

**Minutes Of
Finance Committee Meeting
Of The Water Works Board
Of The City Of Birmingham
October 6, 2016**

A Finance Committee Meeting of The Water Works Board of the City of Birmingham was held on Thursday, October 6, 2016, at 9:00 a.m., in the principal office of the Board, 3600 First Avenue North, Birmingham, Alabama, 35222, to discuss finance issues.

The following Committee members were present: Ronald A. Mims, Kevin B. McKie and George Munchus. Also in attendance were Sherry W. Lewis and William R. Muhammad.

Inasmuch as all Committee members were present, a quorum was in attendance.

The meeting was also attended by: Mac Underwood, General Manager; T. M. "Sonny" Jones, Assistant General Manager of Engineering and Maintenance; Darryl R. Jones, Assistant General Manager of Operations and Technical Services; Michael Johnson, Assistant General Manager of Finance and Administration; Tammy Wilson, Executive Assistant to T. M. "Sonny" Jones and Darryl R. Jones; Grace Amison, Executive Assistant to the Board of Directors; Cynthia Williams, Executive Assistant to Michael Johnson; Ben Sorrell, Chief Engineer; Randy Harmon, Manager of Customer Service; George Anderson, Manager of Information Technology; Sheila Patterson, Budget Officer; Brent McCoy, Industrial Control Master E & M Shop; Courtney French, Sam Ford and Paige Goldman, Fuston, Petway & French, LLP; Jerry Jones, ARCADIS; Jesse Lewis and Dorian Kendrick, The Lewis Group; Chandra Abesingha, CE & Associates, Inc.; Peiffer Brandt, Raftelis Financial Consultants; David Merrida, Birmingham Construction Industry Authority; Lauren Walsh, ABC 33/40 Reporter; Howard Kopolowitz, AL.com Reporter.

Chairman Mims called the meeting to order at 9:05 a.m.

Following, General Manager Mac Underwood requested the Committee hear presentations of the 2017 draft Operations and Maintenance Budget and the 2017 draft Capital Budget. GM Underwood recognized Assistant General Manager Michael Johnson to make his presentation (a copy of which is on file with the Committee meeting book) on the operating budget. Director Munchus interjected stating he would like to commend Staff for the Young Water Ambassador Program adding that he attended an event where people spoke highly of the program. Some discussion occurred surrounding the number of applicants applying each year and the number chosen to participate. GM Underwood stated The Birmingham Water Works Board (BWVB) employed 75 students this year. Director Lewis stated the program started with 100 students originally. GM Underwood stated to increase the number of students in the program requires employees to spend too much time dealing with students. The number of college interns was

decreased this year as well this year Director Lewis stated. AGM Johnson stated that the projected 2017 net budget amount is \$100,373,154 and the 2016 net budget amount was \$96,390,994. The variance includes new initiatives for 2017, which are; additional positions for the Safety Department for a cost of \$247,000, a salary survey for a cost of \$165,000, an increased fee to The Jones Group for a cost of \$30,000, additional Public Relations Programs for a cost of \$150,000, legal fees to David A. Sullivan for a cost of \$120,000, legal fees to Fleenor & Green, LLP for a cost of \$120,000 and legal fees to Clay Ragsdale, LLC for a cost of \$120,000. AGM Johnson referred to a two-page handout (a copy of which is on file with the Committee meeting book). The first column is the 2017 projected Baseline with a rate increase of 4.20%. Some discussion occurred regarding the O & M Components. Director Lewis asked what the percentage of the full merit would be. AGM Johnson stated approximately 2.12%. Scenario 1 shows a 3.90% rate increase with a slight decrease in revenues per OS definition and scenario 2 shows a 3.90% rate increase with 2% of gross salary reduction, 10% reduction in overtime along with the elimination of the additional safety department positions, salary survey, fees to The Jones Group and additional Public Relations Programs funds. Director Munchus asked which scenario Staff recommended. AGM Johnson stated Staff recommended the Baseline. AGM Johnson directed the Committee to the Schedule of Overtime stating overall that the budget for 2016 was \$2,282,872 and the projection for 2017 is \$2,146,717. Customer Support Services, where there is an increase, is going up due to meter reader turnover and some overtime related to that. In the past, Director Lewis stated we were going to cut back on the overtime and begin looking at positions that may need to be filled rather than accumulating overtime. Director Lewis stated she would also like to see three years compared rather than just two. Some discussion took place concerning having the appropriate positions filled. GM Underwood stated there was not a lot of over overtime during the regular work week; however during holidays, vacation and storms more overtime accumulates. GM Underwood also added as SAP is implemented and learned the trend should move down. Director McKie asked if Staff knew what percentage falls into this category. GM Underwood stated it had not been broken out this way, but another scenario includes an employee who has had a surgery and is on light duty. GM Underwood reiterated that the overtime among meter readers comes in spurts. Assistant General Manager Sonny Jones stated this year had been a good year and not a lot of blow-ups have happened adding there is a lot of capital overtime included in this number. AGM Sonny Jones reminded the Board that the BWWB has two emergency crews working on weekends. Chairman Mims asked how far away Staff is from working toward automated meter reading. AGM Sonny Jones stated it has been investigated by the Board in the past and also reminded the Committee that this move would not necessarily eliminate job positions. More discussion occurred regarding using cell towers/cell phone technology to assist in automated meter reading. Director Muhammad inquired about pending lawsuits relating to meters not being read timely. AGM Underwood stated there were some pending lawsuits and weather related issues prevented readings in those cases. Director Muhammad stated he would like to meet with AGM Sonny Jones to learn more about the benefits of automated meter reading. GM Underwood stated the issue comes down to whether or not the BWWB desires to put \$40 to \$50 million dollars in an automated meter reading program. AGM Sonny Jones agreed to meet with Director Muhammad. Director Lewis thanked Staff for the

