

**MINUTES OF THE INFORMATIONAL MEETING OF DIRECTORS
OF THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
October 21, 2015**

The informational meeting of the directors of The Water Works Board of the City of Birmingham was held on Wednesday, October 21, 2015 at 9:00 a.m., in the principal office of the Board, 3600 First Avenue North, Birmingham, Alabama.

The following Directors were present: Ronald A. Mims, Kevin B. McKie and Ann D. Florie. Directors George Munchus and Sherry W. Lewis were not present.

The meeting was also attended by: Mac Underwood, General Manager; Michael Johnson, Darryl Jones and Sonny Jones, Assistant General Managers; Grace Amison, Executive Assistant to the Board of Directors; Anitra Hendrix, Executive Assistant to the General Manager; Ben Sorrell, Cary Prather, Iris Fisher, Shelia Patterson and George Anderson, Board Employees; Mary Thompson, K. Mark Parnell and Kelvin Howard, Waldrep, Stewart & Kendrick; Courtney French, Fuston, Pettway & French, LLP; Dorian Kendrick, The Lewis Group; Jerry Jones, ARCADIS, U.S.; Dan Meadows, S. S. Nesbitt; Theo Johnson, Volkert, Inc.; Chandra Abesingha, CE Associates; and Cathy Wright, Clarus Group.

Inasmuch as three of the directors were present; Chairman Mims declared a quorum in attendance.

General Manager Mac Underwood called the meeting to order at 9:01 a.m. and Assistant General Manager Darryl Jones opened with prayer.

Following, the General Manager asked the Board to hear Division Reports, as set forth in agenda item 2. The General Manager stated Item 2.4, Review of 2016 Proposed Budget would be presented first and recognized Assistant General Manager Michael Johnson to make the presentation. Assistant General Manager Michael Johnson stated a meeting was held on October 6, 2015 regarding the budget. He stated after discussions were held at that meeting, there were adjustments made to the budget. He stated there were increases in certain line items as well as a decrease in raw water consumption. He said the net effective of those adjustments is \$7.8 million. He stated the first budget presented was for \$97.8 million. He then gave an overview of two adjusted budget options. He stated in order for insurance to be budgeted next year, reserves of \$300,000 may be used if insurance goes beyond the projection for next year. Assistant General Manager Michael Johnson then gave an overview of the adjustments made to the budget stating there will not be an addition of a distribution crew next year which will result in an adjustment of \$456,000, consultant costs will be reduced by \$500,000, commercial insurance will be reduced by \$88,000, and paving costs will be reduced by \$250,000. He indicated there is a proposal for a 1.5 percent merit and COLA increase which will result in a savings of \$400,000. He stated supplemental programs such as the *Wonderful Works of Water!* and Young Water Ambassadors would be included in the budget. He stated a cost of service study has been budgeted for \$100,000. Assistant General Manager Michael Johnson indicated the first budget option has a total budget of \$95.5 million. He stated the second budget option includes one addition of a distribution crew, and a 2 percent merit and COLA increase which would result in a total budget of \$96.3 million. Director McKie questioned what the difference in the two budgets is. Assistant General Manager Michael Johnson stated the differences in the budgets are the percentages related to the COLA and merit increases. The General Manager stated the \$97.8 budget includes a 2 percent COLA and merit increase. Director McKie questioned whether there is a difference of \$400,000 between the budgets. Assistant General Manager Michael Johnson responded

