

**MINUTES OF THE FINANCE COMMITTEE MEETING
OF THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
July 19, 2018**

A Finance Committee Meeting of The Water Works Board of the City of Birmingham was held on Thursday, July 19, 2018, at 3:30 p.m., in the principal office of the Board, 3600 First Avenue North, Birmingham, Alabama.

The following Finance Committee Members were present: Directors William “Butch” Burbage, Jr., Tommy J. Alexander, and Sherry W. Lewis. The following Non-Committee Members were also in attendance: Directors Deborah Clark, Brenda J. Dickerson, Ronald Mims, George Munchus, and William R. Muhammad.

Inasmuch as all of the Committee members were present, a quorum was in attendance.

Also, the meeting was attended by: Mac Underwood, General Manager; Michael Johnson, T.M. “Sonny” Jones, and Darryl Jones, Assistant General Managers; Grace Amison, Executive Assistant to the Board of Directors; Vanessa Washington, Executive Assistant to Michael Johnson; Rick Jackson, George Anderson, Rosalind Jones, and BWWB Security, Board Employees; K. Mark Parnell, Parnell Thompson, LLC; Kelvin Howard, KWH, LLC.; Olivia Martin, AGO; Dorian Kendrick, Tommy Palladino, and Jesse Lewis, Agency 54; James White, Jim White, and Ebony O’Brien, Banks Finley & White; Matthew Arrington, Terminus; Brian Ruggs, ARCADIS; Walter Lewis, Ryan Combs, and Jim Folsom, Piper Jaffray; Bryce Holcomb, Citi; Michael Jones, Securities Capital; Matt Adams and Larry Ward, Raymond James; Gary Rehm, Stifel; Yvonne Davis, Yvonne Green Davis, P.C.; Bob Young and Jason Grubbs, Frazer Lanier, Ken Simon, Simon & Associates.

Director Burbage called the meeting to order at 3:30 p.m. He stated all Committee and Board members were present except for Director King, who is out of the country. Then, Director Burbage asked George Anderson to begin with the invocation.

Next, Director Burbage proceeded with agenda item one which requested the Committee to approve the minutes of September 27, 2017, October 4, 2017, and October 19, 2017. Chairman Tommy Alexander made the motion to approve and Director Sherry Lewis seconded the motion. The agenda item passed unanimously.

Following, agenda item two requested the Committee to hear a presentation on the upcoming bond issue and proposed bond issuance team. Director Burbage stated that Matthew Arrington of Terminus is BWWB’s financial advisor for said item and asked Mr. Arrington to begin his presentation. Matthew Arrington presented his presentation entitled *2018 Bond Financing Team Discussion (a copy of which is on file with the Committee Meeting Book)*. He explained that the Board goes to the bond market every two years for its capital improvement program. Presently, seventy-five percent of the money for capital improvement projects is borrowed through the issuance of bonds and the remaining twenty-five percent is funded from PAYGO. Mr. Arrington stated that the financing team needs to be in place by early August. Then he reviewed a schedule summarizing the Draw Down of Designated PayGo Cash Reserves. Per

Mr. Arrington, it is estimated that the Board will run out of capital money to fund the capital program between September and October. He told the Board it does not mean projects should be stopped; however, the company may have to utilize approximately two months of reserve money to fund the program until bonds are issued. In addition, the Board will be asked to approve a reimbursement resolution along with recommendations. The reimbursement resolution states that any money the Board spends to maintain the capital program while in the bond market will be reimbursed during that time. He said the estimated cash burn amount is five million dollars per month, which GM Underwood explained in detail.