information and asked to see the 2014 budget as well, adding that the Board and Staff have been working very hard toward some trends which began in 2014. With the possible expansion of this Board, Director Lewis stated it is important to be prudent. We need to make sure we are doing the best thing for our customers, employees and the system Director Lewis emphasized. Director Lewis stated in reference to the additional safety positions that she did not see the value in adding \$247,000 to the budget when we already have a fully functional Safety Department. Director Lewis stated another salary survey at a cost of \$165,000 was not needed because we know where our employees are on this already. In relation to the additional fees for The Jones Group for an additional \$30,000, we have no need for this otherwise why did we terminate contracts with the other lobbyists Director Lewis asked. Director Lewis stated the item that really concerned her was the request in the budget for an additional \$150,000 for public relations programs when no public meetings had been held regarding this. Legal fees are skyrocketing, we are over budget by \$434,634 and we need to hear from our attorneys where we are on individual cases Director Lewis added. Director Lewis stated that the rate increase concerns her every year. Another concern Director Lewis stated which concerned her was the fact that as a Board we are taking votes online, meaning that the Chairman of the Board can make decisions on his own. The cost drivers need to be explained to ratepayers Director Lewis stated. Also knowing that there may be changes at the beginning of the year, it really is very important. We need to have the best budget possible whether we have a five-member Board or a new nine-member Board in January. The additional costs add up to almost \$1 million. We need to look at tightening the budget even more Director Lewis stated. Consumption is down and raw water is down. So, as a Board, we need to look at making some tough decisions to get the rate increase down further. Director Lewis asked what percentage the Board operates off of. GM Underwood stated we probably operate on about 15% that we can actually control. Director McKie stated he agreed with Director Lewis and would like to know what we are adding in value for \$150,000 to our public relations program. Director McKie asked if Staff still had the Public Relations Specialist position in the budget for next year. GM Underwood responded yes. Director Muhammad stated he was in favor of the additional money for public relations programs adding he was the one pushing for it. Director Muhammad stated he was in favor of keeping the rate increases down though. Director Muhammad told a story about an employee asking how the Chairman, Ron Mims, a former General Manager was doing, and recognizing that many employees love and respect him adding he was following the Chairman's lead on issues. Director Muhammad stated the late former Chairman, Anthony Barnes told him one time that he was the CEO of the BWWB. Director Muhammad asked GM Underwood for a copy of the By Laws and he stated he would like to understand if the Board Chairman has power over the Board to make decisions or if all Board members are equal. Director Muhammad was provided a copy of the BWWB By Laws. Director Muhammad addressed the other individual cost driver issues. Director Muhammad stated he did not even know what the salary survey was and it could go. The Jones Group increased fee is the only lobbying group we have and for years we have had lobbying firms Director Muhammad stated, so he did not have a problem with it. Director Muhammad stated we need to get our message out and that he believed most people on this Board do not understand about public relations. Director Muhammad stated Jesse Lewis posed a

