

**MINUTES OF THE FINANCE COMMITTEE MEETING
OF THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
December 6, 2023**

A Finance Committee meeting of the directors of The Water Works Board of the City of Birmingham was held on Wednesday, December 6, 2023, at 10:00 a.m., at 3600 First Avenue North, Birmingham, Alabama.

The following Committee members were present: Directors Ward (Committee Chairman), Burbage and Huffman. Also, present was Director Munchus.

Others present were: Michael Johnson, General Manager; Iris Fisher and Derrick Murphy, Assistant General Managers; Cynthia Williams, Board Administrator; Anitra Clark, Corporate Governance Specialist; Vanessa Washington, Executive Assistant; Rick Jackson, Marsha Hammonds, Brandon Sims, Caroline White, Dana Richards, Rosalind Jones, Jeremy Ervin, Jeff Wade, Charles McGee, Anthony Hazel and David Walker, BWWB Employees; K. Mark Parnell, Parnell Thompson Law, LLC; Kelvin W. Howard, LLC; Olivia Martin, State of Alabama Attorney General's Office; Bill Todd, O2 Ideas; Lindsay McAdory, CBG Strategies.

Inasmuch as all Committee members were present, a quorum was declared in attendance. Committee Chairman Ward called the meeting to order at 10:00 a.m., General Manager Johnson opened the meeting with prayer.

Following, the Committee proceeded to the approval of the agenda. Director Burbage made a motion to approve the agenda and Director Huffman seconded the motion. On a motion duly made and seconded, the motion was approved by unanimous vote.

Next, the Committee proceeded to the first item on the agenda, Request Committee to approve minutes of August 9, 2023, and September 13, 2023. Director Huffman made a motion to approve the minutes and Director Burbage seconded the motion. On a motion duly made and seconded, the motion was approved by unanimous vote.

Following, the Committee proceeded to the Reports of Officers, Request Committee to hear Division Reports of the Finance and Administration Division and the Internal Audit Manager's Report. Assistant General Manager Fisher presented the Operating and Statistical Report through October 2023. She began with an overview of the Balance Sheet. Assistant General Manager Fisher stated Birmingham Water Works assets at October 31, 2023, were \$1,257,039,862.00, liabilities were \$1,014,621,023.00, and net position was \$242,418,838.00. Following, Assistant General Manager Fisher discussed the Total Operating Net Revenue available for debt service, year-to-date. She indicated that operating revenues were over budget by \$4,455,914.00, operating expenses were over budget by \$3,025,394.00, and net operating revenue was over budget by \$1,430,520.00. Next, Assistant General Manager Fisher discussed large operating and maintenance variances. She stated two large items impacting over budget operating expenses were Birmingham Water Works' Pension and Other Post-Employment Benefits (OPEB) expenses, which are non-cash items. She said there has been a decrease in the company's Pension Plan and OPEB's Plan investments. Assistant General

Manager Fisher indicated that Transportation expenses are over budget due to having to repair older vehicles because of a shortage of vehicles in the supply chain. Director Munchus asked whether the impact was short-term, which Assistant General Manager Fisher responded yes. Next, Assistant General Manager Fisher indicated that power costs are over budget because Alabama Power's rate increase was received too late for budgeting purposes. Director Ward asked whether Alabama Power rate increases impacted water rate increases, which Assistant General Manager Fisher confirmed. Director Munchus asked about chemical costs. Assistant General Manager Fisher stated that the decrease in chemical costs is because Shades Mountain Filter Plant is not 100% functional. Also, Director Munchus asked whether she thought chemical manufacturers would keep their prices the same and honor their contract. Assistant General Manager Fisher responded she was uncertain. Next, she highlighted Labor, OPEB expenses and Contractor Costs as being over budget. Other variances Assistant General Manager Fisher highlighted consisted of Employee Health Costs, Salary Survey/New Positions, Community Education Program Expenses, Chemical Costs, and Travel Expenses, which are all under budget year-to-date. She gave a summary of Jefferson County Sewer Billing and Collections categorized by the months and the Number of Birmingham Water Works Delinquent Customer Accounts as of November 2023. Director Ward asked whether collections were being received for old accounts. Assistant General Manager Fisher responded yes and that collections on old accounts were approximately 30% - 35%. Director Munchus asked what contributed to percentage of the collection accounts. Assistant General Manager Fisher responded it was due to staff's collection efforts. General Manager Johnson commented that Birmingham Water Works has an agreement with the Northeast Alabama Community Action Agency and many customers that cannot pay their bill apply through the referenced agency, which has been beneficial. Other topics Assistant General Manager Fisher highlighted, consisted of the following: Reserve and PayGo Investment, Reserve Fund Summary, PayGo and Bond Proceeds Cash Flow, Historically Underutilized Businesses (HUB) Participation, Employee Information and HomeServe USA Monthly Statistics. Assistant General Manager Fisher stated the Board has invested funds in multiple Guaranteed Investment Contracts (GICs). She stated the Federated US Treasury Cash amount is \$49,240,563.98. Assistant General Manager Fisher said as of October 2023, PayGo is \$44,280,443.00 to pay for the capital program. She stated \$36,000,000.00 is estimated to be spent on the capital plan at the end of 2023 and \$30,000,000.00 is estimated for FY2024. She indicated that based on current PayGO, there will be six months of PayGo by the end of December 2023. Director Munchus inquired whether capital funds could be spent so quickly. Assistant General Manager Fisher responded yes, based on the capital plan. Next, Director Munchus asked if the capital program budget target for 2023 had been met. Assistant General Manager Murphy responded yes, based on the projects in place or projects that have already started construction. Afterwards, Assistant General Manager Fisher continued the presentation. She indicated that HUB participation is 21.21%, which is 71% of the Board's goal of 30%. Assistant General Manager Fisher said a HUB Participation PowerPoint presentation will be mailed to the Board to provide additional details. Next, she reviewed the Employee Information slide, which compares the full-time employee workforce (actual to budget). Assistant General Manager Fisher said as of November 14, 2023, there were 94 positions open, which does not include positions in progress. In conclusion, Assistant General Manager Fisher gave a summary on HomeServe. She stated that as of 2023 year-to-date, revenue commissions were \$764,670.30 compared to \$705,501.91 for 2022 year-to-date. Director Munchus asked whether the

