

**MINUTES OF EXECUTIVE COMMITTEE MEETING
OF THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
September 12, 2018**

An Executive Committee meeting of the directors of The Water Works Board of the City of Birmingham was held on Wednesday, September 12, 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, Brenda Dickerson, and George Munchus. Director Brett King was 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, and Terrell Jones, Board Employees; K. Mark Parnell, Thompson Parnell, LLC; Kelvin Howard, Kelvin W. Howard, LLC; Dorian Kendrick and Thomas Pallandino, Agency 54; Patrick Flannelly and Brian Ruggs, ARCADIS, U.S., Inc.; Peiffer Brandt, and Townsend Collins, Raftelis Financial Consultants; and Kayla Currie, 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 11:33 a.m. and Mr. George Anderson opened the meeting with prayer.

The General Manager stated there were two (2) items on the agenda to be reviewed and discussed.

Following, the Committee moved to the first 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 the Cost of Service Study. Peiffer Brandt, Raftelis Financial Consultants, gave an overview of the study objectives. He stated the budget and Cost of Service needs to be factored in for the rates and indicated the goal is to achieve equity between the customer classes. He then gave an overview of the methodology and numbers related to alternative rate structures. Townsend Collins, Raftelis Financial Consultants, stated the Cost of Service needs to recover \$180 million in revenue. He stated the pricing objectives affect this and indicated the board stated they were primarily concerned with rate stability and revenue stability. Director Dickerson questioned whether the Cost of Service would increase after bonds are issued. Mr. Collins responded yes. He then gave an overview of the potential rate structures stating the key was low variation customers, customers who don't have a huge peak demand on the system and have lower consumption, have some relief on their bill. He stated there are three rate alternatives: seasonal, consumption base fixed, and average winter consumption. Mr. Collins then gave an overview of the current rate structure. He then gave examples of customer consumption patterns. He stated the seasonal rate structure would be \$2.28 in the off season and \$3.42 in season, indicating the bill would be mostly impacted May through October. He stated the consumption base fixed charges would range from 3 ccf to 16 ccf and indicated this rate structure would provide the most benefit and relief to low volume, low variation customers. He stated the base charge would depend upon the prior year's peak consumption. He indicated the base charge would vary

with a high variation customer's total annual base charge of \$382 versus a low variation customer's total annual base charge of \$71.64. Director Muhammad questioned whether this rate structure would be a proposed change. Mr. Collins stated this rate structure uses the current billing data from the system and projects what bills would be under a proposed alternative rate structure. Director Dickerson questioned whether the base charge is included in the average monthly bill. Mr. Collins responded yes. Director Munchus questioned whether this rate structure is revenue neutral. Mr. Collins responded yes. Director Muhammad questioned how much the smallest base charge is. Mr. Collins responded around \$25. The General Manager stated it may be difficult to explain the difference in rate structures. Director Muhammad stated he doesn't feel customers should be charged more for using less water. Mr. Brandt stated peak demand is important and will affect bills for a year. He indicated policies would need to be established to determine how exceptionally high bills would be handled. He stated this could lead to public relations nightmares. He indicated he didn't think it was the right times to introduce this particular alternative rate structure and stated it needed to be refined. Mr. Collins stated the third alternative rate structure is average winter consumption, which affects the volumetric rate with the base charge being the same under the current rate structure. He stated this rate structure would have more impact on customers in the non-peak months, December through February. Director Munchus stated customers don't know about lifeline rates and need to be educated on them. Director Muhammad stated he heard about lifeline rates at an AWWA conference, which described giving water to customers at certain times of the day. Mr. Collins stated lifeline rates could be communicated to the public during the open house. The General Manager stated in the last Cost of Service Study, low consumption users were given a lower rate. Director Muhammad stated customers could be more informed by digital metering and they can see their consumption via a mobile application. Mr. Collins stated the information regarding the rates was being provided to the board for them to evaluate and if the board is ever asked whether they have evaluated this information, they can respond that they have. Director Munchus questioned whether it costs more money to send water to Blount County. The General Manager responded no and indicated there is a treatment plant and a pump station near Blount County. Director Muhammad clarified that BWWB pumps very little water to Blount County. Assistant General Manager Darryl Jones stated Blount County is a low use customer. Director Dickerson questioned whether the fixed rate help the low volume customer. Mr. Brandt responded yes.

Subsequently, Director Munchus questioned how much it would cost to implement automated meter reading. The General Manager stated it would cost around \$60 million with at least 3-year implementation. He stated Louisville Water Works shared their information regarding the implementation of their AMI program. He indicated a lot more bonds would have to be issued in order to fund that program. Director Muhammad stated he thought digital meters were included in the long-term plan. The General Manager responded it is included; however, it is five years out. Director Muhammad questioned whether priorities could be adjusted. The General Manager stated Shades Mountain Filter Plant is an ongoing project at \$20 million per year; therefore, adjusting the schedule is not a viable option. Subsequently, Director Muhammad questioned what the board could save on non-revenue water. The General Manager stated older pipes would need to be replaced which would entail spending more money. He indicated BWWB is not at the point where it can "turn the ship" because non-revenue water is based on the number of leaks in the system. He stated there is still over 300 miles of old pipe in the system. Director Clark stated there are ways to cut the budget by making a realistic examination. Director Dickerson questioned the amount of dollars lost due to non-revenue water. The General Manager responded staff can pull that information.