question to him that he would like to pose to the meeting body. Director Muhammad asked the meeting body if they knew which company spends more on advertising and public relations than anyone else in the state. Director Muhammad responded that it was Alabama Power. Director Muhammad asked why Alabama Power was spending more money on advertising than anyone else. Director Muhammad stated the Board needs to get its information out so that the public knows what is going on like Alabama Power does. The Board has had an approach where we like to do stuff and then duck in the fox hole Director Muhammad explained. There are some things we need to do so this \$150,000 could be spent on public relations. Director Muhammad stated he had a colonoscopy last week and his wife came in and asked him if he could do something about the next door neighbor who was in the process of having his water turned off. The neighbor had apparently forgotten to pay his bill. Someone came back out in about 3 hours and turned it back on. Director Muhammad asked if the Board had a procedure to alert customers when their water is about to be cut off. GM Underwood stated there is a process. Director Muhammad stated he understood that disconnect notices were mailed to customers and added that his bills have always been “red” adding he did not know there was a different color bill. Advertising in newspapers and radio stations will let people know that we are on their side. Director Muhammad stated he had a background in Public Relations and you always have to let people know what you are doing. The lawmakers like Jabo Waggoner are the ones who oppose us, so we need to put out information to them and the public, Director Muhammad stated. As far as the additional legal fees go, Director Muhammad stated he was in favor of this because we are fighting for control of this Board. Director Muhammad stated he was part of the group who filed the original lawsuit and they fought for two years and then lawmakers said they needed the Attorney General’s opinion. Director Lewis responded yes. Director Muhammad stated that himself, Mary Moore, John Rogers and Andrew Bennett were the ones who filed the lawsuit. Director Muhammad stated that the Board is fighting to save the system from being taken over by the customers who did not have a damn thing to do with establishing it but feel it is their right because they pay a water bill to have representation on this water Board. Director Muhammad asked the meeting body to excuse him for his rant adding it is something he is very passionate about. Jesse Lewis stood and said he would guarantee before any money was spent that The Lewis Group would come before a Communications Committee and disclose the amount of money to be spent, what it is for and what the results would be before any money was spent. Director McKie asked if this is to be added to their monthly fee or a one-time expense amount of \$150,000. Jesse Lewis stated it was a one-time amount. Director Lewis said this should have been discussed before the budget adding that technology has changed the way we advertise. Director Lewis stated she had a background as well in Public Relations. Director Lewis stated newsprint is going away. Public service announcements and going to parks are free and have worked well for us in the past. There is one water system in Birmingham with no competitors. Director Lewis emphasized that BWWB is a public utility and does not have the funds an Alabama Power or Alagasco has. Being a public utility, we are responsible for telling the people how the money is being spent. A billboard telling people who we are does not help. We used to have a Speaker’s Bureau that did a great job telling the BWWB story Director Lewis stated. Customers are concerned about their water bills and rates going up. In lieu of spending \$150,000 we need to make sure we are