Board would be receiving any cash back from HomeServe after February 2024, because they cancelled their contract. General Manager Johnson responded no. General Manager Johnson stated that HomeServe has an agreement with Alabama Power; however, customers will still have HomeServe services available to them. AGM Fisher concluded her presentation.

Following, Carolyn White, Internal Audit Manager, began her presentation of the Risk-Bases Audit Plan 2023 – 2025 and Updates on Auditing Activities. Mrs. White stated that the Institute of Internal Auditors Standards dictates the standards for the Internal Audit Department compliance. She gave an overview of The Risk Model. Mrs. White stated that The Risk Model consists of the following risks: strategic, financial, operational, compliance, reputational, information, and ethics and fraud. She stated that once risk levels are evaluated, the Audit Department develops a draft audit plan for the upcoming year. Following, she gave a summary of the Audit Plan. Mrs. White said Payroll is one of the largest costs that companies undergo; therefore, analytics data is always being extracted from the system to assist in analyzing payroll. In addition, she stated that the Purchasing Department activities are also analyzed. Director Ward asked how Purchasing Department credit card charges are audited. Mrs. White responded that Regions Bank gave the Internal Auditing Department read-only access to download and analyze the data. Afterwards, Director Ward inquired about the process for notifying an employee of re-paying the company for fraudulent card purchases. Mrs. White stated that the Internal Auditing staff has not found any fraudulent transactions linked to an employee at this time that suggests an employee is using the company credit card for personal gain. Director Ward commented that in Alabama, the most opportunity for fraud in Municipal systems is having access to cash or purchasing items on credit cards. Next, he commented that the Help to Others (H2O) Foundation has the potential to expand due to the company's work with Jefferson County. Following, Mrs. White discussed the audit of internal controls of the following: journal entry process, Human Resources recruitment, hiring, and payroll functions, purchasing/inventory process, Automated Clearing House (ACH) payments, and annual inventory count observation. She reviewed the conditions/results and the recommendation/corrective actions, as well as management's response regarding the audit. Next, Mrs. White stated that the Accounting Department is unable to implement the recommendations from Internal Audit at this current time because it is understaffed; however, they have other controls in place. She stated accounting staff is down by three employees. Following, Mrs. White discussed the Human Resources Department. She stated only the hiring process will be tested to determine if the corrective action plan is operational for the Human Resources Department. Next, she discussed the Purchasing Department process. Mrs. White indicated that purchasing controls changes should be implemented where a manager can only approve requisitions for the staff in their department and training will be offered. Director Huffman asked how often the training will be performed. Mrs. White responded training would be performed as needed. Director Huffman asked if the requisition approver was a buyer or manager. Mrs. White responded that each department has a designated person that enters requisitions with approval by the department's manager. In addition, Director Huffman asked whether there are training classes on the policy for requisition creators, to which Mrs. White responded yes. In conclusion, Mrs. White said there were inadequate internal controls, which resulted in two ACH payments that caused a financial loss; however, controls have been implemented. In reference to inventory, the process of counting physical inventory can be improved through outsourcing. Outsourcing inventory is not in the budget for 2024 but it will be

considered the following year. Mrs. White concluded her presentation. Director Ward commented that this report should be presented before the Board instead of the Finance Committee meeting.

