

Louisville Water Company  
Water System Revenue Bonds,  
Series 2006

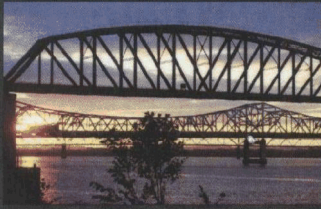


Rating Agency Presentation

Table of Contents



- 1 The Water System and Management Practices
- 2 Financials
- 3 Proposed Bond Issue
- 4 Demographics
- 5 Conclusion



## The Water System and Management Practices

### The Water System



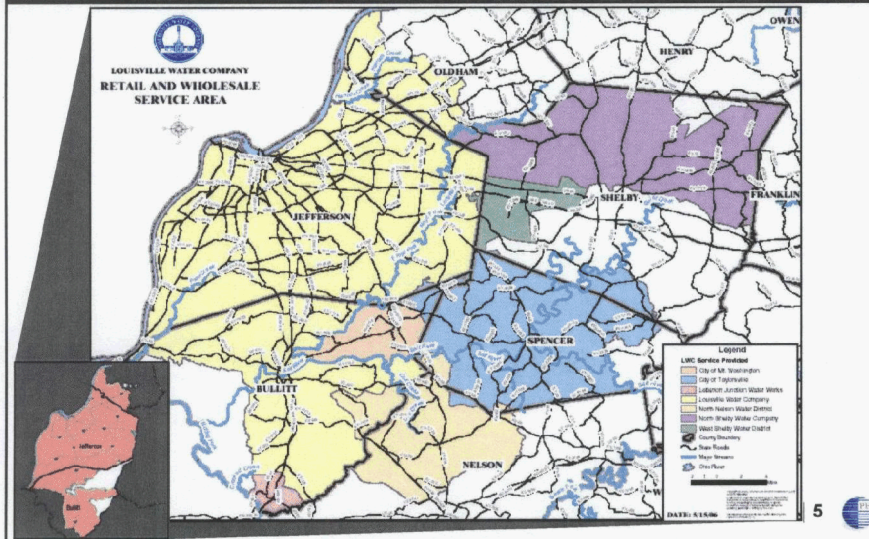
The Company was chartered in 1854 and became a quasi-municipal corporation in 1856. Since 1860, water has been continuously delivered during which time the Company has grown to provide water to approximately 810,000 people in the Metro Government and parts of Oldham and Bullitt Counties, Kentucky. Additionally, the Company sells water on a wholesale basis to an estimated 49,067 people in several surrounding Kentucky counties.

#### The water system includes:

- Ohio River as main source of water supply;
- 2 main water treatment and pumping complexes (Crescent Hill Treatment Facility and B.E. Payne Water Treatment Plant);
- Approx. 2,800 miles of 1 to 10-inch diameter distribution mains and 988 miles of 12 to 72-inch diameter transmission mains;
- 40 booster pumping stations and 5 hydropneumatic stations;
- Storage for 63 MG in 39 active elevated tanks, standpipes, and reservoirs; and
- An average daily pumpage of 131 MGD in 2005.



## System Map



## General Operations



- The Ohio River is the primary source of raw water for the Company and is expected to provide for the long-term needs of the Company under any forecasts. Typical surface-water impurities are found in the Ohio River. The Ohio River remains, however, a treatable, useable, and bountifully adequate water supply. Presence of any contaminants contained in water taken from the Ohio River is well below federal guidelines.
- Inorganic chemicals, volatile organics, and synthetic organics have not posed a serious problem to the Company. The river's overall quality has steadily improved over the past 20 years, due to stricter treatment requirements for discharges into the river as required by the Clean Water Act, and as documented by the monitoring efforts of the Ohio River Sanitation Commission ("ORSANCO"). In recent years there have been no gasoline or chemical spills that have had a significant adverse effect on the quality of the Company's water supply. The Company is an active participant in ORSANCO's organic chemical monitoring network.
- If a significant chemical spill were to happen, the Company has identified emergency response procedures to minimize the impact by making full use of existing raw water and finished water storage facilities. The riverbank infiltration demonstration well will also provide a significant source of uncontaminated raw water to meet emergency supply needs.

## Organization



- Pursuant to the provisions of Sections 96.230 to 96.315, inclusive, of the Kentucky Revised Statutes, the Metro Government controls, manages and operates the Company by and through the Board. The Board is vested with all of the authority and privileges, exercises all of the franchises, and has possession, control and management of all of the property of the Company.
- The Mayor of the Metro Government serves ex officio as a member of the Board and appoints six additional members to represent the Metro Government. The Board is bi-partisan, with no more than 50% of its members chosen from the same political party. All new board members serve staggered four-year terms and may be reappointed.
- The Board appoints six officers of the Company who also serve as non-voting members of the Board.
- Activities of the Company are aligned into four core business systems and an administrative group: Operations and Engineering core business system, Serving Customers core business system, Human Resources and Organizational Effectiveness core business system, Supplying Business Resources core business system and the President's Office.

| 7



## Improvements to the Waterworks System



- As part of the Company's continuing efforts to provide the highest quality water service, the Company's riverbank filtration demonstration well at the B.E. Payne plant finished its sixth year of operation in 2005. Riverbank filtration uses the natural filtering qualities of the aquifer along the Ohio River to clean the water, instead of using pretreatment systems to clean water pumped directly from the river. Tests with the demonstration well have shown that the water it provides is as clear as the water leaving conventional filters. Subsequent treatment processes are softening, to adjust its mineral content, disinfection, and filtration. The Company plans construction of a different kind of well field that will eventually provide all of the water treated at the B.E. Payne plant. The field will consist of 3 caissons and an approximately 8,600-foot long conduit to carry the water to a single pump house. Currently this conduit is designed as a 10-foot diameter tunnel with horizontal collectors. The Project is expected to be completed in 2008, at a cost of about \$38 million.
- The Company's historic Crescent Hill treatment plant is also scheduled for major improvements. The Company's 2002-2021 facilities plan calls for spending more than \$100 million for advanced treatment at the Crescent Hill plant. Studies are underway to determine which of several technologies would be best for the site; a ground water source using riverbank filtration is one of the major options.

