

**MINUTES OF EXECUTIVE COMMITTEE MEETING  
OF THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM  
August 14, 2018**

An Executive Committee meeting of the directors of The Water Works Board of the City of Birmingham was held on Tuesday, August 14, 2018 at 11:30 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, Sherry Lewis, Ronald Mims, William Burbage, Jr., William Muhammad, and George Munchus. Directors Brett King and Brenda Dickerson were not present.

Also attending were: Mac Underwood, General Manager; Michael Johnson, Sonny Jones and Darryl Jones, Assistant General Managers; Grace Amison, Executive Assistant to the Board of Directors; Anitra Hendrix, Executive Assistant to the General Manager; Rick Jackson, George Anderson, Barry Williams, Drusilla Hudson, Stacy Littleton, LaQuoyah McDaniel, Jarrod Shotts, Reginald Jackson, Ed Witt, Lorenzo Clay, Scott Starkey, Ollie Kelly and Terrell Jones, Board Employees; Mary Thompson and K. Mark Parnell, Thompson Parnell, LLC; Kelvin Howard, Kelvin W. Howard, LLC; Dorian Kendrick and Thomas Pallandino, Agency 54; Brian Ruggs, ARCADIS, U.S., Inc.; Peiffer Brandt, Melissa Elliott and Townsend Collins, Raftelis Financial Consultants; Matthew Arrington, Terminus Municipal Advisors; Michael Jones, Securities Capital Corp; Jason Gusby, Frazer Lanier; Larry Ward and Matt Adams, Raymond James; Water Lewis, Piper Jaffrey; Kim Baylor Bivins, Birmingham Construction Industry Authority; Chandra Abesingha, CE Associates; Derrick Murphy, Allworld; and Olivia Martin, 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 11:30 a.m. and Mr. George Anderson opened the meeting with prayer.

The General Manager stated there were five (5) 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 Meeting held May 15, 2018. On a motion duly made and seconded, the minutes were approved by Directors Alexander, Clark, Lewis, Muhammad, Burbage, Mims and Munchus.

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 Update and Communication Plan for Cost of Service. Peiffer Brandt, Raftelis Financial Consultants, gave an overview of the study objectives. He stated they would be providing updated alternative rates structures; however, there are no rates available due to working with billing data. Director Munchus questioned what the issue with acquiring billing data is. Mr. Brandt stated there is an update being done to two data sets, changing from OTIS to SAP, to ensure they get the data they need for the study. Mr. Brandt then gave an overview of the methodology. He indicated \$179,265,373 needs to be recovered. Townsend Collins, Raftelis Finance Consultants, gave an

overview of the Cost of Service Study to date, water cost allocation and the standard methodology. He indicated the final allocations would be based on the new rate structures. He then gave an overview of allocation factors for O&M and Capital costs. He presented the Committee with a handout wherein a copy is on file in Diligent. He stated the functional allocation results are closely aligned to operational and statistical reports. He indicated the net operating cost to recover across customer classes from water charges is \$93,145,000.00. Mr. Collins then gave an overview of capital costs across components and primary pricing objectives. He indicated based on feedback from the directors; the primary pricing objectives were based on rate stabilization, revenue stability, impacts, allocations and affordability. Director Lewis requested the last Cost of Service Study, along with percentages, be supplied to the directors, so they may be able to make comparisons. Mr. Brandt stated the pricing objectives have not changed much since the last study. Director Munchus questioned when the last study was completed, and Mr. Brandt responded in 2011.

Subsequently, Mr. Brandt gave an overview of the general impacts of structure changes. He stated based on current rates, if the base charge was decreased by 10 percent it would require the volumetric rates to increase 7.7 percent, there would be no change in revenue. A discussion then ensued. Mr. Brandt stated additional revenue from Jefferson County to increase PAYGO will allow the board to not be concerned about a little decrease in revenue stability. The General Manager stated the board will determine how money from Jefferson County will be used and indicated the funds would assist with future bond deals. He then presented the Committee with a handout. A copy of the handout is on file in Diligent. Mr. Brandt stated there will be a presentation of actual rates and the impacts at the next meeting. The General Manager stated if the board likes where the base charge is, there can be a small increase on the volumetric charge and bring in the same amount of revenue. Director Muhammad stated his goal with the base charge is to achieve equity. Mr. Brandt stated it cost money to deliver water and they will present alternative rate structures; however, there are negatives associated with alternative rate structures. Director Muhammad stated a poor person should be able to have a variable base charge. Director Lewis questioned Director Muhammad how would a “poor” person be defined. Director Muhammad stated he should have stated a person who uses less water would be more accurate to say than stating someone who is poor. Mr. Brandt then gave an overview of alternative rate structures including examples of seasonal, differential, average winter consumption, and current rates. He stated seasonal rates would help achieve more equity among customers as Director Muhammad mentioned. Director Muhammad questioned whether there are systems that do not use a base charge. Mr. Brandt stated there are very few systems that do not use a base charge. Director Lewis stated it costs to provide water to the customer. She indicated costs that need to be covered include Environmental Protection Agency’s regulations and BWWB’s 9-step process associated with treating water. She stated the base charge keeps the business running. Director Munchus questioned whether the base charge could be removed. Mr. Brandt stated getting rid of the base charge “totally scares him”. The General Manager stated rating agencies would have a problem with the base charge being removed. He stated they look favorably upon the base charge covering the annual debt service cost. Director Lewis stated customers want consistency in their bill, they don’t want to deal with different rates at different times of the year. She stated it would also cause internal issues by changing the rates throughout the year. Director Munchus questioned whether there has always been a base charge. The General Manager stated there has always been a fixed charge ever since he’s been employed with BWWB. He stated the bills increased when Jefferson County added a base charge. Director Mims stated the base charge started 25 years ago. Director Muhammad questioned whether reducing debt service would be a big issue. Mr. Brandt stated

