

**MINUTES OF THE INFORMATIONAL MEETING OF DIRECTORS
OF THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
June 19, 2015**

An information meeting of the directors of The Water Works Board of the City of Birmingham was held on Friday, June 19, 2015, at 9:00 a.m., in the principal office of the Board, 3600 First Avenue North, Birmingham, Alabama.

The following Directors were present: A. Jackie Robinson, III, and George Munchus. Inasmuch as there were only two Directors present, no quorum was declared until 9:20 a.m., at which time Director Lewis was in attendance.

The meeting was also attended by: Michael Johnson, Darryl Jones and Sonny Jones, Assistant General Managers; Grace Amison, Executive Assistant to the Board of Directors; Cynthia Williams, George Anderson, Ben Sorrell, Rick Jackson, Geoff Goodwin, Ray Sloan and Luther Austin, Board Employees; K. Mark Parnell and Mary Thompson, Waldrep, Stewart & Kendrick; Kelvin Howard, Waldrep, Stewart & Kendrick entered the meeting at 10:00 a.m.; Jerry Jones, ARCADIS; Theo Johnson, Volkert & Associates; Dr. Jesse Lewis and Dorian Kendrick, The Lewis Group; Dan Meadows, SS Nesbitt; Connie Harris, Sheppard-Harris and Associates; Eric Atwater, The Segal Company.

Chairman Robinson called the meeting to order at 9:05 a.m. as Mr. Darryl Jones opened with prayer.

Assistant General Manager Michael Johnson presided over the meeting as he informed the meeting body that the General Manager was absent from today's meeting being he is in route to attend a funeral. The GM was conferenced into the meeting via a telephone call.

Following, AGM Michael Johnson asked the Board to hear a review of BWWB's Pension and OPEB Plan Audits for the year ended December 31, 2014, as set forth in agenda item 2. Copies of said presentations are on file with said meeting book. Ms. Connie Harris was recognized to present the reports. Ms. Harris commented that the first item for review would be BWWB's Pension Plan Report. Ms. Harris commented that Sheppard-Harris and Associates issued an unmodified, unqualified clean opinion, meaning BWWB's Financial Statements are fairly stated. There was a change in Accounting Principle as the referenced Plan implemented GASB Statement 67, Financial Reporting for Pension Plans. Ms. Harris indicated that their opinion was not modified with respect to said matter. The name changed to Statements of Pension Net Positions. Total assets for the year-ended December 31, 2014 were \$129,122,268.00 compared to \$118,303,296.00 for year-ended December 31, 2013. The Statements of Changes in Pension Net Position for the year ended December 31, 2014 include the following: employer contributions of \$7,246,003.00; employee contributions of \$2,797,693.00; investment income of \$2,666,911.00; net realized gain on sale of assets of \$1,141,846.00 and net unrealized appreciation of \$5,852,071.00. The deduction included distributions to participants of \$8,024,529.00 and \$861,023.00 for administrative expenses. The net increase in net position was \$10,818,972.00. The net position restricted for benefits for the year ended 2014 was \$129,122, 268.00. There was a net increase of approximately \$11,000,000.00 via contributions compared to last year. Notes to the financial statements of the Pension Plan are outlined on pages 5 through 13 of the referenced report. Some of the notes reference the Plan's Description; Significant Accounting Policies; Funding Policy; Benefits; Investments and Membership Information. As there were no questions relative to the Pension Plan Review, Ms. Harris proceeded with review of the OPEB Plan Report. Ms. Harris commented that Sheppard-Harris and Associates

issued an unmodified, clean opinion for the OPEB Plan. The Net Position restricted for Plan benefits for the year-ended December 31, 2014 was \$25,289,600.00 compared to \$23,647,205.00 for the year-ended December 31, 2013. The Statement of Changes in Plan Net Position include the following additions: employer contributions of \$1,978,720.00; investment income of \$542,179.00; net realized gain on sale of assets of \$919,609.00 and net unrealized appreciation of \$189,302.00. The deductions included distribution of benefits to participants of \$1,554,536.00; premiums of \$359,017.00 and administrative expenses of \$73,862.00. The net change in net increase in net positions from 2013 to 2014 was \$1,642,395.00. Ms. Harris indicated that the notes to the financial statements of the OPEB Plan are outlined on pages 5 through 10 of the referenced report. Some of the notes reference the Plan's Description; Significant Accounting Principles; Funding Policy; Investments and Membership Information.

