

**Board Of Water Works
REGULAR CALLED MEETING MINUTES
September 19, 2023
Louisville Water Company**

Board Members Present:

Dr. Sundeeep “Sunny” Dronawat, Chair
Mr. Paul Esselman, Vice Chair
Ms. Jennifer Fust-Rutherford
Dr. Sharon Kerrick
Mr. William E. Summers, IV

Not Present:

Mayor Craig Greenberg
Ms. Cathe Dykstra

Others Present:

Mr. Spencer Bruce, President and Chief Executive Officer
Ms. Dana Mayton, Louisville Metro, Deputy Mayor
Mr. Dave Vogel, Executive Vice President, Customer Service and Distribution Operations
Ms. Kelley Dearing Smith, Vice President, Communications and Marketing
Mr. Jeff Knott, Vice President, Information Technology
Ms. Lynn Pearson, Vice President, Finance and Treasurer
Mr. Tim Kraus, Vice President, Engineering and Chief Engineer
Mr. Terrence Spence, Vice President, Human Resources and Labor Relations
Mr. Michael Tigue, Vice President, Compliance, General Counsel and Corporate Secretary
Mr. Adam Carter, Union President
Ms. Shannon Tivitt, Executive Director, One Water
Ms. Jenni Schelling, Director, Internal Audit
Mr. Scott, Clark, Manager, Advanced Metering Infrastructure
Mr. Brian Sturgeon, Computer Network Administrator
Ms. Beverly Soice, Paralegal

Visitors:

Mr. Greg Dearing

The meeting of the Board of Water Works (BOWW) was held on Tuesday, September 19, 2023 at Louisville Water Company corporate headquarters located at 550 South Third Street, Louisville, Kentucky and virtually via Microsoft Teams. Chair, Sunny Dronawat called the meeting to order at 11:06 a.m.

Minutes of the Previous Regular BOWW Meeting Approved

Paul Esselman moved to approve the regular monthly meeting minutes of August 22, 2023. Jennifer Fust–Rutherford seconded, and the motion unanimously carried.

Spencer Bruce advised that this will be Greg Dearing's last meeting as a director of the Board. Mr. Bruce thanked Mr. Dearing for his service to the Board the past four years. The Vice Presidents each expressed their appreciation for Mr. Dearing service.

Mr. Dearing stated he considers the Louisville Water Company and the BOWW one of the top two agencies and Boards in the city. He expressed his thanks to the executive staff on its management of Louisville Water.

Dr. Dronawat and the other Board members expressed their thanks to Mr. Dearing for his service and leadership while on the Board.

CEO Report Given

Mr. Bruce advised Louisville Water's Security and Emergency Preparedness Manager Brad Hart vetted a local firm with former LMPD officers to provide active aggressor training classes.

Last month, at our Allmond Avenue facility, the first two of several training sessions were held. The first part was an educational meeting required for all employees. The second part was a live scenario exercise where employees had the option to participate. It covered different locations in the main building at Allmond.

Positive feedback was received from employees that seemed to really appreciate it. They gained a better understanding of what to do if an active aggressor targets Louisville Water which was the primary goal of the training. We also learned that we need to pay special attention to "exit strategies" at our facilities.

Employees at our Crescent Hill and Third Street locations will complete their training this month and next month. Because many employees interact with customers and individuals on the street, de-escalation training will be offered for field crews later this year.

Michael Tigue advised Board members to contact him if they have any questions about the training. He stressed there was much discussion prior to committing to this type of training and added that security assessments were conducted at each facility prior to the training sessions.

Third Quarter 2022 Dividend Declared

Lynn Pearson advised 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 2022, 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 adjustments is to be paid with or deducted from the regular quarterly dividend payments in 2023.

The annual audit has been completed. Net income of \$51,987,547 requires a total 2022 dividend to Louisville / Jefferson County Metro Government, Kentucky of \$22,438,542. The total dividends paid during 2022 were \$18,992,712. The difference between the dividend paid for 2022 and the actual dividend computed and declared for 2022 is \$3,445,830. The difference will be added to the dividend payment in the third quarter in 2023 as directed by Louisville Metro Office of Management and Budget.

