

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

Board Members Present:

Mr. Creighton Mershon, Chair
Mr. Paul Esselman
Dr. Sharon Kerrick
Mr. Craig Willman

Not Present:

Mayor Greg Fischer
Dr. Sundeep “Sunny” Dronawat
Ms. Tierra Kavanaugh Wayne

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 Tigue, Vice President, Compliance, General Counsel and Corporate Secretary
Ms. Sue Purdy, Director, Finance and Accounting
Ms. Kim Reed, Director, One Water Liaison
Ms. Jenni Schelling, Director, Internal Audit
Mr. Adam Carter, Union President
Mr. Andrew Winslow, Supervisor, Budget, Rates and Analysis
Mr. Ramiza Carpenter, Intermediate Financial Analyst
Ms. Meghan Starnes, Budget Specialist, II
Ms. Beverly Soice, Paralegal

Visitors: Judge John Potter, retired

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

Mr. Paul Esselman was welcomed to the BOWW by Mr. Mershon. Mr. Michael Tigue administered the oath to Mr. Esselman.

Minutes of the Previous Regular BOWW Meeting Approved

Dr. Sharon Kerrick moved to approve the Regular Called Meeting Minutes of October 17, 2017, seconded by Mr. Craig Willman and the motion was unanimously carried.

Mr. Mershon introduced Retired Judge John Potter who asked to address the Board concerning its contractual relationship with HomeServe USA.

Mr. Mershon thanked Mr. Potter for his comments.

Report Provided by the President/Chief Executive Office

Mr. Spencer Bruce advised that on November 3, Louisville Water, Shelbyville Municipal Water and Sewer Commission (Shelbyville Water), and the City of Shelbyville broke ground on a long-awaited project to bring our water to Shelbyville. Over the next 18 months, 10 miles of water main will be installed along Interstate 64 from the Jefferson/Shelby County line and connect with Shelbyville Water near Highway 55 in Shelby County. When completed in the spring of 2019, Louisville Water can supply up to seven million gallons of water daily to the City of Shelbyville and the surrounding area.

The \$16.2 million project will be funded through minimum water purchases from Shelbyville Water. The additional water resource will give the city a back-up supply for its current source, Guist Creek Lake and it will provide Shelbyville an asset in attracting industry. This partnership is one the state's economic development cabinet has praised. Representatives from the Shelbyville Chamber and Greater Louisville Inc., as well as the media, attended the groundbreaking.

2018 Annual Operating and Capital Budget Approved

Ms. Lynn Pearson provided an overview of the 2017 Annual Operating and Capital Budget. The summary included a presentation on water consumption, operating revenue, operating expenses, and the capital budget.

Ms. Pearson advised that the organization has worked collectively to put together the proposed budget for the next fiscal year. The 2017-2027 Strategic Business Plan drives the proposed Operating and Capital Budget. Upon approval of the Budget, staff will prepare the cost of service rate study for the 2018 water rates to be presented in December.

Highlights of the Operating Budget for 2018 were reviewed. The budgeted consumption for 2018 is 33.7 billion gallons. It is less than the 2017 budget, but equal to the 2017 forecast. The total operating revenue budgeted is \$193 million and total operating expenses are budgeted at \$139.5 million. Using the dividend formula from the Master Bond Resolution, this budget results in a budgeted cash dividend of \$21.5 million to Metro Louisville Government, Louisville Water's sole shareholder.

Staff has budgeted total other operating revenue at \$17.3 million, an increase of 2% from 2017 budget and 3.5% from 2017 forecast. Other operating revenue budget in 2018 includes \$5.8 million in sewer billing charges, \$5.6 million customer fees and charges, \$3.3 million home service line protection revenue, and \$2.0 million contract operations revenue.

Ms. Pearson reviewed the budget summary noting key impacts to revenue and expense as compared to 2017 levels. The total impact to net income is a reduction of \$5.3 million.

