

**Board Of Water Works
REGULAR CALLED MEETING MINUTES
November 21, 2023
Virtual Meeting**

Board Members Present:

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

Not Present:

Mayor Craig Greenberg

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, Local 1683 of the AFSCME, AFL-CIO
Ms. Shannon Tivitt, Executive Director, One Water
Mr. Jordan Basham, Director, Infrastructure Planning
Ms. Sue Purdy, Director, Finance and Accounting
Ms. Jenni Schelling, Director, Internal Audit
Mr. Andrew Winslow, Manager, Finance
Ms. Ramiza Carpenter, Senior Financial Analyst
Ms. Meghan Starnes, Budget Specialist II
Mr. Jeff Libich, Microcomputer and Network Analyst
Ms. Beverly Soice, Paralegal

Visitors:

The meeting of the Board of Water Works (BOWW) was held on Tuesday, November 21, 2023 at Louisville Water Company Corporate Headquarters located at 550 S. Third Street, Louisville, KY. Chair, Dr. Sunny Dronawat called the meeting to order at 11:07 a.m.

Minutes of the Previous Regular BOWW Meeting Approved

Dr. Sharon Kerrick moved to approve the regular monthly meeting minutes of October 17, 2023. Paul Esselman seconded, and the motion unanimously carried.

President/CEO Report Given

Spencer Bruce reported that Louisville Water just completed its annual Pledge Drive which supports four non-profits: Metro United Way, Louisville Water Foundation, Fund for the Arts, and Water For People.

For the second year in a row, Louisville Water Service Board led the campaign. The Service Board has reenergized the pledge drive, increasing employee participation over the last two years. Each charity participated and briefly shared a summary of the work they do. The Board has focused on educating employees on where their money is going before choosing who they wish to support. Following the kickoff, the Board visited each Louisville Water location to answer additional questions about the pledge drive and the charities.

Louisville Water is committed to giving back to our community and employees show their generosity by donating a portion of their paycheck to help the nonprofit(s) of their choice. We are on track to give more than \$126,000 to the four non-profits in 2024.

Mr. Bruce stated the he is very proud and grateful to work with so many people who care about giving back to our community.

2024 Operating and Capital Budget Approved

Lynn Pearson stated the 2009 Master Bond Resolution requires that on or before the first day of the next fiscal year the Board adopt the annual budget for the ensuing year. She advised that the organization worked collectively to prepare the proposed budget for the next fiscal year. Upon approval of the budget, finance staff will prepare the cost of service study for the 2024 water rates to be presented at the December meeting.

Ms. Pearson provided an overview of the proposed 2024 Annual Operating Budget which included a presentation on budget trends for water consumption and sales, other operating revenue, operating expense, and non-operating income and expense.

Ms. Pearson reviewed highlights of the proposed Operating Budget for 2024 with the Board. The budgeted water consumption for 2024 is 33.8 billion gallons, which is up slightly from the 2023 budget and slightly under this year's forecast 33.9 billion gallons.

Wholesale water consumption is budgeted at \$8.5 million for 2024, an increase from the 2023 budget. The City of Taylorsville and Mount Washington are our largest wholesale customers, representing 22 and 21 percent, respectively, of total budgeted wholesale consumption in 2023.

Other operating revenue budgeted in 2024 is up 3.5 percent from the current year. Other operating revenue includes sewer billing charges, customer fees and charges, home service line protection revenue, and contract operations revenue.

Ms. Pearson also reviewed operating and maintenance (O & M) expense, pension expense and depreciation. The O & M budget for 2024 includes an increase of approximately \$7 million or 6.7 percent as compared to 2023 forecasted expense. Labor and non-labor expense each account for about half of the O & M budget. Non-labor expenses with the most significant increases are contractual services, power and chemicals, materials and supplies, and equipment maintenance.

Budgeted depreciation and amortization expense will increase to \$55.6 million for 2024, as a result of ongoing investment in infrastructure and technology.

Ms. Pearson advised the 2023 CERS pension report has not been released but Louisville Water is budgeting a \$5 million pension actuarial adjustment.

Ms. Pearson advised that the budget for interest income is decreasing to \$6.9 million as a result of decreasing funds available to invest as we continue to fund our capital improvement program.

Interest expense is also decreasing and is budgeted at \$7.9 million, down from \$8.3 million budgeted in 2023 due to principal repayments made in 2023.

Ms. Pearson provided a history of water rate increases.