Chairman Robinson asked AGM Michael Johnson if the Board's contributions to the Pension and OPEB Plans are communicated to the employees. In response, AGM Michael Johnson stated that said information is shared with the Employee Association. AGM Michael Johnson added that the goal is to have the referenced reports published whereas employees could view the information via the BWB TV's. Chairman Robinson asked staff to share detailed performance of said Plans as well as the Board's contributions with all employees. Staff agreed to do so via Town Hall Meetings and during Open Enrollment Meetings.

Ms. Harris continued her presentation as she stated that while working with staff to perform said audits, there was no difficulty in receiving information. Ms. Harris added that there were no corrected mistakes; no control problems and no disagreements with management. In closing, Ms. Harris thanked the Board for the contract and thanked management and staff for their co-operation. Ms. Harris left the meeting at 9:19 a.m. Director Lewis entered the meeting at 9:20 a.m.

The next item was to review the Actuarial Valuations of the Pension and OPEB Plans as of January 1, 2015, as set forth in agenda item 3. Copies of the presentations are on file with said meeting book. Mr. Eric Atwater was recognized to lead the presentation. Mr. Atwater indicated that full valuations were provided for both plans; however, he would present a summary of highlights for the referenced Plans. Mr. Atwater began with a summary of the Pension Plan. Mr. Atwater commented that the new Funding Policy adopted by the Board in late 2013 assumed that the BWB's pension contribution would increase 4.0 percent annually until the Plan would become fully funded. The effective amortization period declined approximately 2.8 years from 16.4 for 2014 to 13.6 for 2015. Assets are expected to exceed liabilities in approximately 13.6 years or around FY 2028. This would occur under the assumption that the long-term actuarial rate of return used to determine liability remains at 7.5 percent. The amortization period for most public sector plans is twenty-plus years. If the Board would choose to contribute \$4,700,000.00 annually instead of increasing contribution 4.0 percent above the prior year's contribution, the effective amortization period would be 25 years. Mr. Atwater indicated that BWB's Pension Plan is in good shape being it is approximately 80 percent funded. Funding of 80 percent is above most public sector Plans. For the year-ended December 31, 2014, BWB earned a 7.7 percent rate of return on market value, which resulted in an investment gain of approximately \$1,700,000.00. The Unfunded Liability declined approximately \$4,100,000, primarily as a result of contributions in excess of those required by BWB's Funding Policy and better than assumed investment returns. As of January 1, 2015, there were 607 active participants to the Plan versus 604 in January 2014. The net total of participants has been stable for the last 4 to 5 years. From a market value basis, the funded percentage as of January 1, 2015 was 78.9 percent compared to 76.0 percent in January 2014. The Unfunded Actuarial (UAAL) as of January 1, 2015 was \$38,500,000.00 compared to \$42,000,000.00 for January 1, 2014. The major changes in unfunded was due to the gross normal cost of benefits

accrued during the year for active employees, which was \$3,500,000.00. Also, there was an additional \$3,500,000.00 normal cost associated with interest. There was an adjustment in interest because of contributions made to the Plan by BWWB and its employees. The Board contributed approximately \$7,200,000.00 and employees contributed approximately \$2,800,000.00. There was an investment gain due to Segal's assumption and there was a net loss from non-investment sources. Next, Mr. Atwater reviewed highlights of the experience study conducted by Segal Consulting as he informed the Board that a detailed report would be provided at a later date. The assumption study was based on a 5-year period. Highlights relative to economic assumptions included the following: recent inflation has averaged around 2 percent and the assumption was 3.25 percent. Segal's suggestion would be to lower inflation to 2.75 percent due to the fact that inflation is expected to be less than 3 percent for the next 20 years; the actual salary increase based on the experience study was quite a bit less than assumed. Recommendation would be to lower the salary scale and continue using a service based table. Actual turnover experience was approximately 50 percent higher than expected. Recommendation would be to increase the turnover rate during the first 10 years of service. The actual retirement experience was 20 percent lower than expected; 73 retirees were expected to retire while the actual number was 59. Proposal is to modify the table to the experience study. The actual mortality experience was less than assumed; suggestion would be to modify the table to provide a margin against diverse deviation and account for longevity improvements. The actual disability experience was higher than assumed. Overall, the proposed assumption changes would increase the liability by 0.7 percent and decrease the funded percentage by 1.5 percent. Following, Mr. Atwater reviewed highlights of the OPEB Plan. The Unfunded Actuarial Liability decreased approximately by 3 percent. This was due to normal plan operations, expected investment return and Healthcare Plan design changes made by BWWB to combine medical and prescription drugs. The funded percentage increased from 65.5 percent last year to 67.7 percent for 2015. The Annual Required Contribution remained at \$2,000,000.00. The total post-65 cost is expected to exceed the capped cost of \$1,000,000.00. Beginning 2016, retirees would be expected to start making monthly premium contributions. The projected amount would be \$15.00 or \$20.00 per month. Said amount was based on a total of 200 retirees and dependents as of January 1, 2016.

