

**MINUTES OF THE REGULAR BI-MONTHLY MEETING OF DIRECTORS
OF THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
AND PUBLIC HEARING
November 12, 2015**

The regular bi-monthly meeting of the directors of The Water Works Board of the City of Birmingham and Public Hearing was held on Thursday, November 12, 2015, at 5:30 p.m., in the BWWB's Training Room, 3600 First Avenue North, Birmingham, Alabama.

The following Directors were present: Ronald A. Mims, Kevin B. McKie, Ann D. Florie, George Munchus and Sherry W. Lewis.

Inasmuch as all of the Directors were present, Chairman Mims declared a quorum in attendance.

The meeting was also attended by: Mac Underwood, General Manager, Michael Johnson, Sonny Jones, and Darryl Jones, Assistant General Managers; Grace Amison, Executive Assistant to the Board of Directors; Cynthia Williams, Anitra Hendrix, Tammy Wilson, Creola Lee, Paul Lloyd, Iris Fisher, George Anderson, Ben Sorrell, John Reymann, Brent McCoy, Perry Crabtree, Ed Travis, Joyce Komo, Brenda Avery, and Nelda Thompkins, Board Employees; Charlie Waldrep, K. Mark Parnell, Mary Thompson and Kelvin Howard, Waldrep, Stewart & Kendrick; G. Courtney French and Mike Petway, Fuston,

Petway & French, LLP; Peiffer Brandt, Raftelis Financial Consultants; Jerry Jones, ARCADIS; Dr. Jesse Lewis, Dorian Kendrick and Brandon Wilson, The Lewis Group; Tom Larkin, The Larkin Law Firm, P.C.; Alaina Pineda, Clarus Consulting Group; Matthew Arrington, Terminus Municipal Advisors, LLC; David Merrida, Birmingham Construction Industry Authority; Alice Gordon, Skye Connect, Inc.; Richard Giangrosso, Johnny Gunn, A. Jackie Robinson, III; John Hudollesten, WBRC-TV; Philip Lancaster, WVTM-13 TV; and E. Burch, ABC 3340-TV.

General Manager, Mac Underwood called the meeting to order at 5:30 p.m. and prayer was offered by Mr. George Anderson.

The General Manager proceeded with the business of the Board. As there was no old business for discussion, the next item would be pursuant to Act No. 2015-164 Section (4c), which requires the BWWB to hold a Public Hearing to consider taking action consistent with Resolution No. 4166 which was adopted in December 22, 2003 as amended (i.e. adoption of the Rate Stabilization and Equalization Procedure (RSE Model)) that will result in a rate increase, as noted on agenda item 2. He stated that the referenced item would be to hold a Public Hearing and Executive Management would review and discuss a PowerPoint Presentation. AGM Darryl Jones was recognized to begin the discussion. He welcomed all in attendance of said meeting. AGM Darryl Jones reviewed the agenda for the presentation and he introduced the Board Members and Senior Executive Management. AGM Darryl Jones stated that upon conclusion of the presentation, the floor would be open for the public to ask questions and/or voice comments with a time limit of three (3) minutes per person. He reported that relative to the raw and finished water system there are 4 raw water intakes; 3 raw water boosters; 20 raw water storage tanks; 4 water treatment plants and 51 finished water storage tanks. AGM Darryl Jones reported that the BWWB serves an area of approximately 700 square miles and approximately 195,000 customers in Jefferson, Blount, St. Clair, Walker and Shelby Counties. He stated that the existing system has sufficient supply to meet projected demand through the year 2032. There is a 20-year plan to add additional supply which will satisfy demand through 2075. AGM Darryl Jones reported that the total raw water capacity is 289 million gallons per day (MGD), wherein Cahaba Pump Station produces 80 MGD; Mulberry Pump Station produces 85 MGD, Inland Pump Station produces 50 MGD and Sipsey Pump Station produces 74 MGD. The maximum water capacity for industrial usage is 35 MGD. AGM Darryl Jones reported that the total finished water capacity is 189 million gallons per day wherein Shades Mountain Filter Plant produces 80 MGD, Western Filter Plant produces 60 MGD, Putnam Filter Plant produces 24 MGD and Carson Filter Plant produces 25 MGD. The raw water surplus is 65 MGD.

