

**MINUTES OF THE FINANCE COMMITTEE MEETING
OF THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
September 27, 2023**

A Finance Committee meeting of the directors of The Water Works Board of the City of Birmingham was held on Wednesday, September 27, 2023, at 10:00 a.m., at 3600 First Avenue North, Birmingham, Alabama.

The following Committee members were present: Directors Larry Ward (Committee Chairman), William “Butch” Burbage, Jr., and Tereshia Huffman. Also present were Directors Thomas Henderson, and George Munchus.

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; Drusilla Hudson, Colandus Mason, Rick Jackson, Rosalind Jones, Jacqueline Hill, Derrick Gray, Derrick Maye, Jeremy Ervin, Jeff Wade, Charles McGee, Anthony Hazel, and David Walker, BWWB Employees; K. Mark Parnell, Parnell Thompson Law, LLC; Byron Perkins, Perkins Law, LLC; Olivia Martin, State of Alabama Attorney General’s Office; Patrick Flannelly, ARCADIS, US, Inc; Phillip Moultrie, Valent Group, Inc; Jeff Drew, Alexander Insurance Agency; and Peiffer Brandt, Raftelis Financial Consultants, Inc.

Inasmuch as all Committee members were present, a quorum was in attendance. Committee Chairman Ward called the meeting to order at 10:00 a.m., General Manager Johnson opened the meeting with prayer.

Next, the Committee proceeded to approval of the agenda. Director Huffman made a motion to approve the agenda and Director Burbage seconded the motion. On a motion duly made and seconded, the motion was approved by unanimous vote.

Director Ward commented that the media was not present for the meeting; he asked Rick Jackson, Public Relations Manager, to notify the media of the Birmingham Water Works budget meeting dates, and he asked staff to answer any questions they may have pertaining to the numbers presented during today’s meeting.

Following, the Committee proceeded to the first item on the agenda, Request Committee to receive the Preliminary FY2024 Operations and Maintenance (O&M) Budget, and the Preliminary FY2024 Capital Budget. General Manager Johnson commented that the following three handouts were distributed: (1) *FY2024 Preliminary Operation and Maintenance Budget Presentation*, (2) *FY2024 Preliminary Operations and Maintenance and Capital Budgets Book*, and (3) *the Preliminary FY2024 Capital Budget Presentation*. (Copies of the presentations are on file in Diligent). Following, General Manager Johnson began the discussion with an overview of the agenda. He highlighted Effective Utility Management (EUM) and its ten attributes, which is the framework Birmingham Water Works manages its system. General Manager Johnson emphasized the importance of rate setting, he added how the Rate Stabilization and Equalization (RSE) Model/process governs Birmingham Water Works in setting rates. He stated rates are determined by

the O&M and Capital Budgets revenue requirements, demand projections, and financial policies. Afterwards, General Manager Johnson discussed the company's financial metrics. He stated Birmingham Water Works rates have been below the industry average for the period 1998 through 2022. The average monthly impact to a customer's bill is \$2.76. General Manager Johnson indicated that the O&M increase for 2024 was at 6.24% as opposed to the 8.12% increase in 2023. He stated the company's PAYGO (pay as you go capital), which generates cash to fund the capital program, is projected to be 49% funded by 2028; although the goal was 48%, and the estimated PAYGO for 2023 is 40.2% and 34.8% for 2024. Following, General Manager Johnson listed the targets for the following reserve funds: capital reserve, revenue, demand shortfall, rate stabilization, and economic development. He stated the company has reserves of approximately 240 days of operating expenses on hand and 399 days projected operating expenses would be on hand by December 31, 2023. General Manager Johnson stated that Moody's criteria for Aa utilities is 150 -250 days. He indicated that Birmingham Water Works has strong bond ratings. The company's rating from Moody's is currently Aa2 and its rating from Standard and Poor's is AA. General Manager Johnson concluded with an overview of the RSE targets for senior debt service coverage and total debt service coverage.

Next, General Manager Johnson recognized Rosalind Jones, Comptroller, to present the Budget Process. Ms. Jones began her presentation by explaining the process for the company's budget, which is based on the strategic plan. She indicated that a packet of information was sent to department managers and supervisors so they can determine their department's needs. Ms. Jones stated that various meetings are held with individual departments with a focus on individual line-item variances. She stated the budget process is embraced by Birmingham Water Works leadership team. The requested budget for each department is reviewed by the budget team, Ms. Jones, and management for any necessary adjustments. The Birmingham Water Works' budgets are prepared in accordance with the Government Finance Officer Program (GFOA) Certificate Program. Ms. Jones stated that Birmingham Water Works received the Distinguished Budget Presentation Award for 2023. This is the company's fourth consecutive year of receiving said award. Afterwards, Ms. Jones stated that the preliminary 2024 proposed operating and maintenance budget is \$133,124,224.00, which is a 6.24% increase from 2023 and concluded her discussion on the budget process.

