

**Board Of Water Works
REGULAR CALLED MEETING MINUTES
November 19, 2024
Louisville Water Tower**

Board Members Present:

Dr. Sundeep “Sunny” Dronawat, Chair
Ms. Jennifer Fust-Rutherford, Vice Chair
Mr. Jacob Brown
Ms. Cathe Dykstra
Dr. Sharon Kerrick
Mr. William “Bill” 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
Mr. Larry Bryant, Vice President, Production Operations and Chief Engineer
Ms. Kelley Dearing Smith, Vice President, Communications and Marketing
Mr. Tim Kraus, Vice President, Production Operations and Chief Engineer - retiring
Ms. Lynn Pearson, Vice President and Treasurer
Mr. Terrence Spence, Vice President, Human Resources and Labor Relations
Mr. Michael Tigue, Vice President, Compliance, General Counsel and Corporate Secretary
Mr. Homer Barger, Vice President, Local 1683 of the AFSCME, AFL-CIO
Ms. Sue Purdy, Director, Finance and Accounting
Ms. Jenni Schelling, Director, Internal Audit
Ms. David Mulloy, Manager, Infrastructure Planning
Mr. Andrew Winslow, Manager, Finance
Ms. Elizabeth Davis, Financial Analyst
Ms. Meghan Starnes, Budget Specialist II
Mr. Brian Sturgeon, Computer Network Administrator
Ms. Beverly Soice, Senior Paralegal

Visitors:

The meeting of the Board of Water Works (BOWW/Board) was held at the Louisville Water Tower located at 3005 River Road, Louisville, KY on Tuesday, November 19, 2024. Chair, Dr. Sunny Dronawat called the meeting to order at 11:02 a.m.

Minutes of the Previous Regular BOWW Meeting Approved

Cathe Dykstra moved to approve the regular monthly meeting minutes of October 22, 2024. William E. Summers seconded, and the motion unanimously carried.

Spencer Bruce recognized Tim Kraus’ retirement and thanked him for his years of service to Louisville Water and the community. Mr. Bruce also invited the Board members to his retirement party on Friday, November 22 at the Louisville Water Tower beginning at 3:00 p.m. Dr. Dronawat also thanked Tim for his years of service.

Mr. Kraus thanked the Board and staff for their support.

2025 Operating and Capital Budget

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 2025 water rates to be presented at the December meeting.

Ms. Pearson provided an overview of the proposed 2025 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 2025 with the Board. The budgeted water consumption for 2025 is 34.3 billion gallons, which is consistent with the 2024 forecast consumption.

Ms. Pearson noted that wholesale water sales have increased in recent years and we anticipate continued growth in 2025. Wholesale water revenue is budgeted at \$9.9 million for 2025, an increase from the 2024 forecast of \$8.7 million. Hardin County Water District #2 leads with 21% of total budgeted wholesale consumption in 2025, followed by the City of Taylorsville (20%) and Mount Washington (19%). Historically, wholesale water consumption has been led by Mount Washington followed by the City of Taylorsville. In 2025, Hardin County Water District #2 has the highest budgeted consumption as a result of an increase in their required minimum purchase.

Other operating revenue budgeted in 2025 is up slightly from the current year. Other operating revenue includes sewer billing charges, customer fees and charges, home service line protection revenue, cross connection, and contract operations revenue.

Ms. Pearson also reviewed operating and maintenance (O & M) expense, pension expense and depreciation. The O & M budget for 2025 includes an increase of approximately \$9.4 million as compared to 2024 forecasted expense. The O & M budgeted expense is split approximately evenly between labor and non-labor expense. Non-labor expenses with the most significant cost increases are chemicals, contractual services and insurance.

Pension expense is expected to decrease slightly in 2025 compared to the 2024 forecast.

Budgeted depreciation and amortization expense will increase to \$58.7 million for 2025, as a result of continued investment in infrastructure and technology.

Ms. Pearson advised that non-operating income and expense will be significantly impacted in 2025. Interest income is budgeted to decline to \$5.5 million as a result of declining market interest rates. Interest expense is budgeted to increase to \$10.1 million due to the issuance of bonds in 2025.