providing the best water possible to our customers at the best price. Most people today get their news on social media Director Lewis stated. Director McKie said comparing us to The Southern Company is not a good analogy in his opinion either. Director Muhammad compared himself to the other Board members financially speaking saying he only makes \$650 to teach two psychology classes adding he was tricked into buying a new car and the note is \$600. Director Muhammad said he was considered the poor man on the Board and he is the one concerned about water bills and rates. Director Muhammad compared Elements, the company who handled Public Relations for the Board in the past to The Lewis Group, stating that The Lewis Group has five employees and that they are also performing work, which was handled previously by people who were on Staff; Binnie Myles and Rick Jackson. Director Muhammad stated, we talk about reducing other costs but we never talk about this base rate, apologizing to Peiffer Brandt. Director Muhammad further said that we only question the issues involving black people getting money. Director Muhammad stated he had a problem with the bond dealings and the debt, but that is alright because that is not other money. Director Lewis stated she is concerned about all monies. The Board moved in a different direction following the exit of Elements Director Lewis stated. On my job I am told sometimes I have to do more work for less and that is just the way it is Director Lewis stated. We need to tighten our belts for the ratepayers. The elephant in the room is that the county is going up about 7%, but the customer does not see it Director Lewis stated. I pass by billboards all the time, and I like most people do not pay attention to them Director Lewis stated. Newspaper sales are not on the rise and we, as a Board have to look at things differently. We should not continue to do things as we have done in the past Director Lewis stated. There is new technology and more creative ways of doing things. We have to operate differently as a public utility Director Lewis stated. Consumption is down due to more efficient appliances and conservation is in the forefront now. Our product is water and we have no other sources of revenue, which I believe should be looked into further. BWWB had a Facebook page and that costs nothing and those are the new ways of looking at things. Jesse Lewis stated the average person's age working at his company is 24 years of age adding that they understand social media better than anyone in the room and they change with the times. Director Munchus stated in defense of The Birmingham News that their subscriptions are going up and many young people read the newspaper. Director Lewis stated, yes online. Jesse Lewis stated paper and online numbers have increased by 25%. Director Munchus added he had no financial interest in The Birmingham News. Director McKie stated we have talked about efficient appliances and our most vulnerable customers who struggle to pay their bills adding he did not see any of that in the rate structure. Director McKie asked if there was a reason for that. Mr. Brandt explained that we started on the Cost of Service Study earlier in the year and then the bond issue side tracked this. What we are proposing is the across the board increase. It is up to the Board to decide and our job to lay out the facts Mr. Brandt stated. We do not have time for this set of rates to do a rate restructure; however we can pick back up and work in that direction next year Mr. Brandt stated. The current rate structure looks at the total usage. Next year we can look at seasonality issues as well if that is what the Board desires Mr. Brandt stated. Director McKie suggested surveying this year and look at the changing the structure next year. Director Lewis stated in the future we need to be prepared to sell less water, not more water. Mr. Brandt drew an analogy regarding

conservation efforts going on in California. Encouraging more efficient use of water should be part of our campaign Director McKie stated. Jokingly, Director Muhammad asked Mr. Brandt if he would work on getting rid of the \$60 million debt service then we could put \$20 million toward Sonny's pipeline replacement program, he could keep \$20 million as a base and \$20 million could be applied to a rebate program.

Next, AGM Sonny Jones presented the proposed Capital Program for next year (a copy is on file with the Committee meeting book). The projects in the 10-year plan include Shades Mountain Filter Plant Filter Improvements at \$18,000,000; SAP Implementation (Phase 2.0), at \$1,000,000; SAP Implementation (Phase 3.0 – HR), at \$1,000,000; Lake Purdy Dam Rehabilitation and Spillway Capacity Upgrades, at \$1,000,000; Western Filter Plant Electrical Upgrades at, \$400,000; Inland Lake Dam Monitoring and Evaluation Program at, \$270,000; PFP Sodium Hypochlorite Project at \$600,000; Carson Loop Phase 6C at \$6,000,000; Repair to Sipsey Pump 6 at \$250,000; Repair to CPS 16 at \$140,000 and Main Office HVAC Replacement at \$450,000. The total general capital, technology and distribution projects total \$29,110,000. The cost for maintaining all the existing assets we have in place is \$22,084,500, which is about what we do every year AGM Sonny Jones stated. AGM Sonny Jones stated what he is asking for next year is \$61,196,973. Director Munchus said he was fine with the Capital Budget. Director Lewis asked if a portion of the Carson Loop Phase 6C money could be used for pipeline replacement projects. AGM Darryl Jones stated he had just finished doing a Press Conference on the Stage 2 Drought Advisory. One of the benefits of Carson Loop is that we can move water where we have a surplus to the southern part of the system. This should have been completed years ago so we could move water around more effectively. Darryl Jones encouraged the Board to move forward on 6C, 7, 8 and all phases of the Carson Loop project. All the system modifications regarding moving water around have been done and we have maximized everything that is available to us. AGM Darryl Jones stated Carson Loop is the heart of the whole strategy. We are about 90% there AGM Darryl Jones added. Director Lewis asked when we would recuperate the cost. The benefits will be that the system is more efficient making it easier for us to move water around along with the drought component. AGM Darryl Jones stated roughly that 15% to 20% of customers would be impacted. Director Lewis made a comparison with the pipe replacement program and its impact on many more customers. AGM Darryl Jones stated both can be worked toward. AGM Sonny Jones stated 50% of our drought problems would be solved with the completion of Carson Loop. Some discussion occurred regarding capital project money. If money is not spent it is still held in capital GM Underwood stated adding that we change the budget to fit the current projects. Every year we have more capital projects and needs than we have money for so if there is any extra there are other needs like replacing pumps for instance GM Underwood stated. GM Underwood referred everyone back to the Carson Loop project stating that we are facing a drought and we want to be able to serve all customers at all times adding that we do not want to have any customers out of water. AGM Darryl Jones stated the final result was to get 15 to 18 million gallons a day to the southern part of the system adding that there are multiple facets to the project. We want to make sure the decisions we are making will benefit the system now and for the next 50 to 75 years. Director Lewis stressed the importance of doing more in the pipe replacement program