Ms. Pearson stated that management is recommending the rate increase effective January 1, 2018 to be 3.5% or approximately \$0.86 per month for a residential customer using 5,000 gallons. This will result in a monthly water bill of \$25.46.

The Water Rate Affordability Index is a metric established by the Environmental Protection Agency (EPA) that states an average monthly residential bill should be 2% or less of the median household income. Louisville Water's Water Rate Affordability is 0.67%, approximately a third of the EPA threshold.

The Board briefly discussed the effect of the pension liability on the annual budget as well as the recent change in GASB accounting rules.

Mr. Esselman congratulated staff on preparation of the budget and in keeping expenses down.

Mr. Tim Kraus discussed the proposed 2018 Capital Budget.

The total Capital Budget for 2018 is proposed at \$102.3 million before cash reimbursements. This represents an increase of 3.2% over the 2017 Capital Budget. Mr. Kraus also reviewed the amount of funding and the major areas of the Capital Budget. Infrastructure renewal makes up the largest portion of capital projects at \$59.6 million or 58.3% followed by new technology and facilities at \$21 million (20.5%), growth-related improvements at \$17.2 million (16.8%), and self-financing improvements at \$4.5 million (4.4%).

A summary of the projects planned under each of the above-mentioned categories was also provided.

Projects Approved as a Part of the Capital Budget

Mr. Kraus advised that there is one current year project that requires specific Board action due to changes in the budget.

Mr. Krause provided a summary of Project 14325 – Crescent Hill Filter Plant Chemical Building and Lab Fire Protection and Office Space Improvements for Production and the associated Change Order being requested.

Mr. Willman moved to adopt the resolution for approval of the 2017 Capital and Operating Budget and to approve the requested Change Action for Project 14325 – Crescent Hill Filter Plant Chemical Building. Mr. Esselman seconded and the motion unanimously carried.

RESOLVED, that the Draft 2018 Operating Budget submitted by staff on November 21, 2017 be adopted as the approved 2018 Operating Budget with the changes requested by the BOWW, and
RESOLVED, that the Draft 2018 Capital Budget submitted by staff on November 21, 2017 be adopted as the approved 2018 Capital Budget, and
RESOLVED, that the 2018 – 2027 Financial Plan submitted by staff on November 21, 2017 be filed as the approved Financial Plan, and
RESOLVED, that rate schedules be developed and presented by staff based upon a cost-of-service rate study with an average rate increase of 3.5% effective for water service beginning January 1, 2018 and thereafter.

Advanced Metering Infrastructure Update Given

Mr. Dave Vogel provided an update on the progress on the Advanced Metering Infrastructure (AMI) project.

Advanced metering is now predominant in the water industry and brings many benefits to utilities and their customers including the strategic goal to move to monthly billing; significant financial benefits through meter replacements and reduced operating costs for meter reading and field services work; enhanced customer service levels with more accurate reads and access to real time usage information and leak alerts; and, improved safety for our employees and customers.

In April, the BOWW granted approval for staff to issue a Request For Proposal (RFP) for this project. A team comprised of staff and an industry consultant, has evaluated the six bidders and their proposals, short listed the vendors, and brought the top performers in for oral presentations.

The team is currently focused on the final evaluation of the proposals which will include bringing in the highest rated vendors once more for additional questions and clarifications. Once this is complete and the final evaluations are done, we will present the project, as well as the recommended vendor, to the BOWW for final approval. Staff anticipates this taking place during the first quarter of 2018.

Public Affairs and Customer Satisfaction Committee Report Given

Mr. Willman provided a summary of the items discussed at the Public Affairs and Customer Satisfaction Committee meeting held on Monday, November 13, 2017.

Financial Report Given

Ms. Pearson summarized the Financial report for October.

