

**Board Of Water Works
REGULAR CALLED MEETING MINUTES
August 16, 2019**

Board Members Present:

Dr. Sharon Kerrick, Vice Chair
Dr. Sundeep “Sunny” Dronawat
Mr. Paul Esselman
Mr. Craig Willman

Not Present:

Greg Fischer
Mr. Creighton Mershon, Chair
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
Dr. Tom Lockett, Vice President, Information Technology
Ms. Lynn Pearson, Vice President and Treasurer
Mr. Michael Tigue, Vice President, General Counsel and Corporate Secretary
Mr. Adam Carter, President, Local Union 1683 of the AFSCME
Mr. Jim Grunow, Director, Engineering
Ms. Jenni Schelling, Director, Internal Audit
Mr. Mike Simon, Manager, Human Resources
Mr. Jeremy Raney, Manager, Infrastructure Planning
Ms. Beverly Soice, Paralegal

Visitors:

The regular called meeting of the Board of Water Works (BOWW) was held on Friday, August 16, 2019 at the Louisville Water Company (Louisville Water or the Company) located at 550 South Third Street, Louisville, Kentucky. Vice Chair, Dr. Sharon Kerrick called the meeting to order at 11:05 a.m.

Minutes of the Previous Regular BOWW Meeting Approved

Paul Esselman moved to approve the Regular Called Meeting Minutes of July 23, 2019 seconded by Craig Willman and the motion unanimously carried.

Report Provided by the President/Chief Executive Office

Spencer Bruce noted that Louisville Water’s regional footprint is growing to the east as we plan to finish the extension to the city of Shelbyville in the 3rd quarter and bring this new wholesale customer on line by the end of the year. We have completed the majority of our work along Interstate 64 and Shelbyville will finish its portion this fall.

Mr. Bruce advised that staff has managed an average of seven economic development requests each quarter with most coming from Louisville Forward and Greater Louisville Inc. We have participated in three economic development events to date with another four planned for the

fall. Additionally, our strategy includes outbound marketing and contacts with key stakeholders which has generated several regional and state earned media opportunities.

Ms. Bruce advised that items on the agenda will be taken out of order.

2019 Biennial Inspection Approved

Jeremy Raney advised that 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 Board of Water Works 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 will 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.

In April 2019, Louisville Water issued an assignment to Hazen & Sawyer (Engineer of Record) to perform the inspection and to report the adequacy and condition of the water works system.

Hazen & Sawyer commented favorably concerning the condition of the facilities inspected stating that based on their inspection, "Overall, it is Hazen's opinion that Louisville Water's exceptional maintenance and operation of the inspected facilities contributes to continued industry recognition and facilitates excellent drinking water production and supply."

Dr. Sunny Dronawat moved to approve the 2019 Biennial Inspection Report. Seconded by Mr. Esselman and the motion unanimously carried. In addition, in accordance with the bond requirements, staff will file the subject Biennial Inspection report with the Issuer, the Trustee and Metro Louisville.

Unbudgeted Project No. 366-19-0039: Greenbelt Highway and Logistic Drive Grid-Tie Approved

Jim Grunow advised that an existing developer funded project to extend a 16-inch main on Greenbelt Highway provides an opportunity to construct a grid-tie to eliminate two dead-end mains and provide system redundancy for our large commercial and industrial customers in the area. Staff is requesting approval to add an unbudgeted project to the 2019 Capital Improvement Plan.

The scope of this project includes furnishing and installing approximately 960 feet of 16-inch ductile iron water main and 880 feet of 12-inch PVC water main on Greenbelt Highway and Logistics Drive. The project cost estimate is \$364,350 and includes design, bidding and completion of construction in 2019.

Mr. Willman moved to proceed with the Greenbelt Highway and Logistics Drive Grid-Tie Project and to establish a budget of record of \$364,350 for this project. Mr. Esselman seconded and the motion unanimously carried.

Property Acquisition Approved

Mr. Grunow advised that Louisville Water's Distribution Maintenance crews generate spoils – excess dirt, gravel, and pavement – daily as part of repairing, replacing and installing water mains and appurtenances. The cost of disposing of this excess material has become increasingly expensive and disposal of this material on third-party sites also poses a risk to the Company. Staff has been

actively engaged in identifying a suitable disposal site in order to reduce operational cost and risk to the Company.

Louisville Water has identified a 72.851-acre site on North Preston Highway in Bullitt County that is suitable for spoils disposal. This site is located on North Preston Highway just east of its intersection with I-65. Staff has negotiated terms, subject to Board approval and other due diligence contingencies, to purchase the subject property for \$4 million with a \$40,000 nonrefundable down payment.