| 8



## Water Rates



- Louisville Water Company conducts an annual cost of service analysis using the America Water Association M1 methodology. Retail rates are subject to approval by the Board of Water Works. Rates are adjusted on January 1st of each year for water consumed on or after that date.
- The majority of the accounts are billed bi-monthly, although the Company bills large commercial and industrial and wholesale customers monthly. Customer classes include residential, commercial, industrial, municipal, fire service, fire hydrants and wholesale.
- Retail water rates include a service charge and a seven-block commodity charge with rates increasing the first 3 blocks and then decreasing through the final 4 blocks. This rate schedule aligns costs with the customer classes according to their most peak demand on the system.
- Louisville Water Company differentiates between general pressure and elevated pressure areas in order to recover the cost of providing service to the higher elevations.
- The Company provides water service on a wholesale basis to West Shelby Water District, North Shelby Water Company, North Nelson Water District, Taylorsville and Mount Washington.

## Water Rates



### Summary of Louisville Water Company Rates effective January 1, 2006:

Jefferson County Charges				Other Service Charges				
Commodity Charge (\$/Mgal)				Commodity Charge (\$/Mgal)				
Bimonthly		Monthly		Bimonthly		Monthly		
1st Block	1.90	1.90	6th Block	1.55	1.55	Bullitt County Division		
2nd Block	2.08	2.08	7th Block	1.38	1.38	5/8" - 3/4" Connection		
3rd Block	2.35	2.35	ESA Surcharge	0.25	0.25	1st Block	31.34	
4th Block	2.21	2.21	Wholesale	1.38	1.38	2nd Block	4.75	
5th Block	2.02	2.02				3rd Block	4.27	
Charge by Meter Size				Goshen				
Jefferson County				5/8" - 3/4" Connection				
5/8"	10.62	5.31	4"	318.60	159.30	4th Block	4.04	
3/4"	10.62	5.31	6"	743.40	371.70	5th Block	3.55	
1"	26.56	13.28	8"	1,327.40	663.70	Debt Surcharge		
1.5"	53.10	26.55	10"	2,017.80	1,008.90	Shepardsville District		
2"	84.96	42.48	12"	3,079.80	1,539.90	1st Block	59.84	
3"	185.86	92.93	16"	6,109.50	3,053.25	2nd Block	4.27	
Kentucky Turnpike #1				1.5"-4" Connection				
5/8"	22.62	11.31	2"	276.96	138.48	1st Block	102.54	
3/4"	22.62	11.31	3"	617.96	308.93	2nd Block	4.04	
1"	74.56	37.28	4"	1,086.60	543.30	3rd Block	3.55	
1.5"	161.10	80.55	6"	2,471.40	1,235.70			
Fire Service Charges								
Private								
4"	29.10	14.55	10"	222.54	111.27			
6"	58.16	29.08	12"	446.74	223.37			
8"	112.94	56.47						

## Customer Usage & Demand Forecast



Historical and Projected Water Usage (1,000 gallons)

	Actual 2002	Actual 2003	Actual 2004	Actual 2005	Budgeted 2006	Projected 2007	Projected 2008	Projected 2009	Projected 2010
Residential	16,737,214	15,655,594	16,035,920	17,089,874	16,405,000	16,556,940	16,654,565	16,749,936	16,843,278
Commercial	15,237,434	14,784,642	14,742,815	15,380,714	15,000,000	15,306,126	15,431,194	15,577,167	15,740,118
Industrial	4,938,432	4,875,451	4,758,664	4,587,316	4,610,000	4,637,818	4,635,163	4,631,586	4,625,483
Fire Serv/Fire Hydrant	37,771	45,448	51,142	43,144	-	-	-	-	-
Public Fire Hydrants	-	-	-	-	-	-	-	-	-
Municipal	1,679,682	1,285,557	1,149,355	1,288,963	1,285,000	1,276,380	1,255,229	1,236,143	1,219,737
Wholesale	1,573,279	1,397,405	1,505,526	1,662,453	1,500,000	1,586,158	1,606,546	1,628,946	1,653,021
<b>Total</b>	<b>40,203,812</b>	<b>38,044,097</b>	<b>38,243,422</b>	<b>40,052,464</b>	<b>38,800,000</b>	<b>39,363,422</b>	<b>39,582,697</b>	<b>39,823,778</b>	<b>40,081,636</b>

Historical and Projected YOY Percent Changes

	Actual 2002	Actual 2003	Actual 2004	Actual 2005	Budgeted 2006	Projected 2007	Projected 2008	Projected 2009	Projected 2010
Residential	5.30	(6.46)	2.43	6.57	(0.04)	0.01	0.01	0.01	0.01
Commercial	0.37	(2.97)	(0.28)	4.32	(0.02)	0.02	0.01	0.01	0.01
Industrial	1.82	(1.28)	(2.40)	(3.60)	0.00	0.01	(0.00)	(0.00)	(0.00)
Fire Serv/Fire Hydrant	(27.52)	20.33	12.44	(15.64)	(1.00)	-	-	-	-
Public Fire Hydrants	-	-	-	-	-	-	-	-	-
Municipal	(7.25)	(23.46)	(10.60)	12.15	(0.00)	(0.01)	(0.02)	(0.02)	(0.01)
Wholesale	(0.92)	(11.18)	7.74	10.42	(0.10)	0.06	0.01	0.01	0.01
<b>Total</b>	<b>(2.10)</b>	<b>(5.37)</b>	<b>0.52</b>	<b>4.73</b>	<b>(0.03)</b>	<b>0.01</b>	<b>0.01</b>	<b>0.01</b>	<b>0.01</b>

## Regulatory Issues



### Louisville Water Company Involvement in Regulatory Process

- Company staff has been actively involved in the regulatory process since the passage of the Safe Drinking Water Act in 1974. Through the AWWA, Company staff has held key leadership positions in the rulemaking processes for disinfection and the treatment of surface water. This activity has helped the Company to stay ahead of pertinent regulatory issues affecting the waterworks system, and has provided Company staff a role in shaping regulations.

