

**MINUTES OF THE SPECIAL MEETING OF DIRECTORS
OF THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
November 7, 2019**

The regular bi-monthly meeting of the directors of The Water Works Board of the City of Birmingham was held on Thursday, November 7, 2019 at 11:30 a.m., in the principal office of the Board, 3600 First Avenue North, Birmingham, Alabama.

The following Directors were present: William Burbage, Jr., Deborah Clark, Ronald A. Mims, Tommy Joe Alexander, Brenda Dickerson, and Brett King.

The meeting was also attended by: Michael Johnson, General Manager; Sonny Jones, and Derrick Murphy, Assistant General Managers; Anitra Hendrix, Executive Assistant to the General Manager; George Anderson, Rick Jackson, Paul Lloyd, Rosalind Jones, Barry Williams, Terrell Jones, Michael Griffin, Carolyn White, and Ben Sorrell, Board Employees; K. Mark Parnell, Parnell Thompson, LLC; Kelvin Howard, Kelvin Howard, LLC; Martha Bozeman, Agency 54; Brian Ruggs, ARCADIS; Matthew Arrington, Terminus Municipal Advisors; Jeanette Cooper and Matt Powell, Segal; Zack Wilson, State of Alabama Attorney General; Daymeon Fishback, Greg Burchell, and David Searcy, Morgan Stanley; Kim Baylor Bivins, Birmingham Industry Construction Authority; Angela Hoskins, Studio 2H Design; Isaac Ballard; Priscilla Lowry; Carol Duncan; Reginald Miller; Lila Baldwin; and Officer Rosato.

Inasmuch as six of the directors were present; Chairman Burbage declared a quorum in attendance.

Chairman Burbage called the meeting to order at 11:34 a.m. Mr. George Anderson opened the meeting with prayer.

Following, the General Manager asked the Board to consent to the General Manager's proposed hiring to fill the position of Assistant General Manager – Operations and Technical Services, as set forth in agenda item 1. The General Manager stated Polihire was used in the hiring process. He stated there were approximately one hundred (100) applicants and three (3) candidates were interviewed. He indicated Jeffrey Thompson was the selected candidate and possesses 25 plus years of experience. Director Dickerson requested a copy of the selected candidate's resume. The General Manager stated he would forward the resume to all directors. Director King then made a motion to approve the item and Director Dickerson seconded the motion. Director William Muhammad arrived at the meeting at 11:38 a.m. Director Dickerson questioned when the start date for Mr. Thompson would be. The General Manager stated an offer letter has to be sent and a background check conducted before that can be determined. Board Attorney Mark Parnell clarified that the hire is based upon passing the background check. On a motion duly made and seconded, the following resolutions were adopted:

“BE IT RESOLVED By the Water Works Board of the City of Birmingham (“the Board”), on a motion duly made by Mr. Brett King and seconded by Dr. Brenda Dickerson, that Pursuant to Article IV, Section 1 of the By-Laws of The Water Works Board of the City of Birmingham, and subject to the Water Works Board's normal hiring processes, the Board of Directors hereby consents to the General Manager hiring Jeffrey F. Thompson as the Assistant General Manager, Operations and Technical Services, which, with the prior approval by the General Manager, will

include reimbursement of the following: 1) reasonable moving expenses not to exceed \$12,000.00, 2) reasonable travel and lodging expenses for housing search not to exceed two trips and 3) reasonable temporary housing not to exceed 60 days.

Resolution No. 8191 is hereby adopted by unanimous vote.”

Following, the General Manager asked the board to hear a presentation on the 2014-2018 Actuarial Experience Study and to approve implementation of the results, as set forth in agenda item 2. Jeanette Cooper, Segal Advisors, stated they would be presenting the results from the experience study which covers assumptions from 2014-2018. She stated if the assumptions are approved by the board, they will be introduced with the 2020 valuations. Matt Powell, Segal Advisors, gave an overview of the demographic assumptions. Mr. Powell stated there are recommended changes to the withdrawal, mortality, disability and retirement rates. He stated more people are retiring once they reach 30 years of service. Director Alexander questioned the difference between the spousal assumption for a male and a female. Mr. Powell responded there is a lower percentage of females being married at retirement. A discussion then ensued. Mr. Powell then gave an overview of the economic assumptions. He stated their recommendation is to lower the inflation rate from 2.75 percent to 2.5 percent. He stated there were adjustments made to the salary scale to account for the assumed increases in pay. Director Dickerson questioned whether longevity was examined during the study. Mr. Powell stated the analysis is based on the base pay. He stated there are fewer people who have longevity that is used when computing into their pensionable pay. Mr. Powell then gave an overview of the administrative expenses and methods. He stated they recommend maintaining these assumptions. He indicated they recommend changing the funding method to match evaluations for funding with GASB.

