

**MINUTES OF EXECUTIVE COMMITTEE MEETING
OF THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
May 15, 2018**

An Executive Committee meeting of the directors of The Water Works Board of the City of Birmingham was held on Tuesday, May 15, 2018 at 10:00 a.m., in the principal office of the Board, 3600 First Avenue North, Birmingham, Alabama.

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

Also attending were: Mac Underwood, General Manager; Michael Johnson and Sonny Jones, Assistant General Managers; Grace Amison, Executive Assistant to the Board of Directors; Anitra Hendrix, Executive Assistant to the General Manager; Kelvin Howard, Kelvin W. Howard, LLC; Rick Jackson, George Anderson, Michael Griffin, Paul Lloyd, Rosalind Jones and Terrell Jones, Board Employees; Thomas Pallandino, Agency 54; Patrick Flannelly, ARCADIS, U.S., Inc.; Daymeon Fishback, David Searcy and Greg Burchell, Morgan Stanley; Peiffer Brandt, Townsend Collins, and Melissa Elliott, Raftelis Financial Consultants; Jeanette Cooper, Segal Advisors; and Olivia Martin, State of Alabama Attorney General's Office.

Inasmuch as eight of the committee members were present; Chairman Alexander declared a quorum in attendance. The meeting was called to order at 10:05 a.m.

The General Manager stated there were four (4) items on the agenda to be reviewed and discussed.

Following, the Committee moved to the first item on the agenda, Request Committee to Approve Minutes of Executive Committee Meetings held April 25, 2017; December 5, 2017; January 4, 2018; January 22, 2018; and March 6, 2018. Director Munchus made a motion to approve the minutes and it was seconded by Director Burbage. Director Lewis stated she would like to separate the minutes for approval and questioned why the Committee was receiving the minutes late. Director Clark stated she would like to for someone to address the minutes. The General Manager stated staff was committed to getting the minutes up to date. Director Lewis made a motion to table items 1.1 and 1.2. Director Clark made a motion to table all the minutes and Director Dickerson seconded the motion. The motion passed.

Following, the Committee moved to the second item on the agenda, Request Committee to hear a presentation from Morgan Stanley regarding investment performance of the Pension Plan and Other Post Employment Benefit (OPEB) Trust for Year Ended December 31, 2017. Mr. Daymeon Fishback, Morgan Stanley, presented the Committee with a copy of their presentation wherein a copy is on file in Diligent. Mr. Fishback stated they will present the Committee with recommendations for the plans as well as diversification. He indicated they can offer financial planning services for the board's employees. Director Munchus questioned whether there is a fee for this service. Mr. Fishback stated the service is offered complimentary. Director Munchus requested the General Manager pass this information on to the Board's retirees. Director Muhammad stated he is opposed to the retirees being provided with this information because this

will allow Morgan Stanley to have access to all the customers and he doesn't feel that is fair. Director Muhammad requested Morgan Stanley to set up a meeting with BWWB Management to educate the Board's retirees regarding the Pension and OPEB plans. Mr. Fishback stated they have spoken with management regarding a meeting with the retirees. Director Munchus questioned whether Hamilton Lane is being recommended by Morgan Stanley. Mr. Fishback responded yes, they are still recommending Hamilton Lane. He indicated these plans need to get exposed to low correlated asset classes. Director Munchus questioned whether Morgan Stanley gets a fee from Hamilton Lane. Mr. Fishback responded no. Mr. Fishback then recognized Mr. Greg Burchell, Morgan Stanley. Mr. Burchell gave an overview of the first quarter's performance for 2018 and indicated volatility in the markets returned in the first quarter. He stated bonds are continuing to offer negative returns and they feel that is going to be a trend for some time. He indicated the Standard & Poor's sectors had good returns and the U.S. markets posted negative returns. Director Munchus questioned why this trend will continue for the next several years. Mr. Burchell responded because the economy will improve slowly and interest rates will have to be raised. He stated the value added (asset value increased) is \$1 million since inception. Director Dickerson questioned whether the trend was heading downward. Mr. Burchell responded yes. Mr. Burchell stated the markets needs to move up 1 to 2 percent during the summer and indicated the returns need to keep pace with the withdrawals. He stated the plan made \$13.3 million in one year and since inception it has made a little less than \$18 million. He indicated asset allocation works. He then gave an overview of money managers and stated they outperformed across the board. Director Dickerson questioned how the international managers performed. Mr. Burchell stated the international managers performed 1.83 percent versus their benchmark of -1.53. He stated they underperformed last year and have improved. He indicated the plan must have a core base in the U.S. markets and have a presence in international markets. He then stated the largest fixed income manager on the plan is Met West. He stated at next quarter's meeting, they would like to present recommendations for fixed income to possibly replace or compliment Met West. Director Munchus questioned how does Morgan Stanley locate managers. Mr. Burchell stated Morgan Stanley has 60 people that research money managers and they do about 500 onsite visits each year. Next, Mr. Burchell gave Morgan Stanley's global investment recommendations. He indicated equities will outperform bonds and the earning will continue to improve. He stated they do foresee a recessionary period arising in the next 12-18 months. Chairman Alexander questioned whether the board buys its fuel monthly or quarterly. The General Manager responded the fuel is bided on a quarterly basis. Chairman Alexander left the meeting at 10:40 a.m.

