

**MINUTES OF THE FINANCE COMMITTEE MEETING
OF THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
September 28, 2022**

A Finance Committee meeting of the directors of The Water Works Board of the City of Birmingham was held on Wednesday, September 28, 2022, at 12:30 p.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, Derrick Maye, Marsha Hammonds, Jeff Wade, Charles McGee and David Walker, BWWB Employees; K. Mark Parnell, Parnell Thompson Law, LLC; Byron Perkins, Perkins Law, LLC; Oliva Martin, State of Alabama Attorney General's Office; Tommy Palladino, Agency 54; Kim Bivins, Birmingham Construction Authority; Peiffer Brandt, Raftelis Financial Consultants, Inc.; Robert Rasmussen, Municipal Government Investors Corp; Jonathan Hardison, WBRC Fox 6 News; and Sherri Stewart, O2 Ideas.

Inasmuch as all Committee members were present, a quorum was in attendance. Committee Chairman Ward called the meeting to order at 12:38 p.m.

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 31, 2022. Director Burbage made a motion to approve the minutes and Committee Chairman Ward seconded the motion. The minutes were approved by unanimous vote.

Following, the Committee proceeded to hear the reports of officers. General Manager Johnson acknowledged Robert Rasmussen, the Board's Cash and Investments Advisor, to present the semi-annual Advisor's Report and to give an update on the guaranteed investment contract (GIC) bid. Mr. Rasmussen began his presentation by stating that he reviewed the Board's investments with Truist Bank and Regions Bank to determine the Board's investments level of safety, liquidity, and yield. He stated that the investments with Truist Bank and Regions Bank were safe, legal, and within the guidelines of the State of Alabama Codes. Mr. Rasmussen made four recommendations to the Board. He stated that all the recommendations involve the use of GIC's to move the Board's investments out on the yield curb to pick up yield and maintain liquidity. Per Mr. Rasmussen, the first two recommendations are already in process within the Boards Capital Improvement Program. He recommended that the Board move the Pay-Go-Funds, and the Bank CD proceeds from low yielding checking accounts, money market funds, and CDs

to GICs to take advantage of higher yields available. This changes the Board's investment return rate from 0.1% to approximately 4% and increases the board's income from \$100,000.00 to approximately \$3,000,000.00 a year. Per Mr. Rasmussen, the remaining two recommendations will be implemented in the future and relates to the Boards' operating funds. They include investing Debt Service Funds (DSF) and the Operating Core Balance. These actions would increase the Board's income from \$50,000.00 to approximately \$1,000,000.00 a year. Mr. Rasmussen stated that the referenced investment change increases the Board's income by a combined total of \$4,000,000.00. Afterwards, he concluded his update and asked if there were any questions. Director Burbage asked whether the Board should move from the referenced rates to other rates if the rates continue to increase. Per Mr. Rasmussen, it depends on the opportunity; however, most of the investments are staggered, and their term is about a year.

Next, the Committee proceeded to the second item on the agenda, Request Committee to recommend to the Board to approve an agreement with Municipal Government Investors Corp., (mGIC) to bid the following: (1) 1-year certificate of deposit with Citizens Trust Bank that matures on September 27, 2022 and had a balance of \$20,382,052.09 on July 31, 2022; (2) 1-year certificate of deposit with Alamerica Bank that matured on July 16, 2022 and had a balance of \$382,892.74 on July 18, 2022 for a total amount of \$20,764,944.83; and to authorize the General Manager and/or the Assistant General Manager to execute the agreement and execute all documents necessary to complete the transaction. Director Burbage made a motion to recommend said item be moved to the full board for approval and Committee Chairman Ward seconded the motion. The agenda item was approved by unanimous vote.

Following, the Committee proceeded to the third item on the agenda, Request Committee to recommend to the Board to approve an agreement with Butler Snow LLC., in an amount not-to-exceed \$7,500.00 to provide legal services related to the bid of the following: (1) 1-year certificate of deposit with Citizens Trust Bank that matures on September 27, 2022 and had a balance of \$20,382,052.09 on July 31, 2022; (2) 1-year certificate of deposit with Alamerica Bank that matured on July 16, 2022 and had a balance of \$382,892.74 on July 18, 2022 for a total amount of \$20,764,944.83; and to authorize the General Manager and/or the Assistant General Manager to execute the agreement. Director Burbage made a motion to recommend said item be moved to the full board for approval and Committee Chairman Ward seconded the motion. The agenda item was approved by unanimous vote. Afterwards, Director Ward stated that the Board appreciates staff and the Investment Advisor.

