

**MINUTES OF THE FINANCE COMMITTEE MEETING
OF THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
October 10, 2018**

A Finance Committee Meeting of The Water Works Board of the City of Birmingham was held on Wednesday, October 10, 2018, at 11:30 a.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., and Tommy J. Alexander. The following Non-Committee Members were also in attendance: Directors Deborah Clark, Brenda J. Dickerson, Ronald Mims, 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, Shelia Patterson, Joyce Komo, Barry Williams, Paul Lloyd, and BWWB Security, Board Employees; K. Mark Parnell, Parnell Thompson, LLC; Kelvin Howard, KWH, LLC.; Olivia Martin and Kayla Currie, AGO; Tommy Palladino, and Martha Bozeman, Agency 54; James White and Jim White, Banks Finley & White; Brian Ruggs and Patrick Flannelly, ARCADIS; Dan Meadows, S.S. Nesbitt; Townsend Collins, Raftelis; Derrick Murphy, AWPM; and Chandra Abesingha, CE Associates.

Director Burbage called the meeting to order at 11:31 a.m. as two of the three Committee members were already present. Chairman Alexander stated that BWWB bonds status received an AA rating and that staff received an AAA rating. He thanked the staff for doing well.

Next, GM Underwood requested the Committee to hear a presentation to approve the Board's Property and Liability Insurance Plan (the Plan) for November 1, 2018 to October 31, 2019 in the amount of \$1,227,001.00 and payment of an Agency fee in the amount of \$150,000.00 to S.S. Nesbitt & Company, Inc. for broker of record services related to the Plan, as set forth in agenda item one. GM Underwood referenced a handout entitled *Water Works Board of the City of Birmingham 2018-2019-SS Nesbitt & Co., Inc. (a copy of which is on file in the Committee meeting book)*. He noted to the board that a majority of the change to BWWB’s property and liability insurance renewal was an increase in the property value insured, otherwise everything else was almost the same. Therefore, he recommended the board’s approval of the insurance premiums. Director Mims asked if BWWB was efficiently insured. Dan Meadows of S.S. Nesbitt stated yes. Per Mr. Meadows, there are high retentions, but no changes other than property. Director Lewis entered the meeting at 11:39 a.m. After some discussion, Chairman Tommy Alexander made a motion to move the item to the full Board and Director Sherry Lewis seconded the motion. Dr. Munchus entered the meeting at 11:42 a.m.

Following, GM Underwood requested the Committee to review and discuss an agreement with Banks, Finley, White & Company (BFW&Co.) to audit the financial statements of the Water

Works Board for the three (3) years ending December 31, 2018, December 31, 2019, and December 31, 2020 at a fee not to exceed \$165,000.00 per year. GM Underwood indicated to the board that BFW&Co. has been BWWB auditors for the past three years. Director Lewis inquired about their fee amount. There was a discussion about their fee increase and James White explained the reason for the increase. In addition, Director Lewis asked about changing auditors and the process from previous years. Mr. James White was also asked if there were any unforeseen issues and to explain the changes to their audit procedures. Then, Dr. Munchus inquired about the auditors used by Jefferson County. Director Burbage explained that the counties are audited by the Department of Public Examiners. After more dialogue, Dr. Munchus explained his reason for wanting the information. Then, Director Burbage asked for a motion to retain the auditors Banks Finley, White and Company for their services going forward for the next three years. Chairman Tommy Alexander made a motion to move the item to the full Board and Director Sherry Lewis seconded the motion.

