MINUTES OF EXECUTIVE COMMITTEE MEETING
OF THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
February 21, 2019

An Executive Committee meeting of the directors of The Water Works Board of the City of Birmingham was held on Thursday, February 21, 2019 at 11:30 a.m., in the principal office of the Board, 3600 First Avenue North, Birmingham, Alabama.

The following Committee Members were present: William Burbage, Jr., Deborah Clark, Brenda Dickerson, Ronald Mims, Tommy Joe Alexander, Sherry Lewis, William Muhammad, and George Munchus. Director Brett King was not present.

Also attending were: Michael Johnson, Interim General Manager; Sonny Jones, Assistant General Manager; Grace Amison, Executive Assistant to the Board of Directors; Anitra Hendrix, Executive Assistant to the General Manager; George Anderson, Paul Lloyd, Michael Griffin, Barry Williams, Geoff Goodwin, Rosalind Jones and Terrell Jones, Board Employees; K. Mark Parnell, Parnell Thompson, LLC; Kelvin Howard, Kelvin W. Howard, LLC; Tommy Palladino, Agency 54; Patrick Flannelly and Brian Ruggs, ARCADIS, U.S., Inc.; Peiffer Brandt, and Townsend Collins, Raftelis Financial Consultants; Matthew Arrington, Terminus Municipal Advisors; Walter Lewis and Ryan Combs, Piper Jaffrey; Greg Jones, Dalton Dismukes and Terri Reynolds, The Jones Group; Daymeon Fishback, David Searcy and Greg Burchell, Morgan Stanley; Olivia Martin, State of Alabama Attorney General's Office; Chandra Abesingha, CE Associates; Isaac Ballard; Priscilla Lowry; and Nelda Thompkins.

Inasmuch as eight of the committee members were present; Chairman Burbage declared a quorum in attendance. The meeting was called to order at 11:36 a.m. and Mr. George Anderson opened the meeting with prayer.

The Interim General Manager stated there were seven (7) items on the agenda to be reviewed and discussed.

Following, the Committee moved to the fourth item on the agenda, Request Committee to hear a presentation regarding Debt Reduction. The Interim General Manager stated this initial presentation will begin the discussion for the Board to determine ways to reduce its debt. Matthew Arrington, Terminus Municipal Advisors, stated the debt reduction plan originated when the Board last borrowed its debt and wanted to look at ways to reduce overall debt. He stated Terminus met with Raftelis Financial Consultants and Piper Jaffrey to look at ways to reduce debt. He stated the goal is to slow debt down and they reviewed options to accomplish that within a 10-year period. He stated the Board needs to give their feedback regarding assumptions. Peiffer Brandt, Raftelis Financial Consultants, stated there are different scenarios available to reduce debt. He stated for each scenario they have assumed a 10-year capital plan, with $64 million, increasing 3 percent a year. He stated O&M escalates at 3 percent annually. He then gave an overview of the existing debt. Director Munchus arrived at the meeting at 11:44 a.m. Mr. Brandt stated the annual debt service for 2019 is $64.4 million and outstanding principal is $975 million. If the Board did not issue any additional debt, by 2030 the outstanding principal would be $664 million. He indicated that would not be realistic because there are a number of necessary capital improvement projects. Director Munchus questioned whether that plan is realistic. Mr. Brandt responded, under the

