

**MINUTES OF THE FINANCE COMMITTEE MEETING
OF THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
September 27, 2017**

A Finance Committee Meeting of The Water Works Board of the City of Birmingham was held on Wednesday, September 27, 2017, at 3:30 p.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 Brett A. King, George Munchus, Deborah Clark and William R. Muhammad.

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

The meeting was also 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, Michael Griffin, Scott Starkey, and Chris Hill, Board Employees; K. Mark Parnell and Mary Thompson, Parnell Thompson, LLC; Kelvin Howard, KWH, LLC.; Jesse Lewis, Agency 54; Jerry Jones and Brian Ruggs, ARCADIS; Peiffer Brandt and Townsend Collins, Raftelis; David Merrida, BCIA.

Director Burbage announced that it was the first meeting for the 2018 Operating and Maintenance and Capital Budgets. The meeting was turned over to GM Underwood and called to order at 3:30 p.m.

GM Underwood proceeded with the first agenda item which requested the Committee to hear a presentation of the FY2018 Operations and Maintenance (O&M) Draft Budget (a copy of which is on file with the Committee meeting book). AGM Michael Johnson gave an introduction of the presentation purpose and Agenda. He acknowledged that Peiffer Brandt of Raftelis Financial Consultants would discuss rate setting. AGM Johnson stated that rate increases are determined by the revenue necessary to fund the operations and maintenance budget, capital budget, meet policy requirements, and are impacted by the demand for water. Peiffer Brandt talked about consumption projections and the trends which are key for the rates. He gave an overview of the Rate Stabilization and Equalization (RSE) Model. Mr. Brandt indicated that the RSE Model is built around the financial policies and it produces the rate adjustment necessary for the upcoming year, in addition, it gives the Board a future view of potential rate increases. Next, AGM Michael Johnson presented information on financial goals and policies. Per AGM Johnson, the goal is to keep rate increases below industry average, control O&M annual expense increases to remain below 5% annually, and generate pay as you go (PAYGO) capital to fund 25% of the capital budget. Director King asked if BWWB was borrowing 75% every year? AGM Johnson explained that BWWB goes to the capital market approximately once every two years; however, it will be three years since going to the capital market because of using PAYGO to fund 25% of the capital budget. Director King then asked if there is sometime in the future where BWWB would not have to borrow for the capital improvements due to having a balanced budget. AGM Johnson stated it

is difficult to fund the entire capital program with PAYGO capital, because that means rates will have to be increased significantly above the current average. The budget is funded with PAYGO and borrowed funds to help limit borrowing. GM Underwood stated that years ago, all money for the capital program was borrowed; however, the company is now generating 25% of the capital budget funds. Director Muhammad inquired about the process for determining the capital budget. AGM Johnson stated that AGM Sonny Jones has a grading system for all the capital projects and an assessment has been done to identify those projects. GM Underwood stated that prior to 2001 the water system was maintained just enough to get by. Many capital projects were not implemented; therefore, placing BWB in catch up mode. Then Director Muhammad asked if there was a pipe formula. AGM Sonny Jones stated the standard is to be on a 125-year replacement schedule. AGM Johnson continued presentation and gave the Board information on the reserve fund and bond ratings, in addition to the RSE targets for senior and total debt service coverage. Next, AGM Johnson discussed the budget process. Then, he explained that employee labor is allocated between O&M and Capital annually based on the employee's position and work activity. Director Alexander inquired as to why the budget decreased for 2018. AGM Johnson stated that some employees labor was allocated to the capital budget. Afterward, he discussed significant variances for 2018. Also, he indicated that the line locating cost for street repairs is the main reason for the variance in Distribution. Director Munchus asked if BWB was being reimbursed from ALDOT. GM Underwood explained that ALDOT reimburses the company for projects requiring the service lines to be moved, but there is no reimbursement for line locating. There was more discussion on the variances for other departments. Then, Director Clark inquired as to where does SAP fit in. Where is the decrease from SAP people leaving? There was a round table discussion about SAP. The Board talked about technology and the age of the previous system. Concerns were also expressed as to the efficiency of the SAP system, decreasing consultants and training BWB employees properly. Chairwoman Lewis stated that companies were changed during the SAP implementation which caused things to come to a standstill. She suggested a workshop to bring everyone current on SAP. Next, a discussion took place about the reason for an increase in the Security Department and the addition of a Treasurer. Director Clark stated that the Board should be informed about things needed for the organization. Per Director Muhammad, the Board should have input and connection to operations. Chairwoman Lewis clarified that the Board has the option to make changes to the proposed budget. She stated that the budget is a draft. It is preliminary and not the final budget. Chairwoman Lewis stated the Board should be writing down their concerns, because she will address them with GM Underwood. Per Chairwoman Lewis, the Board needs to have a better understanding of the budget and a budget that the majority can vote on. AGM Johnson turned the presentation over to Peiffer Brandt. Then, Mr. Brandt discussed consumption and demand. Afterwards, Townsend Collins presented information to the Board on Volumetric Revenue Projections. Director Muhammad stated his concern was that base rates can be based on Blocks. Per Director Muhammad, many customers do not realize that you must pay for more than volumetric water services. GM Underwood stated that the base charge is the cost to deliver water to customers' house, whether water is or is not being used (readiness to serve). After discussion on base water charges, AGM Johnson talked about debt services coverage. Tap fees and the cost of service study was also discussed with the group concluding the presentation for the O&M budget. Chairwoman Lewis asked the Board members to make a list of their top three concerns listing in order of importance. GM Underwood noted that there was a Proposed Budget Meeting Calendar with proposed budget workshops dates (a copy of which is on file with the Committee meeting book). The Board agreed to meet October 4, 2017 at 9:00 a.m. (1st Budget Workshop),

October 19, 2017 at 3:30 p.m. (2nd Budget Workshop), and November 9, 2017 at 5:30 p.m. (Public Hearing and Board Meeting combined).

Next, agenda item two requested the Committee to hear a presentation of the FY2018 Draft Capital Budget. AGM Sonny Jones gave a presentation on the Capital Budget. AGM Sonny Jones briefed the Board on the cost for different Capital Improvement Projects. He provided a 2018 Proposed Capital Budget handout to the Committee with detailed information and a Ten-Year Capital Improvements Plan (copies of which are on file with the Committee meeting book). Director Brett A. King left the meeting at 4:45 p.m. and Director William R. Muhammad left the meeting at 5:10 p.m. Chairwoman Lewis stated that Board members needed more time for input on the budget workshops. She suggested that Board members call staff in advance if they have specific questions. Chairwoman Lewis asked GM Underwood to contact the Directors not present. She also stated for an email to be sent notifying the Board members to forward questions, regarding the budgets in advance to staff.

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 5:20 p.m.

_____/s/_____
Sherry W. Lewis
Chairwoman/President

_____/s/_____
Tommy J. Alexander
First Vice Chairman/First Vice President

_____/s/_____
William "Butch" Burbage, Jr., C.P.A.
Assistant Secretary-Treasurer

_____/s/_____
Mac Underwood
General Manager