

**MINUTES OF EXECUTIVE COMMITTEE MEETING
OF THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
April 25, 2017**

An Executive Committee meeting of the directors of The Water Works Board of the City of Birmingham was held on Tuesday, April 25, 2017 at 3:30 p.m., in the principal office of the Board, 3600 First Avenue North, Birmingham, Alabama.

The following Committee Members were present: Sherry Lewis, Deborah Clark, Tommy Joe Alexander, Butch Burbage, Brenda Dickerson, Ronald Mims, George Munchus and Brett King. Director William Muhammad was not present.

Also attending were: Mac Underwood, General Manager; Michael Johnson, Sonny Jones and Darryl Jones, Assistant General Managers; Grace Amison, Executive Assistant to the Board of Directors; Anitra Hendrix, Executive Assistant to the General Manager; K. Mark Parnell, Parnell Thompson, LLC; Rick Jackson, George Anderson, Paul Lloyd and Terrell Jones, Board Employees; Dr. Jesse J. Lewis and Dorian Kendrick, Agency 54; Daymeon Fishback, David Searcy and Greg Burchell; Morgan Stanley; Jeanette Cooper and David Burger, Segal Advisors; Brian Ruggs, ARCADIS, U.S.

Inasmuch as much as seven of the committee members were present; Chairwoman Lewis declared a quorum in attendance. The meeting was called to order at 3:37 p.m. and Assistant General Manager Darryl Jones opened with prayer.

The General Manager stated there were three (3) items on the agenda to be reviewed and discussed.

Following, the Committee moved to the first item on the agenda, Request Committee to hear a Presentation regarding the Pension Plan Actuarial Report – January 1, 2017. Assistant General Manager Michael Johnson stated these are standard and routine reports and then recognized Segal Advisors to make a presentation. Director Munchus arrived at the meeting at 3:38 p.m. Jeanette Cooper, Segal Advisors, stated the first report would be regarding the OPEB and Pension annual review. She then referred to page 4 of a handout. A copy is on file with said meeting book. She gave an overview of how the reports are compiled based on information received from BWWB. She indicated the plan provisions and experience are reviewed, with minimal changes. Ms. Cooper then gave an overview of the cash flows for 2016. She stated they follow the GASB 67 and 68 accounting standards when completing the reports. She stated there were employee contributions of \$4.9 million, employer contributions of \$2.8 million, and investment returns of \$3.9 million. She indicated the total asset value at the end of the year was \$129.3 million. She then gave an overview of the pension plan highlights. Chairwoman Lewis left the meeting at 3:41 p.m. and returned at 3:42 p.m. Ms. Cooper stated the plan will be fully funded by fiscal year 30 based on projections. She stated the market return for the year was 3.1 percent with the smoothed gains/losses return on assets being 6.3 percent. Director Munchus questioned where are the unfunded liabilities located on the balance sheet. The General Manager stated these liabilities are located in the long-term debt area. Director Munchus questioned how are most pension plans reacting. Ms. Cooper stated most plans are fairly well funded. The General Manager stated there are very few plans that are fully funded. Director Burbage questioned whether there is a pension plan that is fully funded. Ms. Cooper responded SONAT was fully funded before it

merged with another company that was heavily underfunded. The General Manager stated the City of Birmingham was fully funded at one time but it is now under funded. Subsequently, Ms. Cooper stated the number of participants in the plan are the same with contributions increasing by 4 percent. She then gave an overview of the GASB 68 requirements for 2016. Director Munchus questioned whether there will be future changes for GASB requirements and what drives the changes. The General Manager responded there will probably be future changes regarding GASB requirements. Director Burbage stated Wall Street's goal is to get public statements to match up more with for profit businesses. Ms. Cooper stated BWWB is required to do a projection each year based on the GASB and each year BWWB easily passes that test. She indicated BWWB retirees will receive a letter regarding the plan's performance.

Next, the Committee moved to the second item on the agenda, Request Committee to Hear a Presentation regarding the Other Post Employment Benefits (OPEB) Actuarial Report – January 1, 2017. David Burger, Segal Advisors, gave an overview of the OPEB Plan highlights. Mr. Burger stated the plan covers retiree medical and life insurance. He indicated there were no changes in claim cost and participant data. He stated the liabilities stayed flat and the assets increased from \$25.2 million to \$26.9 million. Mr. Burger indicated overall it was a good year. He stated the plan states BWWB will not spend more than \$1 million on Post 65 retiree medical benefits; therefore, the plan will either need to be changed or charged participants because costs are projected to surpass that number in 2018 or 2019. Director Dickerson questioned how close are costs to reaching the \$1 million mark. Mr. Burger responded it is very close. Assistant General Manager Michael Johnson stated retirees have not been charged due to an insurance policy that was paid to cover the costs. Mr. Burger then gave an overview of medical costs. He stated BWWB is the best funded medical plan period. He indicated GASB 74 and 75 are part of the plan's report. Director Munchus questioned how will the rating agencies view BWWB. Mr. Burger responded it will be positive for BWWB. The General Manager stated the rating agencies were pleased with the plan's funded status. Mr. Burger stated with the GASB rules changing, there is a "storm" coming. He indicated it won't be as nearly as bad for BWWB as other entities. Subsequently, Ms. Cooper gave a peer comparison and stated the predominant funding rate among peer groups is 7.5 percent. She stated BWWB is ranked #5 among its peers. Director Munchus stated he would like to see Jefferson County, AL added to the list for peer comparison. A discussion then ensued. The General Manager stated both plans are well funded and managed.

