

**MINUTES OF EXECUTIVE COMMITTEE MEETING
OF THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
June 26, 2018**

An Executive Committee meeting of the directors of The Water Works Board of the City of Birmingham was held on Tuesday, June 26, 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., William Muhammad, George Munchus. Directors Brett King and Sherry Lewis were not present.

Also attending were: Mac Underwood, General Manager; Michael Johnson and Darryl Jones, Assistant General Managers; Grace Amison, Executive Assistant to the Board of Directors; Anitra Hendrix, Executive Assistant to the General Manager; Mary Thompson, Parnell Thompson, LLC; Kelvin Howard, Kelvin W. Howard, LLC; Rick Jackson, George Anderson, Michael Griffin, Barry Williams and Terrell Jones, Board Employees; Thomas Pallandino and Martha Bozeman , Agency 54; Patrick Flannelly and Brian Ruggs, ARCADIS, U.S., Inc.; Peiffer Brandt and Townsend Collins, Raftelis Financial Consultants; Jim White and James White, Jr., Banks, Finley and White; Chandra Abesingha, CE Associates; and D. Nail, State of Alabama Attorney General's Office.

Inasmuch as seven of the committee members were present; Chairman Alexander declared a quorum in attendance. The meeting was called to order at 9:02 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 Mims questioned the directors whether they read the minutes. Director Dickerson stated she had not read the minutes. On a motion duly made and seconded, minutes of Executive Committee Meetings held April 25, 2017; December 5, 2017; January 4, 2018; January 22, 2018; and March 6, 2018 were approved by Directors Alexander, Clark, Muhammad, Burbage, Mims; and Director Dickerson voted no.

Following, the Committee moved to the third item on the agenda, Request Committee to recommend to the full Board a scope of service agreement with Banks, Finley & White to complete a SOC-I Audit for the period October 1, 2017 through September 30, 2018 at a cost not exceed \$90,000.00. Assistant General Manager Michael Johnson stated a SOC-I audit is performed for the municipalities BWWB collects for. He indicated BWWB has agreed, according to its new agreement with Jefferson County, to have this audit conducted every 2 years for Jefferson County and stated the next one will be performed in 2020. Director Dickerson questioned why is BWWB doing what the County wants them to do. James White, Jr., Banks, Finley & White, stated BWWB is providing a level of assurance for Jefferson County by conducting the audit. Director Dickerson clarified Jefferson County wants to be assured by BWWB that it has certain controls in place. Mr. James White, Jr. responded yes, because BWWB bills, collects and remits the funds to Jefferson

County for the sewer. Director Clark stated this audit also includes other municipalities BWWB provides the information to. Mr. James White, Jr. responded that is correct and stated it would also include the cities of Hoover, Moody, and Southwest Water, along with other smaller municipalities. The General Manager stated the purpose of the SOC-I is to ensure municipalities that business is being handled correctly by BWWB. He then recommended this item be moved to the full Board for approval since a new agreement was made with Jefferson County. Director Clark stated Jefferson County's fiscal year is October 1 through September 30 and questioned whether this SOC-I audit would give BWWB a baseline. She then stated the verbiage should be examined to determine if an audit should be conducted in September 2018 and in 2019. Mr. James White, Jr. stated the audit would cover a twelve-month period that encompasses nine months of the fiscal year for all entities. He stated the audit for next year would be a separate set of transactions. Director Munchus arrived at the meeting at 9:12 a.m. Director Clark clarified the audit would cover the fiscal year of October 2017 through September 2018. Mr. James White, Jr. responded yes. Director Clark stated according to the verbiage in the agreement it stated there needs to be an audit for October 2018 through September 2019. She indicated an additional audit is needed to satisfy the agreement and questioned should an audit be done now. The General Manager responded yes. Director Dickerson questioned whether the audit would cost \$90,000.00 and cover all municipalities. Mr. White responded yes. Director Muhammad questioned whether an audit should be performed for each entity. Director Clark responded no, only one SOC-I audit is needed. The General Manager stated an audit would be done in 2018, 2019 and 2020. Director Clark clarified past audits would not count as satisfying the request. The General Manager responded yes because the procedures have changed. Mr. Jim White, Sr. stated the accounting profession is moving to annual SOC-I audits and Banks, Finley & White recommends the board perform one annually. Director Munchus questioned Mr. Jim White, Sr. was he aware who has conducted audits for Jefferson County. Mr. Jim White, Sr. responded Warren Averett. Director Muhammad questioned whether 40 percent of Jefferson County's gross revenue comes from sewer collection. Mr. Jim White, Sr. responded yes. A discussion then ensued after which the Committee recommended moving this item to the full board for approval.