Next, AGM Michael Johnson was recognized to discuss Effective Utility Management (EUM). He stated that the EUM attributes were adopted by the American Works Association. He stated that the BWWB manages its system within the EUM's framework. Ten of the noted attributes which are used by the BWWB indicates a well-run system. The referenced attributes are: Stakeholder Understanding and Support; Product Quality; Customer Satisfaction; Employee and Leadership Development; Operational Optimization; Financial Viability; Infrastructure Stability; Operational Resiliency; Community Sustainability and Water Resource Adequacy. Next, AGM Michael Johnson discussed the Board's financial policies. He gave a brief background of the Rate Stabilization and Equalization (RSE) Process. This policy helps ensure that rates are stable. He stated that the Board adopted the RSE Model in 2003, as amended. The RSE process requires annual updates to rates according to the RSE Model (based on the approved and capital improvement plan). Annual updates to the RSE Model are driven by maintaining operating results that are consistent with the RSE targets and minimums. The objective process would be to increase rates if there is a revenue deficit or if in any year the coverage levels are projected to fall below the RSE minimum. AGM Michael Johnson stated that rate adjustments are made so that the coverage is reset to the RSE target. He reported on the RSE Model and the RSE Targets. AGM Michael Johnson reviewed the BWWB's Financial Goals and Policies and he stated that the targets for rate increases are to keep them below the industry average of 5.5 percent. The rate increase for 2012, 2014 and 2015 was 3.9 percent and the increase for 2013 and 2016 is 4.9 percent. He stated that the goal is to maintain annual O&M increases less than 5 percent; and the goal is to have 25 percent of the Capital Budget funded from PAYGO by 2018. Doing so would reduce the borrowing cost for the BWWB. AGM Michael Johnson commented that the BWWB received strong bond ratings from the rating agencies. BWWB maintained an A rating by Standard & Poor's and Moody's in 2002. There was an upgrade in 2013 and in 2015, the BWWB was rated AA by Standard & Poor's and Aa2 by Moody's Investors. AGM Michael Johnson reviewed the proposed O&M Budget for 2016. He explained the budget process as there were individual department meetings, wherein each department manager along with key persons met with executive management, accounting and budget staff. A list of each department, their net budget totals for 2015 and 2016 and the variances are found on page 25 of the budget presentation. The value of the process was enhanced by month to month monitoring and meetings with managers to discuss the variances as well as control expenses. AGM Michael Johnson stated that the budget process was embraced by organizational leadership and he added that the key budget assumptions were to meet operational needs and to meet financial policy targets. The preliminary O&M total budget for 2016 is \$96,390,994.00 compared to a total budget of \$92,326,425.00. The difference is a 4.4 percent increase in operating cost for 2016. AGM Michael Johnson reviewed the 2016 rate increase drivers. Some of the drivers with additional costs are employee related expenses, license franchise fees, power, labor, transmission & distribution maintenance materials, other O&M expenses and chemical costs. There is projected revenue of approximately \$2,640,000.00 due to the drop in raw water consumption related to USX. The total budget impact including USX's downward revenue trend would be approximately \$7,000,000 million dollars. Following, AGM Michael Johnson addressed the demand for water. He stated that revenue requirements divided by customer demand equals water rates. AGM Michael Johnson reported on the BWWB's consumption trends for residential customers, non-residential customers and raw water customers. He reported that since 2007, there has been a decline in consumption for each category. The original projection for raw water in 2016 was approximately 8.6 million CCF's. Due to changes made by USX to use less water, the consumption reduced by approximately 3 million CCF's. AGM Michael Johnson stated that BWWB is not alone being municipal and industrial water use in the United States has declined in every 5-year period in the last three decades. He stated that the total budgeted consumption projection for 2016 for residential, non-residential and raw water customers is 38,090,000 ccf. The 2015 estimated actual consumption for each category is 37,780,000 ccf and the 2016 projected total consumption for each category is 35,250,000 ccf. AGM Michael Johnson reported on debt service coverage. He explained some reasons for the rate increase, which are as follows: revenues in 2015 are down slightly compared to budget; retail projections are slightly higher for 2016; Operating and Maintenance expenses are higher and rate increases are needed to meet financial requirements, maintain bond ratings as well as maintain adequate reserves. AGM Michael Johnson stated that the monthly impact

of the proposed rate increase for customers using 4,500 gallons of water would result in an increase in their monthly bill of \$1.85 per month. The monthly impact for customers using 7,500 gallons of water per month would result in an increase of \$2.37 in their monthly bill.