Next, Mr. Burchell presented the 7-year projection for returns for the plan. He stated interest rates are going up but not quickly. He indicated Morgan Stanley feels the market will do a 3.9 percent return for the portfolio in the public markets. He stated this is a problem for every pension board in the U.S. Mr. Burchell stated Morgan Stanley's commitment to the Board is to provide the best recommendations to optimize your return. He indicated he feels this plan will do better than the 3.9 percent return. He stated the board should look at other asset classes. Director Dickerson questioned whether private credit should be considered. Mr. Burchell responded yes. He indicated Morgan Stanley conducted an asset allocation study and recommended a portfolio to the board. He indicated the asset allocation needs to be updated. Director Dickerson questioned what other options are there for alternatives. Mr. Burchell stated real assets such as real estate, hedged assets, private equity and private credit. Director Burbage left the meeting at 10:45 a.m. Director Munchus questioned whether there is an option to invest in water systems. Mr. Burchell responded there are infrastructure investments available. He then gave an overview of the annual

return. He indicated when Morgan Stanley was first hired the portfolio projection was less than 5 percent for the next 7 years and that's where it is currently. Mr. Burchell stated with risk premiums and historical returns of asset classes, the portfolio could earn 8.8 percent over the next 7 years. Director Munchus stated the portfolio currently has a return of 8.3 percent and questioned whether Morgan Stanley feels the portfolio could return 8.8 percent in 7 years. Mr. Burchell responded yes. The General Manager asked for clarity regarding Director Munchus' question. Director Munchus stated he saw in Morgan Stanley's presentation that the annual return on the current portfolio is 8.3 percent but it could earn up to 8.8 percent in 7 years. Mr. Burchell stated the portfolio has to get to the 8.8 percent. The General Manager stated the portfolio presented is a recommendation from Morgan Stanley and the board is not currently operating with the recommended portfolio. He indicated Mr. Burchell needed to make that clear to the board. He stated the recommended portfolio includes alternative investments and the current portfolio does not include those. The General Manager then questioned what is Morgan Stanley's current projection for the current portfolio. Mr. Burchell responded the projection for the next 7 years is 5 percent. The General Manager stated the projection is 3.9 percent and in essence Morgan Stanley is saying if the portfolio does not change it won't get the 7.5 percent return over the next 7 years. Director Munchus questioned what is the 8.3 percent return mentioned in the presentation. Mr. Burchell responded that is a 20-year assumption. The General Manager indicated the portfolio is not currently receiving an 8.3 percent return. Director Clark left the meeting at 10:50 a.m.; therefore, there was no quorum for the meeting.

Directors Clark and Alexander returned to the meeting at 10:51 a.m. and therefore, there was a quorum for the meeting. Director Dickerson left the meeting at 10:52 a.m. Chairman Alexander questioned whether the City of Birmingham hired Hamilton Lane for their pension fund. Mr. Burchell responded yes. Director Lewis stated there needs to be other recommendations in addition to Hamilton Lane. Director Dickerson returned to the meeting at 10:54 a.m.

Following, the Committee moved to the third item on the agenda, Request Committee to Hear a presentation from Segal Advisors on the actuarial Reports for the Pension Plan and Other Post Employment Benefit (OPEB) Plan. Assistant General Manager Michael Johnson recognized Jeanette Cooper to make the presentation and presented the Committee with a copy of the presentation wherein a copy is on file in Diligent. Director Muhammad stated information is "piled up" in committee meetings and there are too many items on the agendas. Director Lewis stated every year the consultants must make presentations and they should be scheduled accordingly so items are not delayed from being presented. Ms. Cooper then gave an overview of the pension annual review. Directors Alexander and Lewis left the meeting at 11:00 a.m. and Director Alexander immediately returned. Ms. Cooper stated every year Segal reviews the funding status for the plan, which includes GASB numbers, and stated plan's provisions have not changed from last year. She then presented the cash flow activity for the plan stating BWWB's contributions were \$5.9 million, employee contributions were \$3.1 million, and an excellent return of \$19.3 million or a 15 percent return. She stated the time period covered January 1, 2017 through December 31, 2017. She indicated the return for the previous year was 3.1 percent. Ms. Cooper stated the expenses for the plan were lower this year with benefit payments being \$9.7 million. She indicated the market value of assets increased from \$129.3 million to \$147.7 million. She stated the headcount and liability increased; however, the unfunded liability decreased from 42.8 to 42.6. Director Munchus questioned what causes the unfunded liability to decrease. Ms. Cooper stated because of smoothing, the funded ratio went from 76.4 to 77.6 which is positive news. She