Following, the Committee moved to the second item on the agenda, Request Committee to hear a presentation from Raftelis Financial Consultants regarding the Cost of Service study and input on proposed rate structure. Peiffer Brandt, Raftelis Financial Consultants, gave an overview of the study objectives. Director Munchus questioned whether Raftelis looks at the consumer price index to set rates. Mr. Brandt stated they compare the bi-annual water rate survey to the consumer price index. He stated there has been a 5.43% increase in water rates since 2004 and they are increasing faster than inflation. Chairman Alexander questioned the reasons for the increase. Mr. Brandt stated regulations, old assets and declining water usage all contribute to rates increasing. Director Munchus stated a progressive water system should increase revenue by trying to diversify their revenue stream. Mr. Brandt stated the challenge is to create something that will generate \$1.7 million in revenue. Chairman Alexander questioned whether any other water works are attempting to create additional revenue. Mr. Brandt responded he does not know of any and stated no one has more than a 95/5%, with 5 percent being involved in other business. The General Manager stated legislation enables what BWWB can do. Board Attorney Mary Thompson stated BWWB can generate some income but it must be related to the corporate purpose of the BWWB and cannot deviate much from that. She gave an example of having excess property around a reservoir and wanting to lease it. Mr. Brandt gave an example of DC Water being a consultant to other utilities to generate revenue. Director Muhammad stated he would like to see BWWB become more

efficient with its operations. Patrick Flannelly, ARCADIS, stated the Water Research Foundation is currently embracing an idea of innovation at utilities to promote this kind of conversation. He indicated the Board is the sponsoring utility for the North American utilities and stated this is ongoing work. Next, Mr. Brandt gave the rating agencies and cost of service quotes and stated the goal is to cover cost equitably. Townsend Collins, Raftelis Financial Consultants, gave an overview of the cost of service output, water allocation and revenue needs. He indicated \$179,265,373 needs to be recovered by revenue. Director Munchus questioned whether the paygo percentage could be increased to 30 percent to eliminate the need to go to the bond market as frequently which would result in internal financing. Mr. Collins responded it would be based on the policy of the Board and stated if the costs are switched to paygo it could put the board in a better position. The General Manager stated the Board has increased the percentage from 15 to 25 percent over time, which results in rates being increased slightly. Director Muhammad stated some people won't care that the Board is raising rates; however, education is important. Director Dickerson stated the Board has not done enough to educate the public regarding this matter. Chairman Alexander stated we have to go to the customers to educate them because they are not going to come to us to get educated on the system. Mr. Collins stated there is a public outreach plan. He then gave an overview of revenue resources and stated the base charge covers 114 percent of total annual debt service. He indicated rating agencies look favorably on that. Director Muhammad stated his issue is customers are being charged the same base charge despite their consumption and he would like to scale the base charge. Mr. Collins stated residential revenue accounts for 61 percent of the base charge. He then gave an overview of the top 5 ranked pricing objectives which include rate stability, revenue stability, minimal customer impacts, cost of service-based allocations, and affordability to disadvantaged customers. Director Munchus questioned whether customers in Blount County should be charged more because it costs more money to provide water in their area. Mr. Collins stated it seems that regional rates are being suggested and they are common across the industry. He indicated the cost justification for regional rates is not because it costs more to move the water to a certain area but is due to residents owning the assets and they take the risk. The General Manager stated he would not recommend regional rates because the location of BWWB treatment plants is a factor and it doesn't affect supplying water to a certain area. He stated if there was one centralized treatment plant pushing water to different areas, he could understand having regional rates. Mr. Collins indicated because BWWB is not a city owned utility it creates hardship trying to justify regional rates. Director Dickerson questioned the difference between pricing objectives 3 and 5. Mr. Collins stated objective 3 ensures objectives are met and less burden on customers and objective 5 is closely aligned to objective 3. Subsequently, Mr. Collins stated public outreach would include a strategic communications plan that is currently being developed to communicate a uniformed message to customers. He stated this would include hosting open houses throughout the service area. Director Clark questioned whether the contact at Raftelis is working with BWWB staff. Mr. Collins responded yes, and stated Melissa Elliott is working closely with Rick Jackson. Director Dickerson questioned Rick Jackson whether he would make a presentation before the Communications Committee. Mr. Jackson responded yes.