yes. Director Florie questioned whether the reduced budget for paving will result in intentionally paving less. The General Manager stated in the current budget paving is under budget. He stated based on that information, staff believes the budget for paving can be slightly reduced for 2016. Director Florie questioned whether the reduction would result in paving not being completed if needed. The General Manager stated the reduction would not affect paving that is needed. Director Florie stated she is concerned about the distribution crew because it is the core of the company. The General Manager stated two distribution crews were added to ensure leaks were repaired in a certain amount of time. He stated there are leaks that may not get repaired in a certain amount of time due to various issues with other local and state agencies. He stated the majority of leaks are repaired 15-20 days. Director Florie questioned why she receives complaints regarding leaks that haven't been repaired in over a month. Assistant General Manager Sonny Jones stated over the past 20 months distribution has repaired over 10,000 orders. He indicated 97 percent of those orders have been repaired in under 30 days at 15 leaks per month. He stated he believes the complaints Director Florie receives are for the 3 percent of orders not completed within a month. Director Florie stated she does not feel that explanation excuses the work. She stated she understands there are some leaks that do not get reported to BWWB. Assistant General Manager Sonny Jones stated the response time is measured by the time distribution is notified of a leak. He stated there are two types of leak crews, a weekend crew consisting of 4 men and weekday crews consisting of 2 men. He indicated he recommended two additional 4 man weekend crews. He stated it would cost \$456,000 to add the eight additional people. He stated it was decided to add four additional people and create two 2 man crews to work on the weekend. He stated there are now 16 crews. Director Florie questioned whether the 16 crews will be adequate to complete the work. Assistant General Manager Sonny Jones responded no stating BWWB will never be able to do repair 100 percent of the leaks in 30 days. Director Florie questioned whether residential repairs could be performed in less than 30 days. The General Manager stated the Distribution department receives a weekly report on the oldest leaks. He stated a leak over 14 days would be repaired first. He stated those leaks are repaired based on the leaks received in the current week. He indicated an internal process and protocol for categorizing leaks is being implemented as well as educating BWWB customers through the website and neighborhood meetings. He stated in the educational process it will be explained as to how leaks are handled. Director Florie stated her issue may not be the timing of when leaks are repaired by the way calls are handled when reporting leaks. She stated this may be a training issue. The General Manager stated some leaks are reported through SCADA which handled via paper orders; however, this has been corrected to an automated process. He indicated SCADA has been trained on how to handle these calls. Director McKie questioned whether the additional crews would make a noticeable difference. Assistant General Manager Sonny Jones stated the additional crews would result in 3 additional orders being completed per day. He indicated he is not promising 100 percent. He indicated staff is trying to hold BWWB to 7 percent in overtime; however, the leak crews average 19 percent overtime. He stated the two additional crews should reduce overtime. Assistant General Manager Sonny Jones stated he is currently working on a process to ensure meter leaks are delivered to the Meter Shop and not Distribution. Director Florie stated every leak does not require overtime.

Assistant General Manager Sonny Jones stated there are certain months out of the year that will require overtime. The General Manager stated staff is trying to cut certain items to reduce the overall budget.

Subsequently, Assistant General Manager Michael Johnson stated the first budget option of \$95.5 million O&M budget would include a 3.9 percent rate increase. He stated the projected rate increase for 2017 would be 4.9 percent. He then gave an overview of possible rate increases. He stated if all employees receive a 2 percent merit, it is 2 percent of gross salaries. He stated if the merit and COLA are reduced by 1 percent, each eligible merit increase would need to be reduced by 25

percent. Assistant General Manager Michael Johnson stated the second budget option of \$96.3 million includes a 4.9 percent rate increase. He then gave an overview of possible rate increases and indicated the increases would level off as the years progressed. He stated the debt service for 2016 will be slightly above \$65 million and the target of 1.2 percent. Director Florie questioned what the advantage of being above the target. Assistant General Manager Michael Johnson stated currently for this year we are under budget in revenue and want to ensure we meet those targets. He stated the financial statements are sent to the rating agencies and we must keep coverages at good levels, especially to increase BWWB's rating. Director Florie questioned whether a "cushion" is being built into the plan. Assistant General Manager Michael Johnson responded no and stated if revenues and expenses were to decrease there would be a higher risk in not meeting the 1.2 percent target. The General Manager stated if the targets are not met it could cause the rating agencies to look negatively upon BWWB. Director Florie stated she understands keeping a positive outlook for the rating agencies; however, she does not understand having a 1.2 percent target. The General Manager stated initially the goal was to get reserves up to 25 percent of PAYGO and this target is flattening that out. He indicated whatever "cushion" is available will end up in reserves and it may grow. Director McKie questioned whether any information had been received regarding having a rate increase structure based on water type. The General Manager stated he spoke with Peiffer Brandt, Raftelis Financial Consultants, and he stated they were both skeptical of pursuing that without doing a cost of service study. He indicated Mr. Brandt stated the cost of service study will allow BWWB to defend any possible rate payer lawsuit. The General Manager stated he was asked about the possibility of increasing the rates for raw water customers and not increasing the rates as much for other customers. He indicated a cost of service study can be performed in 2016. Subsequently, Assistant General Manager Michael Johnson gave an overview of comparisons of the options for the budget. Director Florie questioned whether the difference between the two options is \$6 per year. Assistant General Manager Michael Johnson responded yes. The General Manager stated the recommendation is for the second budget option which includes a 4.9 percent rate increase. He stated staff can prepare for the November 12, 2015 public hearing once they know the budget the board would like to proceed with. The General Manager then asked the board if they had any problems with the changes for the second budget option. Directors Mims and Florie responded no. The General Manager stated staff would prepare a budget presentation and summary based on the second budget option which includes a 2 percent merit and COLA increase and a 4.9 percent rate increase for 2016.