Following, AGM Sonny Jones was recognized to present the Capital Improvement Plan. He stated that the Capital Improvement's Plan Mission is to assist the BWWB in providing the highest quality water at affordable prices. In order to do so, the strategic goals are to maintain existing assets at their peak levels; to install new assets and upgrade existing assets where there is financial justification and to position the system to meet all current and future water demands that promotes growth within the region. AGM Sonny Jones stated that the historical value of assets of the BWWB's system is in excess of \$1 billion dollars. The BWWB services and maintains 4 treatment plants; 45 distribution pump stations; 6,000 miles of distribution piping; over 200,000 customers; 51 distribution storage tanks; 48,000 valves; 13,500 hydrants and 5 dams. He reported on a history of the capital program from 2000 to current. In 2000, capital expenditures totaled \$11.8 million dollars compared to \$54.4 million dollars for 2015. The proposed total capital budget for 2016 is \$60,357,889.00. AGM Sonny Jones reported on the top five capital projects for 2016: SAP Implementation (Phase 2.0), Shades Mountain Filter Plant Improvements, Carson Loop – Phase 6C Pipeline, Lake Purdy Dam Rehabilitation & Spillway/Capacity Upgrades, and Western Filter Plant Electrical Upgrades. Other significant projects include replacement of existing mains and services, tank painting and rehabilitation, replacements and repairs of existing valves and hydrants; replacements and repairs of electrical systems, and replacements of meters/metering technology. AGM Sonny Jones stated that the BWWB spent approximately \$2 million dollars on main replacements in 2000. He stated that the estimated spend for main replacements for 2015 is \$14 million dollars. AGM Sonny Jones stated that over the next 5-years, the goal is to remove the remaining 3,000 miles of galvanized steel from the system.

Next, AGM Michael Johnson was recognized to report on some testaments to success for the BWWB. He stated that some of the awards received by the BWWB include the "Sustainable Water Utility Management Award", the "Directors Award", the "Excellence Award", the "Optimized Plant Award", and the "Training Magazine's Top 125 Award". AGM Michael Johnson reviewed the rating agency acknowledgements from Moody's and Standard & Poor's. (a copy of the presentation is on file in Diligent Boardbooks).

Following, the General Manager thanked the citizens for attending today's meeting. He informed the public that comment sheets were located in the back of the room. He asked that persons with questions or concerns fill out one of the sheets as management would contact them if their questions were not answered during the meeting. The General Manager opened the floor to the public. Director Munchus asked management to revisit page 19 of the presentation. Being the goal is to reach 25 percent of the Capital Budget funded via PAYGO by 2018, he inquired of the projected rate increase for 2017 and 2018. The General Manager responded that the projected rate increases for 2017 and 2018 are 3.9 percent. Director Munchus suggested that staff inform the public of the future projected rate increase as some senior citizens could plan to budget for the increases.

Next, Mr. Johnny Gunn was recognized for questions and/or comments. Mr. Gunn informed the meeting body that he is a resident of the Ensley Community. He stated that he receives water from the Western Filter Plant. Mr. Gunn stated that he and some other residents in his community would like to know the reasons for the high rate increases. He voiced concern as he stated that most of the residents in the referenced community are senior citizens on fixed incomes. He also voiced concern regarding cuts to the summer school program. The General Manager responded as he reiterated part of the presentation reviewed by AGM Michael Johnson. The General Manager stated that there were a number of large O&M expense drivers with healthcare being the largest. He stated that the cost of power was up due to an increase from Alabama Power. Another increase in power is expected from Alabama Power for 2016 which requires the BWWB to increase rates as well. The General Manager stated that overall the BWWB has an additional O&M expense of approximately \$4.5 million dollars in the proposed budget which

contributes to the need for a rate increase. Also, there has been a reduction of approximately \$2.6 million dollars in revenue due to the decline in consumption. The General Manager stated that the original plan was to increase rates by 3.9 percent for 2016; however, due to unexpected circumstances the projected increase is higher. The General Manager stated that management would be willing to speak with citizens if additional is needed.