The 2023 Annual Budget provides for a budgeted annual dividend of \$22,230,512. William Summers moved to declare the third quarterly 2023 dividend in the amount of \$5,557,628. Mr. Esselman seconded, and the motion unanimously carried. This resolution provides for a total quarterly payment of \$9,003,458 after the addition of \$3,445,830 for the adjustment for 2022.

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 \$18,992,712 was paid in 2022 based on estimated Adjusted Net Income of \$38,231,438 and

WHEREAS, the annual audit for 2022 has now been completed which establishes the full dividend for 2022 as \$22,438,542 based on actual Adjusted Net Income of \$51,487,548 and the Board resolution of December 20, 2022 was amended on June 23, 2023 to increase the 2022 annual dividend by \$3,445,830 from \$18,992,712 to \$22,438,542, the difference to be added to a future quarterly 2023 dividend payment, as directed by Louisville Metro, and

WHEREAS, the 2009 Bond Resolution requires that the Board of Water Works pay a quarterly dividend based on the formula contained therein, such quarterly payments to be as nearly equal in amount as possible, and

WHEREAS, the 2023 Louisville Water Company Annual Budget reflects the 2023 annual dividend to be \$22,230,512, it would be in order at this time to declare a regular third quarter dividend of \$5,557,628; therefore, be it

RESOLVED, the regular third quarter 2023 dividend of \$5,557,628 is hereby declared, and further

RESOLVED the difference in the 2022 annual dividend of \$3,445,830 will be added to the third quarterly 2023 dividend payment as directed by Louisville Metro, and further

RESOLVED, that the President of the Company hereby is authorized and directed to pay \$9,003,458 to the Louisville / Jefferson County Revenue Commission on September 29, 2023, this being the third quarterly dividend for 2023.

Contract Awarded and a New Budget of Record Established for Project 16272: Mitchell Hill Area Improvement – Keys Ferry Booster Pump Station

Tim Kraus requested authorization to establish a new total project budget in the amount of \$2,500,000, and to award a contract in the amount of \$1,967,944 to construct a new Keys Ferry Booster Pumping Station in the Mitchell Hill area. This project includes constructing a 1.6 million gallon per day booster pumping station with an emergency diesel generator.

Mr. Kraus advised that the original budget of \$950,000 was created prior to significant market increases in pricing and prior to easement acquisition. Staff estimates prepared during final design indicated the budget would not be adequate, however, staff preferred to make Board requests after soliciting bids for actual costs in lieu of two separate Board actions. The revised budget accounts for market price increases, extended delivery time for some materials such as generators, and installing suction and discharge water mains and overhead electric to the acquired booster pump station easement site.

Four bids were received for this work on August 9, 2023. CJ Hughes Construction Company Inc. was the apparent low bidder in the amount of \$1,967,944.

Mr. Esselman moved to award the contract to CJ Hughes Construction Company Inc. in the amount of \$1,967,944 and a new total project budget of \$2,500,000 be established. Seconded by Ms. Fust-Rutherford, and the motion unanimously carried.

Unbudgeted Project Approved for Purchase and Installation of New Screen Chains

Mr. Kraus requested approval of an unbudgeted project with an estimated cost in excess of \$500,000.

The Zorn Pump Station intake has four travelling screens to prevent large river debris, such as fish, logs, and trees from being pulled-in, thereby protecting the large raw water pumping systems. The existing screen equipment has been in service since 2007. Recent preventative maintenance inspections performed using certified divers has shown significant wear on the chains and rollers. It is critical to the continuity of operations that these components be replaced prior to failure. Failure of the screens could limit or prevent Louisville Water from producing water at its Crescent Hill Filtration Plant.

The scope of work for this project is to furnish all labor, tools, equipment, and materials to supply and install four sets of traveling water screen chains.

Mr. Summers moved to establish an unbudgeted project in the amount of \$652,625 for the purchase and installation of new traveling screen chains at the Zorn Pump Station. Mr. Esselman seconded, and the motion unanimously carried.

Contract Awarded for Project 15468: Kentucky-Oak-Glenmary 48" Rehabilitation Phase 1

Mr. Kraus requested authorization to award the construction contract for Kentucky-Oak-Glenmary 48" Main Rehab Phase 1 Project to Garney Companies, Inc.