adding she did not want to stop the Carson Loop project. More discussion occurred surrounding picking up the pace on the pipe replacement work. AGM Sonny Jones stated he will need to start over with the rebid process on the Shades Mountain Filter Plant Filter Improvements project; therefore, it will be March 2017 before work will start possibly. GM Underwood stated some of the money could be shifted around, but the following year the Shades Mountain project will eat up most of the funds in the budget. AGM Sonny Jones stated System Development Manager, Doug Stockham keeps projects designed and on the shelf so that when other projects are deferred his projects will be ready to go.

Following, Mac Underwood said Michael Johnson suggested having a second meeting October 20th if it is needed. Director Munchus stated he was fine with things and would probably not be in attendance. Director Lewis stated she needed to meet with Staff another time on budget issues. Director McKie stated he was fine without another meeting. AGM Michael Johnson stated it would be announced next week that the BWWB will hold a Public Hearing at 5:30 on November 10th and that a Public Notice would be posted. GM Underwood distributed copies of the Stage 2 Drought Watch Press Release (a copy of which is on file with the Committee meeting book) which AGM Darryl Jones handled this morning. GM Underwood stated that Staff is in the process of moving forward with BB & T to get them in as corporate trust for BWWB's OPEB and Pension assets adding it would be on the Board agenda next week.

Next, Director Lewis stated she believed the On-Call Contractors item needed to be voted on by this Board adding she has a right to have a vote rather than the Board Chair saying to go ahead. Director Lewis stated she believed this was going to cost more money the way it is set up now. We need to bring things publicly to a Board Meeting Director Lewis stated. Attorney Courtney French stated they were asked an opinion if the work could be rotated between contractors and it was their recommendation that it could be rotated. If there are any changes in the administration of the original bid and resolution though, Attorney French stated he would recommend it to go back before the Board. Director Lewis stated the low bidder should be awarded the most work and if the number one contractor is unavailable to do the work it should move to the second contractor. Last year Rast was the first and lowest bidder, now they are at number three on the list. Director Lewis stated she wanted her right to vote on the item. Director Muhammad stated he had a problem with it as well and asked what all of this game playing was about. Director Muhammad stated he did not like the manipulation. GM Underwood explained that the Board voted on the way this would be administrated in January 2016 and Staff has the right to award it as they see fit and Staff desires to spend the least amount of money as possible. Some discussion occurred between Director Lewis and Director Muhammad whether the Chairman has the power to make decisions apart from the other Board members. Director Lewis stated they set up the administration process to save the Board the most money. Director Muhammad asked if the Board votes on administrative issues. Director Lewis stated we have in the past. Director Muhammad addressed GM Underwood and stated that every administrative issue from here on out, he wanted to vote on. Director Munchus stated he did not want to. GM Underwood stated Staff recommended rebidding the contract to whomever gets

the lowest bid and others in the rotation would have to do the work for the same price. The new process will begin in January 2017. Attorney French also stated any email where votes are asked for would violate the open meetings act. GM Underwood distributed a Review of “On Call Water Utility Contractor” Contract dated September 15, 2016 (a copy is on file with the Committee meeting book) for the Committee to review.

As there was no further business to be brought before the Committee, a motion was duly made and seconded, and the meeting was adjourned at 11:28 a.m.

_____/s/_____
Ronald A. Mims
Chairman/President

_____/s/_____
Kevin B. McKie, Esq.
First Vice-Chairman/First Vice President

_____/s/_____
George Munchus, Ph.D.
Secretary-Treasurer

_____/s/_____
Mac Underwood
General Manager