

**MINUTES OF THE INFORMATIONAL MEETING OF DIRECTORS
OF THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
February 20, 2015**

The Informational Meeting of the Directors of The Water Works Board of the City of Birmingham was held on Friday, February 20, 2015, at 9:00 a.m., at 3600 First Avenue North, Birmingham, Alabama.

The following Directors were present: A. Jackie Robinson, III, Sherry W. Lewis, Ann D. Florie, David S. Herring and George Munchus.

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

The meeting was also attended by: Mac Underwood, General Manager; Sonny Jones, Darryl Jones and Michael Johnson, Assistant General Managers; Grace E. Amison, Executive Assistant to the Board of Directors; Tammy Wilson, Administrative Assistant to Assistant General Managers Sonny Jones and Darryl Jones; Cortez Tolbert, Ben Sorrell, Rick Jackson, Shirley Simmons, Ben Sorrell, George Anderson, Iris Fisher, Paul Lloyd, Rhonda Lewis, Meridith Hollins, Randy Harmon, Victoria Damsgard, Board Employees; Jerry Jones, ARCADIS; Charlie Waldrep, Kelvin Howard, Mark Parnell and Mary Thompson, Waldrep, Stewart & Kendrick, LLC; Matthew Arrington, Terminus Securities; Kirk Mills, Volkert & Associates, Inc.; Dorian Kendrick and Jesse Lewis, The Lewis Group; Chandra Abesingha, C. E. & Associates, Inc.; Kurt Lofters and Bob Hubbard, Gray & Company; Matt Adams and Larry Ward, Raymond James.

Chairman A. Jackie Robinson, III called the meeting to order at 9:04 a.m. and welcomed the meeting body. George Anderson opened the meeting with prayer. There was no discussion under old business. Mac Underwood announced that the Birmingham Water Works Board (BWVB) was recently recognized and given an award by First Training magazine.

Following, Rhonda Lewis, Training/Organizational Development Officer, shared information about the recent award from First Training magazine along with a video highlighting the Top 125 Gala, which is held every year in conjunction with their conference. A presentation (a copy is on file with the Board meeting book) was given by Rhonda Lewis. Organizations are named and ranked that excel in human capital development. Applications are taken each year and the rankings are based on financial investment in employee development, scope of development programs and business goals and objectives. The applications are scored quantitatively and qualitatively. The BWVB came in at number #24 which was up from last year's place of #75. Rhonda Lewis gave examples of why the BWVB is in the top 20% nationwide; we provide the highest quality water, we implement knowledge transfer programs to ensure efficient operations, we train our workforce to enhance innovative knowledge skills and abilities to improve system operations and we have strong support from our executive management. Rhonda Lewis introduced the rest of the BWVB training team present; Meridith Hollins, Training Coordinator and Cortez Tolbert, Safety Officer. Two members were not present; Marilyn Vertison, Organizational Development Specialist and Tim Mitchell, Part-Time

Operator Trainer. Michael Johnson added that the BWWB has some great people who are leaders in their field. There is always continuous improvement within great companies. Our managers have to be involved to make it great. Some of the managers attending the conference this year were Roger Hicks, Reginald Nall and Shirley Simmons. Also Reginald Jackson from the SAP training team attended. Chairman Robinson thanked Staff for their excellent work saying he was very proud adding that we are really in the top 1% because not only are we in the top 20% of the top 125, there are more than 50,000 companies in the U. S.