### Long-Term 2 Enhanced Surface Water Treatment Rule and Stage 2 Disinfection By-Products Rule

- Through being involved in the rule making process, the Company has been able to develop plans in anticipating upcoming regulatory requirements. This has been recently manifested with the incorporation of advanced water treatment technologies including riverbank filtration (a process being developed at the Company) as an identified treatment for meeting the requirements of the Long-Term 2 Enhanced Surface Water Treatment Rule and the Stage 2 Disinfection By-Products Rule that were promulgated in December 2005. The Company has been able to comply with all regulatory requirements and is well positioned to meet the compliance requirements of the two new regulations.

## Regulatory Issues



### Partnership for Safe Water

- The Company has held a key leadership role in the Partnership for Safe Water since its inception. The Partnership for Safe Water is an alliance between the drinking water industry and the U.S. EPA focused on improving public health through non-regulatory optimization of treatment plant operations. The Company's staff had chaired the Partnership Steering Committee during the initial years of the program. In 2005, the company received a 5 Year Director's Award from the Partnership program for the water quality achievements the Company made with the program.

### Future Regulations

- As in the past, Company staff is actively involved in the rulemaking processes for future regulations. Currently, Company staff is working on the development of groundwater rule, the revision of Lead and Copper Rule, the revision of Total Coliform Rule and the development of future distribution system regulations through the AWWA. This will allow the Company to stay ahead of the regulations and plan in advance for needed changes in distribution system operations and will increase the Company's capability of meeting new regulatory requirements beyond 2012.

## Succession Planning



- Successful water utility management teams are typically characterized by long-term employees with proven track records and significant experience in a broad range of utility issues.
- Many water utilities are facing significant turnover in their management teams due to retirements. Effective succession planning and knowledge transfer will be critical to make that transition go smoothly.
- Louisville Water Company has addressed this important matter by developing a program for succession planning called "Talent Resource Planning" that notes the key strengths and areas to develop for each member and level of management, the jobs for which they may be considered as a candidate, the potential backup candidates, and the key developmental questions that need to be addressed.
- The "Talent Resource Planning" is supplemented by "Individual Development Plans" that identifies areas for development and action plans in the areas of technical, functional and leadership skills.
- Louisville Water Company is participating in a study of best practices in this area by the American Water Works Association.

## Enterprise Risk Management and Internal Controls



- Louisville Water Company manages risk through an approach that combines traditional water industry practices with newer methodologies based on current auditing standards and best practices from other industries.
- Louisville Water Company defines business risk as the threat that an event or action will adversely affect an organization's ability to achieve its business objectives and execute its strategies successfully.
- Our approach to risk management was developed consistent with the components of the COSO model: Control Environment, Risk Assessment, Control Activities, Information & Communication, and Monitoring.
- This approach to risk management uses techniques and controls to reduce the variance between anticipated outcomes and actual results in these areas:

### ***Can the water system meet current and future regulatory requirements?***

Yes, through the Long Range Facilities Plan that identifies necessary capital improvements over the next twenty years, updated every five years, and participation in EPA Partnership for Safe Water, with water quality goals stricter than regulatory standards.

## Enterprise Risk Management and Internal Controls



### ***Can the project be constructed on time and on budget with full capabilities?***

Yes, through proven designs, realistic schedules, managed startup risks and reasonable cost estimates.

### ***Can the system size support necessary capital improvements while fully funding operations and maintenance?***

Yes, through "Growth Pays For Growth" policies and system development charges, economies of scale through partnerships and benchmark initiatives, and due diligence and rate equalization methods on system acquisitions.

### ***Can the water system meet the changing needs of the local economy and population?***

Yes, through business development initiatives that are cost-based and provide a diverse sales base and coordination of new construction with other public improvements.

### ***Are management practices institutionalized, recognized by political leaders, and able to withstand personnel change?***

Yes, through an independent board of directors, an active and effective Customer Advisory Council, an award-winning partnership with AFSCME Local 1683, professional certifications for staff, and audits and followup.



## Enterprise Risk Management and Internal Controls



### ***Does the water system adequately anticipate asset maintenance, upgrades and expansion?***

Yes, through integrated plans focused on customer satisfaction, clearly identified strategies and objectives supported by detailed operating plans, and a measurement system with incentive based pay.

### ***Can the water system meet current and future system maximum day and maximum hour demands?***

Yes, through the long range Facilities Plan that identifies necessary capital improvements, measurement of demand factors for largest customers and customer classes, and avoiding the pursuit of potential customers with excessive demand factors.

### ***Is the water system being maintained to operate in perpetuity?***

Yes, through a complete GIS-based inventory of assets, condition and history, a reasonable preventative maintenance program, a robust infrastructure replacement and rehabilitation program, and no deferred maintenance.

## Enterprise Risk Management and Internal Controls



### ***Can the water system achieve a favorable record of regulatory compliance?***


Yes, through compiling an inventory of existing regulations and responsibilities, participation in the development of new regulations, development of rigorous plans to meet or exceed new regulations and rapid response to occasions of Notice of Violations.

### ***Do rates and charges reflect all financial commitments of the water system?***

Yes, through cost of service rates based on AWWA M1 Manual, an annual rate study with increases consistent with the change in the CPI-U, no inter-class rate subsidies, and a budget contingency at one percent of operating expenses.


### ***Are revenues adequate to cover debt service and recurring and one-time charges?***

Yes, through financial modeling to forecast cash balances, a debt service coverage target well above covenant minimums, a restrictive investment policy, investments timed to meet capital requirements, and a sophisticated insurance program.