Then, Matthew Arrington reviewed a list of all underwriting firms and bankers that contacted him. He stated that Goldman Sachs (*led 2016 transaction*) backed out but had to still be included on the list. Dr. Munchus asked why Securities Capital was not on the list and would like to see Securities Capital included, because they are qualified and do good work. Mr. Arrington stated that he generated the recommendations based on the feedback from Board members and the General Manager. He recommended a syndicate of four to six firms. Mr. Arrington recommended the syndicate in no order as follows: Raymond James (Senior/Co-Manager), Piper Jaffray (Senior/Co-Manager), Citi Group (Co-Manager), Stifel (Co-Manager), and Frazer Lanier (Co-Manager). Per Mr. Arrington, Raymond James and Piper Jaffray is both listed as Senior/Co-manager because some board members wanted Raymond James as lead underwriter and some wanted Piper Jaffray as lead underwriter. Dr. Munchus expressed concern again that Securities Capital was not on the list. Director Lewis explained that it was only a recommendation and the Board members can add, take away or make changes to the recommendation on the bond deal. Mr. Arrington stated he did not include firms on the list if it was suggested by only one board member. Then he spoke to his positive work experience with both Raymond James and Piper Jaffray. He stated a team of attorneys needed to be selected. He recommended Ezell Law (bond counsel), Yvonne Green-Davis, P.C. (co-bond counsel), Sirote & Permutt (disclosure counsel), Ken Simons (co-disclosure counsel), and Underwriter's Counsel to be determined by the Underwriter unless the Board would like for him to recommend someone else; however, the proper way is for the Underwriter to choose their own counsel. Dr. Munchus clarified that the Board does not have to accept the recommendations. Mr. Arrington indicated that is correct; however, it would be a problem if the Board was ever sued.

Next, Matthew Arrington stated the syndicate firms' participation percentages would need to be decided. According to Mr. Arrington, the process would take approximately ten weeks to complete everything. He reviewed the proposed financing timeline with board members. Mr. Arrington highlighted that there will be rating agency meetings in New York, which board members would be asked to attend to present BWWB's credit position. Also, he advised that it is important for the Board to understand that it is not the time for any adverse actions such as raising rates, shutting down plants, terminating management staff, etc.; because rating agencies will rate based on things they know for sure (good or bad), but uncertainty will lead to a poor rating. Then, BWWB's rating, interest rates, and customer rates will be affected in a trickledown effect. Mr. Arrington concluded his presentation and asked for any questions. Dr. Munchus requested the Committee to add Securities Capital as one of the syndicate firms. Director Burbage stated the goal is for the board to choose the syndicate they want and propose it to the full board for approval at the upcoming board meeting. Director Lewis asked if Frazer Lanier had been in previous bond deals for BWWB, which Mr. Arrington answered yes.

Following, Dr. Dickerson asked about the critical capital projects influencing the fund request. In response, GM Underwood distributed two handouts (1. Two-year capital improvement plan, 2. Ten-year capital improvement plan) both entitled *Ten Year Capital Plan – June 2018* (which a copy is on file with the Committee Meeting Book). Then Dr. Dickerson asked if in prior years and current requests, are projects generally completed in the period indicated. GM Underwood stated yes and then referred to AGM Sonny Jones to elaborate further. Per AGM Sonny Jones, Mulberry Intake Pump 5 needs to be finished. Then Dr. Dickerson asked about BWWB's debt service increasing and the projected cost for the next three years. GM Underwood stated its about \$62 million a year. He also stated that a five and ten-year projection is given in the presentation when going to the bond market that shows the debt service coverage and rate increases needed during that time frame. Then, he offered to provide Dr. Dickerson a copy of the last package. He also confirmed to Chairman Alexander that some of the debt service comes from buying the system back from the City. Next, Dr. Dickerson asked about the amount spent annually on PAYGO in support of capital projects. AGM Michael Johnson stated BWWB expects to borrow \$90-\$95 million of two- year capital budget therefore, \$30 - \$35 million will come from PAYGO which is 25%. Then, Dr. Dickerson asked the percentage of capital money going into capitalized O&M and are there employees working on capital projects but being paid out of the O&M budget. GM Underwood explained the process. Next, Dr. Dickerson asked for a report to show the capitalized O&M pertaining to salaries and requested to receive the last three years (2015, 2016, 2017). AGM Sonny Jones explained capitalized O&M and stated that it is budgeted every year and does not consist of salaries only. Per AGM Sonny Jones, capitalized O&M also consists of lights, gasoline, vehicles, etc. Director Muhammad expressed concern that Dr. Dickerson's questions indicate that steps are missing in educating the board on the bond market process. However, Dr. Burbage stated the questions asked by Dr. Dickerson had been answered within the last six to eight months in presentations to the Board. Then Dr. Dickerson asked to know about other capital project priorities that are out there and to have them prioritized. Director Burbage stated that is a valid question, and that in the process the money must be allocated. For a major project like Shades Mountain Filter Plant, which consists of major dollars, BWWB is obligated to pay those contracts which must be the primary process. Then, GM Underwood explained the reserve schedule from Matthew Arrington's presentation, reimbursement resolution, bond rating down grade, and reserve policy. Per AGM Michael Johnson, bond money was spent in June; therefore, the money being spent now is PAYGO. Next, GM Underwood stated we can decide to continue with the program. The options are do the bond issue and continue with the capital program as is, spend more of the \$69 million in reserve which will subject BWWB to being down-graded by the rating agencies which will lead to the Board having a higher interest rate, or refuse to do Shades Mountain Filter Plant, which is not a good option. Director Mims suggested a cut back in other areas. AGM Michael Johnson stated that in his last panel discussion with Moodys, Fitch, and Kroll bond rating agencies, they are looking at what the utilities are doing to maintain their infrastructure and fund their capital program. Director Muhammad expressed concerns about the manner and timeline in which the Board is being provided information to make decisions.

