

**MINUTES OF THE FINANCE COMMITTEE MEETING  
OF THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM  
Budget Workshop 1 - October 12, 2022**

A Finance Committee meeting of the directors of The Water Works Board of the City of Birmingham was held on Wednesday, October 12, 2022, at 9:30 a.m., at 3600 First Avenue North, Birmingham, Alabama.

The following Committee members were present: Directors Ward (Committee Chairman) and Burbage. Also present were Directors Mims, Henderson and Munchus who are not Committee members.

Others present were: Michael Johnson, General Manager; Derrick Murphy and Jeffrey Thompson, Assistant General Managers; Cynthia Williams, Board Administrator; Anitra Clark, Corporate Governance Specialist; Vanessa Washington, Executive Assistant; Rick Jackson, Rosalind Jones, Colandus Mason, Jeff Wade, Charles McGee, Derrick Maye and David Walker, BWWB Employees; K. Mark Parnell, Parnell Thompson Law, LLC; Kelvin Howard, KWH, LLC; Oliva Martin, State of Alabama Attorney General's Office; Patrick Flannelly, ARCADIS, US, Inc.; Phillip Moultrie, Valent Group, Inc.; Jeff Drew, Alexander Insurance Agency; Mihaela Coopersmith, 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 9:30 a.m. General Manager Michael Johnson opened the meeting with prayer.

Following, the Committee proceeded to approve the agenda. Director Burbage made a motion to approve the agenda and Committee Chairman Ward seconded the motion. The agenda was approved by unanimous vote.

Next, the Committee proceeded to the first item on the agenda, Request Committee to approve minutes of the Finance Committee Meeting held August 3, 2022. Director Burbage made a motion to approve the minutes and Committee Chairman Ward seconded the motion. The minutes were approved by unanimous vote.

Subsequently, the Committee proceeded to the second item on the agenda, Request Committee to hold a workshop on the Preliminary FY2023 Operations and Maintenance (O&M) Budget and FY2023 Capital Budget. General Manager Johnson began the introduction of the FY2023 Preliminary Budget presentation (*a copy is on file in the Diligent Committee Book*). He stated additional information and other options have been reviewed for the company's needs for next year. Per General Manager Johnson, the property and casualty insurance for the company does not have an insurance amount, because of the difficulty of the market. Next, General Manager Johnson discussed the rates. He indicated that the Board does not approve rate increases, the Board approves the budgets, and the revenue must be in place to fund the O&M and Capital Budgets. The revenue requirements are impacted by demand, which impacts rates. General Manager Johnson explained that the Birmingham Water Works Board has financial policies that it must meet, and the Board of Directors ensure that those policies are in place. Then, he talked about the RSE Model Key Inputs and Key Outputs. Afterwards, he reviewed the RSE Targets for Senior and Total

Debt Service Coverage. He referenced a footnote on the presentation indicating that the Board needed to consider adjusting the Senior Debt Coverage Minimum Target to take into consideration refinancing \$465,000,000.00 in subordinate debt, resulting in the debt being moved to Senior Lien. This would be an opportunity for the Board to look at the coverages and adjust it based on the board's current situation.

Following, he turned the meeting over to Mihaela Coopersmith, Raftelis Financial Consultants, Inc. Ms. Coopersmith gave a brief overview on the topic of Budget Adjustments, which projected an increase in the residential and commercial consumption for FY2023. Director Burbage inquired about the commercial increase in consumption. Ms. Coopersmith replied that a conservative approach was taken, and the commercial consumption is in line with where the Board was projected to be next year, based on preliminary data and historical actuals.

Next, General Manager Johnson discussed changes in O&M expenses. Per General Manager Johnson, several items were moved from the O&M budget to the capital budget. The first O&M expense change was the \$600,000.00 allocated for an energy project originally described as consulting but after further review it was determined to be for the implementation of the system's hardware and software. Assistant General Manager Jeffrey Thompson added that the idea was to develop a system that could utilize all the data collection in terms of the company's SCADA system, which consist of a large volume of data, rather than taking a snapshot. Then, leverage it in a real-time online system to optimize the energy consumption throughout operations. Director Munchus asked about the expected results. Assistant General Manager Thompson replied that it should reduce the company's energy cost by approximately \$100,000.00 per year. Then, Director Burbage inquired as whether the referenced system was already in place or would the board need to purchase something. Assistant General Manager Thompson stated that the company has data collection at this time; however, the company is not heavily leveraging the data for operation optimization purposes, although that is the intended direction. Afterwards, General Manager Johnson stated that the second O&M expense change involved Public Relations. The initial budget included \$25,000.00 a month for an additional public relations firm, which has been removed from the budget. The third O&M expense change involved an increase to Property & Casualty Insurance, which impacted the operating budget by \$87,587.00.