Following, Assistant General Manager Fisher discussed the details for the 2024 preliminary operating and maintenance budget. She highlighted the material changes/categories that impacted the 6.24% budget increase compared to the previous year. Assistant General Manager Fisher discussed the various material changes as they relate to the 6.24%. She stated labor increased by \$4,810,413.00, due to the general wage increase (GWI), merit increase, longevity, and a net decrease in full-time employees (FTEs) for 2023. She indicated that power is another category impacting the budget increase due to Alabama Power's various rate increases. An increase from Alabama Power was imposed in the later part of the budget process; therefore, the proposed 2023 budget did not include Alabama Power's last rate increase. This resulted in power cost being overbudget for fiscal year 2023. Director Munchus inquired as to whether the Alabama Power 10.93% was an estimate, which Assistant General Manager Fisher responded that management is confident with the 10.93% rate change projection. Next, Director Munchus commented that the Public Service Commission's documents indicated a refund relating to power would become available soon to individuals, and he asked whether Birmingham Water Works would be eligible for said refund. Assistant General

Manager Fisher responded that staff had not been made aware of a refund. General Manager Johnson commented that the company would probably receive a refund as it relates to being an Alabama Power customer. Following, Assistant General Manager Fisher continued with the remaining categories impacting the 6.24% increase compared to the FY2023 budget with increases as follows: License fees based on the projected actual by \$158,727.00, Laboratory Supplies based on increased sampling and testing compliance requirements by \$109,574.00, outsourced security based on extended hours and increased need by \$135,622.00, and Property and Casualty Insurance due to an industry-wide trend and increased coverage by \$539,672.00. She stated that Birmingham Water works is proposing to increase some of its coverage. Afterwards, she stated Phillip Moultrie, Insurance Broker for the Board, was present to answer questions on Property and Casualty Insurance industry rate increases. Assistant General Manager Fisher indicated that due to various increases during the budget process, property and casualty insurance increased by 30%, which is over a million dollars due to catastrophic events. Assistant General Manager Fisher stated that some companies are offsetting the increases by reducing their coverage. Director Munchus asked if some of the insurance costs could be broken apart and insured separately at different rates instead of having to insure the entire canvas. Mr. Moultrie stated the insurance coverage is provided in a lump sum. He said some parts of the coverage could be carved out; however, it is not cost efficient because of the insurance companies capacity and what they are able to offer. The insurance companies want to get the most money possible for their capacity. Director Munchus commented that it appears the insurance companies can change the terms, conditions, and dollar amounts of a contract based on market conditions. Mr. Moultrie explained that Birmingham Water Works insurance program formally renews on November 1, 2023. He stated Assistant General Manager Fisher contacted him several months in advance for a guesstimate based on his observations of the marketplace. Mr. Moultrie stated, even at this point, the property and casualty insurance numbers are not final. Afterwards, Director Munchus thanked Mr. Moultrie for bringing a representative from Lords of London insurance company to explain things to the Board.

Next, Assistant General Manager Fisher discussed consultants' material variances as it relates to comparison of the FY2024 proposed budget to the FY2023 budget. She stated Raftelis Financial Consultants had an increase of \$177,514.00 and that Birmingham Water Works is proposing to have a cost-of-service study done and overhead rates evaluated. The next consultant variance discussed was Lobbyists, which had an increase of \$131,065.00. Assistant General Manager Fisher stated that the prior year's budget was for eight and a half months and the FY2024 budget is for one year. However, projected expenses for FY2024 have been reduced by ten percent. Other variances highlighted included the following: SSAE 16 Audit (Internal controls audit completed due to an agreement with Jefferson County) increased by \$84,070.00 because it is performed every other year, Business Systems Transformation based on renegotiating the contracts for SAP support increased by \$45,940.00, Benefit Consultants based on a change in insurance brokers (the new company is Insurance Office of America - IOA) increased by \$35,000.00; however, ARCADIS (Independent Engineering Services) had a \$164,650.00 reduction based on more utilization of ARCADIS on capital projects and less utilization of the operating and maintenance program. Director Munchus inquired about Raftelis' cost-of-service study overhead rates and how those rates are calculated. Peiffer Brandt, the Board's Financial Consultant, stated Birmingham Water Works capitalized interest is part of the study. He explained that an accounting audit is performed; however, there are concerns about