Board's current situation, it is not realistic to not issue any additional debt. He stated the Board is operating under a 50 percent paygo policy, which resulted in reducing the amount being borrowed. He then gave an overview of the projected system debt. He indicated devoting additional revenue from Jefferson County, having a rate increase of 3.9 percent, and having the paygo policy at 50 percent has helped to avoid having $1.3 billion in outstanding debt. Director Lewis arrived at the meeting at 11:50 a.m. Mr. Brandt then gave an overview of the previous and current paygo policies. He then gave an overview of opportunities to reduce debt: refinancing of existing debt, implementing greater rate increases, and reducing O&M and Capital costs. Director Munchus questioned whether a law was passed preventing advance refunding. Mr. Arrington responded an IRS rule states a debt must be on the books for 10 years before it can be refinanced. He stated there are discussions to reverse that rule and Raftelis has already ran scenarios if that were to change. Mr. Brandt stated reducing O&M costs too much could cause issues by having a material impact over time. Walter Lewis, Piper Jaffrey, gave an overview of the outstanding bond series the Board has. He stated the last structure was a 20-year deal. He stated Series 2010-A has an outstanding balance of $80 million. In addition to refunding the Series 2010-A bonds, he indicated if the Board refinanced with today's rates, it could save $5 million with a total savings of $72 million over the life of the bond issues that could be refunded. He stated assumptions are conservative; however, these are the current available opportunities. A discussion then ensued. Director Lewis stated the bond deal is over and she was confused as to this new team presenting and wanted to know the input she had as a director. Mr. Lewis stated there is no new team. Director Lewis questioned where this group came from. The Interim General Manager stated this team is volunteering their time to assist the Board with reducing its debt. Subsequently, Mr. Lewis gave an overview of the opportunities available to the Board once the outstanding debt gets to their call period. Director Muhammad questioned what would BWWB cost be. Ryan Combs, Piper Jaffrey, stated the cost would vary. Mr. Arrington stated refunding occurs when new money is issued. He indicated lawyers nor underwriters are paid twice with refunding executed at the time new money bonds are issued. A discussion then ensued. Mr. Brandt stated BWWB's rate increases have been below industry average in recent years. He then gave an overview of the possible rate increase option. He also gave an overview of O&M/Capital reductions. He stated the challenge is the current system replacement is less than 1 percent of the total value per year. Director Muhammad stated he knew of a water company who spends 2 percent on maintenance and they consider that to be industry standard. Patrick Flannelly, ARCADIS, U.S., stated 1 percent is a reasonable target for the Board. Mr. Brandt then gave an overview of the options to reduce system debt. Director Munchus questioned whether this will assist the Board in getting better ratings with the rating agencies. Mr. Brandt responded stated it has a potential to. The Interim General Manager stated Standard & Poor's mentioned in a meeting with BWWB that if they were able to reduce the debt to 50-60 percent net utility of plant that would be positive. He stated the projection for 2019 is 89 percent. Mr. Brandt stated if rates increased 4.9 percent, it would generate $154 million which could be used to reduce debt. Director Lewis questioned why 4.9 percent would be used in lieu of 3.9 percent. Mr. Brandt responded this is an example and not a recommendation. He stated the example shows the effect it would have on a customer's bill. A discussion then ensued. Mr. Arrington then stated the next steps the Board would need to take. He stated increasing rates by 1 percent would generate $20 million per year with $150 million reducing debt. He indicated if the Board wants to increase the percentage for rate increases, they could present those numbers; however, that would affect the customer. He indicated there needs to be input from the Board so they can refine the plan. Director Muhammad stated he feels there has not been any consideration for paygo not being static at 50 percent. A discussion then ensued.

Director Muhammad stated $1 million in sewer revenue is being left on the table. Director Dickerson questioned the consultants how soon they need feedback from the Board. Mr. Arrington responded within a month or two. Mr. Brandt stated the goal is to complete this by this summer, so they can go into the budgeting process with a plan. Chairman Burbage stated this item can go to the Finance Committee for further discussion.

Following, the Committee moved to the fifth item on the agenda, Request Committee to hear a presentation from Raftelis Financial Consultants, Inc. regarding the Cost of Service Study. Mr. Brandt stated there are three things the Board needs to make decisions on. He gave an overview of the objectives of the Cost of Service study. He stated there is no requirement to implement the exact findings of the study. He indicated the Board has to determine how much debt service should be allocated to readiness to serve. He stated that "drives" the base charge. He stated in one scenario they have assumed 61.2 percent of debt service is allocated to readiness to serve. He indicated that generates the same base charges that are currently being charged. He then gave an overview of the summary of findings and a breakdown of numbers. He stated that volumetric revenue is lower and higher in some instances. Mr. Brandt stated at 50 percent readiness to serve, the base charge would decrease. Director Munchus questioned who pays for fire protection. Mr. Brandt responded municipalities pay hydrant fees and there are private fire service customers. He stated the fire protection assumptions may need to be adjusted. He then gave an overview of the pros/cons of a wholesale rate. He stated having a wholesale rate could help to expand wholesale usage. Mr. Brandt indicated there is nothing requiring the Board to have a wholesale rate. He stated he needs decisions from the Board regarding next steps. He stated the Board needs to decide whether it wants to maintain or lower the base charge, adjust the non-residential rate, adjust the raw water rate, and/or implement a wholesale rate. Director Muhammad stated if the base charge is being collected is 115 percent of the debt, why does the base rate only decrease 2 percent. Mr. Brandt responded that is a change in allocation from debt service to readiness to serve. Chairman Burbage stated this item could be discussed further in the Finance Committee.