Director Lewis voiced various concerns with the proposed budget. She stated that said budget was accepted by three (3) board members as she and Director Munchus were not present on October 21, 2015, wherein the proposed budget was accepted. Director Lewis voiced concerns over cutting the summer school program as it affects children. She stated that the Young Water Ambassadors Program was started by the late Mr. Anthony L. Barnes and it is a program that is needed in the community. She voiced concern regarding a retreat scheduled for December 4, 2015 that would cost the Board approximately \$20,000.00 dollars, which she would not be attending. Director Lewis voiced concern regarding the proposed healthcare cost for 2016; she voiced concern regarding the proposed rate increase and concern regarding pay raises for employees. Director Lewis stated that she hoped the Board would re-consider cutting the school program and re-consider the scheduled retreat.

Director Munchus commented that issues regarding the budget were still open for discussion being the budget was not on the current agenda requesting approval. He thanked Director Lewis for her comments. Director Munchus stated that he felt the Board could find a way to prevent cutting the summer school program as it is offered to students within areas serviced by the BWWB. He stated that there was no reason to assume the referenced program would be cut being it was not imminent. The General Manager commented that the proposed budget was presented with two options relative to the summer school programs. One option was to fund the entire school program of 100 students and the second option was to fund half of the school program of 50 students. He stated that both options were discussed and reviewed during the Informational Board of Directors' Meeting held on October 21, 2015. Staff searched for other companies that fund 100 students for their summer school program; however, none were located. The General Manager stated that cutting the summer program to fund 50 students is more than similar programs funded in Jefferson County. He stated that the BWWB would still provide services to the community by funding the program for 50 students, 5 to 6 teachers along with 6 to 7 college students. As discussion continued relative to others areas in the budget, the General Manager stated cuts were made in consultants cost as well as other areas. He stated that collectively, all cuts made allowed management to reduce the projected rate increases from 6.6 percent to 4.9 percent. Subsequently, brief closing remarks were offered by some of the Directors.

Following, the General Manager proceeded with the agenda and he reviewed agenda item 3, requesting the Board to approve minutes of the Regular Board of Directors' Meeting held September 30, 2015, as noted on the agenda. He stated that management recommends approval of said item. Subsequently, a motion was made and seconded and the following resolution was adopted:

“BE IT RESOLVED By The Water Works Board of the City of Birmingham (“the Board”), on a motion duly made by Mr. George Munchus and seconded by Mrs. Ann D. Florie, that the Board hereby approves minutes of Board of Directors' Meeting held on September 30, 2015. Resolution No. 7027 is hereby adopted by unanimous vote.”

The next item was a request to approve payment of the following invoices. The General Manager reviewed said items as noted on agenda items 5.1 through 5.9. He stated that staff has reviewed the referenced invoices and recommends approval. Subsequently, a motion was made and seconded and the following resolution was adopted:

“BE IT RESOLVED By The Water Works Board of the City of Birmingham (“the Board”), on a motion duly made by Mr. George Munchus and seconded by Mr. Kevin B. McKie, that the Board hereby authorizes staff to execute payments to the following:

4.1	<u>Carl Dalton NeSmith Jr., LLC</u> For retainer for November 2015	\$ <u>500.00</u>
4.2	<u>Dominick Feld Hyde, P.C.</u> For professional services rendered for work performed September 29, 2015	\$ <u>469.80</u>
4.3	<u>Birmingham Construction Industry Authority, Inc.</u> For professional services rendered for November 2015	\$ <u>2,000.00</u>
4.4	<u>Volkert, Inc.</u> For professional services rendered for October 2015	\$ <u>2,380.00</u>
4.5	<u>Terminus Municipal Advisors, LLC</u> For professional services rendered for October 2015	\$ <u>6,500.00</u>
4.6	<u>Fine Geddie & Associates, LLC</u> For professional services rendered for November 2015	\$ <u>10,000.00</u>
4.7	<u>Fuston, Petway & French, LLP</u> For professional services rendered for September 14, 2015 - October 301, 2015	\$ <u>11,400.00</u>
4.8	<u>Raftelis Financial Consultants, Inc.</u> For professional services rendered for September 2015	\$ <u>11,407.50</u>
4.9	<u>The Lewis Group</u> For professional services rendered for October 2015	\$ <u>25,000.00</u>

Resolution No.7029 is hereby adopted by unanimous vote.”