Overall performance came in slightly under budget in October, as gains in water revenue were offset by shortfalls in other areas. Water revenue for October 2017 was slightly over budget, while other operating revenue was under budget by a more significant amount, resulting in an overall shortfall in operating revenue of 0.3%. Operating expenses were just slightly over budget at 0.3%. As a result, net income for the month was 1.6% lower than budgeted.

Consumption of 3.0 billion gallons for October 2017 is 38 million gallons lower than budget, and 183 million gallons higher than October 2016. Year-to-date consumption remains under budget by 2%, but over prior year by 0.8%. The residential, commercial and industrial customer classes are the main contributors to the unfavorable budget variance for the year-to-date period.

Water Revenue for October 2017 is \$36,000 over budget and \$1.5 million higher than the prior year. Water revenue through October is \$1.9 million lower than budget and \$5.8 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 October is \$82,000 lower than budget but is \$66,000 higher than year-ago levels. For the period-to-date, other operating revenue is \$157,000 lower than budget and \$964,000 over prior year. The year-to-date variance to budget is driven by revenue shortfalls in service line protection, strategic initiatives and contract operations, offset in part by higher late fees and disconnect fees. The variance in other operating revenue compared to prior year through October is primarily due to higher sewer billing and contract revenue.

Operating and Maintenance Expenses for October of \$6.4 million are \$100,000 higher than budget and \$387,000 higher than October 2016. The October variance from budget is driven by higher contractual services costs offset by lower labor and labor related costs and insurance reserves. The October variance to prior year is attributable to higher labor and labor related expenses and higher contractual services, partially offset by lower bad debt expense. October year-to-date operating and maintenance expenses are \$2.1 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 expenses, contractual services, chemicals and materials and supplies costs, partially offset by higher bad debt expense. The labor variance is a result of full and part-time vacancies along with more costs assigned to capital projects than planned. Contractual services are lower primarily due to lower expenses for CC&B consulting support, Facilities Maintenance, Communications and Economic Development consulting, which were budgeted to occur in the first ten months of 2017 but have not yet been incurred. 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, along with various materials and supplies for communications area budgeted earlier in the year, but not yet incurred.

Total Operating Expenses for October of \$11.3 million are \$36,000 higher than budget and \$591,000 higher than October 2016. Total operating expenses year-to-date are 2.3% lower than budget but are 2.8% 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 October is \$75,000, higher than budget and \$20,000 more than same period through October 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 October of \$7 million is \$37,000 less than budgeted and \$408,000 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 October is \$4.7 million, which is \$77,000 lower than budget. In comparison between years, net income for October is \$960,000 higher than October 2016. October year-to-date net income of \$42.2 million is \$582,000 higher than budget and \$4.3 million more than the ten months ended October 2016.

Contributions through October of \$7.5 million are \$1.8 million higher than budgeted and \$34,000 lower than prior year.

Temporary Cash and Reserves totaled \$80.8 million at the end of October 2017, which is in excess of 250 days of estimated Operations and Maintenance expense of \$52.1 million.

Ms. Pearson also provided the Board an update on recent activities of the Procurement area. Ms. Rene` Patterson-Thomas who serves as Metropolitan Sewer District's Director of Procurement and Supplier Diversity, was appointed Director of One Water Procurement effective November 1, 2017. Ms. Patterson-Thomas will work closely with Ms. Carol Lyons, Louisville Water's Procurement Supervisor, to manage our purchasing and supplier diversity functions.

The Procurement Department has completed the process of summarizing data on our third quarter 2017 expenditures to determine Louisville Water's Minority Business Enterprise (MBE) and Women Business Enterprise (WBE) spending statistics. MBE spending on construction projects in the third quarter was 7.68% bringing the year-to-date total to 10.4%. WBE spending on construction projects in the third quarter was 17.31% bringing the year-to-date total to 16.94%. Louisville Water requires that, when subcontracting work, bidders on construction projects make good faith efforts to expend a minimum of fifteen percent (15%) of the total dollar amount of the contract with certified MBEs and five percent (5%) of the total dollar amount of the contract with certified WBEs.

