

Board Of Water Works
REGULAR CALLED MEETING MINUTES
March 19, 2019

Board Members Present:

Mr. Creighton Mershon, Chair
Mr. Craig Willman, Vice Chair
Mr. Paul Esselman
Dr. Sundeep "Sunny" Dronawat
Dr. Sharon Kerrick
Ms. Tierra Kavanaugh Wayne

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
Mr. Terrence Spence, Vice President, Human Resources and Labor Relations
Mr. Michael Tigue, Vice President, General Counsel and Corporate Secretary
Mr. Adam Carter, President Union
Ms. Sue Purdy, Director, Finance and Accounting
Ms. Kim Reed, Director, One Water Liaison
Ms. Jenni Schelling, Director, Internal Audit
Ms. Kimberly Cox, Manager, Billing
Mr. Matthew Griffith, Strategic Planning and Performance Specialist
Mr. Richard Hinton, Associated Attorney
Ms. Beverly Soice, Paralegal

Visitors:

The regular called meeting of the Board of Water Works (BOWW) was held on Tuesday, March 19, 2019 at the Louisville Water Company (Louisville Water or the Company) located at 550 South Third Street, Louisville, Kentucky. Chair Creighton Mershon called the meeting to order at 12:05 p.m.

Minutes of the Previous Regular BOWW Meeting Approved

Mr. Craig Willman moved to approve the Regular Called Meeting Minutes of February 19, 2019 seconded by Mr. Paul Esselman and the motion unanimously carried.

Dr. Sharon Kerrick introduced Ms. Kim Cox, Louisville Water's Manager of Billing and Meter Support. Ms. Cox recently was awarded second place by the national Small Business Institute for Project of the Year on her Advanced Metering project report.

Ms. Cox thanked the Company for its Tuition Assistance Policy that provides tuition assistance to its employees pursuing a degree from a college or university; Ms. Box recently received a Master of Business Administration (MBA) degree. Ms. Cox provided a short summary of her project.

Report Provided by the President/Chief Executive Office

Mr. Spencer Bruce advised Louisville Water has become a regional water provider, delivering water to the Kentucky counties that surround Jefferson. Louisville Water has contracts with nine water providers who collectively purchase 2.5 billion gallons of water. Staff meets annually with these partners to discuss ongoing infrastructure improvements and operational needs and highlight customer service and outreach initiatives. In March, we hosted our partners at the Frazier History Museum to illustrate how a utility can work with a key stakeholder. Louisville Water also has a partnership with the museum that includes the facility serving our water and highlighting our story through the Spirit of Kentucky exhibit, the starting point for the Kentucky Bourbon Trail.

Selling water to other water utilities is important for regional economic development and a key part of our “other revenue” category. In 2019, we forecast wholesale water sales to be \$5.9 million. We will increase delivery to Hardin County Water District No. 1 and finish work on a connection to Shelbyville.

First Quarter 2019 Dividend Declared

Ms. Sue Purdy noted that 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 2018, 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 2019.

The annual audit has not been completed, and as a result, there will be no adjustment to the first quarter 2019 dividend. The adjustments will occur in subsequent quarters of Louisville Water’s 2019 calendar year as directed by Louisville Metro Office of Management and Budget.

The 2019 Annual Budget provides for a budgeted annual dividend of \$19,274,820. Mr. Willman moved to declare the first quarterly 2019 dividend in the amount of \$4,818,705.

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 \$21,453,700 was paid in 2018 based on estimated adjusted net income of \$43,890,000 and

WHEREAS, the annual audit for 2018 is not yet completed, no adjustment will be made

to the first quarter 2019 dividend and adjustments will occur in subsequent quarters of Louisville Water's 2019 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 2019 Louisville Water Company Annual Budget reflects the 2019 annual dividend to be \$19,274,820 it would be in order at this time to declare a regular first quarter dividend of \$4,818,705; therefore, be it **RESOLVED**, the regular first quarter 2019 dividend of \$4,818,705 is hereby declared, and further \$4,818,705 to the Louisville / Jefferson County Revenue Commission on March 29, 2019, this being the first quarterly dividend for 2019.

Dr. Kerrick seconded, and the motion unanimously carried.

Compensation and Benefits Committee Report Given

Mr. Bruce stated he would like to review the numerous achievements the Company and its employees achieved during 2018. Mr. Bruce provided a handout to the Board members with a comprehensive list of the achievements, a few of which are shown below.

- J.D. Power Award for the Highest Customer Satisfaction in the Midwest Region
- J.D. Power ranked highest in Water Quality (Taste/Oder) in the nation out of 88 utilities that serve a population of more than 400,0000 customers.
- Both treatment plans remain 2 of the top 16 in North America for water quality.
- Lowest number of water quality customer complaints since we began tracking.
- Highest Total Service CSI since we started using Customer Service Index scoring in the late 1990s.
- Best execution of the Capital Program in the history of the Company with less than 1.0 percent change orders on \$104 Million expended.
- Highest Net Income in a decade in a year where Louisville recorded it wettest year.

Mr. Mershon congratulated the Company on a very impressive year.

Dr. Kerrick provided a summary of the discussions which took place at the Compensation and Benefits Committee meeting held on March 11, 2019. She began with a review of the results of the Executive Shared Operating Goals, Management Incentive Plan Goals and Corporate Performance Goals.