Ms. Pearson provided a history of water rate increases along with the recommendation for the 2025 water rate increase. She then presented a summary of the proposed full 2025 operating budget incorporating the recommended increase. Budgeted net income is \$68 million for 2025 and Adjusted Net Income (which reflects a \$15.5 million investment in the Infrastructure Replacement Reserve) is \$52.5 million. Using the dividend formula from the Master Bond Resolution, this proposed budgeted Adjusted Net Income results in a budgeted dividend of approximately \$30 million to Louisville Metro Government, an increase over 2024 budget and forecast.

Ms. Pearson reported Louisville Water anticipates receiving approximately \$14 million in grant funding in 2025 for infrastructure projects. These grants are considered revenue under governmental accounting rules and have been budgeted accordingly. The amount budgeted to fund the Infrastructure Replacement Reserve (IRR) is being increased by the amount of the grant revenue in order to offset any impact to the dividend calculation.

Ms. Pearson stated management is recommending an average rate increase effective January 1, 2025 of 4.25%. For a typical residential customer using 4,000 gallons, the increase is \$1.20 per month. Ms. Pearson presented data that shows the resulting average monthly residential water bill of \$29.37 compares very favorably to other regional water utilities.

Mr. Bryant provided an overview of the proposed 2025 Capital Budget.

The total proposed Capital Budget for 2025 is \$191.2 million net of \$14 million in grants and \$6.1 in cash reimbursements.

Mr. Bryant 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 \$125.6 million (65.7%), followed by Growth-Related Improvements at \$48.2 million (25.2%), New Technology and Facilities at \$14.6 million (7.7%), Self-Financing Improvements at \$1.7 million (0.9%), Intangible Assets at \$0.6 million (0.3%), and Major Asset Demolition Program at \$0.5 (0.2%).

Mr. Bryant also provided a summary of key projects planned under the top four of the above-mentioned categories.

Mr. Bryant then provided a summary of the 2025 anticipated grant funding totaling \$14 million.

Following a brief discussion, Mr. Summers moved to adopt the following resolution for approval of the 2025 Capital and Operating Budget. Jennifer Fust-Rutherford seconded, and the motion unanimously carried.

RESOLVED, that the Draft 2025 Operating Budget submitted by staff on November 19, 2024, be adopted as the approved 2025 Operating Budget, and
RESOLVED, that the Draft 2025 Capital Budget submitted by staff on November 19, 2024, be adopted as the approved 2025 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 4.25%, effective for water service beginning January 1, 2025, and thereafter

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

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

Contract Awarded for Project 15619: CHWTP Redundant Residuals System

Mr. Bryant requested authorization to award a contract for the Crescent Hill Water Treatment Plant (CHWTP) Residuals Conveyance System – Phase 2. This contract covers Phase 2 of the overall CHWTP Residuals Conveyance System Project.

Phase 2 of the CHWTP Residuals Conveyance System includes constructing the largest portion of a new residuals pipeline between the CHWTP and the B.E. Payne Lagoons.

This bid was organized into a base bid to construct a single pipeline with an additive bid alternate to construct a dual pipeline along this alignment.

Bids were opened on October 16, with four bids being received. The lowest bid for both the base bid and the combined base bid plus the additive alternate was MAC Construction & Excavating, Inc. The combined bid totaled \$33,700,000 which included the alternate bid of a dual pipeline. The low bid is 17% lower than the engineer's estimate of \$50,86,000. The total approved project budget is \$77,000,00.

Mr. Summers moved to award the contract to MAC Construction & Excavating, Inc. in the amount of \$33,700,000. Ms. Dykstra seconded, and the motion unanimously carried.

Contract Amendments Approved for Project 15609 – Crescent Hill Pump Station Discharge System Improvements

Mr. Bryant requested approval to award a contract for the Crescent Hill Pump Station (CHPS) Discharge System Improvements project – Secondary Pump Station.

This project is comprised of two primary phases: 1) the construction of a new Secondary Pump Station, and 2) the renovation of the existing CHPS.