Communications and Marketing Report Given

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

Louisville Water Tower Park recently hosted the 10th Annual Adventures in Water Festival with nearly 1,600 students from 24 Louisville public and private school, two dozen community organizations, and dozens of fish from the Ohio River. The festival began in 2007 as an extension of Louisville Water's classroom programming. The students participated in water-related activities as they rotated through educational stations provided by Louisville Water and its community partners. In addition to touring the original water works, partners provide hands-on, interactive experiences around water in science, art, history and math. Louisville Water offers this festival for free and has welcomed over 15,000 students since 2007.

The Crescent Hill Gatehouse provided a Gothic backdrop for Louisville Water's "Trick or Treatment," a not-so-scary way to learn how we make drinking water. Louisville Water's educators or "mad scientists" provided water experiments and families toured the 1879 gatehouse and walked around the reservoir for trick or treat stations. This is the third year for Trick or Treatment. Guests enjoy the behind-the-scenes look at the gatehouse which is not regularly open to the public. Over 1,200 guests attended this year's event.

In late October, Louisville Water's community dental partnership Smile Kentucky! visited elementary schools in Bullitt County. Students received free dental screenings from the Louisville Dental Society and the Colgate Bright Smiles, Bright Futures program and Louisville Water coordinated education on healthy drink choices for good oral health. Children with urgent dental needs will receive free treatment with Smile Kentucky! Established in 2002, Smile Kentucky! is a partnership with Louisville Water, Louisville Dental Society, UofL School of Dentistry, Colgate and local health departments. The program is considered a national model for community outreach.

Customer Service and Distribution Operations Report Given

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

The Customer Satisfaction Indices were mixed compared to the 2nd quarter results. The Total CSI finished down 40 index points from the previous quarter with an index score of 810. The individual components were all down led by customer service and price/value. The survey provider performed a deeper analysis and believes that this was driven by the extensive coverage of the proposed MSD rate increase as well as media related to our 2nd quarter customer service challenges.

Interestingly, the Serviced CSI basically stayed flat and is running close to its highest level with an index score of 882. Most components showed little change from the previous quarter with the exception of water quality which was up 8 points and price/value which was down 18 index points.

Bad debt for October came in at \$117K assisted by a provision adjustment of \$58K. This is significantly lower than last year and also an improvement from the five-year average. Staff continues to focus on tactics to lower the bad debt levels and is seeing some progress. Multifamily delinquencies are down due to the Collections staff reaching out to these entities and the field activity backlogs are at their lowest levels since 2015. Staff is also reaching out to our peer utilities to see what can be learned from their business practices for possible implementation at Louisville Water.

The Call Center operations received 36,198 calls in October with an abandonment rate of 18.7%. Year-to-date the abandonment rate is running at 16.4%, which is slightly higher than last year (14.3%), but lower than the five-year average (21.5%). Training and staffing continue to be the two biggest challenges for the organization. A new class of CSRs will start in November which will have a positive impact on our performance levels.

The percentage of estimated bills in October came in at 1.13%, which is slightly higher than last year and the five-year average. Year-to-date estimations are running at 1.97%, which is lower than last year (2.62%) and the five-year average (2.70%). The Field Services team is using new tools to better manage and reduce the backlog of non-pay orders. Safety continues to be a number one priority. Safety tailgate meetings occur each Wednesday morning and Metering Services did not have any OSHA recordable injuries or preventable vehicle accidents in October.

October ended with 30 main breaks for the month, which is 50% lower than last year (60) and 35% lower than the five-year average (46). Approximately eight crews performed capital work consisting of large service installations, small service installations, Lead Service Renewal (LSR) Projects, Main Replacement and Rehabilitation Program (MRRP) projects, Fire Hydrant replacements and other Point Capital in October. A new Fleet Supervisor, David Chism, was hired and started work on October 30. Five newly hired General Laborers will start in November.