20 | 

- Assumes consumption growth is based on statistical study of previous water sales patterns
- Assumes rate increases of 5% annually
- Fully funds 5 year Capital Improvement Plan
- CIP is adjusted for inflation at 3% and incorporates a funding lag
- Maximizes pay-go funding by targeting working capital reserves
- Maintains annual debt service coverage of 2.0x

**Pro-Forma Assumptions**



**Financials**

## Capital Improvement Plan



	Budgeted FY 2006	Projected FY 2007	Projected FY 2008	Projected FY 2009	Projected FY 2010
<b>I. Infrastructure Replace/Rehab</b>					
A. Treatment & Pumping	\$ 8,565,381	\$ 19,238,338	\$ 14,029,380	\$ 4,190,000	\$ 9,370,000
B. Distribution & Transmission	15,993,239	9,344,219	11,440,625	11,232,425	11,870,425
C. Buildings, Facilities & Grounds	4,005,429	1,788,164	805,000	910,000	75,000
D. Equipment & Vehicles	1,692,600	781,250	1,054,650	1,516,300	1,344,950
<b>Total</b>	<b>30,256,649</b>	<b>31,151,971</b>	<b>27,329,655</b>	<b>17,848,725</b>	<b>22,660,375</b>
<b>II. Self-Financing Improvements</b>					
A. Developer Extensions	7,870,000	8,370,000	8,370,000	8,370,000	8,370,000
B. New Services	4,477,572	4,477,572	4,477,572	4,477,572	4,477,572
C. Relocations	3,313,610	1,437,000	1,505,000	750,000	750,000
D. Bullitt Co. & Oldham Co.	4,707,828	5,233,657	1,406,300	1,205,300	1,376,850
<b>Total</b>	<b>20,369,010</b>	<b>19,518,229</b>	<b>15,758,872</b>	<b>14,802,872</b>	<b>14,974,422</b>
<b>III. System Improvements</b>					
A. Advanced Treatment	7,000,000	16,000,000	17,000,000	29,304,020	25,000,000
B. Treatment, Pumping & Supply	910,000	5,225,000	9,865,000	2,000,000	761,000
C. Facility Security	-	-	-	-	-
D. Technology Improvements	2,643,070	3,738,583	2,015,000	578,000	-
<b>Total</b>	<b>10,553,070</b>	<b>24,963,583</b>	<b>28,880,000</b>	<b>31,882,020</b>	<b>25,761,000</b>
<b>IV. Growth-Related Improvements</b>					
A. Transmission	7,420,000	13,550,000	15,482,900	7,688,500	1,970,000
B. Boosted Pumping	573,000	1,125,000	1,950,000	400,000	500,000
C. Storage Facilities	3,990,000	3,667,100	2,500,000	2,550,000	6,900,000
<b>Total</b>	<b>11,983,000</b>	<b>18,342,100</b>	<b>19,932,900</b>	<b>10,638,500</b>	<b>9,370,000</b>
<b>Program Total</b>	<b>\$ 73,161,729</b>	<b>\$ 93,975,883</b>	<b>\$ 91,901,427</b>	<b>\$ 76,172,117</b>	<b>\$ 72,765,797</b>

## Historical and Pro-Forma Revenues



Revenues	Actual FY 2002	Actual FY 2003	Actual FY 2004	Actual FY 2005	Budgeted FY 2006	Projected FY 2007	Projected FY 2008	Projected FY 2009	Projected FY 2010
1 Residential	42,485,545	42,123,958	45,177,064	50,965,630	52,221,768	55,340,708	58,450,365	61,724,330	65,171,715
2 Commercial	32,085,757	31,948,840	33,530,600	37,335,253	38,610,310	41,368,199	43,791,534	46,416,074	49,246,709
3 Industrial	7,810,967	7,735,725	7,872,187	8,098,729	8,505,941	9,089,814	9,539,841	10,008,054	10,494,610
4 Municipal	2,863,249	2,386,878	2,472,664	2,868,868	3,170,891	3,307,102	3,414,913	3,531,139	3,658,487
5 Wholesale	2,155,500	1,930,121	2,203,678	2,579,386	2,452,001	2,722,482	2,895,351	3,082,506	3,284,467
6 Fire Service	6,786,274	7,201,091	7,780,673	8,468,801	8,711,629	9,147,210	9,604,571	10,084,800	10,589,039
7 Total Water Revenue	93,968,322	93,324,613	99,036,666	110,316,667	113,771,640	120,975,516	127,695,576	134,846,902	142,445,027
8 Non-Operating Income	1,880,024	1,231,207	1,467,846	690,549	1,874,200	1,968,942	1,260,531	1,273,238	1,285,970
9 Other Revenue	4,203,710	4,362,530	4,435,185	4,913,537	4,835,000	4,931,700	5,030,334	5,130,941	5,233,559
10 Total Revenue	100,052,056	98,918,350	104,949,898	116,920,803	120,480,840	127,876,158	133,986,541	141,251,081	148,964,556
11									
12 Rate Increase	4.25%	3.50%	4.90%	6.50%	5.00%	5.00%	5.00%	5.00%	5.00%

- Customer accounts are expected to increase approximately 1.5% to 1.6% over the next five years with total consumption relatively flat due to declining per customer consumption.
- Rate increases are projected at 5% over the next five years.
- Customer accounts and consumption forecasts are based on a 20 year forecast prepared for the Company by Statistical Consulting of Louisville, Inc. and published May 30, 2005.
- Non-operating revenue includes interest income on all deposits and reserves and rental income from cell tower leases. Other Revenue includes billing compensation from sewer companies and other service fees including late charges.