Subsequently, the Committee proceeded to the fourth item on the agenda, Request Committee to receive the Preliminary FY2023 Operations and Maintenance (O&M) Budget and FY2023 Capital Budgets. General Manager Johnson announced that the next step would be to schedule one or two budget workshops. He informed the meeting body that Rosalind Jones, Accounting Manager, would present the first part of the FY2023 O&M budget. Director Munchus inquired whether the preliminary draft of the FY2023 budget was approximately 80% or 90% complete. General Manager Johnson replied that the numbers have been refined and placed in the budget as well as applying the process for the budget workshop. He stated that the format is there; however, it is a matter of everyone understanding the information. Also, General Manager Johnson stated that the board members should have the following documents for their reference as the budgets are being presented: *O&M Budget*

Presentation, Executive Summary of the Budget with more detail, Capital Budget Presentation, and a Consulting Budget Schedule (all are on file in Diligent Committee Book). Next, General Manager Johnson began presenting by highlighting Effective Utility Management, the Rate Setting Overview, RSE Process and the RSE Model Key Inputs and Outputs. In addition, he highlighted the Board's Financial Policies and Goals. Per General Manager Johnson, the Board has plenty of cash on hand and a strong bond rating (S&P AA and Moody's Aa2), which the company wants to protect. He concluded the overview by reviewing the RSE Targets for Senior and Total Debt Service Coverage. Following, GM Johnson acknowledged Mrs. Jones to present the O&M Budget. She listed various highlights in the Preliminary FY2023 O&M Budget. Mrs. Jones stated that the FY2023 Proposed Preliminary O&M Budget is \$128,166,159.00 *(10.59% increase from the FY2022 Approved & Amended Budget)*. Then, she gave an overview of the Budget Variances, such as: labor, employee related expenses, power costs, license fees, chemicals, legal, laboratory supplies, purification maintenance, outsourced security, property & casualty insurance, and other O&M related expenses. Afterwards, Peiffer Brandt, Raftelis Financial Consultant, discussed Demand. He stated that demand is important, because revenue requirements divided by the customer demand determines the water rates. He stated that the budget is increasing although demand is declining. Mr. Brandt reviewed several consumption projections charts. He stated that the water rate increase would have to be higher than 3.9% to meet the Board's financial policies. Mr. Brandt discussed a chart with the four Scenario Summaries for a rate increase. He stated that Scenario three (8.3% increase) is aligned with the Consumer Price Index (CPI). Then, Director Munchus asked about budget line-item, Other Operating Revenue and its origin. Per General Manager Johnson and Mr. Brandt, it is interest income and miscellaneous fees, and the amount listed below that line item is the money received from Jefferson County for billing accounts. Following, Assistant General Manager Derrick Murphy presented the Capital Budget. He discussed Current Assets, Capital Planning Strategic Review, and the FY2023 Proposed Capital Budget. Per Assistant General Manager Murphy, BWWB maintains a five-county system to produce high quality water. He highlighted the following six categories included in the Capital Planning Strategy: Capital Program, Risk Reduction & Resilience Improvements, Filter Rehab at Water Treatment Plants Regulatory Requirement & Maintenance Needs, Water System Supply Reliability Drought Mitigation, Dam Rehabilitation Risk Management and Replacement, and Distribution System Piping Replacement. Assistant General Manager Murphy stated that the main focal point for the past few years has been the distribution pipelines. He stated that BWWB has been aggressive in the replacement of galvanized steel and cast-iron material. Also, he reviewed a chart on the GIS System for pipeline distribution. Afterwards, he gave an overview of the FY2023 Proposed Capital Budget and emphasized budget line item 1C for Meters and Metering Technologies. Per Assistant General Manager Murphy, the proposed total FY2023 Capital Budget is \$72,307,526.00. He highlighted the top five budgeted projects for FY2023, which consists of a New EnviroLab Building, Carson Loop Phase 6D and Kiowa Road Distribution Improvement, Lake Purdy Dam Rehabilitation, Putnam Filter Plant and Western Filter Plant Sodium Hypochlorite and Liquid Lime, and the Pipe Replacement Program. Assistant General Manager Murphy ended his presentation with discussing the BWWB Supply Chain Product Increase Comparison chart. Director Munchus inquired as to the driving factors that caused the six-inch ductile iron pipe to have a 74.9% increase and the eight-inch ductile iron pipe to have an 84.9% increase. Assistant General Manager Murphy replied that the fabrication and the material costs increased, as well as supply and demand. There was a back log when companies left the industry. Next, Director Munchus asked whether United States manufacturers were being used. Assistant General Manager Murphy replied yes. Following, General Manager Johnson asked the Committee to consider budget workshops for Wednesday, October 12,

2022 at 9:30 a.m., and Wednesday, October 26, 2022 at 9:30 a.m., *(if needed)* and a Public Hearing for Wednesday, November 9, 2022 at 5:30 p.m.

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 1:27 p.m.

_____/s/_____
Larry Ward
Secretary-Treasurer

_____/s/_____
William “Butch” Burbage, Jr., Esq.
Vice Chairman

_____/s/_____
Michael Johnson, MBA, CPA
General Manager