debt service could be reduced over the long term but not the short term. Matthew Arrington, Terminus Municipal Advisors, stated the debt service has been reduced about \$6 million since 2016. He stated the base charge recovered 98 percent of debt service, now that debt service has been reduced, the base charge covers 103 percent.

Next, Melissa Elliott, Raftelis Financial Consultants, presented the communication plan for the Cost of Service Study. She stated she has worked with Rick Jackson, BWWB Public Communications Specialist, to develop this plan. She indicated water use is declining and customers are skeptical of the value of the service being provided. Director Mims questioned whether Agency 54 was involved in developing the communication plan. Ms. Elliott stated her understanding is Agency 54 will be supporting Mr. Jackson, but they were not directly consulted. Director Mims questioned whether Mr. Jackson should be working with Agency 54 on the communication plan. Director Clark stated any recommendations Agency 54 makes would still need to be given to Mr. Jackson and stated Agency 54 would not be involved in this component of the communication plan because they did not have a part to play; however, Agency 54 may be involved in another component of this communication plan. Director Munchus stated he assumed Agency 54 would be involved going forward. Director Lewis stated there is no need to spend extra money and stated there is no need for Agency 54 to be involved at this point. Subsequently, Ms. Elliott gave an overview of the communication goals. She stated customers will be kept informed throughout the Cost of Service Study process and there will be an Open House held toward the end of September 2018. She stated a list of stakeholders were identified and they will be managed differently based on the impact to them. She stated stakeholders include the different types of customers, the business community, BWWB employees, City of Birmingham Utilities Committee, and elected officials. Director Munchus requested that the Jefferson County Commission be specifically mentioned. Ms. Elliott then gave an overview of content development. She stated the following forms of communication will be used: bill inserts, social media, website and news site, contact cards for field employees, Customer Service talking points and FAQ sheets. She stated the open house would be open for 2 to 3 hours and this will allow customers to drop in at a time that is good for them. Director Muhammad stated based on the information he sees for the communication plan, he does not feel BWWB is working to charge customers equitably for the Cost of Service. Director Lewis questioned where isn't BWWB being equitable. She indicated water usage and providing water service are two different things. Director Muhammad stated he doesn't feel it is fair for everyone to pay the same base charge. The General Manager stated the Cost of Service study is conducted every 5 years to ensure the correct amount of money is being collected from all classes of customers. He indicated that is what is meant by equitably charging customers. A discussion then ensued. Director Mims questioned why one open house would be held. Ms. Elliott stated, because it is late in the process, it was decided to host one open house; however, more than one open house can be held. Next, Mr. Brandt gave an overview of the timeline and next steps. He indicated the study will wrap up in two months. Director Muhammad stated he doesn't think the board wants an alternative rate.

Following, Director Munchus stated meetings being held at 11:30 a.m. on Tuesdays and Thursdays are presenting a problem for him; however, he can meet at 11:30 a.m. on Wednesdays. Director Lewis recommended the directors turn in the times that are convenient for them to Grace Amison, Executive Assistant to the Board of Directors.