the process of capitalizing operating and maintenance expenses consistently. Therefore, the purpose of the study is to provide a comprehensive way to determine which operating and maintenance costs should be capitalized. Assistant General Manager Fisher stated it reduces operating and maintenance expenses. She stated there is a portion that should be overhead, but Birmingham Water Works has been using a certain percent for a while, so it is best practice to review, and the auditors recommended it too. Mr. Brandt reiterated that it is a way of determining what gets capitalized. Director NeSmith entered the meeting at 10:32 a.m.

Following, Mr. Brandt discussed customer demand and its importance. He stated that demand is an important part of establishing rates. Mr. Brandt stated revenue requirements divided by customer demand determines customer water rates. He discussed the FY2024 projection considerations based on historical trends and the continued declining per capita demand. Mr. Brandt said Birmingham Water Works reserve target is 240 days, but the company has 399 days of cash-on-hand. Director Munchus asked about cash-on-hand and whether it was a good practice to have that much. General Manager Johnson commented that the results of Birmingham Water Works budgeting provide cash-on-hand for PAYGO, which goes to the company's capital program and part of the cash-on-hand funds our policies. Director Ward stated that the bond rating relies heavily on cash-on-hand. Mr. Brandt responded that the advantage of cash-on-hand is that it helps your bond rating and allows Birmingham Water Works to be less conservative on projections. Following, General Manager Johnson stated staff recommend the Board to reduce the senior debt service coverage requirement targets because subordinate debt was moved to senior debt and the coverage required for the senior debt decreased; therefore, the company will not have to generate as much cash. Afterwards, Mr. Brandt highlighted FY2024 residential, non-residential, wholesale, raw water, and initial consumption projections. In addition, he gave an overview of the volumetric rate changes and the base charge rate (by meter size) changes for FY2024. Following, Mr. Brandt highlighted the municipal and public fire hydrant fees. He stated said fees were on a different schedule and would become effective October 2024. Mr. Brandt stated that the monthly impact on customers would be \$1.32. Also, Mr. Brandt indicated that the projected impact to a customer's monthly bill based on a 5/8" meter and 6 ccf's of monthly usage is \$2.76. Following, Mr. Brandt discussed revenue projections. He stated that FY2023 projected revenue is expected to be underbudget by approximately one million dollars; however, FY2024 has a projected revenue increase of \$5,578,474.00. Mr. Brandt stated that the total projected revenue is approximately an \$8 million increase, which includes \$2.5 million from Jefferson County Sewer Billing. Afterwards, Mr. Brandt discussed debt service coverage. He indicated that the recommended FY2024 total debt service base charge revenue as a percent of annual debt service is 121.8% and that PAYGO spending as a percent of the capital budget is 34.9%. Mr. Brandt stated that the debt service coverage ratios are in the middle of the target, which is good. In conclusion, he explained that the Water Infrastructure Finance and Innovation Act (WIFIA) Loan borrowing is included in the total debt amount; however, the WIFIA loan has not been issued at this time. Director Munchus asked whether the WIFIA loan should continue to be pursued and whether staff was concerned about Birmingham Water Works' billion dollar in outstanding debt. General Manager Johnson responded that the funds are needed for the capital program and that it provides flexibility and is like a line of credit. Next, Director Munchus asked about the hold-up of the WIFIA process. General Manager Johnson responded that there is a process and an issue involving Fish and Wildlife requirements. Afterwards, Director Ward inquired about the number of wholesales

customers. General Manager Johnson stated that there are approximately six to seven consecutive systems.