Subsequently, Directors asked that staff communicate the projected changes relative to premium contributions in detail to retirees.

In closing, Mr. Atwater shared some miscellaneous items with the meeting body as he stated that BWWB would need to formalize its Funding Policy as part of the new GASB requirements. Beginning 2016, the unfunded amount would be needed to be included on the company's balance sheet. Segal Consulting is in the process of working with BWWB and its auditors to ensure that the necessary information is provided for annual financial reporting. GASB 67 relates to Plan Reporting as GASB 68 relates to Employer Reporting. Next, Mr. Atwater indicated that in 2014, BWWB ranked number two compared to their peers regarding a combination of Pension and OPEB Plans. Currently, BWWB ranked number three and they are 77 percent funded. Charlotte-Mecklenburg ranked number one and Memphis Light and Gas ranked number two. Mr. Atwater concluded his presentation and left the meeting at 9:46 a.m.

Next, AGM Michael Johnson asked the Board to hear Division Reports, as set forth in agenda item 4. AGM Michael Johnson presented the Finance and Administration Division's Operating & Statistical Report (O&S) for May 2015 in a PowerPoint presentation. A copy of the presentation is on file with said meeting book. Mr. Johnson reported on the following: no significant change in the number of active customers which is 194,881, finished water system delivery; and consumption which is 2 percent lower than May 2014. Next, Mr. Johnson reported on the operating revenues for May and year-to-date; through May 2015, the operating revenues are under budget by

\$297,854; the operating expenses are under budget by \$568,484; the net operating revenue is over budget by \$270,630; operating revenues year-to-date are under budget by 422,087; operating expenses year-to-date are under budget by \$3,139,141; net operating revenue year-to-date is over budget by \$2,717,054. Large O&M variances include employee health care expenses which are under budget year-to-date by \$185,114; contractor paving charges are under budget by \$34,435; paving charges are under budget by \$262,444; power expenses are over budget by \$79,782; chemical expenses are under budget by \$125,252, and the labor expenses are under budget by \$1,099,931 including overtime which is under budget by \$245,586. Mr. Johnson reported that the reserve fund balance as of May 2015 is \$84.7 million. Following, Mr. Johnson reviewed and compared the minority vendors' expenditures for May 2015. The current number of employees for April 2015 is 651. Mr. Johnson reviewed a graphical illustration of the EasyPay stats relative to the number of users of the IVR vs. Website, the e-Check vs. Credit/Debit cards, and the e-Bill sign-ups. He reported 24,660 customers have signed up for e-billing. He reported on the number of customers that have signed up for Home Serve and indicated 27,229 have signed up for said service.

Chairman Robinson commented that he and Director Lewis spoke with the HomeServe Group during the Annual Conference and they were happy to hear that BWWB's growth rate and policy rate continues to grow. Chairman Robinson stated that he was mostly pleased with customer satisfaction, which was extremely high. Chairman Robinson questioned new services that may be provided by HomeServe such as water heaters. AGM Sonny Jones responded that Mr. Glenn Terrell would prepare a presentation to share with the Board during the Informational Board Meeting that would be scheduled in July 2015. Discussion ensued relative to ways to market reinforcement data of how many systems have been repaired, the number of satisfied customers and ways to target new homeowners where water and sewer line protection is not offered in their homeowner's warranty. Subsequently, it was stated that staff would work with HomeServe to develop marketing strategies as well as ways to inform others how well HomeServe is doing in providing services to BWWB's customers with Home Warranty Programs.