Project No. 15055 currently has a budget of \$4.2 million in the 2020 Capital Improvement Plan (CIP). We propose to accelerate this funding to 2019, so this property may be purchased this year. Although this future project was included in the 2019 CIP, internal controls dictate that approval of projects with future year budgets are deferred until the specified year that the project is initiated; therefore, we are requesting Board approval to accelerate \$4.2 million in funding to allow this property to be purchased in 2019.

Dr. Dronawat expressed some concern on the located of the property. Michael Tigie explained that the Company has negotiated a nine-month due diligence period in which to conduct an inspection of the property, an environmental assessment and obtain the required permits. If any facts are discovered or issues arise during the due diligence period that makes the property unsuitable for spoils disposal, the Company can back out of the purchase. Mr. Bruce assured the Board that if any issues arise, he will bring the matter back to the Board.

After a thorough discussion, Mr. Esselman moved to approve proceeding with the unbudgeted Project No. 15055 - Property Acquisition for Spoils Disposal - Site B, to establish a budget of record of \$4.2 million and to authorize Mr. Bruce to negotiate final price and terms and purchase this property. Seconded by Mr. Willman and unanimously carried.

Election Authorized to Receive Build America Bonds Interest Subsidy

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.

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 \$1,690,258.75 will be paid on November 15, 2019.

Mr. Esselman moved to approve the following resolution to file IRS Form 8038-CP for \$591,590.56, representing 35% of the interest payment, on August 19, 2019. Seconded by Dr. Dronawat and the motion unanimously carried. The full amount of the subsidy will be requested however, it is most likely the subsidy will be sequestered, reducing the payment by \$36,678.61 to \$554,911.95. This reduction was included in the Company’s 2019 budget approved in November of 2018.

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 \$1,690,258.75 will be paid on November 15, 2019
And

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

Ms. Pearson noted that with the bond issuance taking place this fall, the Company plans to refinance these bonds; therefore, this will be the last request she will bring to the Board for the election to receive Build America Bonds interest subsidy.

Investment Report Given

Ms. Pearson advised that Louisville Water’s Investment Guidelines require that, on a semi-annual basis (as of June 30th and December 31st), an update will be provided to the Board on investments held in the portfolio.

Ms. Pearson provided an overview of Louisville Water’s investment portfolio.

IRS Payroll Audit and Safety

Dr. Kerrick advised that the IRS Payroll Audit and the Safety items will be discussed in closed session.

Board Policies Reviewed

Mr. Tigue advised that the Executive Leadership Team (ELT) reviewed all of the Company’s policies prior to the 2018 year-end. He noted some of the policies were in good shape and only needed small changes while others needed significant re-writing. Depending on the subject matter, some policies are approved by the BOWW, while others are approved by the President or Vice Presidents.

This month the three policies to be presented include the Asset Management Policy, Regulatory Compliance, Reporting and Documentation Policy, and Corporate Governance Policy.

Mr. Tigue reviewed each policy with the Board.

After a thorough discussion, Dr. Dronawat moved to approve the Asset Management Policy and Regulatory Compliance, Reporting and Documentation Policy as presented, and approved the elimination of the Corporate Governance Policy. Mr. Esselman seconded and the motion unanimously carried.

Closed Session Held

Mr. Esselman moved to go into Closed Session pursuant to KRS § 61.810(1)(c) to discuss proposed or pending litigation at 12:25 p.m., seconded by Dr. Dronawat and the motion unanimously carried.

Open Session Resumed

Mr. Willman moved to return to Open Session at 1:00 p.m., seconded by Mr. Esselman and the motion unanimously carried. No action was taken in closed session.

Financial Report Given

Ms. Pearson provided a summary of the financial report for July.

July was a challenging month, with total water consumption and revenue coming in significantly lower than budget as a result of rainfall in June that was more than twice the normal amount. Other operating revenue, operating expenses and non-operating income and expense also performed unfavorably to budget. As a result, net income for July is \$2 million lower than budget.

Consumption of 3.1 billion gallons for July 2019 is 336 million gallons lower than budget, and 283 million gallons less than July 2018. All customer classes are lower than budget in July, with the exception of private fire services. Both residential and irrigation were significantly impacted by continuing high levels of rainfall, accounting for the majority of the short-fall to budget. Year-to-date consumption remains under budget and prior year, by 4.9% and 7.4% respectively, with all customer classes with the exception of private fire services contributing to the unfavorable budget variance.