Dr. Kerrick advised that there were five goals that made up a total 25% of all Executives' performance rating. The goals included the following: (1) Implementation of the 2018 Capital Improvement Program (CIP) achieved a "Superior Performance" rating; (2) 2018 Operations and Maintenance (O&M) Cost Control achieved a "Successful Performance" rating; (3) Top-line Growth achieved a "Successful Performance" rating; (4) Procurement Goal achieved a "Successful Performance" rating; and (5) Safety Goal achieved a "Not Meeting Performance" rating.

Dr. Kerrick advised the overall performance rating earned on the Executive Shared Goals was a "Successful Performance."

Additionally, there were four goals associated with the Management Incentive Plan with a Level I and Level II performance for each goal or a total of eight possible incentives. The goals included the following: (1) Net Income: Level II was achieved by exceeded budget by \$2,193,293 or 4.6%; (2) Customer Service: Total CSI scored a rating of 823 and Service CSI received a rating of 953, therefore Level I was achieved. This is the highest Service CSI rating received in the history of the Company; (3) Water Quality: All water quality targets were met, achieving a Level II performance incentive; and (4) Other Operating Revenue. The Company fell short of achieving Level I by \$229,140.

Dr. Kerrick advised the overall award earned for the Management Incentive Plan Goals are 6.2500% for vice presidents, 4.6875% for directors, 3.1250% for managers and 1.5625% for supervisors, if approved by the Board.

Lastly, Dr. Kerrick reviewed the Corporate Performance Award Goals for eligible non-union, non-management employees. There are five incentive goals with a Level I and Level II performance available for each goal or a total of ten possible incentives. The goals included the following: (1) Distribution Water Quality Goal: All distribution water quality goals were met achieving a Level II award; (2) Service CSI Goal. This goal measured the Service CSI rating and was achieved at Level II with a Service CSI score of 953, which is the highest Service CSI ever achieved by the Company in its history, (3) Safety and Health & Wellness Goals: (a) Level I of the Safety component was achieved by having only one OSHA Recordable for the year for non-union, non-management employees; (b) The Health & Wellness goals were not achieved; and (4) Cost Control Goal: Level I of this goal was met by keeping Adjusted O&M expense at or below 100% of the adjusted O&M budget.

Dr. Kerrick advised that the overall award earned for the Corporate Performance Goals was at 68.8% achievement.

Mr. Bruce noted that Union employees have similar Safety and Health & Wellness goals and, unfortunately, they did not meet those goals for 2018.

Dr. Kerrick then summarized the Committee's discussions concerning merit increases and salary band structures for non-union employees. At the Committee's October 4, 2018 meeting, market compensation and trends analysis information were presented by representatives of Mercer Consulting who recommended an upward adjustment of 2.0% to the salary structure and an overall average merit increase of 3% for all non-union employees. Mr. Bruce advised that the increase is 3.0% overall, and that the actual raise for each employee is based on the results of their individual performance goals.

Mr. Daniel Frockt asked how much the cost will be to the Company if the merit increases are approved. Ms. Sue Purdy advised the total amount would be approximately \$546,000 and was budgeted. Mr. Frockt also asked if the incentive awards were budgeted. Dr. Kerrick advised that the merit awards were budgeted at \$354,000. The actual merit awards expense was approximately \$50,000 higher than budgeted but an off-set was found in the budget due to the health insurance premiums being lower than anticipated. Dr. Kerrick advised that the Committee held a healthy discussion concerning these matters and the Board must consider the factors that are on display that reflect excellent management.

After a short discussion, Dr. Sunny Dronawat moved to approve the 2019 Merit Matrix, a 3.0% overall average merit increase for non-union employees, an upward adjustment to the salary

bands of 2.0%, and awards for the goal results shown above. Mr. Esselman seconded, and the motion unanimously carried.

Executive Session Held

Dr. Dronawat moved to go into Executive Session pursuant to KRS § 61.810(1)(f) to discuss personnel matters at 11:45 p.m., seconded by Mr. Willman and the motion unanimously carried.

Open Session Resumed

Mr. Willman moved to return to Open Session at 1:42 p.m., seconded by Dr. Kerrick and the motion unanimously carried. No action was taken in closed session.

Mr. Mershon stated the Board is very complimentary with regard to the professionalism and efforts of the executives on behalf of the Company.

Dr. Kerrick moved to authorize Mr. Bruce to determine the appropriate salary increases within Mr. Bruce's recommend ranges for himself and the following executives within the 3.0% budgeted requirement: Dave Vogel, Tim Kraus, Tom Luckett, Lynn Pearson, Kelley Dearing Smith, Terrence Spence, and Michael Tigue. Seconded by Mr. Willman, the motion unanimously carried.

In the interest of time, Mr. Mershon advised the Board has read the Officers' reports and will defer formal reading.

Mr. Kraus noted there is an issue that he needs to report to the Board.

Mr. Kraus advised that Mr. Bruce declared an emergency on Thursday, March 14, 2019 regarding structural developments at the Cardinal Hill Park Reservoir. The road that leads up to the reservoir is "sliding down the hill". Mr. Kraus reported that the existing 60-inch pipe was installed in 1931 under the road. In 1935 there was a landslide on the road which required stabilization. In the 1980s the slide reactivated, and Louisville Water again stabilized the road. Last Thursday a large crack was discovered in the road. Staff believes the slide has likely reactivated. There is no danger to the nearby residents or to the reservoir and pipe, but the road does require work. Staff has determined that the road is sliding less than 1/16 of an inch a day.

There being no further business for the Board, the meeting was adjourned at 2:00 p.m.

Respectfully submitted,



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