Following, Assistant General Manager Sonny Jones presented the Engineering and Maintenance Division's Report (E&M), as set forth in agenda item 4.2 for May 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 \$20.1 million of the \$59.4 million capital budget. Mr. Sonny Jones reviewed and discussed the Capital Project highlights that are currently under construction as he stated that the three largest projects are SAP Phase 2, Shades Mountain Filter Plant Improvements and the last Phase of Carson Loop 6C, where the right-of-way is being acquired. Mr. Sonny Jones gave an update on System Development Department's main replacement projects. Mr. Sonny Jones gave highlights on the Distribution Departments leaks as he stated that as of May 11, 2015, 431 leak orders have been completed; there are 32 outstanding leak orders with May 11, 2015 being the oldest leak in the system; as of May 11, 2015, 240 hydrants have been repaired or replaced, with no outstanding orders. AGM Sonny Jones shared photographs of the road that BWWB is constructing in order to get into the Lake Purdy area to make repairs. Next, AGM Sonny Jones recognized Mr. Goodwin for an informational presentation relative to pavement repair dishing. Mr. Goodwin indicated that he and staff investigated flowable fill from a cost standpoint. Staff met with a company out of Indianapolis that uses the product. The goal would be to develop a better and cheaper product in-house that would duplicate performance of the flash fill product. Attorney Kelvin entered the meeting at 10:00 a.m.

A discussion ensued as various Directors asked questions such as: the cost of the project; if the process would be performed by employees; the cost of the trucks that would be needed and how long the product was used by the company in Indianapolis. Mr. Goodwin responded as he stated that

the cost of the project would vary dependent upon things such as getting materials delivered on time and mixture of the correct compaction. Mr. Goodwin indicated that the process and work would be performed in-house by employees; the cost of one truck would be approximately \$200,000.00 and the company in Indianapolis has used the product since 1993, which is written in the City's Code. Mr. Goodwin commented that initial testing of the process was done on campus as staff mixed approximately fifteen batches. Following, Mr. Sloan was recognized to share a video of the complete process. Mr. Sloan indicated that the trick would be to prepare the correct amount of mix with a certain type of sand. Mixture is thin and it would flow easily. Once mixture is prepared correctly, it would be poured in the hole under the pavement. After one hour, the area would be ready to be walked on. If re-excavation is needed, the product can be dug up in approximately 28-days.

Director Munchus asked AGM Darryl Jones for his thoughts. Mr. Darryl Jones stated that a major issue would relate to oxidation capabilities using fly ash. Would it cause pipe corrosion? Mr. Goodwin responded that some stone would be put in the hole as well to prevent issues such as pipe corrosion. Subsequently, Mr. Goodwin commented that staff wanted to inform the Board of the referenced project being it is still in the early stages. Staff would come back to the board with updated information at a later date.

Mr. Michael Johnson informed the meeting body of the H2O Charity Carwash that would take place today from 10:00 to 3:00 in front of the Main Campus.

Next, Assistant General Manager Darryl Jones was recognized to present the Operations and Technical Services Division's Report, as set forth in agenda item 4.3 for May 2015 in a PowerPoint presentation. A copy of the presentation is on file with said meeting book. Mr. Darryl Jones stated that Mr. Austin would make a presentation on today also. Mr. Darryl Jones briefly reviewed and discussed the details as outlined in said report. He reported on the lake levels' capacities, indicating that the lakes are in great shape as they have lots of water available. Mr. Darryl Jones then reviewed a comparison of power and chemical costs, indicating power costs are \$97,530 over budget for the month of May; a net of \$79,782 over budget year-to-date; chemical costs are \$34,984 below budget for the month of May; a net of \$125,252 under budget year-to-date under budget. Mr. Darryl Jones recognized Mr. Austin to make a PowerPoint presentation relative to item number 8, as noted on the tentative for June 25, 2015. Request is to ask the Board to approve expenditures with the Foxboro Company, a sole source provider, to purchase hardware, software and services for the SCADA Control Processors (CP 60s) and I/O Modules Upgrade Project. Mr. Darryl Jones informed the meeting body that he is in support of the project. He indicated that the current SCADA System was installed in 1998. The system/equipment is an Information Technology platform. Some equipment components have been replaced overtime as some ages itself out. Mr. Austin indicated that BWWB uses Foxboro equipment to monitor and control operations at all four Filter Plans as well the five Raw Water Pump Stations. The goal would be to update software in all servers at Board facilities. Mr. Austin displayed a physical example of the existing module used by BWWB as well as a new, updated module. No field wiring would need to be changed in the new module. Mr. Darryl Jones left the meeting at 10:25 a.m. Mr. Austin indicated that Foxboro would perform most of the upgrade work. Foxboro would remove control processors, I/O modules, power supplies and mounting structures from the existing Foxboro enclosures. In turn, new equipment would require a 12-week lead time to build the new mounting structures.