Following, Assistant General Manager Sonny Jones stated there is one change to the 2016 Capital budget. He stated the budget is \$60.3 million and stated a project at Shades Mountain Filter Plant has been reduced to \$7.3 million. He stated the construction date will change from May 2016 to August 2016. He stated the money taken from the Shades Mountain Filter Plant project was moved to the Carson Loop Phase 6C project. He stated there are a couple of easements need to move forward with the project. He indicated if the easements are not received in the first quarter, the funds will be returned to the Shades Mountain Filter Plant project. The General Manager stated staff recommends that change to the Capital budget. The General Manager stated this portion of the project needs to be completed rather than pushing it off for another few years. Assistant General Manager Sonny Jones then referred to a map regarding said project. He stated once this portion of the project is complete, water will be delivered to the Liberty Park neighborhood from two different directions. Director Florie questioned how critical is it to have water delivered from two directions. Assistant General Manager Sonny Jones responded it is very important. The General Manager stated the goal is to get more water from the north to the south. He stated this project is critical in a drought situation and additional reinforcements are needed. He indicated there are three water sources in the northern portion of the service area and there is only one source in the southern portion. He stated it will also provide additional growth in the area. Assistant General Manager Sonny Jones stated the

project was to be completed in 2010. The General Manager indicated this phase of the project needs to be completed.

Following, Assistant General Manager Michael Johnson was recognized to present the Finance and Administration Division's Operating & Statistical Reports (O&S) for October 2015 in a PowerPoint presentation, as set forth in agenda item 2.1. A copy of the presentation is on file with said meeting book. Mr. Johnson reported on the following: there was no significant change in the number of active customers, finished water system delivery; and consumption. He stated consumption is down about 1 percent; however, it is an increase over 2014. Next, Mr. Johnson reported on the operating revenues for September and year-to-date; the operating and maintenance expenses; employee health care costs are \$74,000 under budget; the contractor paving charges are \$400,000 under budget; the large O&M variance; power costs were \$87,000 over budget and chemicals were under budget. Director Florie questioned whether the current reductions in the budget are reflected in the budget for 2016. Assistant General Manager Michael Johnson responded yes. Mr. Johnson reported the reserve fund balances as of September 30, 2015 is \$98.6 million, therefore, the allocated balances as of September 2015 are significantly more than projected. Following, Mr. Johnson stated the board spent \$43.6 million in minority vendor participation for September 2015. Mr. Johnson reviewed a graphical illustration of the EasyPay stats relative to the number of users for the IVR vs. Website, the e-Check vs. Credit/Debit cards, and the e-Bill sign-ups. He reported 26,977 customers have signed up for e-billing. He reported on the number of customers that have signed up for Home Serve and indicated just under 29,000 have signed up for the service.