The next agenda item was a request to award bid to TMI Coatings, the lowest responsible and responsive bidder, for tank blasting, painting and modifications to the Homewood Surge Tank, at an out-of-pocket cost to the Board of \$489,800.00, as noted on agenda item 6. The General Manager stated that staff reviewed said item and recommends approval. Subsequently, a motion was made and seconded and the following resolution was adopted:

“BE IT RESOLVED By The Water Works Board of the City of Birmingham (“the Board”), on a motion duly made by Mr. George Munchus and seconded by Mr. Kevin B. McKie, that the Board hereby authorizes staff to award bid to TMI Coatings, the only responsible and responsive bidder, for blasting, painting and modifications to the Homewood Surge Tank, at an out-of-pocket cost to the Board of \$489,800.00. Resolution No.7030 is hereby adopted by unanimous vote.”

The next item was a request to approve expenditures with Eaton Corporation, a sole source provider, to provide for the supply and installation of goods and services to upgrade the electrical system

at Roebuck Pumping Station at an out-of-pocket cost to the Board of \$328,026.00; and to authorize the General Manager and/or the Assistant General Manager to accept a supply agreement from said company, As noted on agenda item 7. [NOTE: This expenditure is exempt from bidding under the Alabama Competitive Bid Law because it is a sole source provider.] Subsequently, a motion was made and seconded and the following resolution was adopted:

“BE IT RESOLVED By The Water Works Board of the City of Birmingham (“the Board”), on a motion duly made by Mr. George Munchus and seconded by Mrs. Ann D. Florie, that the Board hereby approves expenditures with Eaton Corporation, a sole source provider, to provide for the supply and installation of goods and services to upgrade the electrical system at Roebuck Pumping Station at an out-of-pocket cost to the Board of \$328,026.00; and to authorize the General Manager and/or the Assistant General Manager to accept a Supply Agreement from said corporation. [NOTE: This expenditure is exempt from bidding under the Alabama Competitive Bid Law because it is a sole source provider.] Resolution No. 7031 is hereby adopted by unanimous vote”.

The next item was a request to approve and authorize the General Manager and/or Assistant General Manager to accept Amendment No. 2 End User License Agreement with CoreLogic Spatial Solutions, formerly known as First American Spatial Solutions, a sole source provider, for a three-year annual license maintenance agreement for use of Geographic Information Parcel Data and base maps for the Board’s entire service area and beyond at a total out-of-pocket cost to the Board of \$42,990.00, as noted on agenda item 8. [NOTE: This expenditure is exempt from bidding under the Alabama Competitive Bid Law because it is a sole source provider]. The General Manager stated that management recommends approval of said item. Subsequently, a motion was made and seconded and the following resolution was adopted:

“BE IT RESOLVED By The Water Works Board of the City of Birmingham (“the Board”), on a motion duly made by Mr. Kevin B. McKie and seconded by Mrs. Ann D. Florie, that the Board hereby authorizes the General Manager and/or Assistant General Manager to accept Amendment No. 2 to End User License Agreement with CoreLogic Spatial Solutions, formerly known as First American Spatial Solutions, a sole source provider, for a three-year annual license maintenance agreement for use of Geographic Information System Parcel Data and base maps for the Board’s entire service area and beyond at a total out-of-pocket cost to the Board of \$42,990.00. [NOTE: This expenditure is exempt from bidding under the Alabama Competitive Bid Law because it is a sole source provider.] Resolution No. 7032 is hereby adopted by unanimous vote.”

Under other business, Board Attorney G. Courtney French requested the Board to enter into an Executive Session to discuss pending litigation. Subsequently, a motion was duly made and seconded and the following resolution was adopted:

“BE IT RESOLVED By The Water Works Board of the City of Birmingham (“the Board”), on a motion duly made by Mr. George Munchus and seconded by Mr. Kevin B. McKie, that the Board hereby approves an Executive Session to discuss threatening litigation. Resolution No. 7033 is hereby adopted by unanimous vote.”

At 6:50 p.m. the General Manager and the Board’s Attorneys entered in an Executive Session. At 7:00 p.m. a motion was made and seconded to adjourn the Executive Session and the meeting reopened.

As there was no further business before the Board, a motion was duly made and seconded and the meeting was adjourned.

/s/

Ronald A. Mims
Chairman/President

Attest:

/s/

George Munchus, Ph.D.
Secretary-Treasurer