This project includes rehabilitation of 4,800 linear feet of 48-inch, 1890's vintage cast iron water main, by slip-lining 85% of the project with 42-inch outside diameter steel pipe and the remainder being open cut dig and replaced. Project limits start along Oak Street at S. Brook Street then head west to tie-in at 7th Street, then start again at 9th Street along Dumesnil Street heading west and terminating at 12th Street, located in downtown Louisville.

Louisville Water received competitive bids from three prequalified contractors. The low bidder was submitted by Garney Companies, Inc. with a bid of \$6,460,082. The total approved project budget is \$11,500,000. Approved stimulus funding for Phase 1 is \$5,114,360.

Kelley Dearing Smith advised that her team will be developing a public facing communication plan and a stakeholder advisory group.

Mr. Summers moved to award the contract for this project to Garney Companies, Inc. in the amount of \$6,460,082. Ms. Fust-Rutherford seconded, and the motion unanimously carried.

Unbudgeted Capital Project Approved for 60-inch Main Repair on Manslick Road and a Change Order for Southern Pipeline

Mr. Kraus requested authorization for an unbudgeted project greater than \$500,000 and for a change order greater than \$500,000. The project will include repairing a leak on a 60-inch pipe and replacement of non-operational valves, located near the intersection of Manslick Road and Hazlewood Avenue.

On August 22, 2023, a leak occurred on the 60-inch concrete main at 6808 Manslick Road. The leak was an emergency and deemed an exigent event and the repair was assigned to Southern Pipeline under the Transmission Contingency Contract for \$166,487.32. During the process of isolating this section of the 60-inch water main, two 60-inch gate valves and a 30-inch gate valve at the intersection of Manslick Road and Hazelwood Avenue were found inoperable. These valves are necessary for the operation and maintenance of this transmission main and will require replacement. Southern Pipeline's estimated cost to replace these valves is \$2,031,987.92. The total project cost including the leak repair, valve installation, and Louisville Water's labor and materials is \$2,500,000.

Mr. Esselman moved to approve this capital project in the amount of \$2,500,000 and to approve a change order for Southern Pipeline in the amount of \$2,031,987.92. Mr. Summers seconded, and the motion unanimously carried.

Contracts Awarded for Purchase of Water Treatment Chemicals

Mr. Kraus requested authorization to purchase water treatment chemicals for the contract period of October 1, 2023 – September 30, 2024. During 2023, inflationary price pressures have caused materials, including treatment chemicals, to increase in price. As a result of these price increases, the estimated annual cost of two treatment chemicals have surpassed \$1.5 million.

Water treatment chemicals are an essential component of the water treatment process ensuring that Louisville Water meets and exceeds all state and federal guidelines. Twelve chemicals are required for the treatment process. In 2024, it is estimated that 13,600,000 lbs. of quicklime and 1,318,000 lbs. of liquid ferric sulfate will be required for the treatment process. The bid prices for liquid ferric sulfate from Kemira Water Solutions is \$1,842,822 (1,332,000 lbs) and quicklime from Mississippi Lime Company is \$1,849,742.21 (12,962,000 lbs).

Mr. Kraus advised that the chemicals are tested for efficiency prior to awarding the bid.

Mr. Esselman moved to award contracts to Kemira Water Solutions for liquid ferric sulfate in the amount of \$1,842,822 and to Mississippi Lime Company for quicklime in the amount of \$1,849,742.21. Mr. Summers seconded, and the motion unanimously carried.

The Board took a short break at 12:03 p.m. for lunch and resumed the meeting at 12:20 p.m.

Strategic Plan Update Given

Matthew Griffith provided a high level update on Louisville Water's Strategic Plan, a seven year roadmap for the Company. The plan was developed by a cross-functional steering committee and adopted by the BOWW in 2018.

Matthew Griffith provided the history and an overview of Louisville Water's Strategic Business Plan. He also provided a summary of the overall results of the Company's strategic plan goals. Mr. Kraus reviewed the water quality and infrastructure investment achievements and challenges; Ms. Pearson provided an overview of financial achievements and challenges; Dave Vogel and Ms. Dearing Smith provided a joint overview of the customer and stakeholder achievements and challenges; Terrence Spence provided a summary of the Employer of Choice achievements and challenges; and Mr. Bruce provided an overview of Business Transformation achievements and challenges.