Following, Assistant General Manager Sonny Jones presented the Engineering and Maintenance Division's Report (E&M), as set forth in agenda item 2.2 for October 2015 in a PowerPoint presentation. A copy of the presentation is on file with said meeting book. Mr. Sonny Jones reported the Capital Improvement Plan (CIP) expenditures are at \$36 million of the capital budget. He then discussed three upcoming projects for Inland Lake. He indicated there are real estate issues at Inland Lake. He stated the first issue is a request from the cabin owner of Lot 6 to add on a screened in porch. He stated the cabin owners are required to ask the board regarding any construction requests they may want to perform. Mr. Sonny Jones stated he recommends approving the request with the stipulation that the screen in porch not be turned into permanent living space. The General Manager stated the leases on the lots state the cabin owners have to request the board's approval to perform any expansions or to sell their cabin. Assistant General Manager Sonny Jones stated the board has the first right of acceptance or refusal if the owners would ever want to sell. Director McKie stated he did not see a problem with preventing a cabin owner to turn a space, such as a screen in porch, into permanent living space if it looked nice. Board Attorney Mark Parnell stated under the terms of the licenses the owners cannot make any improvements that will expand the square footage of the living area. He stated the reason for that parameter was to not allow the price of the cabin to increase if the board ever decided to acquire it. Director McKie questioned whether there could be a clause that states the board will not pay for improvements on the property if it purchases it. Mr. Parnell stated that would mean the licenses would need to be re-written and all of the owners would have to agree to the terms. Director McKie questioned whether the owners cause a nuisance. Mr. Parnell responded not really. Mr. Sonny Jones stated an important factor is the waste disposal from these cabins. Mr. Parnell stated the owners have to ensure they have an adequate sanitation system in place so that it does not pollute Inland Lake. He stated if the board would allow this owner to expand the square footage of their cabin, they would open the door up for everyone to expand their square footage. Subsequently, Director McKie questioned whether the same agreement would apply if a third party purchased a cabin. Mr. Parnell responded yes, it would be the same agreement. The General Manager stated the board purchased cabins and tore the down to protect waste from contaminating the lake. Director McKie questioned whether there is less contaminants in

the water as a result of those cabins being torn down. The General Manager responded no. Assistant General Manager Darryl Jones stated there are a few cabins the board owns that are not being used. He stated a decision needs to be made as to whether they should be torn down because they are deteriorating. Next, Mr. Sonny Jones stated the next request is from an owner who would like to make certain repairs to their cabin or sell it to the board as is. He stated the asking price is \$250,000 and the repairs would include exterior painting, lattice work replacement, leaks, elevator lift, housing repair, reconstruction of boat house and general site improvements. Cary Prather, Board Employee, stated the owners would like to sell the property even after the improvements are made. Mr. Parnell stated when the owner makes the improvements and lists the property; the board will be presented with the right to refusal to purchase the property. Assistant General Manager Sonny Jones stated staff does not recommend purchase of this cabin; however, allow the improvements mentioned. He indicated the owner requested to use the board's platform boat or pontoon boat to transport materials; however, staff does not recommend allowing this. He stated the owner requested the board provide in writing an approval for the next owner to be able to rebuild a structure at the same size if the current owner tears it down. Mr. Sonny Jones stated he does not recommend providing a letter. He stated the last request is from an owner to install a trolley to assist them in getting from their cabin across the lake. He stated staff recommends approval of that request.

Following, Assistant General Manager Darryl Jones was recognized to present the Operations and Technical Services Division's Report, as set forth in agenda item 2.3 for October 2015 in a PowerPoint presentation. A copy of the presentation is on file with said meeting book. He reviewed and discussed the details as outlined in said report. He reported on comparisons of finished and raw water pumpage for 2014 and 2015, indicating there was a 2015 yield of 106 million gallons per day of finished and 120 million gallons per day of raw water. He indicated there is a reduction in raw water usage. Mr. Darryl Jones then reported on rainfall in the area indicating it is a few inches above year-to-date. He reported on the lake levels' capacities, indicating Inland Lake is 10 feet down and Lake Purdy's level is good. He stated with the help of the solarbees in the lake, delivery is good. He stated raw water sales, including USX, are on the decline. He indicated he does perceive USX consumption will increase for a long time. Mr. Darryl Jones then reviewed a comparison of power and chemical costs, indicating power costs are \$87,000 above budget year-to-date and chemical costs are \$6,700 below budget. The General Manager stated the cost of service study for 2016 will show producing raw water will cost the same. He stated the study may show that raw water rates may need to be increased slightly.