Engineering and Production Operation Report Given

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

2017 capital program expenditures through October totaled \$56,470,386, which is \$5,905,305 or 11.68% higher than the same period last year. These expenditures equate to 52.44% of the 2017 total capital program of \$107,688,879.

The amount of water produced and delivered to the system in October 2017 was 123.8 MGD, which was 2.5% higher than October 2016 and 5.8% higher than the October five-year average. For year-to-date, the amount of water delivered to the system was 0.4% higher than 2016, and 2.3% lower than 5-year average.

There was a total of 12 chemical spills reported by ORSANCO during the month of October: 11 upstream and one downstream of Louisville Water's Zorn intake. Louisville Water did not need to apply activated carbon treatment for any of the reported incidents. There is an active incident involving the old Ames Tool Warehouse fire runoff in Parkersburg, WV. Samples from this incident are currently being analyzed to determine the impact to the river. Staff has completed readiness procedures and is working closely with ORSANCO and GCWW to monitor this situation as it develops.

Staff monitored 1,313 water quality parameters of a required 1,153 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 48 main break samples on 24 repairs in the month, of which six localized boil water advisories were issued due to field conditions and zero were issued due to water quality monitoring results. There was a total of seven water quality customer complaints, in comparison to the five-year average of 23 complaints.

Human Resources Report Given

Mr. Terrence Spencer and Mr. Adam Carter provided a summary of recent and current activity between the Louisville Water's Labor Management and Local Union 1683 of the American Federation of State, County and Municipal Employees, AFL-CIO (the Union) was provided.

As of October, there were four (4) active grievances; two (2) grievances have been collaboratively resolved, a proposed resolution has been submitted to resolve one (1), and one (1) has completed the Step 4 process for resolution.

A committee was established, composed of Company and Union representation, to review and improve the facilitation of call-out response by the Union. The committee drafted a proposal to be presented to and voted on by the Union on November 22nd.

The Company posted three (3) regular full-time classified positions for union employee's internal bidding process.

The Company hired five (5) full-time General Laborers that began employment effective November 13, 2017.

Union President Adam Carter, Vice-President Beau Newton, and Distribution Operations Manager, Joe Schmitt provided safety gear and other materials donated by the Company to Fairdale High School to support the school's Heavy Equipment Science program. Both Adam and Joe serve on Fairdale's Heavy Equipment Science advisory board.

Information Technology Report Given

Dr. Tom Luckett summarized the Information Technology Report for October.

Work continues on schedule for the Oracle Work and Asset Management (WAM) Implementation. Technical Design sessions have begun with IT's focus on integrations and system environment planning. A wireless survey focusing on plant and distribution locations is also underway to better prepare for mobile activities.

The PeopleSoft 9.2 Upgrade project is proceeding very well. The final testing phases are underway. Production systems are being deployed. The go-live date is still projected to be one week earlier than originally planned during the first weekend of December.

Technical Operations Manager, Ms. Laura Armistead is now on staff as Louisville Water's Manager of Technical Operations. Ms. Armistead manages the IT hardware, network, security and communications environments for Louisville Water. Ms. Armistead held a similar position at Kindred Healthcare.

Closed Session

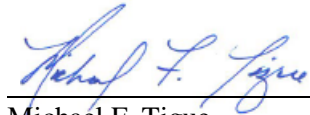
Mr. Willman moved to go into closed session at 1:20 p.m. pursuant to KRS 61.878(1)(c) and (f) to discuss potential litigation and employee matters. Dr. Kerrick seconded and the motion unanimously carried.

Resume Open Session

Dr. Kerrick moved to return to open session at 1:35 p.m., seconded by Mr. Esselman and the motion unanimously carried.

There being no further business for the Board, Mr. Esselman moved to adjourn at 1:35 p.m. p.m., seconded by Mr. Willman and the motion unanimously carried.

Respectfully submitted,



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