## Historical and Pro-Forma Expenses

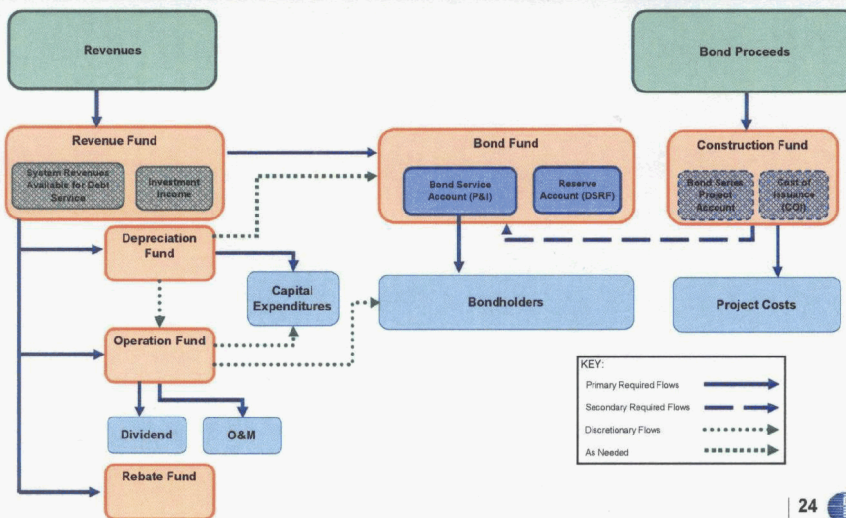


	Actual FY 2002	Actual FY 2003	Actual FY 2004	Actual FY 2005	Budgeted FY 2006	Projected FY 2007	Projected FY 2008	Projected FY 2009	Projected FY 2010
1 Expenses									
2 Operating & Maintenance									
3 Labor	21,991,048	23,095,439	22,512,709	25,570,796	27,699,236	28,538,523	29,403,240	30,294,158	31,212,071
4 Power	3,603,906	3,824,630	4,200,033	4,368,300	4,011,185	4,171,632	4,338,498	4,512,038	4,692,519
5 Chemicals	1,591,961	1,589,912	1,603,345	2,285,550	2,335,776	2,429,207	2,526,375	2,627,430	2,732,528
6 Materials & Supplies	3,685,613	3,451,265	3,065,507	2,872,476	4,463,203	4,552,467	4,643,516	4,736,387	4,831,114
7 Contractual Services	6,240,588	5,597,547	5,328,387	7,233,996	7,195,276	7,529,962	7,475,961	7,625,072	7,777,574
8 Other Expenses	6,254,837	6,517,277	6,802,588	5,110,857	4,572,745	4,584,200	4,757,484	4,852,634	4,948,686
9 Total O & M Expenses	42,367,923	44,076,070	43,602,569	47,441,974	50,267,421	51,685,011	53,144,675	54,647,710	56,195,492
10 Debt Service									
11 Existing Debt Service	6,067,287	9,687,201	11,368,396	10,755,929	12,035,262	12,009,997	12,021,634	12,033,534	12,049,984
12 Proposed Debt Service	-	-	-	-	2,000,000	4,420,700	6,560,700	10,253,633	13,307,563
13 Interest on Construction Fund	-	-	-	-	-	-	-	-	-
14 Total Debt Service	6,067,287	9,687,201	11,368,396	10,755,929	14,035,262	16,430,697	18,582,334	22,287,167	25,357,547
15 Other Expenses									
16 Taxes including Water in Lieu of	8,165,795	7,994,209	8,498,316	9,435,189	9,986,300	10,485,615	11,009,896	11,560,391	12,138,410
17 Non-Operating Expenses	744,096	154,796	1,587,342	(33,453)	300,000	300,000	300,000	300,000	300,000
18 Total Other Expenses	8,909,891	8,139,007	10,085,658	9,401,726	10,286,300	10,785,615	11,309,896	11,860,391	12,438,410
19 Total Expenses	60,345,041	61,902,278	65,056,623	67,699,629	74,588,983	78,901,323	81,036,904	88,795,476	93,991,470
20 Total									
21 Net Operating Revenue	38,707,015	37,016,072	38,893,275	48,321,174	45,891,857	48,874,835	50,949,637	52,455,605	54,973,087
22 Less: Dividend Payment	12,379,623	12,318,831	14,552,137	16,178,049	14,842,114	15,739,404	16,548,628	16,591,648	17,164,811
23 Net Revenue	27,327,391	24,697,241	25,341,139	32,143,125	31,049,743	33,239,431	34,401,009	35,863,957	37,808,276
24 Change in Working Capital	-	-	-	-	5,300,000	445,853	239,945	247,076	254,429
25 Pay-Go Expenditures	27,327,391	24,697,241	25,341,139	32,143,125	25,749,743	32,792,578	34,161,064	35,616,881	37,553,847
26 Change in Net Cash Balance	-	-	-	-	-	-	-	-	-
27 Beginning Fund Balance	-	-	-	-	2,750,313	8,050,313	8,496,166	8,736,111	8,983,167
28 Change in Fund Balance	-	-	-	-	5,300,000	445,853	239,945	247,076	254,429
29 Ending Fund Balance	-	-	-	2,750,313	8,050,313	8,496,166	8,736,111	8,983,167	9,237,615
30									
31 Days Cash	57	32	52	21	58	60	60	60	60
32 Days Cash inclusive of Deprec. Fund	181	160	193	164	218	225	232	240	244
33 Debt Service Coverage	4.41x	3.79x	3.69x	4.49x	3.34x	3.08x	2.92x	2.51x	2.48x

