

**MINUTES OF THE FINANCE COMMITTEE MEETING
OF THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
October 31, 2018**

A Finance Committee Meeting of The Water Works Board of the City of Birmingham was held on Wednesday, October 31, 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., Sherry W. Lewis, and Tommy J. Alexander. The following Non-Committee Members were also in attendance: Directors Ronald A. Mims, William R. Muhammad, Deborah Clark, and George Munchus. Dr. Brenda J. Dickerson was present via telephone.

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

Also, the meeting was attended by: Mac Underwood, General Manager; Michael Johnson and T.M. “Sonny” 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, Barry Williams, Paul Lloyd, Michael Parker, John Dansby, Alesia Price, Doug Stockham, John Reymann, Steve Franks, and BWWB Security, Board Employees; Mary Thompson, Parnell Thompson, LLC; Kelvin Howard, KWH, LLC.; Tommy Palladino and Dorian Kendrick, Agency 54; Brian Ruggs and Patrick Flannelly, ARCADIS; and Sarah Stokes, SELC.

Director Burbage called the meeting to order at 11:33 a.m. and asked George Anderson to begin with the invocation. Next, he stated the primary purpose of the Committee is to hold its third budget workshop on the Preliminary FY 2019 Operations and Maintenance (O&M) Budget and FY 2019 Capital Budget, as set forth in agenda item one. Per Director Burbage, the O&M budget would be discussed first, then he turned the meeting over to GM Underwood. GM Underwood distributed an email sent to board members entitled *FY 2019 Operating and Maintenance Budget (a copy of which is on file with the Committee Meeting Book)*. GM Underwood stated that in the last budget workshop, management was requested that the budget be reduced to \$104,765,522.00. In reaching that goal, GM Underwood stated several budget line items were reviewed, and the following changes would need to occur: COLA reduced to 2% instead of 2.9%, longevity pay capped at 4% for FY 2019 (policy would have to be amended), eliminate vacant positions, and adjust several other line items. Director Munchus entered the meeting at 11:36 a.m. While distributing another handout entitled *Birmingham Water Works Board 2019 Revised Budget as of October 31, 2018 (a copy of which is on file with the Committee Meeting Book)*, GM Underwood stated he would review all the budget line item details if the board members preferred. In addition, he indicated that the \$104,765,522.00 is the same as the amount from last year. Then, GM Underwood clarified that last year’s budget, which was approximately \$99,000,000.00, included the grossed-up amount of \$4.8 million from Jefferson County Sewer Collection, which brought the amount to \$104,765,522.00. There was a question on the proposed longevity pay cap. Afterwards, Dr. Munchus inquired as to the effect of reducing the budget line item for on-call leak repairs and shared his concerns. Then, Director Clark asked if the deficit John Dansby, Distribution Manager, has in his area regarding fixing leaks were being addressed to prevent his area from being compromised. In addition, Director Clark stated that overtime needed to be reviewed. There was much discussion on overtime and the need to manage it as an ongoing project. GM Underwood

explained that a large amount of overtime is due to certain departments not being fully staffed due to retirements, etc. and that a lot of work in Distribution was previously done by on-call contractors, whereas now, that work is being done in-house by the Distribution Department. Then, Director Mims stated he would like to see the trends of overtime from the last five to ten years and the drivers for overtime increases.

Next, GM Underwood distributed a handout to support the discussion entitled *Birmingham Water Works Board Overtime Analysis 2015, 2016, 2017, 2018, & 2019 Amount(s)*, and another handout entitled *2% O&M Growth-Scenario 4: 3.9% Rate Increase* (copies of which are on file with the Committee Meeting) to support the discussion on maintaining low water rates for customers. Concern was expressed about reducing the budget further. GM Underwood stated he was asked to reduce the budget at the last meeting to \$104,000,000.00 which he has done. However, Director Lewis expressed concerns on the proposed water rate increases. GM Underwood stated he thought the board agreed with Scenario Four, 3.9% water rate increase. Director Clark suggested input from Peiffer Brandt, Raftelis, to help with the BWWB's budget and possibly an organizational audit is needed to examine staffing needs. Per Director Clark overtime has been an issue for many months. She stated the responsibility of addressing overtime was GM Underwood's not the Board of Directors. GM Underwood stated that they are working on the overtime issue; however, he would like an Overtime Committee. Per Director Muhammad, if Distribution had sixteen leak crews and now only have eight leak crews, what is preventing the Distribution and the Drafting Department from filling job positions. Then, Director Muhammad read a September 13, 2018 resolution that froze hiring new employees and allowed for BWWB staff to fill job positions up to 654 employees except for any critical positions needed, wherein, staff would provide an explanation for those critical positions needed until the budget was approved. Director Muhammad stated that a resolution is like policy/board law. GM Underwood distributed a handout entitled *Distribution Vacant Positions (10/19/18)* (a copy of which is on file with the Committee Meeting Book) identifying the critical need justification. There was much continued discussion on filling Distribution leak crew's job positions and the use of on-call contractors, then, the discussion concluded. Next, overtime was discussed. Chairman Alexander stated that overtime cannot be accurately predicted, because disasters happen. However, Director Lewis stated that a dollar amount must be projected for overtime, because you cannot let overtime be unlimited. The concerns expressed was for increasingly excessive amounts of overtime regardless of no longer using on-call contractors. Hiring more people should result in decreased overtime, but this does not seem to be the case. Per Director Muhammad, if the amount of overtime approved in the budget has been reached, then, staff should request board approval for additional funds for overtime, which several board members agreed.