Next, the General Manager recognized Cathy Wright, Clarus Consulting Group, to make a presentation regarding conduction a board retreat to discuss best practices in governance & protocols, priorities and communication strategies and other related issues, as set forth in agenda item 3. The General Manager stated the board wants to conduct a retreat to plan how the current board will operate. Ms. Wright presented the board with a handout. A copy of the handout is on file with said meeting book. She stated Clarus is headquartered in Birmingham with offices in Chattanooga, Houston and Atlanta. She indicated Clarus works in strategy and planning, strategic communication, stake holder engagement, leadership development and management training. She then gave an overview of the services Clarus provides. She indicated Clarus has worked in the corporate, public, nonprofit, education and health care sectors. She provided a list of clients that Clarus has worked with. Ms. Wright stated based on her conversations with the board, Clarus has determined it will ensure the board has the information it needs to have clarity around its vision and priorities. She stated the board and management needs to discuss what its shared goals are. She stated Clarus will help the board to determine best practices in governance and roles and responsibilities. Ms. Wright stated Clarus will help the board to determine what it will accomplish after it discusses the goals they would like to achieve. She stated the plan will be accomplished the way the board would like for it

to be accomplished. She indicated interviews, roughly fifteen, will be conducted with the board and management prior to the retreat that will assist in making the retreat more productive. She stated after the retreat is held Clarus will provide a thorough report and recommendation. She stated the report will assist the board in implementing its plan. Ms. Wright then gave an overview of the flow and process for the retreat. She gave an example of a retreat Clarus conducted for the Jefferson County Commission. She indicated the Jefferson County Commission has stated their retreat has helped to improve communication with the commissioners. She gave another example of a retreat Clarus conducted for the Birmingham-Jefferson Civic Center. She indicated the retreat was successful and the BJCC was able to move forward as a group to confirm their mission and vision, and they were able to identify their strategic priority areas. She indicated there are other retreats they have held around the country and examples of those could be provided. Ms. Wright stated Clarus delivers quality work and indicated they would love to assist the board.

Subsequently, Director Florie questioned what the timeframe would be to conduct the retreat. Ms. Wright stated the retreat can be held as soon as the client requests it. She indicated Clarus has the capacity to get started quickly according to the board's timeline. She stated the board can schedule a date for the retreat and Clarus can work from that deadline. The General Manager stated the retreat needs to be completed before January 2016 and can be completed by the end of November or the first of December. He stated if the retreat produces changes in the way the board will operate; those changes could be implemented January 1, 2016. He indicated ethics training would need to be covered separately and discuss items as a result of new legislation. He stated the retreat would be focused on how the board will operate. He stated communication needs to be improved between the board, management and the board's consultants. Chairman Mims stated he feels the retreat is an excellent idea and the board should proceed with having it. Director McKie stated the item should be moved to the agenda to approve Clarus to conduct a retreat for the board. The General Manager stated the item would be placed on the agenda for approval and the board can decide at that time when the retreat will be held. Ms. Wright stated it is key for everyone to be available for the interviews Clarus will conduct. She indicated the interviews are generally an hour long. The General Manager stated a high level update on the strategic plan and what has been accomplished since that plan was set up.

Following, the General Manager gave an overview of the agenda for the Regular Board of Directors' Meeting to be held October 28, 2015. He called the board's attention to item 8 on the agenda, Request Board to approve a service agreement with Preferred Government Claims Solutions, Inc. (PGCS) to provide claims management services from October 1, 2015 through September 30, 2016. He stated all claims are handled by PGCS and their fee is based on the type of claim. He stated the board has had an agreement with PGCS for several years and the agreement needs to be renewed. He then gave an overview of the PGCS rate schedule.

As there was no further business before the Board, Chairman Mims entertained a motion to adjourn the meeting and a motion was duly made and seconded, and the meeting adjourned at 10:18 a.m.

/s/

Ronald A. Mims
Chairman/President

Attest:

/s/

George Munchus
Secretary-Treasurer