23



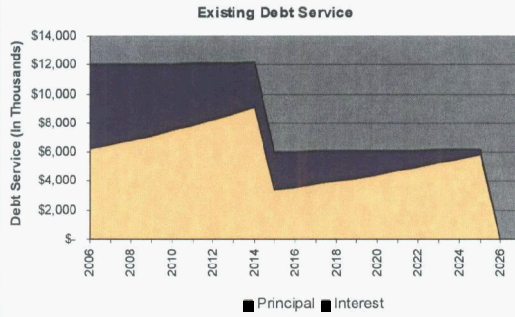
## Flow of Funds



24

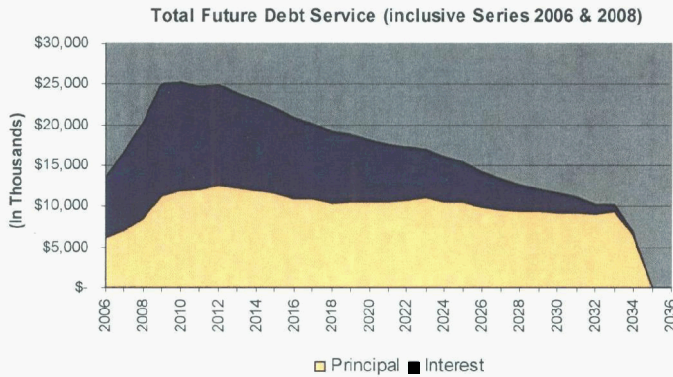


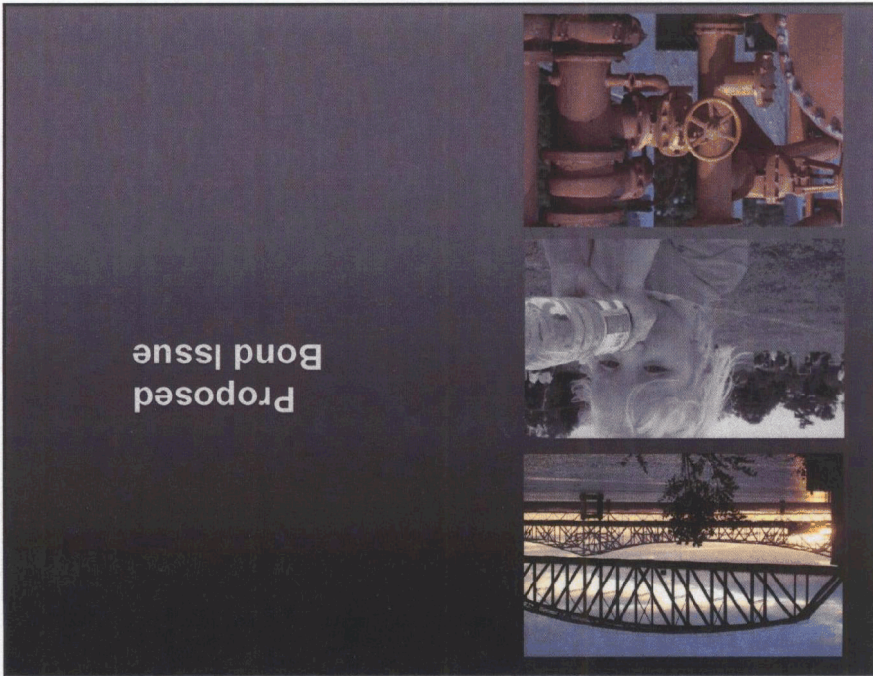
## Existing Debt Service



Period Ending Dec. 31	Total Existing Debt Service		
	Principal	Interest	Debt Service
2006	6,210,000	5,795,496	12,005,496
2007	6,495,000	5,514,996	12,009,996
2008	6,800,000	5,221,634	12,021,634
2009	7,130,000	4,903,534	12,033,534
2010	7,480,000	4,569,984	12,049,984
2011	7,845,000	4,220,064	12,065,064
2012	8,235,000	3,853,105	12,088,105
2013	8,645,000	3,467,884	12,112,884
2014	9,080,000	3,063,484	12,143,484
2015	3,405,000	2,627,019	6,032,019
2016	3,590,000	2,452,513	6,042,513
2017	3,790,000	2,264,038	6,054,038
2018	4,000,000	2,065,063	6,065,063
2019	4,225,000	1,855,063	6,080,063
2020	4,460,000	1,633,250	6,093,250
2021	4,710,000	1,399,100	6,109,100
2022	4,975,000	1,151,825	6,126,825
2023	5,260,000	890,638	6,150,638
2024	5,555,000	614,488	6,169,488
2025	5,870,000	322,850	6,192,850
2026	-	-	-
2027	-	-	-
2028	-	-	-
2029	-	-	-
2030	-	-	-
2031	-	-	-
2032	-	-	-
2033	-	-	-
2034	-	-	-
<b>Total</b>	<b>117,760,000</b>	<b>57,886,048</b>	<b>175,646,048</b>