Ms. Pearson presented a summary of proposed full 2024 operating budget as compared to 2023. Budgeted net income is \$69 million for 2024 and Adjusted Net Income (which reflects a \$20 million investment in the Infrastructure Replacement Reserve) is \$49 million. Using the dividend formula from the Master Bond Resolution, this proposed budgeted Adjusted Net Income results in a budgeted dividend of \$25.1 million to Louisville Metro Government, an increase over 2023 budget.

Ms. Pearson reported Louisville Water anticipates receiving approximately \$18.6 million in grant funding in 2024 for infrastructure projects. These grants are considered revenue under governmental accounting rules and have been budgeted accordingly. The amount deposited into the Infrastructure Replacement Reserve (IRR) is being increased to match the grant revenue and thus there will be no impact to the dividend.

Ms. Pearson stated management is recommending an average rate increase effective January 1, 2024 of 4.8%. For a typical residential customer using 4,000 gallons, the increase is \$1.29 per month. Ms. Pearson presented data that shows the resulting average monthly residential water bill of \$28.17 compares very favorably to other water utilities.

Tim Kraus provided an overview of the proposed 2024 Capital Budget.

The total proposed Capital Budget for 2024 is \$121.0 million before cash reimbursements and net of \$18.6 million in grants, an increase of 3.3% from the 2023 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 \$57.3 million (47.3%), followed by Growth-Related Improvements at \$33.1 million (27.4%), New Technology and Facilities at \$21.8 million (18%), Self-Financing Improvements at \$8.5 million (7.1%) and Intangible Assets at \$0.3 million (0.2%).

Mr. Kraus also provided a summary of key projects planned under each of the above-mentioned categories.

Mr. Kraus advised that there are three current-year projects that require specific Board action due to changes in the budget.

Mr. Kraus provided a summary of the three projects that require Board action which include Project Number 16262: CHPS Smokestack Coating, Project Number 16398: 2023 RR Crossing Rehab Group A, and Project Number 16399: 2023 RR Crossing Rehab Group B.

Mr. Esselman moved to adopt the following resolution for approval of the 2024 Capital and Operating Budget and to approve the requested change action items of the three projects identified above. Jennifer Fust-Rutherford seconded, and the motion unanimously carried.

RESOLVED, that the Draft 2024 Operating Budget submitted by staff on November 21, 2023 be adopted as the approved 2024 Operating Budget, and
RESOLVED, that the Draft 2024 Capital Budget submitted by staff on November 21, 2023 be adopted as the approved 2024 Capital Budget, and

RESOLVED, that the rate schedules be developed and presented by staff based upon a cost-of-service rate study with an average rate increase of 4.80%, effective for water service beginning January 1, 2024, and thereafter.

Ms. Peason stated that she and Mr. Kraus will be presenting the Five-Year Capital Improvement Plan and Long Range Financial Plan at the December meeting.

Ms. Pearson also recognized her staff, Sue Purdy, Andrew Winslow, Ramiza Carpenter and Meghan Starnes for their hard work in preparing the proposed budget.

Mr. Esselman congratulated Ms. Pearson and her staff on the budget and thanked them for their work.

The Board took a short break for lunch at 12:00 p.m. and resumed the meeting at 12:25 p.m.

Contract Awarded for Project 15619: CHWTP Redundant Residuals System

Mr. Kraus requested BOWW approval to award a contract for the Crescent Hill Water Treatment Plant (CHWTP) Residuals Line – Solids Holding Tanks – Mixing System Project. This contract is one phase of the overall Crescent Hill Water Treatment Plant Redundant Residuals Conveyance System Project.

The CHWTP Residuals Line – Solids Holding Tanks – Mixing System includes the installation of four new submersible mixers in the waste wash water holding tanks, and the necessary work and electrical improvements for the installation of the new equipment. The overall project includes improvements to the residuals transfer system including a new redundant pipeline. The tank mixers were identified as a necessary solution to improve the system.

Bids were opened on November 1, 2023 with two bids being received. The apparent low bid was submitted by Dugan & Myers LLC in the amount of \$1,898,000. The low bid is 79% higher than the engineers estimate of \$1,063,000. The total approved project budget is \$16,960,000.

Mr. Kraus explained the reasons for the differences between the engineer's estimate and the bid which include the tank cleaning estimate was based on past partial tank cleaning work; to install mixers, the tanks will have to be cleaned all the way to the bottom; and the electrical scope was increased. The route for the for underground electric was improved which increased the length. He believes we received fair market value. The two bidders were very engaged during the bidding process.