Following, Director Burbage indicated that the proposed FY 2019 O&M budget was \$104,764,526.00 and whether the Finance Committee members would like to proceed with that amount or change it. Director Lewis stated she would like to change the amount, because she still has concerns with the overtime. She inquired as to the percentage of decreased overtime from last year to this year budget which GM Underwood answered. Director Burbage asked Director Lewis if adjusting the proposed FY 2019 budget from \$104,764,526.00 to \$104,000,000.00 would be acceptable to allow for reducing the overtime budget line item. Director Lewis she stated yes. In addition, Director Lewis requested the specifics from AGM Darryl Jones for the chemicals budget line items. Therefore, Director Burbage proposed that the Finance Committee recommend sending item to the full board for approval of the proposed FY 2019 O&M Budget in the amount of \$104,000,000.00. Chairman Alexander made the motion and Director Lewis seconded the motion.

Dr. Dickerson asked for clarification on whether there was going to be a 2% merit or 2.9%. GM Underwood explained that the Cost of Living Adjustment (COLA) is being limited to 2% instead of 2.9%, which all employees will receive. The merit is still budgeted for 2% of the labor budget for eligible employees based on their performance review. GM Underwood stated that staff would have presentations and budget documents for the proposed FY 2019 budget of 104,000,000.00. He confirmed that the next board meeting scheduled for November 8, 2018 would also be a Public Hearing. Per GM Underwood, the FY 2019 proposed budget would also include a rate increase of 3.98 % on the volumetric side and the base charge, with any additional money applied to PAYGO. The purpose is to increase the PAYGO policy to 50% of the capital program within 5 years. Chairman Alexander left the meeting at 12:43 p.m.

Next, AGM Sonny Jones presented information from a handout entitled *2019 Capital Plan and Related Projects (a copy of which is on file with the Committee Meeting Book)*. AGM Sonny Jones discussed current system assets, the capital planning strategy and the proposed budget. Chairman Alexander returned to the meeting at 12:45 p.m. Per AGM Sonny Jones, the value of the current system assets is \$1.125 billion on the books but \$5.9 billion if those assets were to be replaced. He stated that to maintain the assets, BWWB should be spending 1.3 % (\$78 million/year) according to AWWA Qual Serve data based off the \$5.9 billion. AGM Sonny Jones that the capital program strategy involves doing things in a specific order; such as, first, things begin at the treatment plants; second, the filter rehabilitation; third, additional sources of supply for the Southern portion of the system; and lastly, distribution system piping. Then, there was a discussion on grouting Lake Purdy Dam and the cost regarding leakage and stability issues. Patrick Flannelly, ARCADIS stated that the grouting approach is no longer recommended; therefore, he would bring in dam experts to address the issues. According to Mr. Flannelly, the dam needs to be made bigger to address stability and to last for the next 100 years, to make sure the dam will not move during extreme rainfall and to ensure that the water goes over the dam instead of around the dam, and stop the 6 million gallon a day seepage. Then, AGM Sonny Jones discussed the removal and replacement of galvanized steel pipes. He reviewed the individual budget line items with the board regarding the capital budget. There were some questions about the Economic Development funds and SAP Phase 3 Implementation, which management answered. Next, GM Underwood distributed a memo from Peiffer Brandt, Raftelis entitled *Summary of Cost of Services Results and Recommendations – Draft (a copy of which is on file with the Committee Meeting Book)*. GM Underwood discussed the memo related to the cost of services study. He indicated that the raw water rate needs to increase by 30%. The proposal is to not implement the full cost of service study related to the raw water rates this year. However, the rate needs to be increased for the raw water customers at 10% increments over the duration of 3 years. Raftelis does recommend implementing a wholesale rate class for existing non-residential customers. Then, Director Burbage proposed that the Finance Committee recommend sending item to the full board for approval of the proposed FY 2019 Capital Budget in the amount of \$65,893,797.00. Chairman Alexander made the motion and Director Lewis seconded the motion.

Finally, under new business, as set forth in agenda item 2, Mr. Flannelly requested to address the Cahaba Beach Road issue. Director Lewis expressed concerns that the City Council had a resolution with a statement about BWWB which implied a decision had been made and that BWWB had a resolution which is false. Per Director Lewis, the board heard from the Cahaba River Keepers Society, but is still waiting to hear ALDOT's position on the issue. The board has not decided on Cahaba Beach Road nor is there a resolution. Hence, members of the City Council requested the board come to a meeting and explain the issue. In addition, Director Lewis stated

reference had been made about a problem with BWWB's quality of water; even though, BWWB water is fantastic and there is no problem. GM Underwood distributed an email addressed to board members entitled *Cahaba Beach Road Update (a copy of which is on file with the Committee Meeting Book)*. Director Lewis asked Mr. Flannelly to address the issue of BWWB water being adversely impacted from an Engineer's point of view. Mr. Flannelly explained that in evaluating the scenario of ALDOT's decision to reopen Cahaba Beach Road, the board must look at impact and benefits and needs. The impact of reopening the road is sedimentation and traffic from post construction. The benefits and needs are not known until hearing ALDOT's position. However, in terms of water quality, there has been a fish advisory issued for Lake Purdy stating not to eat largemouth bass more than once a month because of bio accumulation of mercury in the fish. The issue is common in many lakes in Alabama. Per Mr. Flannelly, there is no direct link between mercury levels in fish and BWWB water quality at Lake Purdy. BWWB has been monitoring mercury and other contaminants for years in the Reservoir, Little Cahaba, Big Cahaba and the Intakes; in conclusion, there is no issue with mercury in the water from a drinking water perspective. There were no 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 1:21 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.