This amendment to the existing contract with this project's construction manager at risk (CMAR), Ulliman Schutte Construction, is for the first phase; constructing a new Secondary Pump Station.

During the final design phase, the CMAR competitively bid all phases of the work, including work they propose to self-perform. Phase 1, the construction of the new Secondary Pump Station, totals \$36,290,100.

Mr. Summers moved to award the contract amendment to the existing construction manager at risk, Ulliman Schutte Construction, in the amount of \$36,290,100. Ms. Fust-Rutherford seconded, and the motion unanimously carried.

New Budget Established for Project 16428: 690 Plan - Minor Lane BPS Expansion

Mr. Bryant requested authorization to establish a new total project budget of \$5,200,000 for the Minor Lane Booster Pumping Station Expansion.

The original \$600,000 budget covered installing two new pumping units, piping, and electrical drives in existing spare locations. However, revised demand forecasts resulting from regionalization show that the current units will need to be upgraded necessitating a larger renovation and expansion. This will include a complete station upgrade of all major systems.

This change action will increase the total project budget from \$600,000 to \$5,200,000, an increase of \$4,600,000.

Ms. Dykstra moved to establish a new total budget of \$5,200,000 for Project 16428, Minor Lane Booster Pumping Station Expansion. Mr. Summers seconded, and the motion unanimously carried.

New Budget Established for Project 16606: BE Payne Plant - Standby Generator Improvements

Mr. Bryant requested authorization to establish a new total project budget of \$8,000,000 for BE Payne Plant standby generator improvements.

The original project budget of \$3,700,000 was developed at a conceptual milestone with a scope of installing a new standby emergency generator and modernizing controls/switching gear in the existing electrical building.

The proposed additional scope includes replacing the single 10,000-gallon fuel tank with two new, 12,000-gallon double wall fuel tanks and a protective masonry wall which will increase 100% run-time capacity from less than 24 hours to more than 48 hours. Also included are a fuel delivery driveway, building ventilation, and other existing equipment improvements. The remainder of the budgetary increase was due to inflation associated with the specialized equipment including the generator, electrical switchgear and control systems.

Modernizing the standby generator controls and fuel tanks will bring this system up to the current standard and be similar in operation to the CHWTP and Zorn Pump Station standby generator systems recently installed.

Ms. Dykstra moved to establish a new total project budget of \$8,000,000 for Project 16606, BE Payne Plant Standby Generator Improvements. Mr. Summers seconded, and the motion unanimously carried.

The BOWW took a short break for lunch 11:55 a.m. and resumed the meeting at 12:15 p.m.

Financial Report Given

October is the latest in a series of months achieving very strong financial results, with consumption and water revenue coming in well above budget. Other operating income and non-operating expenses are also performing favorably to budget, while total operating expenses are right on budget. As a result, net income for the month exceeds budget by \$645,000. Details of the Company's financial performance as compared to budget and prior year are as follows.

Consumption of 3.8 billion gallons for October is 111 million gallons above budget, and 512 million gallons higher than October 2023. All customer classes are over budget with the irrigation customer class making the largest contribution to the positive budget variance. Year-to-date consumption exceeds budget by 2.2% and prior year by 1.5%. Residential, irrigation and wholesale are the primary drivers of the year-to-date favorable budget variance.

Water Revenue for October is \$607,000 higher than budget and \$4.7 million more than the prior year. The irrigation customer class has the largest positive variance for the month followed by residential and commercial. For the year-to-date period, water revenue is 1.0% and 6.2% higher than budget and prior year, respectively.

Other Operating Revenue for October is \$115,000 higher than budget and \$174,000 above year-ago levels. The variance to budget is mainly due to higher revenue from cross connection fees, service line protection and profit on sale of materials. The increase from October 2023 is a result of higher revenue from cross connection fees, sewer billing charges, service line protection, and sale of materials. Year-to-date, other operating revenue exceeds budget by \$537,000 and is \$1.1 million higher than prior

year. The year-to-date variance to budget is due to higher revenue from service activation/deactivation fees, service line protection, and to a lesser degree profit on sale of materials. These positive variances are slightly offset by lower revenue from late charges.