Dr. Kerrick moved to award the contract to the apparent low bidder, Dugan & Meyers LLC, in the amount of \$1,898,000. Cathe Dykstra seconded the motion unanimously carried.

One Water Update Provided

Michael Tighe advised that on March 11, 2014, the BOWW and Louisville and Jefferson County Metropolitan Sewer District (MSD) entered into an Interlocal Cooperation Agreement (ILA) to provide for the joint and/or cooperative action to develop, procure, or share back-office, and administrative support services. This initiative was called "One Water." On August 25, 2015, the BOWW and MSD entered into an Amended and Restated ILA (Second Amended ILA) to alleviate their mutual needs, reduce costs, increase operational efficiencies, and improve customer service.

Mr. Tighe explained that the BOWW and MSD desire to continue the partnership in a manner that allows the One Water Advisory Council (OWAC) the ability to fully control the direction of the

partnership. This change will better meet their joint operational and economic goals while still supporting and acting in furtherance of One Water's original purpose.

Therefore, the BOWW and MSD recommend that the One Water Board obtain the Kentucky Attorney General's approval to authorize and effectuate the Second Amended Interlocal Cooperation Agreement, which provides OWAC with the ultimate power to govern the One Water partnership. OWAC would no longer be an interlocal agency. KRS 65.250. As a result of the change, the One Water Bylaws are no longer needed and should be dissolved.

Shannon Tivitt advised that MSD passed an identical resolution at its meeting this month and the One Water Board will also vote on the resolution at its December meeting.

Ms. Tivitt advised that she has announced her retirement at the end of January 2024. Dr. Kerrick congratulated Ms. Tivitt on her pending retirement and thanked her for her work.

Bill Summers moved to enter into the Second Amended and Restated ILA with the MSD regarding the One Water Partnership between BOWW/Louisville Water Company and MSD. Mr. Esselman seconded, and the motion unanimously carried.

Mr. Bruce stated the Board will now take the following agenda item out of order.

PFAS Update

Mr. Bruce advised this item will be discussed in closed session.

Closed Session Held

Mr. Esselman moved to go into closed session to discuss proposed or pending litigation pursuant to KRS 61.810(c) at 12:41 p.m., seconded by Ms. Fust-Rutherford, and unanimously carried.

Open Session Resumed

Mr. Summers moved to return to open session at 1:20 p.m., seconded by Mr. Esselman, and unanimously carried.

Mr. Summers moved to remain a party in the limited class action litigation. Ms. Dykstra seconded, and the motion unanimously carried.

Approve Revisions to the Charitable Donation Policy

Ms. Pearson explained that a recent review of Louisville Water's Charitable Donations Policy revealed the need for an update of the policy.

Ms. Pearson reviewed the proposed edits with the Board.

Following a brief discussion, Ms. Fust-Rutherford moved to approve the revised Charitable Donations Policy. Mr. Esselman seconded, and the motion unanimously carried.

Audit Committee

Mr. Esselman provided a summary of the discussion which took place at the November 10, 2023 Audit Committee meeting.

Mr. Bruce asked that the Vice Presidents provided a brief summary of their officers' reports.

Financial Report Given

Ms. Pearson advised that October financial performance was strong, with water and other operating revenue, non-operating revenue and expense all performing favorably to budget. As a result, net income for the month exceeded budget by \$581,000.

Consumption of 3.3 billion gallons for October is 179 million gallons above budget and 217 million gallons higher than October 2022. All customer classes are over budget in October with the exception of residential and private fire services. Year-to-date consumption remains above budget and prior year by 1.6% and 2.7% respectively, with the commercial and irrigation customer classes driving the favorable budget variance.

Water Revenue for October is \$333,000 higher than budget and \$1.8 million above prior year. Higher consumption, resulting from extremely dry weather, is the key factor driving higher water revenue for the month. All customer classes exceed budget for the month with the exception of residential and commercial. For the year-to-date period, water revenue is 0.4% over budget and 7.1% higher than prior year levels.

