

**MINUTES OF THE FINANCE COMMITTEE MEETING
OF THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
May 10, 2023**

A Finance Committee meeting of the directors of The Water Works Board of the City of Birmingham was held on Wednesday, May 10, 2023, at 10:30 a.m., at 3600 First Avenue North, Birmingham, Alabama.

The following Committee members were present: Directors Ward (Committee Chairman), and Burbage. Also, present were Directors Henderson, Munchus, and Taylor who are not Committee members.

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; Colandus Mason, Rick Jackson, Robert Steffens, Michael Tartt Jr., Rosalind Jones, Jacqueline Hill, Jeff Wade, Charles McGee and David Walker, BWWB Employees; K. Mark Parnell, Parnell Thompson Law, LLC; Byron Perkins, Perkins Law, LLC; Kelvin Howard, Kelvin W. Howard, LLC; Olivia Martin, State of Alabama Attorney General's Office.

Inasmuch as all Committee members were present, a quorum was in attendance. Committee Chairman Ward called the meeting to order at 10:30 a.m., Assistant General Manager Fisher opened the meeting with prayer.

Next, Committee Chairman Ward asked the Committee to approve the agenda. Director Burbage made a motion to approve the agenda and Committee Chair Ward seconded the motion. The agenda was approved by unanimous vote. Director Huffman entered the meeting at 10:32 a.m.

Following, the Committee proceeded to hear the reports of officers. Board Attorney Mark Parnell commented under the Committee Chair's Report. He stated he was asked to prepare a Leak Adjustment Policy. He indicated the handout entitled *Birmingham Water Works Board Leak Adjustment Policy* has been prepared and given to each director (A copy is on file in Diligent). He stated the leak adjustment policy was sent to General Manager Johnson and Assistant General Manager Fisher over the weekend. They have not had an opportunity to review the leak policy changes; therefore, the leak policy is not ready for the Committee's consideration. Board Attorney Parnell stated two classifications of customers were added to the policy: residential and commercial. The leak adjustment policy does not apply to industrial or wholesale customers. Board Attorney Parnell stated that eligible residential customers would receive a 100% leak adjustment based on their average bill and eligible commercial customers would receive a 50% leak adjustment. He stated the leak adjustment policy is ready to be placed on the agenda for the next meeting. Committee Chairman Ward questioned whether the policy should go to the Finance Committee or the Regular Board of Directors' Meeting. After a brief discussion, General Manager Johnson responded the policy needs to be reviewed by the Finance Committee prior to a board meeting. Board Attorney Parnell suggested the Finance Committee, General Manager Johnson, and Assistant General Manager Fisher will decide on a committee meeting date, after they all have had an opportunity to review the leak policy.

Next, Assistant General Manager Fisher presented the Operating and Maintenance (O&M) Budget. She gave an overview of the budget process. Assistant General Manager Fisher stated the Birmingham Water Works is managed based on the effective utility management model, which consists of ten attributes for maintaining a well-run utility. She highlighted the organization's six strategic goals: product quality, customer satisfaction, workforce development, infrastructure stability, financial viability, and effective governance. Assistant General Manager Fisher discussed Rates Stabilization and Equalization (RSE) process. She stated the rates for customers are determined by the RSE Model, which is based on revenue requirements for operating and maintenance, capital the project needs, demand projections, and financial policies. She stated that as part of the budget process, each department projects their needs. Afterwards, budget hearings are held with each department's management team to review and discuss the preliminary budget requests, department managers enter the approved data from the budget hearing into the budget module, which is confirmed by the budget team. Following, Executive Management reviews the results and budget workshops are held with the board of directors. Birmingham Water Works holds a public hearing, and the board of directors approves the budget. Assistant General Manager Fisher stated the FY2023 Operations and Maintenance Budget was approved for \$125,304,576.00 and the FY2023 Capital Budget was approved for \$72,307,526.00. Next, she reviewed the O&M Budget Summary slide. She stated it shows the FY2023 approved budget and displays the prior year budget for comparison. The summary shows whether there was an increase or decrease in the various budget categories, as well as the percent change. She stated the summary indicates there was an 8.12% increase in the FY2023 budget compared to FY2022 budget. The increase was impacted by labor, employee related expenses, power, and chemicals. Committee Chairman Ward asked whether the increase for this year is anticipated to be in line. Assistant General Manager Fisher responded the increase is anticipated to be in line, and there should not be a substantial increase. She stated there was an increase in consultants' cost due to a past cost that was capitalized, which is now a routine operating expense. Next, she highlighted various descriptions of budget actions and dates on the proposed budget calendar for FY2024. Committee Chairman Ward asked about the amount staff had in expenses compared to the amount that was approved. General Manager Johnson responded it was not a significant amount. Assistant General Manager Fisher stated the open employee positions were cut by 50%. General Manager Johnson stated there was a significant increase in cost of living and benefits, which will need to be reviewed next year. Assistant General Manager Fisher concluded her presentation. She commented that the finalized budget book gives detailed information on the budget. Afterwards, she recognized the accounting team for being awarded the Distinguished Budget Presentation Award for the third consecutive year. It is one of the highest awards given in accounting. Next, Assistant General Manager Fisher called for questions regarding the budget. Director Taylor stated that the company is in the process of an organization assessment, in addition to the FY2024 budget process. She inquired about the status of the organization assessment in terms of determining the internal positions needed as opposed to external consultants. Also, Director Taylor inquired as to where in the budget book is professional development and departmental opportunities located/referenced, as external consultants are being used frequently in some departments. Assistant General Manager Fisher responded the professional development and departmental opportunities are not referenced in the budget book. Also, she responded that the organization assessment recommendations will not be implemented before the FY2024 budget is approved; they would take place in 2025. General Manager Johnson stated that