Water Revenue for July 2019 is \$1.6 million lower than budget and \$414,000 less than prior year. Water revenue through July is \$4.2 million lower than budget and is \$837,000 less than last year. Lower consumption is the key factor driving decreased water revenue for the year-to-date period as compared to both budget and prior year levels.

Other Operating Revenue for July is \$45,000 lower than budget and \$57,000 more than year-ago levels. Through July, other operating revenue is lower than budget by \$219,000 but is \$644,000 higher than 2018. The year-to-date variance to budget is primarily attributable to late fees, cross connection fees, service line protection and strategic initiatives revenue coming in lower than expected, partially offset by favorable variances in revenue from contract operations and sale of materials. The favorable year-to-date variance to prior year is driven by higher cross connection, service line protection, sewer billing and contract revenue.

Operating and Maintenance Expenses for July of \$7.7 million are \$431,000 higher than budget and \$929,000 higher than July 2018. The unfavorable variance to budget for the month is driven by insurance claims reserves, which are nearly \$600,000 higher than budget as a result of an unusually large amount reserved in July for workers compensation. Bad debt and chemicals are also over budget for the month. Many expense categories, including labor, labor related, utilities, fleet, contractual services and materials and supplies continue to run lower than budget reflecting the cost reduction efforts which have been implemented throughout the Company. July year-to-date operating and maintenance expenses are \$2.2 million under budget and \$336,000 above year-ago levels. Labor and labor related costs, utilities, fleet, materials and supplies, contractual services and travel and training all contributed to the favorable budget variance through July. Materials and supplies and contractual services are lower partially due to the timing of purchases, so we do expect a portion of those savings to reverse in future months.

Total Operating Expenses for July of \$13.0 million are \$322,000 higher than budget and \$960,000 higher than July 2018. Total operating expenses year-to-date are lower than budget by 3.3% and higher than prior year by 2.4%. The unfavorable variance for the month of July as compared to

budget and prior year is mainly due to higher operating and maintenance expense, offset to an extent by lower loss on disposition of property. The year-to-date favorable variance to budget is a result of lower than anticipated operating and maintenance expense, depreciation and loss on disposition of property. The year-to-date variance to prior year is primarily due to higher operating and maintenance expense, depreciation and loss on disposition of property.

Non-Operating Income through July is \$735,000, which is \$36,000 lower than budget and \$360,000 less than the same period in 2018. The variance to budget is due to a lower dollar amount available to invest than anticipated, offset by a slightly higher interest rate earned on funds. The variance to prior year is due to a lower dollar amount invested as we continue to spend down cash on the capital program and move towards a bond issuance later in the year.

Non-Operating Expense through July of \$3.7 million is \$129,000 less than budgeted and \$301,000 less than year-ago levels. Interest expense is less than budget due to higher amounts of interest capitalized. Interest expense is less than prior year mainly due to principal payments made on bonds during 2018.

Net Income before Distributions and Contributions for July is \$4.4 million, which is \$2.0 million less than budgeted. In comparison between years, net income is \$1.4 million less than July 2018. July year-to-date net income of \$25.1 million is \$1.6 million less than budget and \$2.1 million lower than the seven months ended July 2018.

Contributions through July of \$8.7 million are \$4.6 million higher than budgeted and \$3.0 million more than prior year. Contributions are higher than budget and prior year primarily due to the Blue Lick Road relocation project which closed earlier than anticipated.

Communications and Marketing Report Given

Kelley Dearing Smith provided a summary of the communications and marketing report for July.

Over the past month, Louisville Water's education and outreach team was part of more than 35 community events with hands-on experiences and Louisville pure tap®. Back-to-school events were the most popular with staff attending a dozen of these throughout the service area. For students and parents, our message is hydration with examples on how to pack a healthy lunch, the value of tap water and tips on keeping a reusable water bottle clean.

The Louisville pure tap® to GO program was at the St. Joe's annual picnic, the South Louisville Buy Local Festival and National Night Out programs.

The communication and marketing team strategically works with other cultural and tourism partners on summer education. Hundreds of children at Louisville Zoo and Kentucky Science Center camps took part in water experiments on filtration and erosion; the Louisville Free Public Library's summer reading program included "Ask a Scientist" day with a book on water; and YMCA camps and Governor's Scholars took part in special tours at the WaterWorks Museum.

Customer Service and Distribution Operations Report Given

Dave Vogel provided a summary of the customer service and distribution operations report for July.