Financial Report Given

Ms. Pearson advised that total consumption and water revenue fell significantly short of budget in August. While other operating revenue, total operating expenses and non-operating income performed favorably to budget, it was not enough to offset the shortfall in water revenue. As a result, net income for the month is \$1.1 million lower than budget.

Consumption of 3.3 billion gallons for August is 216 million gallons lower than budget and 91 million gallons lower than August 2022. All customer classes were under budget in August with the exception of industrial. Year-to-date consumption remains above budget and prior year by 0.9% and 2.5% respectively, with the commercial and irrigation classes driving the favorable budget variance.

Water Revenue for August is \$1.6 million lower than budget and \$428,000 higher than the prior year. Lower consumption, primarily the result of wet weather earlier in the summer, is the key factor driving lower water revenue for this period as compared to budget. All customer classes are below budget for the month with the exception of Metro government. For the year-to-date period, water revenue is 0.2% over budget and 7.2% higher than prior year levels.

Other Operating Revenue for August is \$95,000 higher than budget and \$161,000 above year-ago levels. The variance to budget is mainly attributable to higher revenue in service line protection. We received a \$1.5 million signing bonus with the new HomeServe contract that will be amortized into revenue monthly over the life of the agreement. The new contract was effective June 1, so three months of revenue was recognized in August upon execution of the agreement. The increase over prior year is also driven by increased revenue from service line protection as a result of the contract renewal, and to a much lesser extent higher revenue from cross connection and sewer billing fees. These increases were somewhat offset by lower revenue from late charges. Year-to-date, other operating revenue is \$434,000 higher than budget and \$846,000 higher than prior year. The year-to-date variance to budget is primarily due to increased revenue from late charges, disconnect fees, service line protection and temporary service fees.

Operating and Maintenance Expenses for August of \$8.6 million are \$109,000 lower than budget and \$639,000 higher than August 2022. The August variance to budget is primarily due to lower labor and labor-related costs, with bad debt expense, contractual services, and system support and maintenance contributing to a lesser extent. These favorable variances were partially offset by higher utilities, chemicals, materials and supplies and fleet costs. The higher costs as compared to August 2022 is a result of increases in numerous categories including utilities, chemicals, materials and supplies and labor and labor-related costs, offset by decreases in systems support and maintenance, bad debt and contractual services. August year-to-date operating and maintenance expenses are \$1.2 million lower than budget and \$5.2 million higher than year-ago levels. Labor and labor-related, contractual services, system support and maintenance, insurance reserves, bad debt and travel and training costs were all lower than budget through August. These favorable variances were partially offset by unfavorable

variances in utilities, chemicals and materials and supplies. The escalation in costs from prior year levels through August reflects the continued impact of inflation with higher than normal increases in most categories with utilities, chemicals, materials and supplies, contractual services, systems support and maintenance, insurance reserves and labor and labor-related costs having the most significant growth.

Total Operating Expenses for August of \$15.3 million are \$222,000 lower than budget and \$1.1 million more than prior year. The budget variance is due to lower operating and maintenance expenses, depreciation costs and net loss from disposition of property, the latter two mostly due to timing. The variance to the prior year is due to higher operating and maintenance expense, depreciation, water in lieu of taxes and net loss from disposition of property. Total operating expenses year-to-date are 1.5% lower than budget and 8.3% higher than last year. The year-to-date budget variance is primarily the result of lower operating and maintenance costs, depreciation and loss from disposition of property.

Net Income before Distributions and Contributions for August is \$6.9 million, which is \$1.1 million lower than budgeted. In comparison between years, net income for August is \$220,000 less than prior year. August year-to-date net income of \$37.5 million is \$4.3 million higher than budget and \$4.4 million above prior year.

Communication and Marketing Report Given

Ms. Dearing Smith reported that as part of the focus on water quality, a new series was launched called “Made with Pure Tap.” This series highlights local businesses who rely on our quality water for their products and includes a video and story. Blak Koffee is the first business we featured, a new coffee shop where the owner is focused on quality service and investing in Louisville’s west end. Ms. Dearing Smith played the video for the Board.

Earned media efforts in August which reached more than 53 million people included stories on the Jimmy Stone Memorial Golf Scramble and donations from Louisville Water and MSD to the Louisville Water Foundation. August is National Water Quality Month and a special emphasis was placed on highlighting our work in social media, education programs and with traditional media. The top news story was a feature by Spectrum News on water quality testing.