Following, the Committee moved to the third item on the agenda, Request Committee to Hear a Presentation regarding the Pension Plan and OPEB Investment Returns for the First Quarter - 2017. Daymeon Fishback, Morgan Stanley, stated three things Morgan Stanley will guarantee BWWB: integrity, competency and over communication. He stated they would present information regarding the market outlook, due diligence in manager selection and their recommendation. He then recognized Greg Burchell. Mr. Burchell stated the global economy has recovered and there is overweight in equities. He stated everything looks good and by the end of the quarter there will be \$135 million in S&P earnings. He indicated the year-end earnings will be \$147 million. He stated international investments are good. Mr. Burchell then recognized David Searcy. Mr. Searcy gave an overview of the money managers and the analysis process. He indicated if a money manager needs to be removed, it will be presented quickly to the Board. Director Munchus questioned has there been any contact with the firm Bretwood Capital. Mr. Fishback stated he has been in contact with Calvin Stamps with Bretwood Capital and he informed him that his firm would have to be registered with the Securities Exchange Commission (SEC).

Mr. Burchell stated diversification is important for the portfolio. Chairwoman Lewis questioned how will Morgan Stanley communicate with BWWB staff when there is a concern/issue. Mr. Burchell stated a money manager is put on watch and a manager can be replaced within a month. Chairwoman Lewis stated her concern is that issues are brought forth as soon as possible. She then questioned how often Morgan Stanley communicates with BWWB staff. Mr. Burchell responded they have communicated several times in the past few months with staff. Assistant General Manager Michael Johnson stated Morgan Stanley regularly communicates with staff. The General Manager stated it takes 3 to 5 days for trades to settle and to know whether an investment is not qualified to be in the plan. Mr. Fishback indicated Morgan Stanley will do its part to do its due diligence. Director King questioned why aren't traders looking at criteria. The General Manager stated the traders have the policy, qualifications to meet and should manage in accordance with the guidelines. Director Dickerson questioned who is responsible if the issue is not detected. Mr. Burchell responded the manager who bought the security and Morgan Stanley would be responsible. He indicated they do not anticipate a situation arising because there is so much work done on the front end to prevent that. Subsequently, Mr. Burchell stated Morgan Stanley recommends Hamilton Lane as a private markets manager. He indicated there is also an opportunity in private investments before a company goes public. He states he recommends Hamilton Lane to come before the Board and stated their fees have been negotiated to competitive rates. Director Munchus questioned where Hamilton Lane is located and Mr. Burchell responded in Philadelphia, PA. Chairwoman Lewis left the meeting at 5:04 p.m.

Following Mr. Burchell stated long term he thinks the portfolio can average 8 percent. The General Manager stated it is very important for each board member to review the investment policy statement. He indicated if there is something that needs to be changed, it needs to be brought to the board's attention so it can be voted on. A discussion then ensued. The General Manager stated Segal Advisors did an experience study regarding what returns should be. Ms. Cooper stated Segal Advisors has their own capital market assumptions. She then gave an overview of their process to conduct an experience study. She stated the last experience study dated December 31, 2013 indicated returns averaged 7.13 percent over 5 years and 5.45 percent over 10 years. She stated the next study would cover January 2014 to December 2018.

Next, Mr. Burchell gave an overview of the Pension Plan return or performance and stated they are up 4 percent along with an overview of the money manager's performance. He indicated the plan value as of April 24, 2017 was \$136,132,000 and indicated it increased \$3 million within one month. He stated the fixed income return is not as good as the equity return. The General Manager stated there's a balancing act with the fixed income increases and equity is down, and vice versa. Mr. Burchell stated the OPEB Plan made \$2 million and the Pension Plan made \$7.6 million.

As there was no further business before the Committee, a motion to adjourn the meeting was duly made and seconded, and the meeting adjourned at 5:29 p.m.

_____/s/
Mac Underwood
General Manager