Following, the Committee moved to the third item on the agenda, Request Committee to discuss Bond Issuance Team. The General Manager stated the item could be discussed today and added to the next board meeting agenda. Mr. Arrington stated before proceeding with the presentation, he questioned Director Muhammad whether he got answers to the questions he asked or whether he needed further clarification. He stated Director Muhammad questioned whether a step in the process was skipped regarding the selection of the bond team. Director Muhammad stated he did receive his answers; however, there is no need to cover the information if other directors had no interest in it. Mr. Arrington stated the Finance Committee had a recommendation for the bond team and that is the recommendation currently before the Executive Committee. He presented the Committee with a handout wherein a copy is on file in Diligent. Director Muhammad stated he would like to make a motion to amend the recommended team. Mr. Arrington stated only a recommendation could be made from the Executive Committee; however, a vote could only be taken at the board meeting. A discussion then ensued. Director Munchus questioned where did the firms Citi and Stifel come from. Mr. Arrington stated these firms were recommended by directors. Director Muhammad questioned who the issuance counsel would be. Mr. Arrington stated in the past, the Board's counsel of record has been the issuance counsel; however, the board can add someone else to partner with them. He then gave an overview of the roles of the bond issuance team. He indicated he does not recommend replacing issuance counsel because essentially, they would be involved regardless. Director Lewis requested clarification regarding Roberts' Rules of Order. She stated the current bond issuance team was recommended by the Finance Committee and questioned whether this team is to go before the full board for a vote with any changes being done at the board meeting in lieu of this committee meeting. Mark Parnell, Board Attorney, stated the Executive Committee can make a separate recommendation. Mr. Parnell stated a couple of directors expressed their concern about Stifel. He stated Assistant General Manager Michael Johnson's son is an employee of Stifel. He stated Stifel asked for an informal opinion from the Alabama Ethics Commission and that information was shared with the directors. He indicated if the facts presented in the opinion are true, legally there should not be a problem; however, the opinion was informal not formal. He stated there may be public perception that there could be a problem. He indicated it is ultimately up to the board whether you want to do business with Stifel and stated Mr. Michael Johnson has not participated in the decision-making process. Subsequently, Director Muhammad then made a motion to add Otis Stewart as co-issuance counsel, and Director Munchus seconded the motion. Director Lewis questioned whether co-issuance counsel had been discussed. Director Muhammad stated information had been presented regarding co-issuance counsel. Mr. Arrington gave an overview of the resolution that was previously presented to the board requesting the bond team to work with the Board's consultants. He stated Director Muhammad wants to add a firm to something that the Board already has in place. Director Muhammad requested a roll call vote. On a motion duly made and seconded, the motion failed with Directors Alexander, Clark, Lewis, Burbage voting no; and Directors Muhammad, Mims and Munchus voting yes. Director Clark questioned what the board's position regarding Stifel is. Director Lewis stated the board would have to come up with a team. Mr. Arrington stated the board will vote on the recommendation from the Finance Committee and a decision can be made at that time to amend, if necessary. The General Manager stated this item would be added to the agenda for the August 16, 2018 Regular Board of Directors' meeting.

Following, the Committee moved to the fourth item on the agenda, Request Committee to recommend approving title sponsorship of the opening event of the Alabama/Mississippi Section of the AWWA 71<sup>st</sup> Annual conference in Birmingham, AL being held October 14-16, 2018, in the

amount of \$36,624.80. The General Manager stated Drusilla Hudson, Board Employee and AL/MS Section Chairwoman, has requested the Board sponsor this event. Ms. Hudson stated the first event will be held at the Barber's Motorsport Vintage Museum. She expressed her gratitude to the Board for allowing her to represent BWWB and the American Water Works Association (AWWA). She stated anything the Board would like to contribute towards this event would be greatly appreciated. Director Munchus stated he thinks this is a good investment. Director Lewis stated this request was not presented in a timely fashion and requested in the future requests like these be presented in advance. She then questioned whether this event is only for attendees of the convention. Ms. Hudson responded yes, the event is for convention attendees only. Mr. Parnell stated they gave an opinion there is no issue with the Board sponsoring this event. The General Manager stated the sponsorship would cover transportation, food, beverages and entertainment. Director Muhammad then made a motion to recommend this item to the full board for approval and Director Munchus seconded the motion. The Committee agreed to send this item to the full board for approval. The General Manager stated this item would be added to the agenda for the August 16, 2018 Regular Board of Directors' meeting. Ms. Hudson then introduced BWWB employees who are on the committee for coordinating the conference.

Following, the Committee moved to the fifth item on the agenda, New Business. Chairman Alexander stated the City of Alabaster has contacted him regarding adding a possible pipeline for them in case of emergency. Director Lewis questioned whether they would be sending details regarding their request. Chairman Alexander responded yes. Director Lewis recommended the request be sent to the Engineering and Maintenance Committee.

Following, as there was not further business before the Committee a motion was made to adjourn, and the meeting adjourned at 1:12 p.m.

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/s/  
Mac Underwood  
General Manager

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/s/  
Tommy Joe Alexander  
Chairman/President

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

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/s/  
William Burbage, Jr.  
Secretary/Treasurer

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

/s/

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Sherry W. Lewis  
Director

/s/

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Dr. George Munchus  
Director

/s/

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William Muhammad  
Director