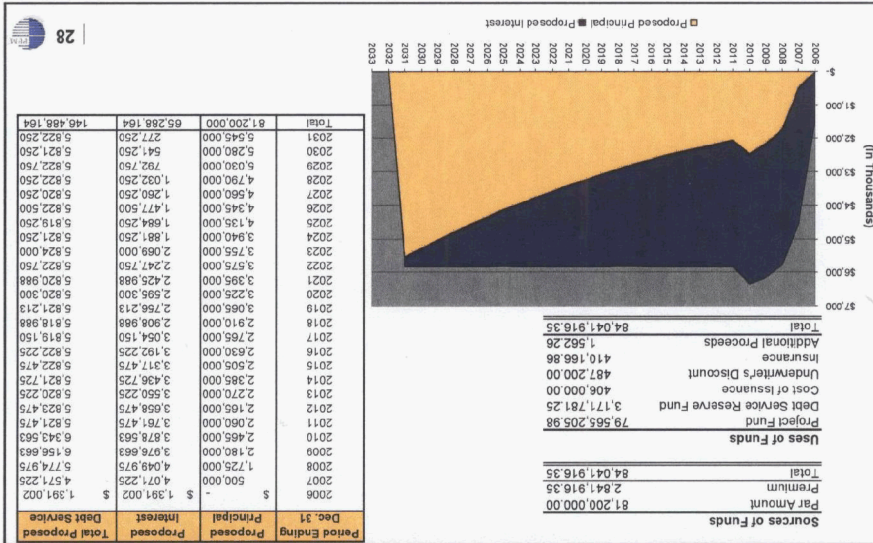
## Future Debt Service



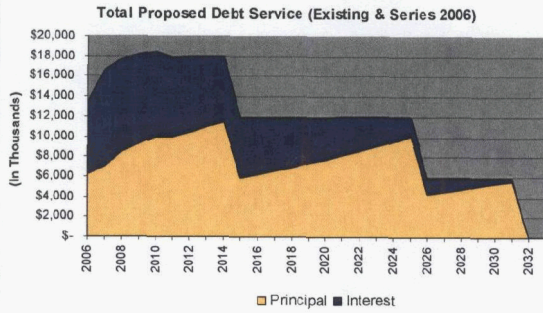


# Proposed Bond Issue

# The Series 2006 Bonds



## Total Proposed Debt Service

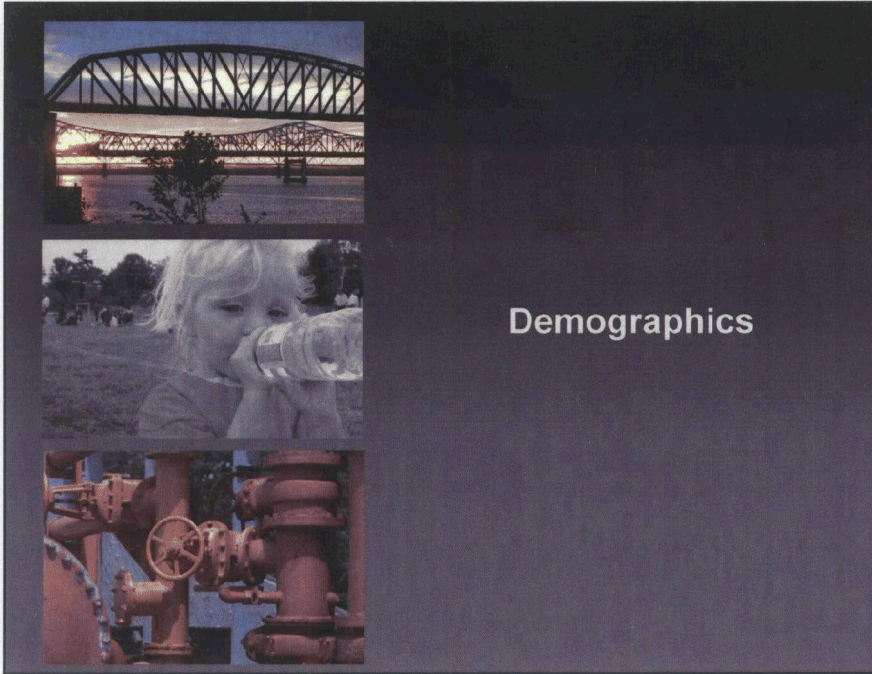


Period Ending Dec. 31	Total Proposed Debt Service		
	Principal	Interest	Debt Service
2006	6,210,000	7,186,498	13,396,498
2007	6,995,000	9,586,221	16,581,221
2008	8,525,000	9,271,609	17,796,609
2009	9,310,000	8,880,196	18,190,196
2010	9,945,000	8,448,546	18,393,546
2011	9,905,000	7,981,559	17,886,559
2012	10,400,000	7,511,584	17,911,584
2013	10,915,000	7,018,109	17,933,109
2014	11,465,000	6,500,209	17,965,209
2015	5,910,000	5,944,494	11,854,494
2016	6,220,000	5,844,738	11,864,738
2017	6,555,000	5,318,188	11,873,188
2018	6,910,000	4,974,050	11,884,050
2019	7,280,000	4,611,275	11,891,275
2020	7,685,000	4,228,550	11,913,550
2021	8,105,000	3,825,088	11,930,088
2022	8,550,000	3,399,575	11,949,575
2023	9,015,000	2,959,638	11,974,638
2024	9,495,000	2,495,738	11,990,738
2025	10,005,000	2,007,100	12,012,100
2026	4,345,000	1,477,500	5,822,500
2027	4,580,000	1,260,250	5,822,250
2028	4,790,000	1,032,250	5,822,250
2029	5,030,000	792,750	5,822,750
2030	5,280,000	541,250	5,821,250
2031	5,545,000	277,250	5,822,250
2032	-	-	-
2033	-	-	-
2034	-	-	-
<b>Total</b>	<b>198,960,000</b>	<b>123,174,212</b>	<b>322,134,212</b>

## Financing Schedule



Week of May 29:	Presentation to Rating Agencies
June 13:	Receive Ratings
June 14:	Email POS & NOS to post on i-Deal
June 21:	Pricing of Series 2006
July 12:	Bond Closing



### Top Ten Customers

**Ten Largest Customers of the Company**

Company	Monthly Average Metered Consumption 12 Months Ended Dec. 31, 2005 (1,000 Gallon)	Percent of Total Monthly Average Consumption <sup>(1)</sup>	Monthly Average Revenues 12 Months Ended Dec. 31, 2005	Average Annual Revenues Ended Dec. 31, 2005	Percent of Total Monthly Average Revenues 12 Months Ended Dec. 31 <sup>(2)</sup>
Oxy Vinyls	93,250	2.89	\$127,315	\$1,527,780	1.51
American Synthetic Rubber	44,129	1.37	64,016	768,192	0.76
Ford Motor (Westport Road)	31,627	0.98	58,952	674,304	0.68
General Electric	27,383	0.85	43,043	516,516	0.51
MSD	25,380	0.79	38,709	464,508	0.46
Brown-Forman	22,437	0.69	34,884	418,608	0.41
Louisville Gas and Electric (Shipley)	21,714	0.67	34,326	411,912	0.41
United Catalysts - 12 <sup>th</sup> Street	18,420	0.57	29,953	359,436	0.36
E I Dupont	18,143	0.56	28,636	343,632	0.34
Protein Technologies	17,073	0.53	28,155	337,860	0.33
<b>Totals</b>	<b>319,556</b>	<b>9.89</b>	<b>485,989</b>	<b>5,831,868</b>	<b>5.78</b>

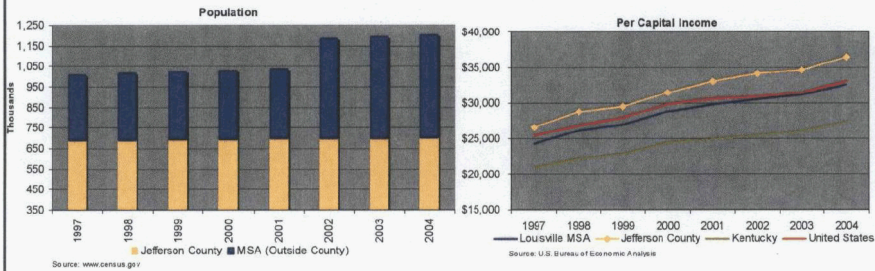
Source: Louisville Water Company.

(1) Excludes free water furnished to the City of Louisville from total metered consumption.  
(2) Excludes free water furnished to the City of Louisville and all public fire hydrants from total revenues.