Next, Gray & Company was recognized to give a presentation on the OPEB Plan Investment Performance for the year ended December 31, 2014. A handout of the presentation was distributed among the meeting body (a copy is on file with the Board meeting book). Kurt Lofters highlighted various aspects of the portfolio explaining that over the last two years significant changes were made to the OPEB Trust in an effort to diversify the portfolio as well as achieve the objectives as set forth in the investment policy statement. Underperforming large cap value and large cap growth actively managed funds were replaced with style appropriate passive indexes. The underperforming T. Rowe Price Mid Cap Value Fund was replaced with the new actively managed Walthausen Select Value Fund. Exposure was added to international equity via the addition of Laudus International and Vanguard International Growth Funds. Exposure was added to real estate via the addition of the Vanguard REIT Fund, noting the fund generated a return of over 30% in 2014. Exposure was added to international fixed income via the addition of Templeton Global Total Return Fund. And in October 2014, U. S. Bank fixed income management was replaced with a separate account managed by WEDGE Capital. In review, for the period ending December 31, 2014, the trust's 5-year annualized return of 8.3% exceeds the IPS objective of an expected return of 7.5%, however; the 5-year return currently trails the policy index. Changes have been implemented to position the trust portfolio to outperform the policy index going forward. For calendar year 2014, the trust returned 7%; U. S. equities outperformed international equities and fixed income; within U. S. equities large cap outperformed mid and small cap; the Vanguard REIT Fund, which provides exposure to real estate was the highest returning investment in the trust portfolio with a return of 30.3%; the fixed income segment of the trust portfolio managed to return 3.1% for 2014. Currently three actively managed funds with at least 3 years tenure in the trust portfolio are underperforming their respective benchmark indexes over the 3-year period ended December 31, 2014. The three funds are Morgan Stanley Mid Cap Growth, T. Rowe Price Small Cap Value and Nuveen Small Cap Growth Opportunity. Kurt Lofters noted they were watching Morgan Stanley because it was hit hard in 2014, but growth does look favorable for the second half of 2015. Director Munchus inquired about WEDGE Capital. Kurt Lofters responded that they were out of North Carolina and they were one of the best at the table, adding that executive staff gave their approval. Bob Hubbard, Co – CEO of Gray & Company announced that the Securities and Exchange Commission (SEC) had launched an investigation against them and in response Gray & Company had filed a federal suit stating they believed we should put it in the court system if they have a case. Bob Hubbard stressed there has been no violation of Georgia law on their part and that they remain a strong firm with 35 clients that range nationwide. Michael Johnson asked if they had notified their clients. Bob Hubbard responded yes. Director Florie asked the Board's attorneys to comment. Mark Parnell stated they just received a copy of it today and that they would take a look at it. In addition, Kurt Lofters stated the product in the investigation is one that the BWWB has no exposure to.

Following, General Manager Mac Underwood requested the Board approve Raymond James as Lead Underwriter for the 2015 refunding and new money bond issue, as set forth in agenda item 3. Mac Underwood stated the council for the team had been approved already. Next, will be the presentation to the rate agencies in New York. Director Florie asked Mac Underwood to walk her through how the decision was made and if other firms were considered. Mac Underwood stated there were 5 or 6 firms that submitted information over the last 6 to 12 months on refunding and doing bond work for us, but Staff felt Raymond James should be used because they have worked with us in the past. Director Florie asked to see more on the process, but agreed to move forward. On a motion duly made and seconded, 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 Ms. Sherry W. Lewis and seconded by Mr. David S. Herring, that the Board hereby approves Raymond James as Lead Underwriter for the bond issuance team relative to the 2015 refunding and new money bond issue. Resolution No. 6862 is hereby adopted by unanimous vote.”

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Next, General Manager Mac Underwood requested the Board approve the Water Works Board’s Historically Underutilized Business Program, effective March 1, 2015, as set forth in agenda item 4. A one-page handout of the General Mission Statement was distributed to the meeting body (a copy is on file with the Board meeting book). Basically this document will serve as a front-end document on all bids and purchases. The key part is that we would like to have 30% minority participation on all of our projects according to Mac Underwood. Mark Parnell stated the language was a goal; however “not a quota” would be stricken from the paragraph and the legal impact would be the same. The goal is to maximize minority participation on Board contracts. On a motion duly made and seconded, 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 Ms. Sherry W. Lewis and seconded by Mr. George Munchus, that the Board hereby approves the Water Works Board’s Underutilized Business Program pertaining to the Minority Vendor Program and Front End Bid Documents, as attached hereto as Exhibit “A”, effective March 1, 2015. Resolution No. 6863 is hereby adopted by unanimous vote.”

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Following, General Manager Mac Underwood requested the Board approve the Internal Investment Policy and Process to invest the system’s Internal Operating Reserve Funds, effective March 1, 2015, as set forth in agenda item 5. A handout of internal investment advisors proposed fee structure for February 2015 was distributed to the meeting body (a copy is on file with the Board meeting book). Some discussion took place concerning Staff investing without the Board’s knowledge. Mac Underwood clarified that there are daily changes and decisions that

need to be made quickly at times to be able to take advantage of the particular investment opportunities adding that research has shown that most municipalities operate this way. A section can be added to the policy Mac Underwood stated to notify the Board a week in advance when items are maturing. Director Lewis stated it was of great concern to her as a Board member not to be included on the investment decisions and that this was out of order. Director Munchus agreed that there should be some notification. Chairman Robinson suggested this be reviewed again in the Finance Committee meeting next Tuesday. There was no action taken on the item.

Next, Assistant General Manager Michael Johnson was recognized to present the Finance and Administration Division Report for December 2014 and January 2015 in PowerPoint presentations as set forth in agenda item 6. The Board was provided copies of the presentations (wherein copies of the presentations are on file with the Board meeting book). Assistant General Manager Michael Johnson reviewed and discussed the details as outlined in said reports.