Operating and Maintenance Expenses for October of \$9.1 million are \$86,000 lower than budget and \$621,000 higher than October 2023. The October variance to budget is primarily a result of lower labor and labor-related expense. This favorable variance is offset to a great extent by higher chemical costs and insurance reserves. Labor and labor related expenses, contractual services, system support and insurance reserves are the largest drivers of the growth from prior year levels, with chemicals and miscellaneous expenses partially offsetting the increase. October year-to-date operating and maintenance expenses are \$2.1 million lower than budget and \$4.5 million higher than year-ago levels. Labor and labor-related expenses, contractual services and bad debt are the largest contributors to the positive budget variance through October, although these favorable variances are partially offset by higher chemicals, materials and supplies and insurance reserves. The increased costs from the previous year through October reflect higher labor and labor-related, chemicals and insurance reserves, as well as less significant overages in materials and supplies and utilities costs. The unfavorable variances in these categories are partially offset by lower system support and maintenance, bad debt expenses, miscellaneous expenses and reimbursements.

Total Operating Expenses for October of \$16.1 million are \$18,000 higher than budget and \$816,000 higher than the previous year. The budget variance is due to lower operating and maintenance expenses and depreciation offset by higher loss from disposition of property and water service in lieu of taxes. The variance to October 2023 is due to increased operating and maintenance expense, loss from disposition of property and water service in lieu of taxes. Total operating expenses year-to-date are 2.0% lower than budget and 4.4% above prior year. The year-to-date budget variance is primarily the result of lower operating and maintenance costs and depreciation.

Interest Income through October of \$5.8 million is \$87,000 lower than budget as a result of rates and invested balances that are slightly less than anticipated. Year-to-date through October, interest income is \$670,000 less than the prior year due primarily to a lower dollar amount invested.

Interest Expense through October is \$6.3 million which is \$379,000 lower than budgeted due to higher amounts of interest capitalized than anticipated. Compared to prior year, interest expense through October is down \$697,000 due to principal repayments made in 2023.

Net Income before Distributions and Contributions for October is \$11.9 million, which is \$645,000 more than budgeted. In comparison between years, net income for October is \$5.1 million higher than the prior year. October year-to-date net income of \$67.8 million is \$5.9 million in excess of budget and \$16.2 million above prior year.

Communication and Marketing Report Given

Kelley Dearing Smith advised that Louisville Water's school-based and community programming reached just over 10,000 people in October in 68 engagements. Some of the larger community events included a health fair with Louisville Metro and an event at the new Norton hospital in the west end.

Several Louisville Water departments participated in a Fall Open House at the Crescent Hill Reservoir. The event included tours, the opportunity to meet with a scientist or talk with a crew leader and participate in story time with Tapper.

The outdoor events where we serve Louisville Pure Tap® concluded in October and staff reached more than 53,000 people with a variety of events.

We continue to see renewed interest in visits to Louisville Water Tower and the WaterWorks Museum with 23 events at the site. Additionally, Preservation Kentucky awarded Louisville Water with its “Excellence in Kentucky Heritage Award” for the restoration of the Tower and Pumping Station. No. 1.

Ms. Dearing Smith reported that Louisville Water conducts annual research to measure its brand perception. The 2024 research was completed in October using an independent, local company. Just over 500 customers participated in the online survey. The data shows customers continue to hold a favorable impression of Louisville Water, largely due to reliability, outstanding water quality, a community-focused approach, customer service, and successful branding of Louisville Pure Tap®. The demographics highlight that the longer the experience, the greater the level of brand loyalty. The research highlights the opportunity to increase our outreach and messaging to younger consumers, primarily ages 18-34. She advised that staff will use the data to develop 2025 strategies.

Customer Service and Distribution Operations Report Given

Dave Vogel reported that four new CSRs are being onboarded this month which will help with service levels going forward. Testing continues of the new Integrated Virtual Assistant (IVA) and staff anticipates launching it before year end. The team also celebrated Customer Service Week which began on October 7 and held a training day at the water tower on October 14.