Following, Director Munchus asked whether the process to reduce the energy cost, could also be used for the chemicals. Assistant General Manager Thompson stated that there were some possible adjustments to the process, but it would not result in any major operational savings. Next, Phillip Moultrie, Valent Group, highlighted information from a handout entitled *Birmingham Water Works Board Property & Casualty Insurance Program Renewal Summary (a copy is on file with the Diligent Committee Book)*. Mr. Moultrie stated that the two items of insurance that have been continually challenging are property insurance and cyber protections, which has caused price increases. Also, he stated the Birmingham Water Works has \$20,000,000.00 in liability insurance. Mr. Moultrie recommended that the Board consider purchasing additional liability insurance, because \$20,000,000.00 was not an adequate amount for this current time. Director Munchus asked the question of whether Valent Group could get better prices in the market if they had a three-year contract as opposed to a one-year contract. Mr. Moultrie replied that a longer contract term adds a degree of stability; but every line of insurance is negotiated separately. Then, Director Munchus asked when the insurance number would be finalized. Per Mr. Moultrie, the information would be finalized within the next week, as the program expires at the end of the month.

Director Burbage inquired as to why the \$87,587.00 property and casualty insurance was different from the schedule Mr. Moultrie presented. General Manager Johnson replied that the \$87,587.00 was the increase presented in the initial amount. He stated that there was a 9.77% increase in the FY2023 Proposed O&M and Capital Budgets. Afterwards, General Manager Johnson announced that the next steps for the Board would be to have a Finance Committee Budget Workshop on October 19, 2022, with the final numbers and budget, which would be presented to the Board on October 26, 2022. The Public Hearing would be held on Wednesday, November 9, 2022 at 5:30 p.m., and for November 30, 2022, the O&M and Capital Budgets would be submitted for the Board's approval. In addition, he discussed the updated scenarios for a rate increase. There were four scenarios reviewed. Scenario 1 (4.9% rate increase) would have the least impact on the customer; however, the Pay-Go target of 70% would have to be changed, because the goal would not be reached by implementing scenario one, two, or three. Director Munchus requested a Scenario with 0% to be reviewed as an option. After highlights on debt service coverage, General Manager Johnson concluded his presentation by reiterating the next steps for the board to approve the budgets. Board's Attorney Mark Parnell stated that in previous years, all board members would participate in the budget approval process. Therefore, a Special Board Meeting should be held to allow the entire board an opportunity to hear and participate in the budget process, as the Finance Committee does not allow such. Director Burbage stated that he accepts Board Attorney Parnell's recommendation to have a Special Board Meeting, which would allow all the directors to attend and to participate.

Next, Assistant General Manager Derrick Murphy presented the Proposed FY2023 Capital Budget (*a copy is on file in the Diligent Committee Book*). He gave an overview of the following topics: Current Systems Assets, Capital Planning Strategy Review (*Top 6-regulatory matters*), and the 2023 Proposed Capital Budget. He indicated that there were additional regulation costs with the funds acquired for infrastructure. Assistant General Manager Murphy highlighted the importance of the Carson Loop Projects Phase I, II, and III. In addition, he stated that the main focal point has been leakage, which was being driven by galvanized steel and un-lined cast iron pipe. Staff has been making major progress with replacing the galvanized steel pipe. Also, he stated that the total Proposed 2023 Capital Budget was \$72,307,526.00, with the breakdown consisting of (1) General Capital, Technology, and Distribution Projects at \$18,000,000.00, (2) Maintenance and Repair Projects at \$18,269,100.00, (3) Distribution Main Replacement Program at \$25,000,000.00, and (4) Capitalized O&M at \$11,038,426.00. Then, Assistant General Manager Murphy stated that some of the funds for the Automatic Meter Infrastructure Program would come from budget item 1C for Meters and Metering Technology. This would allow the company to go from a physical meter read to using technology to get meter reading data. He stated the process would be lengthy. Per Assistant General Manager Murphy, some groups have recommended starting the process with the commercial accounts first then residential accounts. Director Munchus inquired as to why and would commercial businesses possibly want to share the cost. Assistant General Manager Murphy replied that it was just an observation; however, a specialist would have to be utilized. Then, he gave an overview of the United States Bureau of Labor Construction Material Chart. Assistant General Manager Murphy stated that there has been a large increase in metal materials; therefore, the company has had to switch to a plastic type material for some assets, which has been beneficial. He stated the chart shows an increase in all materials related to metal products and that the company is competing with everyone that needs steel and iron, not only water utilities. Assistant General Manager Murphy concluded his presentation by reviewing the Birmingham Water Works Board Supply Chain Product Increase Comparison Chart, which was composed of the company's internal data. Then, Director Munchus inquired as to the usage of the

Economic Development budget line item. Assistant General Murphy stated that it is not a recurring expense that is always in the budget.

As there was no further business before the Committee, Director Burbage made a motion to adjourn the meeting and Committee Chairman Ward seconded the motion. The meeting adjourned at 10:45 a.m.

\_\_\_\_\_/s/\_\_\_\_\_  
Larry Ward  
Secretary-Treasurer

\_\_\_\_\_/s/\_\_\_\_\_  
William "Butch" Burbage, Jr., Esq.  
Vice Chairman

\_\_\_\_\_/s/\_\_\_\_\_  
Michael Johnson, MBA, CPA  
General Manager