Next, Mr. Brandt stated within BWWB's service area there are either rich people or poor people and not necessarily a medium. Director Munchus stated there is significant poverty in Birmingham. Mr. Brandt stated there is a lot of debate regarding affordability across the country in regard to water rates. He then presented the Committee with a handout of maps which displayed a breakdown of the BWWB customer base, including county commission and council districts.

Copies are on file with said meeting book. Director Muhammad questioned whether customers living in districts 1 and 2 could pay only 8 percent of the sewer bill. The General Manager stated that would depend on the consumption in the areas. Mr. Flannelly stated the affordability issue has been driven by a certain location and regardless of the percentage in the county, minimum wage is not keeping up with cost of living increases. He stated if a metric is introduced based on minimum wage and it does not increase every year, that metric gets worse every year. Subsequently, Director Munchus questioned whether customers could be charged differential rates. Board Attorney Mary Thompson responded the Board cannot discriminate in the rates charged to customers. Mr. Brandt then gave an overview of affordability options and alternative rate structures. He stated the alternative rate structures include seasonal rates, average winter consumption, consumption base fixed charge, and differential base charge. Director Munchus stated the seasonal rate would be the easiest to sell. The General Manager stated if a rate structure is difficult to explain to customers, it should be avoided. Mr. Brandt stated the seasonal rate may be the easiest to explain. Director Muhammad stated his intent is to equalize base rates for affordability. Chairman Alexander left the meeting at 10:45 a.m. A discussion then ensued. Director Muhammad questioned whether a flat rate is available, and Mr. Brandt responded not really. The General Manager stated a flat rate is used more on sewer rates. Chairman Alexander returned to the meeting at 10:47 a.m. Director Muhammad stated he needed more details regarding whether there were limits on the amount the Board could contribute to the H2O Foundation and Board Attorney Mary Thompson stated she would review that. Mr. Brandt then gave an overview of the next steps and stated numbers will be presented at the next workshop.

Following, the Committee moved to New Business, as set forth in the fourth item on the agenda. The General Manager stated the Board has been a member of the Birmingham Business Alliance (BBA) since 2004. He stated BBA sent communication including BBA's accomplishments and a \$30,000 invoice for annual membership. Director Munchus questioned whether BWWB is a member of the Business Council of Alabama and the General Manager responded no. Director Munchus then questioned whether membership in the BBA is a good investment. The General Manager responded yes and stated the Board benefits from new businesses BBA brings to the area. He indicated he and Assistant General Manager Darryl Jones participate on BBA Committees. Director Muhammad stated BWWB should be participating in any new business that comes before the BBA. The General Manager stated he could add this item to the agenda for the next board meeting or hold it. Chairman Alexander stated he was not against adding this item to the next board agenda. Director Mims then made a motion to move the invoice to the agenda at the next Board meeting and Director Munchus seconded the motion. The Committee recommended moving this item to the next board agenda.

Next, Director Munchus stated he would like to discuss BWWB being involved with the Business Council of Alabama and feels like they have done good work. Chairman Alexander stated he was not against discussing.

Next, The General Manager questioned the Committee whether they would like to bring in underwriters to make presentations to the board regarding the bond issue. Director Clark stated bond consultants are scheduling individual meetings with directors and the board's financial consultant, Matthew Arrington, has to be present at those meetings. She stated it is cumbersome for Mr. Arrington to make multiple meetings. She stated she thinks it would be good for all directors to meet with bond consultants at one time and this will assist in keeping within the

guidelines of director requirements. Director Mims stated he thinks there are great advantages to having a meeting even though he has questions regarding bond issues. Director Clark stated all directors may have questions regarding bond issues and those questions could be addressed in a meeting. Director Munchus stated he would prefer the Finance Committee handle this. Chairman Alexander stated he feels all directors should hear this information and stated the meeting should be scheduled soon. The General Manager indicated a meeting date will be set.

Following, as there was not further business before the Committee a motion was made to adjourn, and the meeting adjourned at 11:03 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/
Dr. George Munchus
Director

_____/s/
William Muhammad
Director