there is a consultant schedule in the budget book. He stated the consultants currently being utilized by the company supplement and provide services for a need identified at that time. He stated that if there is an opportunity to reduce a consultant and add staff, it will be done. Afterwards, Assistant General Manager Fisher stated that there is not a section in the budget book that relates directly to professional development; however, there is a travel budget line item where each department budgets for training and education. General Manager Johnson commented that a workforce development goal is to work with Bevill State Community College, Lawson State Community College, and The Housing Authority of the Birmingham District to increase the number of employees for the company and reduce vacant positions. Director Taylor requested that staff include a training budget line item to evaluate the level of training for each department to reflect internal operations. Following, Assistant General Manager Fisher presented the Operating and Statistical Report for the Finance and Administration Division-First Quarter 2023. She highlighted the number of active customer accounts, the balance sheet, operating net revenue, and total operating net revenue through March 2023. She stated the operating revenue is over budget by \$2,319,033.00, due to conservative budgeting and operating expenses are under budget by \$2,511,949.00. Following, Assistant General Manager Fisher gave an overview on large operating and maintenance variances relating to the operating expenses. The labor expense is underbudget due to overtime, open positions, increase in leak repairs, and meter reading. Paving charges are over budget due to an increase in street paving. Power costs are over budget, due to a rate increase by Alabama Power after the organization's budget was approved. Director NeSmith entered the meeting at 10:56 a.m. Director Munchus inquired about the chemical costs. Assistant General Manager Fisher responded she would address chemical costs as it comes up shortly, in the presentation. Next, she stated the pension expense is under budget. It is a book entry under GASB 68. Also, consulting and employee health costs are under budget. Chemical costs are under budget and lower than normal because the chemicals are not budgeted in a straight-line month by month, the new filter plant building has used less chemicals than anticipated, less rain, and more use of the Cahaba River has reduced need for chemicals. Assistant General Manager Fisher stated the salary survey/new positions and travel miscellaneous other expenses are under budget. Director Munchus inquired about the salary survey being under budget and whether any adjustments regarding the survey would occur in 2024. Assistant General Manager Fisher responded no. Next, Director Munchus asked whether the salary survey would be retroactive if approved by the board this year. Assistant General Manager Fisher responded there has not been any discussion on that matter. Afterwards, she discussed the Jefferson County Fees and the Jefferson County Sewer Billing and Collections by Month. She stated \$3,699,823.00 had been collected as of March 2023. Director Munchus asked about the status of bad debt collection. Assistant General Manager Fisher stated that bad debts decreased by 20% within three months. Next, Assistant General Manager Fisher discussed the Reserve and PayGo Investment. She stated the organization has several guaranteed investment contracts and a certificate of deposit with Citizen's Trust Bank. The amount of the certificate of deposit with Citizen's Trust Bank is \$125,518.88 with a maturity date of October 30, 2023. Afterward, she discussed the Reserve Fund Summary. The PayGo balance is \$47,065,336.00 at the end of March 2023. Assistant General Manager Fisher stated that company is not using any borrowed funds. Also, the WIFIA Loan will be closed soon. She stated that if the company needs more funds, its financial advisor, Matthew Arrington, Terminus, is looking into a bond anticipation note. Following, she reviewed the Historically Underutilized Businesses (HUB) Summary slide and stated