Following, the Committee moved to the first item on the agenda, Request Committee to Approve Minutes from the Executive Committee Meeting held November 13, 2018. On a motion duly made and seconded, minutes of an Executive Committee Meeting held November 13, 2018 were approved by unanimous vote.

Following, the Committee moved to the second and third items on the agenda, Request Committee to hear a presentation from Morgan Stanley regarding investment performance of the Pension Plan for the Year Ended December 31, 2018; and Request Committee to hear a presentation from Morgan Stanley regarding investment performance of the Other Post Employment Benefits (OPEB) Plan for the Year Ended December 31, 2018. Daymeon Fishback, Morgan Stanley, gave an overview of the topics that would be presented: 1) 2018 overview, 2) expectations for 2019, 3) performance, and 4) recommendations. He stated 2018 started off extremely well but, historically, December 2018 was the worst since 1931. He stated the plan is up about 8 percent year-to-date due to taking advantage of the buying opportunity at the end of the year. He stated there are three things that needs to be hurdled; 1) earnings, 2) federal government, and 3) technical resistance. He indicated 2019 is expected to be "choppy" and the trending range of the S& P is between 2400 up to around 3000. Mr. Fishback stated the ten-year treasury yield has seemed to top out. Director Munchus questioned whether Morgan Stanley feels quantitative easing will occur in the future. Mr. Fishback responded if the federal government follows through it would be a positive. Greg Burchell, Morgan Stanley, then gave an overview of the performance for 2018. He stated 2018 was a terrible year for asset allocation. He stated out of the 14 global asset classes they monitor, all under performed. He stated having more cashflow allowed for an attack on capital expenditures and when rates are lower the risk premiums typically go higher. He indicated on the S&P price matrix, BWWB is 268 on the 10-year treasury; resulting in being 27/80 on the S&P 500. He stated BWWB is not getting paid as much at this point in the cycle for the risk it is taking. Director Lewis left the meeting at 1:02 p.m. Mr. Burchell then gave an overview of the international markets. Director Dickerson requested further explanation regarding emerging markets. Mr. Burchell stated the volatility in emerging markets is extremely high and their expectation for 2019 is to earn with the decrease in the U. S. dollar. A discussion then ensued. Subsequently, Mr. Burchell stated Morgan Stanley is compliant with BWWB's investment policy for the pension plan. He stated $1.7 million was withdrawn from the plan to pay pension expenses and pension payments. He stated the asset managers performed better than the markets at $1.4 million. He stated a tactical decision was made to recommend raising two years of pension payment obligation from the Pension plan; therefore, Morgan Stanley will not have to come back before the Board in the event they have to make pension obligations. Director Munchus questioned whether a decision has been made to give retirees a bonus when there is excess cash. The Interim General Manager stated BWWB never has excess cash, but they could examine what the cost would be to the plan to provide something. Director Lewis returned to the meeting at 1:10 p.m. Mr. Burchell stated Morgan Stanley is compliant with BWWB's investment policy for the OPEB plan. The Interim General Manager stated the pension plan balance was $147.6 million at the end of 2017, it dropped to $134 million at the end of 2018, and as of February 2019 it was $145 million. Mr. Burchell then recommended that the Board revisit alternative asset allocation because they feel there is a possible return of 7 percent. Director Munchus responded that he would not support Hamilton Lane. Mr. Burchell stated if the Board does not want to explore that option, then they would recommend the Board reduce its assumed rate of return after working with the actuary. He indicated this would impact how quickly BWWB would pay off its unfunded liability. He stated they would present three (3) alternative investments to the Board. Director Munchus questioned why the plan would need to lower its actuarial assumptions. The Interim General Manager responded the reason would be if you did not lower the assumption, you would have to take more risk to get more return. He indicated you must have more investments to yield more return. Mr. Fishback indicated Morgan Stanley will bring back options available to the Board. Director Munchus requested Morgan Stanley have dialogue with BWWB retirees to make sure they understand what is going on with the plans.

