which six localized boil water advisories were issued due to field conditions and one was issued due to water quality monitoring results. There were a total of 13 water quality customer complaints, in comparison to the five-year average of 23 complaints.

On January 1, 2017, there were 7,650 documented lead service lines in our service area. As of August 8, we have renewed 1,534 lead services and 1,061 services are either not active or no longer have a meter associated with them leaving 5,055 lead services remaining.

Human Resources Report Given

Mr. Terrence Spence provided a summary of the recent and current activities between 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 six active grievances filed by the Union; three recent submittals are progressing through the resolution process of discussion, two are in the final steps of resolution; one grievance is in the pre-arbitration process for final resolution.

The Company posted seven union classified jobs for internal bidding, three regular full-time and four temporary full-time.

The Executive Union Management Alliance Council (EUMAC) conducted its kick-off meeting on July 25, 2017.

Dr. Dronawat requested an Information Technology update be provided at each BOWW meeting.

There being no further business for the Board, Mr. Willman moved to adjourn at 2:08 p.m., seconded by Dr. Dronawat, and the motion unanimously carried.

Respectfully submitted,



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