A discussion ensued as various Directors asked the following questions: Would the referenced project be an upgrade? Would additional training be required for employees? Does BWWB pay an annual maintenance fee to Foxboro, if so, what is the cost? Would the cost go down next year to reflect the upgraded components? Does Sole-Source mean that Foxboro is the only

vendor in the world to provide said services? What is the shelf life of cabinets? How many failures occurred in the last year where maintenance was required? Where is Foxboro's Corporate Headquarters located? Mr. Austin responded to the questions as he stated that the project would be an upgrade; no additional training would be required for employees; there is a \$172,000.00 maintenance fee in place with Foxboro; once the equipment is installed, there would be an adjustment in maintenance fee costs; there were no failures with equipment during the last year, and he indicated that the life of the shelves at BWB facilities could last another 15 to 20 years being they have been in operation for approximately 17 years. Mr. Austin indicated that The Foxboro Company is located in Foxboro, Massachusetts; however, they were acquired by Snyder Electric in 2014. Mr. Austin added that Foxboro's equipment would not interface with another vendor's equipment.

Chairman Robinson indicated that normally when equipment would reach the end of life, more is charged for maintenance to financially incent people to upgrade. Therefore, if there would be an upgrade of all new equipment/components, there should be no maintenance costs for a period of time. Chairman Robinson asked Mr. Austin to provide the Board with the amount of the adjustment in maintenance fees before the next Board Meeting, which is scheduled for Thursday, June 25, 2015. Mr. Austin stated that he would contact Foxboro requesting adjustments. In concluding the presentation, Mr. Austin shared the proposed cost for said project. The proposed cost for the Foxboro upgrade would be approximately \$892,514.00; the proposed labor cost for BWB employees would be approximately \$100,000.00 and the proposed contingency cost would be approximately \$90,000.00. Mr. Austin indicated that the present value of the Foxboro upgrade would be approximately \$8,000,000.00.

Chairman Robinson asked Mr. Austin what was the contingency amount he had in mind. Mr. Austin responded that he would hope to be under \$940,000.00.

After much discussion, Director Lewis asked for clarification regarding the referenced item being placed on the upcoming agenda. It was agreed that the item would be placed on the final agenda for June 25, 2015, upon Mr. Austin providing the requested information to the Board before June 25, 2015. If information is not received, said item would be removed from the final agenda.

Following, Assistant General Manager Michael Johnson reviewed the tentative agenda for the June 25, 2015 Regular Board of Directors' Meeting calling attention to item 6 being item number 8 was already discussed. Mr. Sonny Jones was recognized to review item 6, as noted on the agenda. He indicated that the request was to take bids for a planned routine swap in the Transportation Department of one of the two heavy duty lifts. Mr. Sonny Jones indicated that one lift is completely worn out, which needs to be replaced with a safer lift that has capabilities to lift the heavier trucks.

Chairman Robinson asked Mr. Sonny Jones if there had been anymore work relative to the small bobcat which was discussed during an informal session in Distribution. Mr. Sonny Jones responded that he was unsure if a small bobcat was needed, being the large bobcats could perform the same work of a small one. However, staff is continuing to look into the matter.

Subsequently, Chairman Robinson asked Mr. Sonny Jones to address logistics of not needing a small bobcat with the distribution team. For informational purposes, Mr. Sonny Jones provided Director Munchus with a document relative to an ALDOT Project on Shuttlesworth Drive.

Mr. Rick Jackson was recognized to make comments regarding the PR Department. Mr. Jackson informed the meeting body that the PR Department was prepared to start its summer initiatives. Last year, "The Water Works Water Boy" visited some high schools in BWB's service

areas to share the importance of staying hydrated while on the field. During that time, water coolers were distributed. This year, staff would continue to work with area high school football players as they would also incorporate the cheerleaders in said initiative. Examples of ways to use fruit with water would be demonstrated by Ms. Dorian Kendrick. Plans are to visit high schools in each County serviced by BWWB. A new initiative called “Hydrate the City” will start on Friday, June 26, 2015 at Linn Park from 11:00 a.m. – 1:00 p.m. The PR Team would provide water and health tips for the summer.

Various Directors asked Mr. Jackson the following: to get a schedule of the Jazz in the Park events and to have a presence there; to provide the Board with dates and times of the “Hydrate the City” events; to provide the Birmingham News with a copy of the dates and times of events where BWWB would be present distributing water and summer tips; and to include the area high school band members when visiting the schools. Mr. Jackson agreed that the PR Department would cover all requests.

As there was no further business before the Board, a motion was duly made and seconded, and the meeting adjourned at 10:45 a.m.

/s/

A. Jackie Robinson, III
Chairman/President

Attest:

/s/

George Munchus
Secretary-Treasurer