she would review the report afterwards. Assistant General Manager Fisher said the HUB participation goal is 30%. However, we are currently at 28.66%, which is 96% of that goal. Next, she stated there are 85 vacant positions, when comparing actual full-time employees to budgeted full time employees. Assistant General Manager Fisher concluded her presentation with highlights of HomeServe USA Monthly Statistics. Next, she gave a brief presentation on Historically Underutilized Businesses for March 2023. She reviewed pie charts displaying the overall HUB vendors, HUB consultants, HUB suppliers and services, and pipeline replacement program expenses and participation percentages. She concluded with a slide displaying the classification of HUBs by category.

Following, Assistant General Manager Murphy presented the Capital Budget. He gave an overview on the capital improvement program. Assistant General Manager Murphy reviewed a graph displaying the FY2022 Capital Program Summary of expenditures, as well as a slide referencing the Capital Budget Report as of April 30, 2023. Assistant General Manager Murphy highlighted the actual year-to-date to the budgeted year-to-date spending for the following: Lake Purdy Dam, 1D and 1E, Service Line Replaced, Carson Loop 6, Shades Mountain Filter Plant, and the Capital 5 year-to-date. He stated that two million was allocated to Lake Purdy Dam, due to environmental concerns. He stated those issues are being resolved through Fish and Wildlife and should have necessary permits by the end of the year. Afterwards, he stated a public meeting is being held tonight, May 10, 2023, regarding the Carson Loop 6 Project. The Carson Loop project will start based on the time frame for delivery of materials. He stated Shades Mountain Filter Plant was not budgeted because it was expected to be completed last year. Next, he discussed the Risk Based Score Process and utilizing the process to rank projects. The rankings are one through five, with five being the highest. This process determines which projects are placed in the budget. Director Mims entered the meeting at 11:15 a.m. Following, Assistant General Manager Murphy discussed the repair and pipeline replacement model relating to leaks in the system. He stated if there are 80 pipeline breaks within 100 miles of pipe, then pipeline replacement should be considered. The model calculates certain variables and determine which pipe needs to be replaced. Also, he stated the GIS model shows the estimated time pipeline needs to be replaced. Assistant General Manager Murphy said the pipeline break rate for the Birmingham Water Works service area in 2013 was 50 breaks, but the number should not go over 40 breaks. He stated data is being reviewed to account for water loss, that may possibly be caused by other factors, such as unauthorized usage as opposed to only leaks. Director Munchus asked about the process when Birmingham Water Works determines water is being stolen. Assistant General Manager Murphy responded that a lock is placed on the meter; however, there is also the possibility that the service line could be terminated from the street. General Manager Johnson stated that there is a fee for using water without a contract. Director Munchus questioned the process for theft of water by someone with a mobile car wash, as an example. Assistant General Manager Murphy responded there are some options being considered for policing that type of situation. Afterwards, Committee Chairman Ward thanked staff for their reports. He stated staff has been asked to give updates on the budget quarterly, to make sure board members are informed, as directors vote on matters that are large sums of money. General Manager Johnson commented that a handout had been distributed entitled *FY2023 Budget Additions*, which will be discussed at the board meeting (A copy is on file in Diligent).

Subsequently, the Committee proceeded to the first item on the agenda, Request Committee to recommend to the Board to approve and ratify work performed by Raftelis Financial Consultants, Inc., to update the billing cost allocation model and to assist the Board with contract negotiations with Jefferson County, at a cost not to exceed \$31,750.00. General Manager Johnson stated initially the board approved an agreement slightly over \$41,000.00, which was split half and half between Birmingham Water Works and Jefferson County. However, after going through the process and receiving advice from legal counsel, it was determined that there was extra work needed to be performed for Birmingham Water Works, only. Director Huffman made a motion to recommend said item be moved to the full board for approval and Director Burbage seconded the motion. The agenda item 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. The meeting adjourned at 11:26 a.m.

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

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

_____/s/_____
Tereshia Q. Huffman
Director

_____/s/_____
Michael Johnson
General Manager