Following, the Committee moved to the sixth item on the agenda, Request Committee to hear a presentation from The Jones Group, LLC. Greg Jones, The Jones Group, LLC, expressed his appreciation to work for BWWB. Mr. Greg Jones introduced his staff; Dalton Dismukes, Legislative Manager for Governmental Affairs, and Terri Reynolds, Staff Attorney. Mr. Greg Jones stated the legislative session begins March 5, 2019. He then gave an overview of the role of The Jones Group indicating they are a fierce advocate for BWWB on issues that would affect BWWB. He stated The Jones Group is responsible for reading and tracking all legislation that would have a potential impact to BWWB operations. He stated there were currently 82 bills that have been pre-filed that will be debated during the legislative session. He indicated there will be on average, approximately 1,300 bills filed. He stated The Jones Group will be attending all committee meetings, especially those committees that would have a direct impact on BWWB. He stated they will provide strategic communication, advice and recommendations for policy changes, ensuring this information is communicated to the Interim General Manager and the Board's attorneys. Mr. Greg Jones stated they give regular reporting status and they communicate with all legislators. He then recognized Dalton Dismukes. Director Munchus requested The Jones Group to provide the members of the delegations, from the Senate and the House, from Jefferson, Shelby and Blount counties. Mr. Greg Jones responded they would provide that information. Mr. Dismukes stated the House took a shift towards the Republican hold by increasing at 5 seats, with the majority being at 73 percent. He indicated this would make it more difficult for legislation to be stopped. He stated the Senate also has a Republican hold. He gave an overview of the leadership and indicated it has not changed much since the last Quadrennium. Director Muhammad questioned whether Senator Reed lives in Jefferson County. Mr. Dismukes responded Senator Reed lives in Walker County. A discussion then ensued. Mr. Dismukes gave an overview of the member of the delegation from Jefferson, Shelby and Blount counties. Mr. Dismukes then recognized Terri Reynolds. Ms. Reynolds stated the first session of the Quadrennium is always very intense and indicated last year there were approximately 900 bills introduced. She then gave an overview of the upcoming issues. She stated main issues would include defining what a principal is regarding the Ethics law and Gas Tax Increase, which is expected to dominate the session since there has not been an increase since 1992. Director Muhammad questioned whether there would be a constitutional amendment. Ms. Reynolds responded no and stated this would be state law. Director Dickerson questioned whether there will be any upcoming bills regarding the Mayor/Council Act. Mr. Greg Jones stated there has been a lot of talk, but at this point a bill has not been advertised. Ms. Reynolds stated there has been discussions of changes to the code sections regarding the municipal liability cap. She stated the law provides a $100,000 liability cap on municipal employees if there's an accident involving one person and $300,000 if it involves two or more persons. She indicated they are also looking for changes to the competitive bid public works law. Director Muhammad requested The Jones Group review ethics restrictions to the Board based on a bill that was passed by Senator Jabbo Waggoner. Board Attorney Mark Parnell stated the restrictions are not really in the Ethics Law; however, they apply specifically to the Board. Director Clark requested that verbiage be given to the Board. Director Munchus left the meeting at 1:42 p.m.

Chairman Burbage stated he distributed information to the directors regarding the search committee. He stated he would like to discuss next steps and indicated there are four (4) search firms. He stated he is of the opinion to bring in two (2) of the firms, but he is leaving that decision up to the Board. Director Muhammad questioned whether this item can be discussed at the upcoming board meeting. Chairman Burbage responded yes and stated he would recommend that item be added to the agenda.

Following, as there was no further business before the Committee a motion was made to adjourn, and the meeting adjourned at 1:45 p.m.

/s/	/s/
Michael Johnson	William Burbage, Jr.
Interim General Manager	Chairman/President

/s/
Deborah Clark
First Vice Chairwoman/First Vice President

/s/
Dr. Brenda Dickerson
Second Vice Chairwoman/Second Vice President

/s/
Ronald A. Mims
Secretary/Treasurer

/s/
Tommy Joe Alexander
Assistant Secretary/Assistant Treasurer

/s/
Sherry W. Lewis
Director

/s/
William Muhammad
Director

/s/
Dr. George Munchus
Director