Content that staff produced on our crews working in the August heat performed exceptionally well on social media. One post that showed crews repairing water mains in the 100-degree heat attracted more than 150 positive comments.

In August, more than 84,000 people were at events where Louisville Pure Tap® was served. Our team was at 10 events in August that included National Night Outs, back-to-school events, UofL opening week, and St. Joe’s Annual Picnic.

The education staff wrapped up summer programming in August reaching 5,500 people at 19 events.

Louisville Water highlighted its role in the community and in the industry through several events in August. Mayor Craig Greenberg and his senior staff toured our facilities and met with a group of employees; and, more than 50 water professionals from Kentucky’s rural communities toured as part of the Kentucky Rural Water Association’s annual conference.

Customer Service and Distribution Operations Report Given

Mr. Vogel advised that his department is working on some big projects such as repairing the Manslick Road leak that was discussed earlier in the meeting, on-boarding a new payment processing vendor, transitioning to a new lockbox vendor, and implementation of the new telephone system.

As of August 31, 210,314 AMI endpoints have been installed and 122,835 customers have been converted to monthly billing. Three additional cycles will be converted to monthly billing by year-end, which represents another 21,496 customers.

Mr. Vogel advised that the industry is moving to ultrasonic meters which have a digital display and no moving part. No moving parts equates to minimal maintenance and low cost of installation. The meters are also considered very accurate. They are fairly simple to install and use ultrasonic technology to measure the velocity of liquid moving through the pipe. Ultrasonic meters have been used for decades. Mr. Vogel stated that we will be evaluating them by installing up to 10,000 as a pilot project in our system.

Mr. Vogel displayed an ultrasonic meter during the meeting if any of the Board members would like to see it.

Engineering and Production Operations Report Given

Mr. Kraus advised the 2023 capital program expenditures through August totaled \$62,753,661, which is \$4,195,070 or 7.16% higher than the same period last year. These expenditures equate to 51.5% of the 2023 total capital program of \$121,781,334.

The amount of water produced and delivered to the system in August 2023 was 146.9 MGD, which was 3.6% higher than August 2022 and 6.4% higher than the August five-year average. For year-to-date, the amount of water delivered to the system was 1.4% higher than 2022, and 7.2% higher than the five-year average.

All water quality goals for August 2023 were achieved. No water quality violations were incurred.

Thirteen chemical spills were reported upstream of the Zorn intake; none impacted water treatment. A MIB odor event in the river prompted enhanced monitoring and impacted treatment for fourteen days. The highest MIB level detected in finished drinking water was 6.5 ppt on August 30. The highest atrazine level detected in finished water was 0.460 ppb on June 24 (Goal < 0.80 ppb). All treatment goals continue to be achieved. Six water-quality customer complaints were received in August (the five-year average is six complaints).

Human Resources and Labor Relation Report Given

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

- One active grievance filed by the Union is pending arbitration results.
- Union and Company leadership conducted their monthly Labor Management meeting to review various on-going and future joint initiatives and status updates.

- Union leadership and management members attended the 2023 Kentucky Labor Management Conference held at the Kentucky Dam Village State Park.
- The Company internally posted two regular full-time and five temporary full-time classified union positions.
- The Human Resources Department facilitated an on-site field audit conducted by the U.S. Department of Labor Wage & Hours Division.
- The Human Resources Department coordinated with the Communications Department to produce Louisville Water's branding and recruitment videos.

Information Technology Report Given

Jeff Knott advised that staff has reviewed the findings from the desktop Cybersecurity exercise with Homeland Security. The findings did not indicate any critical gaps in the environment. Recommendations were provided, primarily concerning communication and cadence of desktop exercises. Staff is developing a plan to address the recommendations and will be meeting next month to discuss the timeline for implementation of all suggested actions.


Testing of E-Business Suite in our Oracle Cloud Infrastructure environment is underway.

The Human Resources team is now scoring the proposals for the Human Resource Management System implementation. This project will likely start early next year.

Migration to the cloud environment is underway and testing has begun. The tentative timeline for completion of this migration has been changed to the end of January 2024 due to several other items that need to be in production before go-live. Despite the delay, this will not affect any of the cost savings planned for next year.

There being no further business, the meeting was adjourned at 1:27 p.m.

Respectfully submitted,



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