Following, Director Lewis asked how many team members were on the last bond team and before, and their performance. The Board members should see their previous performance. She recalls that previously there were some firms that did not perform well, and performance is very important in bond deals. Director Lewis requested to have information before Thursday's, Board

Meeting. Per Matthew Arrington, Director Lewis is referring to the sales period. During the sales period, underwriters put in orders. The more orders received the lower the interest rates. Firms that put in orders are important, but you also want firms that can write a check for the remaining balance if they do not sale all the bonds, which is why large firms are important. However, Mr. Arrington stated he will forward the 2015 and 2016 bond issue performance report. Then, Director Lewis clarified that it was only a recommendation of companies to the full board for the bond issuance and then the board would decide the deal. Therefore, she made a motion to recommend the Committee to accept the recommendations before them with the addition of Securities Capital. Chairman Alexander seconded the motion. The item passed unanimously, which Director Burbage stated would be shown in the resolution for next Thursday. Director Lewis further indicated that at Thursday's Board Meeting, the Board would have the opportunity to add/change during that time.

Finally, Director Burbage proceeded with agenda item three, which requested the Committee to hear a review of the BWWB's Audit Report for the Year Ended December 31, 2017 from Banks, Finley, & White Company. Mr. James White of Banks Finley & White presented information on said agenda item. The following handouts: *Financial Statements and Other Information-December 31, 2017 with Independent Auditor's Report Booklet, Transmittal Letter Audited Financial Statement (FS) 2017, Communication with Govern at Conclusion (SAS 114) FS 2017 Letter, Management Comment Letter FS 2017, and July 16, 2018 Response to Management Letter (copies which are on file in the Committee Meeting Book)* were discussed in detail to Board members. Dr. Munchus asked a question regarding purchase orders duplication and whether the information on the handout corrected the issue. Chairman Alexander left the meeting and returned at 4:40 p.m. Director Muhammad asked how many miles of water mains is there and the cost to replace a main. Per GM Underwood, BWWB has approximately four thousand miles of water mains. AGM Sonny Jones stated \$897,600 per mile totaling \$3.5 billion. After further discussion, Mr. James White concluded his presentation. There was no new business nor any speakers present.

As there was no further business to be brought before the Committee, a motion to adjourn the meeting was duly made and seconded, and the meeting adjourned at 4:47 p.m.

_____/s/_____
Tommy J. Alexander
Chairman/President

_____/s/_____
William "Butch" Burbage, Jr., C.P.A.
Assistant Secretary-Treasurer

_____/s/_____
Sherry W. Lewis
Director

_____/s/_____
* Michael Johnson
General Manager

*Michael Johnson has signed these minutes as General Manager. Mr. Johnson became General Manager on March twenty-seventh two thousand nineteen after this meeting but before the minutes were finalized.