Next, Mr. Powell gave an overview of the impact of the proposed assumptions. He then referred to a handout. A copy of the handout is included in Diligent. He indicated they recommend adopting the assumptions in column D or E of the handout. The General Manager stated the pension plan performance has a hard time reaching the return assumption of 7.5 percent. He stated Segal examined this in their study and based on the projected performance of the plan based and the asset mix, the assumption should be reduced to 7 or 6.75 percent. Mr. Powell stated the goal is to make the effective amortization period decrease and be fully funded in 19-24 years. Mr. Powell then gave an overview of the OPEB Plan assumptions. He stated the total recommended contribution has been adjusted for timing. Director Munchus arrived at the meeting at 12:00 p.m. The General Manager stated the experience study is conducted every 5 years and there are no significant changes other than moving the return assumption from 7.5 percent to 7 or 6.75 percent. Director Muhammad questioned whether this item came before the Finance Committee. The General Manager stated this item was scheduled to come before the Executive Committee today; however, the meeting was changed to a Special Board meeting because action needed to be taken. Director Munchus questioned will this study have any impact on retirees. Ms. Cooper responded no and stated it does not change the benefits. She indicated it will only affect how long it takes the plan to become fully funded. Director Munchus questioned the General Manager whether he has met with the representatives for the retirees. The General Manager stated there have been discussions with the representatives; however, there has not been a formal meeting. A discussion then ensued. Director Munchus questioned why the meeting was changed from an Executive Committee to a Special Board meeting. The General Manager responded board action needed to

be taken on agenda item 1. Director Dickerson stated the board needs more time to examine the information presented by Segal regarding the experience study. The General Manager stated this item can be moved to the last board meeting in November for approval. On a motion duly made and seconded, the following resolution was adopted:

“BE IT RESOLVED By the Water Works Board of the City of Birmingham (“the Board”), on a motion duly made by Mr. William Muhammad and seconded by Mr. Ronald A. Mims, the Board was asked to table and to consider approving implementation of the results of the 2014 – 2018 Actuarial Experience Study, at the Regular Board of Directors’ Meeting to be held November 26, 2019. Resolution No. 8192 is hereby adopted by unanimous vote.”

* * * * *

Following, the General Manager asked the board to hear a presentation on the 2014-2019 Funding Results Under Alternative COLA Provisions and under Proposed Actuarial Assumptions, as set forth in agenda item 3. Ms. Cooper stated they were asked to look at the possibility of providing a cost of living adjustment (COLA) to retirees in the plan. She stated there are two options to consider, 1) a one-time ad-hoc COLA which would result in the benefits increasing one percent; and 2) an annual compounded COLA. She indicated the one-time ad-hoc COLA would result in a one-time one percent benefit increase that would increase each pensioner’s monthly payment for the rest of their life and an annual compounded COLA which would increase the benefit one percent every year. Ms. Cooper indicated the amortization period would be extended 10 years as the result of an annual COLA. She said the one-time ad-hoc COLA has a smaller impact as oppose to an annual COLA. Director Munchus questioned what happens at the end of the 10th year. Ms. Cooper responded the retirees would either get a COLA every year or one time once. She indicated it is too expensive to do a COLA every year. She then gave an overview of plan funding. She stated if the current assumptions stay in place and the board decides to offer a COLA every year it would put the amortization period over 20 years which would be concerning. She stated this would make the liability increase and stretch the plan being fully funded by 23 years. Ms. Cooper stated if the board decided to use a 7 percent return, it would take 37 years before the plan is fully funded. A discussion then ensued. The General Manager stated there was a long climb since 2008 for the plan and it’s in good shape. He stated the amortization period should not be taken lightly because rating agencies look at that closely. Director Munchus questioned what the rating agencies will say about pursuing the COLA. The General Manager responded they would say we are being prudent in management if we stay under 20 years in getting the plan fully funded. Director Dickerson questioned management’s recommendation. The General Manager responded they will recommend 7.0 percent. He stated based on information regarding the performance, increasing amortization, and reducing the assumptions, the COLA would not be the right thing to do. He indicated the plan at this point cannot afford a raise. Director Muhammad stated he was asked by retirees whether they could get a raise and he responded yes. He stated after reflecting on the matter he realized the retirees have their pension until they die. He indicated most companies have a 401k that only lasts 7 years. He stated he wanted to give the retirees a raise, but it can’t be done. The General Manager stated he is often asked is the pension safe and the answer is yes. He stated market conditions are not exact; however, they have to make the best decision right now. He stated this item can be looked at again in the future. The General Manager stated if the board wants to put more money in the plan, that would be different. A discussion then ensued. The General Manager stated the compound option is not recommended.

He stated the plan is conservative; however, the prudent thing is to make a decision based on the current marketplace.