Next, Assistant General Manager Murphy presented information on the Capital Budget. He stated his presentation would consist of four categories: Introduction, Capital Planning Strategy Review, 2023 Budget Performance, and 2024 Proposed Capital Budget. Assistant General Manager Murphy stated that as part of the company's current system assets in FY2022, there was 4,116 miles of water main lines and in FY2023 there were 4,123 miles of water main lines and the system continues to grow as pipe is being added into the system due to pipeline replacement. Assistant General Manager Murphy highlighted the following six categories of the capital planning strategy: *(1) Capital Program (2) Risk Reduction and Resilience Improvements (3) Filter Rehabilitation at Water Treatment Plants (4) Water System Supply Reliability (5) Dam Rehabilitation and the Distribution System – Pipeline Replacement Program.* Afterwards, Assistant General Manager Murphy indicated that the goal is to improve the pipeline replacement program by reducing maintenance and lost water through pipe replacement. He explained that bonds were refunded in 2019 and as a result, there was a surplus of dollars earmarked for the pipeline replacement program. Distribution main replacement spending increased from twelve million to approximately thirty million dollars. Assistant General Manager Murphy emphasized that in order to be successful, there needs to be projects in design that are ready for funding in order to reach the target. Also, he highlighted various projects and their status. He indicated that the Lake Purdy Project is scheduled to be bid in 2024. Assistant General Manager Murphy stated that after meeting with Fish and Wildlife, he is confident that they will approve its permit this year. Next, he stated that galvanized steel and unlined cast iron pipe declined to 14.6%. In addition, he discussed the FY2022 and FY 2023 Data Report-Pipeline Distribution Dashboard-GIS Project and the importance of data for decision making and setting metrics. Also, Assistant General Manager Murphy gave an overview of the Pipeline Replacement Projects that consisted of the number of bid projects and In-House Projects for 2022 through 2023, as well as upcoming projects that will start construction by November 2023. Assistant General Manager Murphy reviewed a chart displaying Electrical and Mechanical Work Orders and Performance for 2022 and another chart displaying the Leak Surveying Dashboard. Afterwards, Assistant General Manager Murphy reviewed the FY2023 Capital Programs Summary graph and highlights of the FY2024 Proposed Capital Budget Projects that are ready for construction, which consists of Western Filter Sodium Hypochlorite and Liquid Lime, Lake Purdy Dam Stability Rehabilitation, Highway 79 / Kiowa Road Distribution Improvements, Carson Loop Phase 6D and the Enviro-Lab Building. He stated that those top five budgeted projects for 2024 total \$52.8 million, which is 62.9% of the capital budget. Assistant General Manager Murphy highlighted the additional projects for the Security Department and the Information Technology Department and the additional top priority projects for FY2023 through FY2024. In conclusion, Assistant General Manager Murphy stated that the total 2024 Capital Budget is \$84,092,290.00. Director Ward inquired about having three pipeline replacement teams, which Assistant General Manager Murphy responded that it is the company's goal to have three teams. Another goal initiated is that Birmingham Water Works has been providing Commercial Driver's License (CDL) training to its employees. Director Munchus inquired as to why work crews were leaving. Assistant General Manager Murphy stated that it was related to a national issue. Next, Director Munchus asked to review slide 18, budget line item 1N, Developer Install. He asked if said line-item generated revenue. Assistant General Manager Murphy

stated that dollars are charged to said line item (estimated two million dollars), and then the funds obtained are charged to budget line item 99 - Distribution, Mains, Hydrants, and New Customer Tap Fees. Also, Director Munchus inquired about budget line item 1C. Assistant General Manager Murphy stated that the cost for the Advanced Metering Infrastructure (AMI) project is listed in budget line item 1C.

Following, General Manager Johnson proceeded to the next steps for the budget. He proposed two budget workshops. A Finance Committee Budget Workshop Meeting to be held October 11, 2023, as one of the options; however, Chairwoman Huffman stated she would propose some other dates. Board Attorney Parnell stated one of the budget workshop meetings needed to include the entire Board. Director Burbage said that by doing so, everyone would be involved and be a part of the process. Board Attorney Parnell pointed out that every board member has a fiduciary obligation to be involved in the budgetary process. Following, General Manager Johnson announced that two town hall meetings have been scheduled for Tuesday, October 17, 2023, at the Birmingham Crossplex and Thursday, October 19, 2023, at Aldridge Gardens, both at 5:30 p.m. He stated staff will give a presentation similar to the budget presentation and allow customers to ask questions. Rick Jackson, Public Relations Manager, will ensure that the public is aware of the town hall meetings. General Manager Johnson indicated that the Public Hearing will be held November 6, 2023, at 5:30 p.m., and staff would ask for budget approval, at the board meeting scheduled for November 15, 2023.

As there was no further business before the Committee, Director Huffman made a motion to adjourn the meeting and Director Burbage seconded the motion. On a motion duly made and seconded, the motion was approved, and the meeting adjourned at 11:18 a.m.

_____/s/
Michael Johnson
General Manager

_____/s/
Raymond "Larry" Ward
Committee Chairman

_____/s/
William "Butch" Burbage, Jr.
Director

_____/s/
Tereshia Q. Huffman
Director