Finally, GM Underwood requested the Committee to hold a workshop on the FY2019 Operations and Maintenance Budget and FY2019 Capital Budget, as set forth in agenda item three. GM Underwood stated that Townsend Collins, Raftelis would review various water rate scenarios related to rate increases. Chairman Alexander stated that BWWB debt needs to be lowered and the PAYGO needs to be increased. Per Attorney Mark Parnell, the board would need to revisit the PAYGO policy for that to occur. He indicated that increasing the PAYGO percentage affects the rate increase and there is an RSE formula which controls the rate increase. Then, GM Underwood explained that increasing PAYGO would create more reserve for paying future capital projects and reduce the borrowing amount. Director Muhammad asked for clarification regarding Attorney Parnell's statement. Attorney Parnell explained the factors that generate the percentage of rate increase such as O&M and Capital Budget and BWWB financial policies. Then, Director Muhammad asked about the legal ramifications, which Attorney Parnell answered. The RSE is a policy developed by BWWB to determine rate increases. Per Attorney Parnell, the rate increase can be enforced by resolution or a formula. Then, Mr. Townsend Collins presented information from a handout listing *Scenario 1: Volumetric Only Increase in 2019 of 1.9%, Scenario 3: Volumetric Only Increases of 5.9% in 2019, 2020, & 2021, Scenario 4: 3.9% Increases on Base and Volumetric in All Years (copies of which are on file with the Committee Meeting Book), and a Summary of Scenario 1, Scenario 3, and Scenario 4*, which were scenarios based on the RSE Model. Per Mr. Collins, the various scenarios are being presented to give the board options while evaluating the budget. He explained that Scenario 2 was not included in the summary because there were not enough differences between Scenario 1 and Scenario 2. As Mr. Collins continued his presentation for each scenario, several Board members expressed a favorable interest in Scenario 4. Mr. Collins explained that the bond indenture requires 1.2 for senior debt service coverage and total debt services coverage is 1.0. GM Underwood stated that BWWB has higher targets to ensure good bond ratings. Per GM Underwood, the key driver is taking the additional money from Jefferson County and applying it to PAYGO. The discussion continued about reducing BWWB high debt and bond ratings. Director Burbage explained that BWWB debt is a scheduled debt payment that cannot be paid off like regular debts by making extra payments. Per Director Burbage, when the debt was sold, it was based on the rate of return that the people who bought the bonds would receive. Director Muhammad expressed concerns of voting on a "net budget" and that the amount now presented is different from the amount he voted on. GM Underwood explained the budget was "grossed up" to the correct amount because of a change in

the Accounting process. Attorney Parnell explained to Director Muhammad, that the budget voted on and the budget before him are the same. However, to account for the changes which shows different budget amounts, the expenses and revenue were grossed up to ensure an accurate representation in making it the same. Dr. Dickerson left the meeting at 12:35 p.m. In addition, Director Burbage explained that from the history of the original Jefferson County Agreement that was changed, the money received from Jefferson County has always been reduced to the expenses. Dr. Dickerson returned to the meeting at 12:39 p.m. Then, AGM Michael Johnson clarified that the prior agreement provided for the reimbursement of joint services costs and the new agreement is a fee for service cost. Therefore, what was previously being received from Jefferson County was not revenue; it was a reduction of expenses. Next, GM Underwood distributed and referenced the handout entitled *Accounting for Jefferson County Sewer Collection Agreement (a copy of which is on file with the Committee Meeting Book)* which are footnotes from the auditors' report explaining the process. Then, Director Burbage stated he has no problem with holding meetings on the budget. Then asked that the budgets be discussed at separate workshops. Per Grace Amison, Executive Assistant to the Board of Directors, there is a meeting scheduled for Friday, October 19, 2018 and another meeting on Wednesday, October 31, 2018. Director Burbage confirmed that the O&M budget will be discussed on at the October 19, 2018, then, the Capital Budget will be discussed at the October 31, 2018 meeting. Director Lewis made a motion to discuss the O&M budget at the 1st upcoming Finance Committee Meeting and the Capital Budget on the 2nd Finance Committee Meeting. Chairman Alexander seconded the motion. Then, GM Underwood stated a Public Hearing Meeting is scheduled for Thursday, November 8, 2018 at 5:30 p.m. Next, Patrick Flannelly, ARCADIS, gave a recommendation as an independent engineer to the board members. Per Mr. Flannelly, the PAYGO is insufficient in scenario 1 and 3, as opposed to scenario 4. Scenario 4 is the best and makes the best impact for reducing debt. Then, Dr. Munchus stated the company also needs to think about the revenue and other opportunities to increase revenue and economic development. 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 12:50 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.