Following, the General Manager asked the board to hear a presentation from Morgan Stanley regarding investment performance of the Pension Plan and OPEB plan, as set forth in agenda item 4. Greg Burchell, Morgan Stanley, gave an overview of forecasted efficient frontiers. He stated the board's portfolio is between 30 percent bonds and 40 percent bonds. He then gave an overview of the 20-year forecast. He stated if the plan were to change to 100 percent stocks, Morgan Stanley forecasts over the next 20 years there will be a 7.5 percent return. Director Dickerson stated 100 percent stocks would be "suicidal". Mr. Burchell stated it would be a challenge and it would double the risk. He stated based on the current allocations, the Pension plan would have a projected return of 6.2 percent and the OPEB plan would have a projected return of 6.1 percent. He stated a plan to reduce the unfunded liability is good for rating agencies. Director Dickerson questioned whether the country would be going into recession next year. Mr. Burchell responded the risk of recession is greater next year and they do think there will be one. He stated they think it is reasonable to do 20-year projections. Director Munchus questioned why 6.75 percent instead of 6.5 percent. Mr. Burchell stated it really depends on the risk the board wants to take. A discussion then ensued. Mr. Burchell stated Morgan Stanley agrees with management and the Segal Company that the assumed rate of return should be moved from 7.5 percent to 7 percent. The General Manager stated a resolution would need to be approved by the board to make the change. Director King stated the board considered private placement twice and questioned what the projected return was if there was an allocation for private placement. Mr. Burchell stated the initial allocation was at 10 percent and it would move it between 20 to 25 basis points in returns. Daymeon Fishback, Morgan Stanley, gave an overview of the portfolio's performance. He stated the first three quarter's performance was the strongest they've been since 1997. He then gave an overview of the 3rd quarter performance. He stated the international markets underperformed slightly. He stated eight of eleven sectors finished in the black, which utilities lead, gaining 9.33 percent. Mr. Burchell gave an overview of the global economy. He stated the United States makes up 24 percent of the global economy. He indicated change is constant and now is a good time to refinance debt. He stated it is good to diversify the portfolio because when stocks perform bad bonds perform well. Director Alexander stated a recession was predicted for 2019 and it didn't happen. He stated he hopes there is not a recession in 2020 and he hopes Morgan Stanley is not right with their prediction. Mr. Burchell stated their job is to manage in perpetuity. He then gave an overview of the performance of the portfolio. He indicated the Pension and OPEB plans have done extremely well and are up 16 percent each. He indicated the OPEB portfolio began with \$27 million and its now at \$31 million. He then gave an overview of the money managers. He stated Ariel International did outperform this quarter and indicated they have been on watch. He indicated the portfolio maintains 43 percent in minority owned managers. Mr. Burchell stated they have a recommendation regarding Ariel International. He stated it is appropriate for diversification purposes to have an additional non-U.S. position in the allocation. He stated the current non-U.S. manager, Ariel International manages 25 percent of the Pension plan and they have been on watch for several quarters due to their performance. He stated they believe the performance is attributed to their conservative approach to managing the portfolio. He indicated Ariel International outperformed their benchmark by 4 percent. He stated to optimize the portfolio with the non-U.S. holdings, exposure of an international index manager is appropriate. He stated they have reviewed several money managers and had discussions with management, and it is their recommendation to continue to use an existing manager, Rumblin, who is also an index manager and allocate 40 percent of the portfolio to them. Director Munchus

questioned whether Ariel International would be handling 15 percent instead of 25 percent of the portfolio. Mr. Burchell responded yes. Director Munchus questioned where Rumblin is located and Mr. Burchell responded Chicago, IL. Mr. Burchell stated the blended portfolio of Ariel International and Rumblin is able to offer more return with a little more risk. Director Munchus questioned whether Ariel International and Rumblin are connected. Mr. Burchell responded no and stated there are no SEC issues with either manager. The General Manager stated the board would need to take action on the recommendation from Morgan Stanley for reallocation of the portfolio. On a motion duly made and seconded, the following resolution was adopted:

“BE IT RESOLVED By the Water Works Board of the City of Birmingham (“the Board”), on a motion duly made by Mr. Brett King and seconded by Mr. George Munchus, the Board was asked to consider approving the reallocation of money managers of the board’s portfolio with Morgan Stanley, to include Ariel International and Rumblin, at the Regular Board of Directors’ Meeting to be held November 26, 2019. Resolution No. 8193 is hereby adopted by unanimous vote.”

