

**MINUTES OF THE FINANCE COMMITTEE MEETING
OF THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
September 18, 2019**

A Finance Committee Meeting of The Water Works Board of the City of Birmingham was held on Wednesday, September 18, 2019, 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 Ronald A. Mims, Tommy J. Alexander, and Sherry W. Lewis. The following Non-Committee Members were also in attendance: Directors William “Butch” Burbage, Jr., Deborah Clark, Brenda J. Dickerson, 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: Michael Johnson, General Manager; TM “Sonny” Jones and Derrick Murphy, Assistant General Managers; Grace Amison, Executive Assistant to the Board of Directors; Vanessa Washington, Executive Assistant; Rick Jackson, George Anderson, Rosalind Jones, Michael Griffin, Barry Williams, Paul Lloyd and BWWB Security, Board Employees; K. Mark Parnell and Mary Thompson, Parnell Thompson, LLC; Kelvin Howard, KWH, LLC, Tommy Palladino, Agency 54; Brian Ruggs and Trisha Brown, ARCADIS; Melissa Ausborn, AGO; Peiffer Brandt, Raftelis; Ryan Combs, Piper Jaffray; Yvonne Green Davis, Yvonne Green Davis, P.C.; Matthew Arrington, Terminus; Matt Adams, Raymond James; Ken Simon, Ken Simon Law; Juanita Jones and Michael Jones, Securities Capital Corp.; and Marquita Jackson, JP Morgan.

Director Mims called the meeting to order at 11:33 a.m. Following, George Anderson, I.T. Manager, opened the meeting with prayer.

Next, GM Johnson proceeded with agenda item one which requested the Committee to approve the minutes of July 17, 2019. Director Sherry W. Lewis made a motion to approve said item. Director Tommy J. Alexander seconded the motion. The agenda item passed unanimously.

Following, agenda item two requested the Committee to hear a presentation on Debt Reduction, Impact Fees, and Cost of Service. Peiffer Brandt, Raftelis, began the presentation with a discussion of a comparison of the System Development Charges. He stated that the current charge is in the middle of range of the calculations; therefore, the comparisons support keeping the charges at the current levels. In addition, the board should reexamine the charges once the debt level is reduced. He also discussed phase-in of residential and fire service rates. Mr. Brandt’s recommendations are to create a whole sale rate class, update the residential rate structure, phase-in to cost of service from 2020 to 2022, and implement public fire protection increases effective October 1, 2020. Director Alexander emphasized the importance of notifying the various cities to allow enough time for them to budget for the increases. There was discussion on making the media and the public aware of the areas where BWWB decreased charges. Also discussed was the decision for the board to approve a budget or operate on the previous year’s budget. Attorney Mark Parnell, Parnell Thompson, advised the board that the by-laws state the board should approve a budget. Mr. Brandt talked about the Rate Stabilization and Equalization (RSE) Resolution (*a copy of which is on file with the Committee meeting book*). He stated the objective of the RSE Resolution is to amend and affirm prior RSE Policy resolutions and amendments, approve cost of service recommendations, and create debt reduction goals. Mr. Brandt concluded his presentation with explaining the next steps. He indicated the next steps would be for the board to approve the resolution, implement cost of service adjustments beginning with the 2020 budget and RSE process, and for the board to phase

in cost of service results through 2022. GM Johnson asked the Committee for a recommendation to move the RSE Resolution to the full board. Director Ronald A. Mims made a motion to move said item to the full board. Director William “Butch” Burbage, Jr., seconded the motion. Director Lewis opposed. The agenda item passed to be moved to the full board for consideration.

Next, agenda item three requested the Committee to hear a presentation on the upcoming bond issue and the proposed bond issuance team. Matthew Arrington, Terminus, presented information on the 2019 Bond Financing Team. Mr. Arrington discussed the Board conducting a taxable advance bond refunding to produce a 6.57% savings based on the current low interest rate. He also asked the board to name bond issuance team members and their percentages. Mr. Arrington asked the Committee to move said transactions forward to the full board for approval. He indicated there was concern with small firms not performing to expectations. Mr. Arrington concluded the presentation. Director Tommy J. Alexander made a motion to move said item to the full board. Director Sherry W. Lewis seconded the motion. The agenda item passed unanimously to be moved to the full board for consideration.