Next, Director Ward stated that there were a few remaining non-controversial items to vote on. General Manager Johnson stated he wanted to point out two things to the Committee. He said regarding agenda item two, a cost-of-service study will be done next year. It will be an opportunity for the Board to look at its rates and rate structure across the various customer classes and adjust as needed. General Manager Johnson stated that on agenda item three, the Board wanted to be consistent with the terms of the agreement. He stated that said item will be a one-year agreement and will not have an automatic renewal clause; however, the adjustment needs to be made to the agreement. General Manager Johnson stated that agenda item four is an experience study on the OPEB and Pension Plan to ensure they are funded based on mortality rate and returns. Also, General Manager Johnson asked to add agenda item seven to today's upcoming board meeting agenda.

Following, Director Ward requested to approve agenda items two through seven together and under one motion. General Manager Johnson stated he would read an abbreviated version of the agenda items for the records. Director NeSmith arrived at the meeting at 10:55 a.m. Board Attorney Mark Parnell stated staff needed to give an explanation to the public on agenda item seven. General Manager Johnson read the following agenda items: Request Committee to approve agenda item two, an agreement with Raftelis Financial Consultants, Inc., effective January 1, 2024, through December 31, 2024, to continue to serve as the system's Rate Consultants (Independent Rate Consultants) at a cost based on Raftelis' 2024 Standard Billing Rates provided in "Attachment A" of the agreement. Request Committee to approve agenda item three, a contract modification with Terminus Municipal Advisors, LLC, to continue to serve as the system's Financial Advisor (Independent Register Municipal Advisor - IRMA), effective January 1, 2024. Request Committee to approve agenda item four, an agreement with Aon Consulting, Inc. (Aon), effective January 1, 2024, through December 31, 2024, to conduct an experience study for the Pension and Other Post-Employment Benefits (OPEB) Plan, at an out-of-pocket cost to the Plan of \$35,000.00. Request Committee to approve agenda item five, an engagement letter with Sheppard-Harris & Associates for an audit of the Board's Pension Plan for the year ended December 31, 2023, at an out-of-pocket cost to the Board not-to-exceed \$40,000.00. Request Committee to approve agenda item six, an engagement letter with Sheppard-Harris & Associates for an audit of the Board's OPEB Plan for the year ended December 31, 2023, at an out-of-pocket cost to the Board not-to-exceed \$25,000.00. Note: All agreements authorize the General Manager and/or the Assistant General Manager to execute said agreements. Next, General Manager Johnson proceeded to agenda item seven, Request Committee to approve the allocation of \$10,000.00 from funds budgeted for its Community Educational Program in support of the 56th Annual Equal Opportunity Dinner highlighting community leadership and the pursuit of equal opportunities hosted by the Birmingham Urban League, that will have a beneficial impact on the Water Work's Board's service area as it works to carry out its Corporate Purpose; and to authorize the General Manager to take such steps as is necessary to sponsor the 56th Annual Equal Opportunity Dinner. General Manager Johnson stated that staff/panel will communicate to the public services that Birmingham Water Works provides to rate payers. He stated the Birmingham Urban League is a significant contributor in helping customers pay water bills. General Manager Johnson stated sponsoring the event by the Birmingham Urban League is a great opportunity for Birmingham Water

Works to educate customers on assistance, leak adjustments, and meter re-reads, etc. Following, Director Ward asked if the program funds came back to the company, which General Johnson responded yes. Rick Jackson, Public Relations Manager, stated that the 56th Annual Equal Opportunity event will take place on Saturday, December 9, 2023. He stated Birmingham Water Works partnered with the H2O Foundation for this event. In addition, Jeremy Ervin, BWWB Workforce Development, will be there to present information about job recruitment and offer resources to those that need help.

Subsequently, Director Ward called for a motion on agenda items two through seven. Director Huffman made a motion to recommend said items be moved to the full Board for approval and Director Burbage seconded the motion. On a motion duly made and seconded, the motion was approved by unanimous vote.

As there was no further business before the Committee, Director Huffman made a motion to adjourn the meeting and Director Burbage seconded the motion. On a motion duly made and seconded, the motion was approved, and the meeting adjourned at 10:57 a.m.

_____/s/_____
Michael Johnson
General Manager

_____/s/_____
Raymond “Larry” Ward
Committee Chairman

_____/s/_____
William “Butch” Burbage, Jr.
Director

_____/s/_____
Tereshia Q. Huffman
Director