Next, Mr. Brandt gave an overview of the revenue needs for 2019. He stated \$194,960,142 operating costs include full billing costs, debt service for bond issue and PAYGO is 34 percent of the capital plan. Chairman Alexander questioned whether an analysis could be done with other southern water systems that are similar to BWWB's size. Mr. Brandt stated BWWB's debt service is higher than average compared to other utilities. He stated an analysis can be done. Director Dickerson questioned the amount of revenue related to the Jefferson County sewer collection agreement. Mr. Brandt stated Jefferson County makes up \$7 million of PAYGO. He then gave an overview of potential rate modifications. He indicated the recommendation is to not increase the base charge for 2 years because current revenue from base charges is more than 100 percent of the debt service cost. He stated another rate to consider is the wholesale rate. Director Munchus questioned what percentage of customers would be considered wholesale. Director Lewis left the meeting at 12:30 p.m. Mr. Brandt responded between 8 and 8.5 percent of non-residential customers. Director Muhammad requested an explanation of where the money from PAYGO comes from. Mr. Brandt stated PAYGO comes from increased revenue. Director Lewis returned to the meeting at 12:31 p.m. Mr. Brandt stated PAYGO is one tenth of the total revenue requirements, so essentially 10 cents of every dollar paid goes to PAYGO. Subsequently, Mr. Brandt gave an overview of the impacts of rate structure changes. He stated a decrease in the base charge results in higher volumetric rates. He stated the base charge revenue is greater than debt service cost. Director Muhammad questioned whether there are any systems that handles their funding sources differently than BWWB. Mr. Brandt responded no and stated there may be cases of higher percentages for PAYGO but there are no major differences. Mr. Brandt then gave an overview of the 5-year projection of rate changes. He stated a low usage customer would see a slight increase over the next 3 years. The General Manager stated customers would get a break from a base charge increase for 3 years. Mr. Brandt stated this would better align the base charge and volumetric charge recovery. Director Muhammad questioned whether any systems are doing debt service acceleration. Mr. Brandt stated some systems are and the board can do that as well; however, it would result in an increase in rates. The General Manager stated the goal is to keep rates as low as possible. Director Lewis stated from 2021 to 2022 the increase would be \$1.32. A discussion then ensued. Director Clark questioned how the money BWWB is receiving from Jefferson County is impacting BWWB costs. Mr. Brandt stated there is projected to be \$13.8 million recovered from Jefferson County. He stated there is \$6.8 million in BWWB costs; therefore, BWWB would receive a \$7 million profit. The General Manager stated associated costs included in the budget would be presented at the next Regular Board of Directors' meeting. Mr. Brandt stated a rate increase can be avoided in 2019 due to the revenues received from Jefferson County and a slight increase would come in 2020. The General Manager stated the board would need to decide whether they want to put the additional money from Jefferson County back into the system or would you rather give it back to the customers. Chairman Alexander responded both. Board Attorney Mark Parnell stated there is a Rate Stabilization Equalization formula that generates what the rate should be. He stated the board decides the priorities of where that money would be spent. A discussion then ensued. Mr. Parnell stated the board can pass a resolution to set the rates. He indicated in 2005 a formula was set; however, it can be changed.

Subsequently, Mr. Brandt stated a separate wholesale rate is being calculated and they anticipate it being lower than the existing non-residential rates. He stated, if the rate for wholesale customers was frozen for 2019, the impact would be \$91,000 and indicated the impact over 5 years would be \$4 million. He stated the wholesale rate may assist with economic development. Mr. Brandt then gave an overview of strategic communications. He stated the BWWB Open House

will be held September 27, 2018. Director Mims questioned how the public is being notified of the Open House. Rick Jackson, BWWB Employee, stated via press release, radio spots and digital communication. Director Muhammad stated he would like for the meeting to be held in the community. He stated in the past there has been low turnout because people don't consider coming to BWWB as neutral ground. Mr. Brandt then gave an overview of the timeline and next steps. He stated the Cost of Service Study will be finalized once the budget information is finalized. The General Manager stated the proposed Operating budget would be presented at the September 13, 2018 Regular Board of Directors' Meeting and health care costs and OPEB changes would be presented at the September 18, 2018 Human Resources Committee Meeting. He indicated once these presentations are made, the board can review it to make any needed changes.

Following, as there was no further business before the Committee a motion was made to adjourn, and the meeting adjourned at 1:08 p.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