Other Operating Revenue for October is \$37,000 higher than budget and \$103,000 above year-ago levels. The variance to budget is mainly attributable to higher revenue in service line protection, late charges and disconnect fees. The increase over prior year is driven by revenue from service line protection and, to a lesser extent, from sewer billing, cross connection and disconnect fees. These increases are slightly offset by lower revenue from late charges. Year-to-date, other operating revenue is \$551,000 higher than budget and \$966,000 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 October of \$8.5 million are \$264,000 lower than budget and \$762,000 higher than October 2022. The October variance to budget is primarily due to lower labor and labor-related, system support and maintenance, bad debt and memberships and subscriptions expenses. These favorable budget variances are partially offset by higher chemical costs and insurance reserves. The increased chemical costs are a result of additional water treatment required due to river conditions. The higher costs as compared to October 2022 are a result of increases in numerous categories including chemicals, contractual services, and labor and labor-related costs, offset by a decrease in systems support and maintenance expense. October year-to-date operating and maintenance expenses are \$1.1 million lower than budget and \$6.6 million higher than year-ago levels. Labor and labor-related, contractual services, system support and maintenance, bad debt, memberships, and travel and training costs were all lower than budget through October. These favorable variances are partially offset by unfavorable variances in utilities, chemicals and materials, and supplies. The escalation in costs from prior year levels through October 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.

Net Income before Distributions and Contributions for October is \$6.8 million, which is \$581,000 higher than budgeted. In comparison between years, net income for October is \$1.1 million above prior year. October year-to-date net income of \$51.6 million is \$5.3 million higher than budget and \$6.0 million above prior year.

Communication and Marketing Report Given

Kelley Dearing Smith reported that a Fall Open House was held at the Crescent Hill Reservoir, which attracted media attention. A story on the reservoir was one of the most popular posts on social media. Staff spent time with a local radio reporter who frequently walks at the reservoir and posts pictures.

Ms. Dearing Smith also advised that Louisville Water joined local and state economic development professionals in Chicago to market Kentucky's advantages for business to Illinois-based site selectors. Louisville Water's participation included a water tasting alongside Beam Suntory, one of the 20 distillers that use Louisville's water. Samples of Louisville Pure Tap® were shipped to Chicago for guests to sample alongside Chicago's tap water and bottled water.

Customer Service and Distribution Operations Report Given

Dave Vogel advised that the new phone system went live on November 9, 2023.

A billing issue occurred affecting customers living in the Hikes Point/St. Regis area. The issue was quickly resolved and customer accounts were corrected.

Winter preparation activities continued in October and the priority backlog is in good shape.

Engineering and Production Operations Report Given

Mr. Kraus advised that work on the capital programs is proceeding very well this month. 2023 capital program expenditures through October totaled \$80,714,571, which is \$5,711,398 or 7.61% higher than the same period last year. These expenditures equate to 66.28% of the 2023 total capital program of \$121,781,334.

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

Human Resources and Labor Relation Report Given

Terrence Spence reported that Louisville Water participated in a Department of Labor Wage & Hour Division compliance audit that resulted in no findings and in full compliance regarding federal/local minimum wage standards, overtime compensation, Fair Labor Standard Act (FLSA) posting requirements and Child Labor Laws. Ms. Dykstra congratulated Mr. Spence on the successful audit.

Mr. Spence advised that Louisville Water also participated in the following activities:

- Louisville Water's Human Resources Department participated in Fairdale High School's Career Fair attracting over 150 students interested in careers in heavy equipment, construction and/or diesel mechanics.
- Louisville Water is again participating in the Louisville Urban League's Kentuckiana Builds Cohort heavy construction training program. The Company is a repeat sponsor of the training initiative and also provides interviewing and resume writing skills training.
- Twenty Louisville Water and Local 1683 volunteers coordinated with Metro Parks to clean up an area near Audubon Park on October 21. The clean-up included spreading new mulch in the playground, carpentry and painting of the pavilion, painting park benches, limb and brush clearing and many other cleanup duties.

- Louisville Water's Employee Activities Committee (EAC) coordinated the Company's annual Employee Thanksgiving Luncheon.
- New Employee Orientation was facilitated by the Human Resources Department that included a Q & A Panel discussion with the Company's executive leadership team.

Information Technology Report Given

Jeff Knott advised that Louisville Water received feedback from Crowe LLP on a penetration test of the Company's digital security measures, and staff is working through the findings with VOLTA.

Louisville Water is working with Arcadis to develop a digital strategy for the future of Louisville Water in alignment with and support of Louisville Water's Strategic Business Plan. Phase 2b has now started and is anticipated to be completed during the first half of 2024.

The Human Resources team continues to evaluate system implementation vendors for a new Human Resources Management System. A decision is expected by the end of the year. This project will likely start in early 2024.

Migration to the cloud environment is underway and testing is ongoing. Work is currently on track for completion of this migration by the end of January 2024.

There being no further business, the meeting was adjourned at 1:29 p.m.

Respectfully submitted,



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