Following, agenda item four requested the Committee to receive the FY2020 Operations & Maintenance (O&M) and FY2020 Capital Budgets. GM Johnson provided three handouts on said item for the board’s reference: *1. Investing in Every Cent FY2020 Preliminary Budget Presentation*, *2. BWWB Operating Fund Cash Reserves (copies of which are on file with the Committee meeting book)*, and *3. FY2020 Preliminary Budget Book*. GM Johnson gave an overview on rate setting and financial policies. Following, he discussed the Operating and Maintenance Budget (O&M), which focused on the budget process, key budget assumptions, and the preliminary O&M budget. Dr. Munchus asked about the amount of funds needed for the capital budget. AGM Derrick Murphy answered. Also, Dr. Munchus asked whether BWWB Managers were participating in the GFOA Certificate Program, which GM Johnson answered yes. Next, Director Muhammad asked about the status on reaching the PAYGO goal and whether the board was ahead of target. Per GM Johnson, PAYGO is at 47.5%, which is ahead of schedule. After the PAYGO conversation concluded, GM Johnson stated that the proposed budget for FY2020 is \$104,711,291.00, which includes a COLA at 1.6% and a Full Merit at 2.1%. He specified that expenses are budgeted at 1.66% over the previous year. The major factor for the increase was the labor cost from last year’s wage increases. GM Johnson indicated the new initiatives are consulting for the HUB program, the Strategic Plan, adding two positions to public communication and an increase of the grade for the Manager in the position. Following, he summarized the FY2020 Initial Consumption Projection, FY2020 Total Revenue Projections, and Debt Service Coverage. GM Johnson concluded the presentation and referenced the proposed budget workshop dates. Next, Director Lewis stated that employees in the Distribution Department stated at a board meeting that they saved the board two million dollars. Therefore, she is requesting information in writing to support the statement. Also, Director Lewis requested GM Johnson to identify budget savings and his plans for the budget going forward. Following, AGM Derrick Murphy presented the Capital Budget. He distributed handouts entitled *Capital Plan and Related Projects (a copy of which is on file with the Committee meeting book)* and *the FY2020 Capital Plan and Related Projects Book*. He stated the proposed capital budget for FY2020 is \$63,934,428.00. AGM Murphy stated the goal is to have an aggressive project management style. He discussed the five phases of projects: discovery and conception, planning, launch, construction and control, and close-out. AGM Murphy indicated that there must be a workforce to yield the capital projects. He indicated he has ideas he will be presenting to the board at a later date. There was a brief discussion on funds for Economic Development. Director Mims specified the importance of replacing the galvanized pipes in the system. AGM Murphy concluded the Capital Budget presentation with a discussion among some board members to revisit the On-Call Contractor program, which could be beneficial for speeding up the elimination of galvanized pipes and other issues.

Next, agenda item five requested the Committee to hear a proposal to invest \$20 million with Citizens Trust Bank. GM Johnson stated the board’s investment policy encourages the use of Historically

Underutilized Businesses in its operations. He discussed the return on a proposed CD investment at a 1.7% fixed rate from Citizens Trust Bank for one year. GM Johnson indicated that the investment is a favorable rate but was also time sensitive and a commitment was needed today. Director Lewis stated she does not have an issue working with minority businesses; however, she has concerns about having to make quick decisions on matters brought before the board. Director Lewis also asked about rates from other businesses for comparison purposes. Following, Director Clark also voiced her concerns. Attorney Mark Parnell explained that in order to move forward in receiving the CD investment rate from Citizens Trust Bank, GM Johnson could act on it, and the board could ratify it. The item does not need to be voted on.

Following, Attorney Parnell announced it was time to enter Executive Session to discuss pending litigation regarding a recent lawsuit update. He indicated he would anticipate that the Executive Session may last 5-10 minutes and does not anticipate any action taken after said session. Director Lewis made a motion to move to Executive Session and Dr. Dickerson seconded the motion. At 1:41 p.m., the Board and Board's Attorneys entered Executive Session. Subsequently, at 1:54 p.m., Director Lewis made a motion to end Executive Session. Director Alexander seconded the motion. Thus, the Board reopened the meeting.

Director Lewis left meeting at 1:54 p.m. Finally, GM Johnson gave the board Regions' rate under the SAFE program in comparison to Citizens Trust Bank, which was 1.25%. Director Lewis re-entered meeting at 1:56 p.m. Director Ronald A. Mims made a motion to move said item to the full board for ratification. Director Tommy J. Alexander seconded the motion. The agenda item passed unanimously to be moved to the full board for consideration. In conclusion, GM Johnson expressed his appreciation and acknowledged staff for their hard work on the FY2020 Preliminary Budget Book.

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 1:58 p.m.

_____/s/_____
William "Butch" Burbage, Jr., C.P.A.
Chairman/President

_____/s/_____
Ronald A. Mims
Secretary-Treasurer

_____/s/_____
Tommy J. Alexander
Assistant Secretary-Treasurer

_____/s/_____
Michael Johnson, C.P.A.
General Manager