The Call Center operations received 33,851 calls in July with an abandonment rate of 15.4%. The average speed of answer (ASA) came in at 6:53 m:s for the month. Two new classes of customer service representatives started, one in late July and one in early August, and a third class is

scheduled for September. We expect this additional staffing to significantly improve our performance. The work at home program continues and thus far is working well with no major issues. The customer self-service Kiosk was delivered and tested in July and will be installed in the lobby during August. The front lobby processed 10,784 payments (7,975 cash and 2,809 check) for the month.

Significant work was done in July in preparation for the annual KY/TN Water Professionals Conference. The conference rotates between the larger cities in Tennessee and Kentucky and is being held in Louisville August 18 through the 21. Louisville Water and Louisville MSD are the host utilities and have significant roles in leading, preparing for, and staffing the event.

Disconnection activity was very high in July at 1,985 which is 9.3% higher than last year and 33% higher than the five-year average. Favorable weather also had a positive impact on meter reading helping us to finish ahead of our anticipated route completion schedule. A meter reading incentive pilot was developed and reviewed internally with positive feedback. This plan will be rolled out with our front line in August.

Main break activity for the month was in line with historical periods. We finished with 50 main breaks for July versus 58 last year and 47 for the five-year average. New service installations continued to be busy for the month with four Louisville Water crews and two contractor crews installing new services. Staff has been working closely with the Kentucky Fair and Exposition Center and Danny Wimmer Productions in preparation for the three music concert events planned for September. The Exposition Center has applied for three new services off of Phillips Lane that will supply water for the concerts. We will have these installed by the end of the month.

Engineering and Production Operation Report Given

Mr. Grunow provided a summary of the engineering and production operations report for July.

Capital Program expenditures through July totaled \$43,698,314 which is \$10,443,806 or 19.29% lower than the same period last year. These expenditures equate to 40.10% of the 2019 total capital program of \$108,979,178.

The amount of water produced and delivered to the system in July 2019 was 136.3 MGD, which was 0.4% lower than July 2018 and 1.2% higher than the July five-year average. For year-to-date, the amount of water delivered to the system was 5.4% lower than 2018, and 2.5% lower than the five-year average.

All treatment and water quality goals were achieved for July 2019. There were 10 chemical spills reported upstream of the Zorn intake. Our spill response team was mobilized in early July to counter the impacts of a bourbon warehouse fire that released ethanol and fire-fighting run-off to the Kentucky and Ohio Rivers. Response measures included enhanced monitoring and treatment modifications to protect the quality of the finished water and ensure no taste and odor impacts.

Staff monitored 1,133 water quality parameters of a required 997 per federal and state regulatory requirements. There were zero water quality violations. All internal water quality goals were met. Staff collected 283 compliance distribution samples. There was one Total Coliform and zero E-Coli detections. Staff also collected 84 main break samples on 42 repairs in the month, of which 14 localized boil water advisories were issued due to field conditions and three were issued due to water quality monitoring results. There were a total of four water quality customer complaints, in comparison to the five-year average of 15 complaints.

Human Resources Report Given

Mike Simon 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).

- Currently there are eight active grievances filed by the Union. Five are under review for possible resolution (three tentatively accepted resolution), one is in pre-arbitration status, and two scheduled for arbitration.
- Louisville Water management and Union representatives continue to discuss a possible resolution regarding emergency call-out/overtime response issues.
- Company and Union representatives conducted a labor management meeting August 12, to review the status of current grievances and discuss resolution proposals.
- Company and Union representatives met to review the Union's Health/Wellness Incentive Plan target status and developed a strategy to achieve established award goals.

Information Technology Report Given

Tom Luckett provided a summary of the Information Technology (IT) report for July.

IT staff continues to support Phase One in production of the Oracle Work and Asset Management (WAM) Implementation while developing Phase Two.

Work continues to outsource the support of Louisville Water's Oracle Application portfolio to Oracle Managed Services. Preliminary workflows and Service Level Agreements (SLAs) have been developed. The focus now is on the Service Oriented Architecture (SOA) environment.

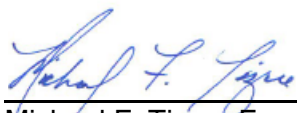
Work continues with the deployment of CISCO's Advanced Malware Protection (AMP) for Endpoints on our desktops and servers.

We are expecting final quotes for Disaster Recovery services by the end of August.

Interviews have been completed and an offer has been extended to fill the vacant Director of Information Systems position.

There being no further business for the Board, the meeting was adjourned at 1:25 p.m.

Respectfully submitted,



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