indicated current contributions have seen a 4 percent increase over the previous year. Subsequently, she stated the unfunded liability is traced each year and the experience will either make it increase or decrease. She then gave an overview of contributing factors to make the unfunded liability increase. Director Dickerson questioned whether overtime affects the unfunded liability. Ms. Cooper responded yes and stated the benefit formula states if an employee is hired prior to 2008 overtime is included; therefore, it wouldn't be affected by employees hired after December 31, 2007. Ms. Cooper stated the funded ratio is moving upward and will continue to increase until the plan is fully funded. She indicated the pension expense is calculated under the GASB68 rules. She stated a risk report has been included in the presentation. She then gave a peer comparison and indicated the board is ranked 4th among peer pension plans. Ms. Cooper stated an experience review should be conducted after the January 1, 2019 valuation. Director Muhammad left the meeting at 11:19 a.m. which resulted in there being no quorum for the meeting.

Director Muhammad returned to the meeting at 11:23 a.m. which resulted in there being a quorum for the meeting. Director Clark requested whether a quarterly update is sent to the board's retirees. The General Manager stated a quarterly update is not sent. He indicated the returns and the market could fluctuate on a quarterly basis which could result in bad returns for a quarter. This would mean information would be sent to retirees stating money is being lost; therefore, its best to update them annually.

Director Munchus left the meeting at 11:25 a.m. which resulted in the meeting no longer having a quorum. Therefore, the fourth item on the agenda, Request Committee to hear a presentation from Raftelis Financial Consultants, Inc. regarding the Cost of Service Study to be completed during FY2018 as approved in the FY2018 Budget, was presented for informational purposes only. Director Clark departed the meeting at 11:29 a.m. A discussion ensued relative to the goals of the Cost of Service. Peiffer Brandt, Raftelis Financial Consultants, stated the goal of their presentation was to talk about pricing objectives, affordability, and public outreach. Director Clark returned around 11:31 a.m. Mr. Brandt stated the Cost of Service has to recover \$180 million. Townsend Collins, Raftelis Financial Consultants, gave an overview of the pricing the objectives the Board stated were of interest to them and indicating affordability is a main concern. Mr. Brandt indicated water rates across the country are increasing faster than inflation. He stated bill assistance programs can assist customers along with bill discounts based on certain criteria. He then gave an overview of the rate structure options. Director Muhammad stated his issue with rate structures is the base charge for customers regardless of their consumption. Director Clark questioned whether there would be savings regarding the sewer because different meters would be used. The General Manager stated private meters are required to pay the regular rate but would receive a credit on the sewer portion of the bill. Mr. Brandt presented the Committee with maps detailing BWWB's customer base by counties, commission districts and city council districts. A discussion ensued relative to Public Outreach. Melissa Elliott, Raftelis Financial Consultants, stated she has been working with Rick Jackson, BWWB Public Relations Specialist, to develop a public outreach plan that will merge with the Cost of Service Study. She indicated the strategy has three major components: develop a communications plan, strategic community outreach, and host open houses. She stated the open houses would have representatives from different departments but also it will allow customers to provide input regarding rates. A memorandum dated May 10, 2018 was distributed relative to BWWB Cost of Service Study Community Outreach Outline wherein a copy is on file with today's meeting booklet. A discussion ensued relative to the next steps and the committee agreed to meet in June 2018. Director Muhammad inquired about rate

structure being driven by debt and would like to see a rate structure based on efficiency. Director Dickerson stated she would like to learn more information regarding the H2O Foundation. The General Manager stated the Board will be provided with an update regarding the H2O Foundation. The meeting officially adjourned at 11:25 a.m.

_____/s/
Mac Underwood
General Manager

_____/s/
Tommy Joe Alexander
Chairman/President

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

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

_____/s/
William Burbage, Jr.
Secretary/Treasurer

_____/s/
Ronald A. Mims
Assistant Secretary/Assistant Treasurer

_____/s/
Sherry W. Lewis
Director

_____/s/
Dr. George Munchus
Director

_____/s/
William Muhammad
Director