Mr. Vogel discussed a function in AMI that allows us to set parameters that will notify customers of high water usage. He advised that the function was turned on recently and approximately 350 emails were sent to customers notifying them that high water usage has been detected. Several customers responded indicating they would look for a leak, that they found a leak, or that they did not find a leak.

Approximately 200,000 services have been converted to monthly billing.

Engineering and Production Operations Report Given

Mr. Bryant advised that 2024 capital program expenditures through October totaled \$106,111,747, which is 31.47% higher than the same period last year. These year-to-date expenditures equate to 71.93% of the 2024 total capital program of \$147,518,045.

The amount of water produced and delivered to the system in October 2024 was 134.3 MGD, which was 2.5% higher than October 2023 and 7.8% higher than the October five-year average, as shown in Exhibit 2. For year-to-date, the amount of water delivered to the system was 1.8% higher than 2023, and 7.5% higher than the five-year average.

All water quality goals for October 2024 were achieved. No water quality violations were incurred.

Water Quality personnel analyzed 1,194 water quality parameters; 1,034 of which were required pursuant to federal and state regulations.

The Microbiology Lab was audited by the Kentucky Division of Water’s Laboratory Certification program staff on September 25. The preliminary audit report received identified one corrective action which the Water Quality Compliance team has fully addressed with state auditors.

The initial Service Line Inventory (a survey of pipe materials for 327,653 Louisville Water and customer-owned service lines) was submitted to the Kentucky Division of Water on October 14 ahead of the October 16 deadline as required under the Lead and Copper Rule Revisions. Approximately 42,000 postcards were mailed to customers with lead, galvanized, and unknown service line materials.

Human Resources and Labor Relation Report Given

Terrence Spence provided a summary regarding 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).

- There are five active grievances filed by the union for review/resolution.
- Union and Company leadership conducted their monthly Labor Management meeting to review various on-going and future joint initiatives and status updates.
- The Executive Union Management Alliance Council (EUMAC) met and reviewed progress regarding the 2024 strategic and operational goals.
- The Company posted four full-time regular and six temporary regular internal union jobs and is currently recruiting eight full-time external positions.
- HR conducted its annual employee Benefits Open Enrollment Event at each Louisville Water location.
- HR continues to work with third party implementor Highstreet Company conducting pre-work regarding Oracle's Cloud based Human Capital Management System (HCM).

Louisville Water held an all manager/supervisor Diversity Equity Inclusion & Belonging training class.

Information Technology Report Given

Jeff Knott advised that the ELT approved a Data Classification workshop planned for the week of December 10 that will include stakeholders from all departments.

The datacenter migration was successfully completed on October 26, 2024. All business network connectivity and applications were confirmed accessible by end users on Monday October 28, 2024.

Disaster Recovery database servers have been created and the DBA Team is working on production sync to enable a four to six hour recovery target.

As part of migration to the cloud, BLOOP migration was completed on November 11. Staff was able to reduce the data size by cleaning out noncritical data and objects before the migration.

IT staff is also working on Laboratory Information Management System (LIMS) migration. Louisville Water has partnered with TMG to review the current as-is reporting setup and to develop a strategy for data warehouse and analytics work.

Louisville Water's Human Capital Management (HCM) / Human Resource Management System (HRMS) project has made significant progress through October 2024, with CRP2 activities set to begin in November. With a comprehensive timeline and dashboard, the project team has effectively tracked key milestones and deliverables. The technical team has been addressing potential roadblocks promptly, ensuring a robust system architecture.

Highstreet IT was on site on November 11 to discuss the project's challenges, identify and develop mitigation strategies, and outline the path forward from CRP2 through Go Live.

While progress is being made, a meeting was held with the Finance department to discuss several concerns with the implementation timeline and Highstreet's plans for data accuracy and resolution of outstanding items. Highstreet has committed to developing a plan to address these concerns.

There being no further business, the meeting was adjourned at 1:02 p.m.

Respectfully submitted,



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