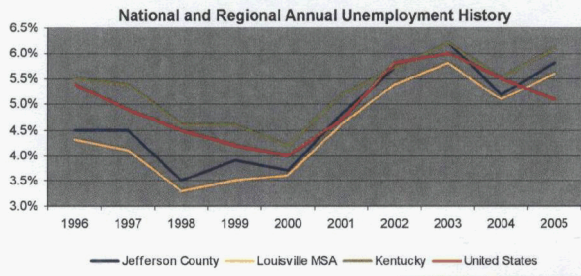
32



## Population and Income



## Unemployment Rates



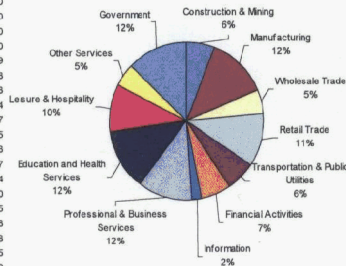
Year	Annual Unemployment Rates (%)			
	Jefferson County	Louisville MSA	Kentucky	U.S.
1996	4.5	4.3	5.5	5.4
1997	4.5	4.1	5.4	4.9
1998	3.5	3.3	4.6	4.5
1999	3.9	3.5	4.6	4.2
2000	3.7	3.6	4.2	4.0
2001	4.8	4.6	5.2	4.7
2002	5.7	5.4	5.7	5.8
2003	6.2	5.8	6.2	6.0
2004	5.2	5.1	5.5	5.5
2005	5.8	5.6	6.1	5.1

# Employment



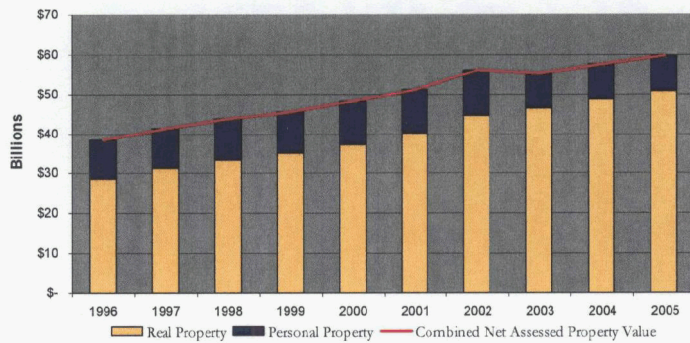
Twenty-Five Largest Employers  
(in the MSA, excluding government agencies)

Company	Product / Service	Number of Employees
1. United Parcel Service*	Air express and distribution	17,206
2. Ford Motor Company	Automotive manufacturer	9,303
3. Norton Health Care*	Health care	7,850
4. Jewish Hospital Healthcare*	Health care	5,450
5. GE Appliances*	Household appliance manufacturer	5,200
6. The Kroger Co.	Retail grocer	4,960
7. Humana, Inc.*	Managed health care provider	4,888
8. Roman Catholic Archdiocese	Schools/churches/related activities	2,468
9. Baptist Hospital East*	Health care	2,308
10. YUM Brands*	Restaurant	2,194
11. CARITAS Health Systems	Health care	2,147
12. University Hospital*	Health care	2,115
13. Cessars Indiana	Gaming entertainment	1,968
14. Kindred Healthcare	Health care	1,957
15. Anthem, Inc.	Managed health care / insurance	1,744
16. JP Morgan Chase, NA	Banking/financial services	1,630
17. Publishers Printing Co., LLC	Magazine printer	1,595
18. BellSouth Telecommunications	Communications	1,435
19. Clark Memorial Hospital	Health care	1,368
20. SHPS, Inc.	Benefits administration	1,315
21. National Processing Co.	Contract data processing	1,289
22. National City Bank of Kentucky / Southern Indiana	Banking / financial services	1,278
23. Swift & Co.	Manufacturing	1,151
24. Brown-Forman Corporation*	Fine quality consumer products	1,145
25. Seven Counties Services*	Health care	1,132



\*Indicates Corporate, U.S. Division, or Regional Headquarters.  
Source: Business First of Louisville, August 2004.

# Net Taxable Assessed Valuation




Source: Metro Louisville CAFR

## Top Ten Taxpayers



Taxpayer	Type of Business	2005 Assessed Valuation	Percent of Total Assessed Valuation of
Louisville Gas & Electric	Energy Utility	\$ 951,948,686	1.59%
BellSouth Telecommunications	Telecommunications	794,343,162	1.33%
Insight Midwest LP	Cable Media	287,242,228	0.48%
Humana Inc.	Health Care	220,426,161	0.37%
The Kentucky Trust Co.	Banking/Financial Services	133,425,030	0.22%
Louisville Trophy LLC	Miscellaneous Services	130,000,000	0.22%
AT&T Communications	Telecommunications	122,020,222	0.20%
Thomas W Bullitt	Retail	112,861,063	0.19%
Information Systems Corp.	Information Services	102,861,642	0.17%
National City Bank, Kentucky	Banking/Financial Services	101,492,852	0.17%
<b>Total</b>		<b>\$ 2,956,621,046</b>	<b>4.95%</b>
Total Net Assessed Property Value		<b>\$ 59,701,255,363</b>	<b>100.00%</b>

Source: Louisville/Jefferson County CAFR



## Conclusion

## Conclusion



- Louisville Water Company has clearly identified constituent groups, measurable objectives, and effective strategies and tactics to meet the constituent objectives.
- Louisville Water Company has an effective program of internal controls to ensure accomplishment of its strategic, operating and capital plans.
- Louisville Water Company has developed the program of capital investments that will be needed to meet customer expectations and regulatory requirements for water quality and service.
- Louisville Water Company has developed capital financing strategies and debt plans to fully fund the program of capital investments within a reasonable program of rate increases.
- The capital financing strategies will provide an appropriate balance of adequate access to liquid assets, effective use of debt financing for capital investments, abundant coverage to make debt service payments, profitability consistent with investor owned utilities, and a reasonable distribution of profits as a dividend.
- Louisville Water Company and the Board of Water Works respectfully request affirmation of the existing bond ratings for the Series 2006 Bonds.