Following, the General Manager asked the board to approve an agreement with Banks, Finley, White & Co. to engage in a SOC – 1 audit as required in the Joint Billing and Collection Agreement between Jefferson County and The Water Works Board of The City of Birmingham executed on February 22, 2018, as set forth in agenda item 5. Director Dickerson left the meeting at 1:05 p.m. Director Munchus stated assuming the board decides to terminate its agreement with Jefferson County, he questioned what the impact would be of the audit. The General Manager stated the audit would still be conducted because BWB collects for Jefferson County. He indicated terminating an agreement with Jefferson County would not have any impact on the audit. On a motion duly made and seconded, the following resolution was adopted:

“BE IT RESOLVED By the Water Works Board of the City of Birmingham (“the Board”), on a motion duly made by Mr. Ronald A. Mims and seconded by Ms. Deborah Clark, that Board hereby approves an agreement with Banks, Finley, White & Co. to engage in a SOC -1 audit as required in the Joint Billing and Collection Agreement Between Jefferson County and The Water Works Board of The City of Birmingham executed on February 22, 2018. Resolution No. 8194 is hereby adopted by unanimous vote.”

Following, the General Manager asked the board to consider and approve additions to the FY 2020 Consulting and Professional Services budget submittals, as set forth in agenda item 6. The General Manager stated there was a discussion at the Finance Committee meeting regarding which consultants were reduced or deleted from the FY2019 budget for professional consultants and vendors. He then gave an overview of the FY2019 budget. Director Munchus questioned why the LIMS training would be eliminated. The General Manager responded whatever staff has requested for FY2020 training needs has been included in the budget; however, he doesn’t think this particular training will be impacted. Director Mims questioned the amount of money allocated to lobbyists for FY2020. The General Manager responded \$110,000.00. Director Muhammad stated some money was not spent regarding public relations. A discussion then ensued. Director Muhammad stated the consultants cut their budgets in FY2019; however, when Agency 54 cut \$30,000 out of their set budget they lost money as oppose to ARCADIS, U.S. who

do not lose money based on the work they do. He stated he recommends giving Agency 54 back the \$300,000.00 they originally had because they are the only consultant that took a real loss. Director Clark stated she feels Agency 54 should be paid for the work they do since the other consultants are paid for the work they do. Director Dickerson returned to the meeting at 1:14 p.m. A discussion then ensued. Director Munchus then made a motion to add \$30,000.00 to add back to Agency 54's 2020 budget and Director Muhammad seconded the motion. Director Clark stated if the board wants to do right by rate payers, it can't say it wants to spend as much money as it can. She stated if the board is really considering the rate payers it should really try to trim "the fat". Director Alexander questioned whether Agency 54 requested \$270,000.00 for their budget and the General Manager responded yes. Director Alexander then questioned why the board would give Agency 54 more money than they requested. Director Muhammad responded Agency 54 was asked to cut their budget. He stated he feels Parnell Thompson's budget should be increased as well. Director Alexander stated he doesn't understand the multiplier ARCADIS, U.S. uses. A discussion then ensued. Chairman Burbage stated the motion on the table is to add \$30,000.00 back to the budget for Agency 54. Director Dickerson questioned whether the other consultants' budgets would be considered. Chairman Burbage stated the amounts that are in the request are already included in the budget requests that the board is reviewing. Director Dickerson stated agenda item 6 should be restated. Chairman Burbage clarified the motion on the table is to add \$30,000.00 to the 2020 budget for Agency 54. Mr. Parnell stated the board is giving staff direction as it relates to these items in the upcoming budget. On a motion duly made and seconded, the following resolution was adopted:

"BE IT RESOLVED By the Water Works Board of the City of Birmingham ("the Board"), on a motion duly made by Mr. George Munchus and seconded by Mr. William R. Muhammad, that Board hereby authorizes staff to add \$30,000.00 to Agency 54's 2020 Consultant Budget. Resolution No. 8195 is hereby adopted by Directors Munchus, Muhammad, Mims and Dickerson; Directors Clark and Alexander voted no; Director Burbage abstained from voting."

* * * * *

Following, the General Manager stated there was one speaker, Isaac Ballard, who wished to speak regarding an item on the agenda. The General Manager stated there will be a meeting with retirees on December 6, 2019 at the Anthony L. Barnes Conference Center.

Following, Director Dickerson requested an update on the condos located in Center Point, Alabama. The General Manager stated letters were sent to the tenants. He indicated 30 days from the date of the letter, October 31, 2019, the water would be shut off. Director Munchus requested a copy of the letter be given to the directors. The General Manager stated BWWB is required to notify the tenants that the water would be shut off. He stated staff met with the landlord and they are aware of the situation. He indicated BWWB tried to make payment arrangements with the landlord; however, they failed to make any payment. Director Mims left the meeting at 1:29 p.m.

As there was no further business before the Board, Chairman Burbage entertained a motion to adjourn the meeting. A motion was duly made and seconded, and the meeting adjourned at 1:29 p.m.

/s/

William Burbage, Jr.
Chairman/President

Attest:

/s/

Ronald A. Mims
Secretary-Treasurer