Assistant General Manager Michael Johnson reported that the total number of Active Customers billed through December did not have a significant change. Raw water was lagging for the year. Employee Healthcare Costs are under budget \$446,651.00 YTD, due to the benefit of being reimbursed for Stop Loss. Contractor and Paving Costs are under budget. Power, Chemical, Labor and Overtime Costs are under budget. Reserve Fund Balances are a little over \$95M. A revised slide on Minority Vendors was included in Michael Johnson's presentation with consultants about \$1M, supplier & services at \$4.4M YTD. Utilities and anything that is not a payment for vendors and services will be taken out and this slide will be refined. There was an upward move under IVR vs. Website Usage from November to December. E-Check vs. Credit/Debit usage indicates continued increases. E-Billing statistics have continued to see increases with 22,310 customers on record. The 3-yr. goal was to have 25,500 customers. There are 20,503 active Homeserve policies as of January 9, 2015.

Moving on to the Finance and Administration Division Report for January 2015, Michael Johnson stated the auditing process is scheduled to begin March 2, 2015. The total number of Active Customers billed through January 2015 did not have a significant change. Under Customer Metered Consumption YTD through January, raw water may be down due to economic reasons. Under Operating Net Revenue, Michael Johnson stated BWWB came in under budget. Employee Healthcare Costs are slightly over budget \$34,612.00 YTD. Power Costs are over budget by \$91,712.00 due to an increase in Alabama Power Company rates that was not budgeted. Reserve Fund Balances are at about \$86M. The Number of Regular Employees shows very little change. Under E-Billing statistics show a continued increase with 22,799 customers. Michael Johnson stated a strategy will be introduced in the upcoming Joint Human Resources/Finance Committee Meeting to boost participation. As of February 10, 2015, the total number of active Homeserve policies is 21,111.

Following, Assistant General Manager Sonny Jones was recognized to present the Engineering and Maintenance Division Report for January 2015 in a PowerPoint presentation as set forth in agenda item 6. The Board was provided a copy of the presentation (wherein a copy of the presentation is on file with the Board meeting book). Assistant General Manager Sonny Jones reviewed and discussed the details as outlined in said report.

Under the CIP Metrics slide, Sonny Jones stated the forecasted and approved budget amount through January 2015 is \$59M. Capital Projects were highlighted with Sonny Jones stating Inland Dam Rehab investigation is ongoing and the 2015 budgeted amount is \$1.2M. Final analysis reports are in progress and the permanent monitoring system is being prepared. The Lake Purdy Dam Stability Study is making good progress and the 2015 budgeted amount is \$1.8M. Carson Loop 6B is complete. Carson Loop 6C budget for 2015 is \$5.3M. Capital Projects Scheduled for 2015 are; Carson Loop 6C - \$5,300,00.00, SAP Phase 2 - \$5,350,000.00, Inland Marina - \$953,000.00, Western Filter Plant Electrical Upgrades - \$1,300,000.00 and Inland Pump Station and Transmission Upgrades - \$1,600,000.00. Moving on to System Development Department's main replacement projects, Sonny Jones stated BWWB's scheduled 2015 projects total 40,000 feet. The amount of main replaced in January was around 7,921 feet. The total number of Cut and Cap Parallel Mains replaced in 2015 through January is 2,515 feet. Sonny Jones shared figures from the Distribution Department for January 2015; 394 leak orders were completed; outstanding leak orders in January totaled 2; the oldest leak in the system is January 16, 2015; and we repaired or replaced 162 hydrants in January with them only being out of service 1 day.

Next, Assistant General Manager, Darryl Jones, was recognized to present the Operations and Technical Services Division report for January 2015 in a PowerPoint presentation as set forth in agenda item 6. The Board was provided a copy of the presentation (wherein a copy of the presentation is on file with the Board meeting book). Assistant General Manger Darryl Jones reviewed and discussed the details as outlined in said report.

Darryl Jones reported on the finished and raw water pumpage for January 2015. The cumulative finished water pumpage total for January is 3.099 billion gallons. The cumulative raw water pumpage total is 3.935 billion gallons. We are a little behind on rainfall. Lake levels at both Inland Lake and Lake Purdy are at good levels. The last 30 days looks good but after the thaw out we may see a spike. USX had some layoffs so we may see a ripple effect from that. The power accounts are over budget for the month by \$91,712.00 and chemical accounts are under budget for the month by \$18,822.00.

Following, General Manager Mac Underwood highlighted some items from the tentative agenda for the Regular Bimonthly Board of Directors' Meeting scheduled for February 27, 2015. Item 7 is a request for the Board to grant an easement to Alabama Power Company to upgrade an existing power line at Carson Filter Plant located at 6560 Highway 75, from a single phase line to a three phase line, to run the new centrifuge at said plant for a sum of \$1.00; and to authorize the General Manager and/or the Assistant General Manager to execute the easement. A handout of an aerial of the proposed easement was distributed among the meeting body (wherein a copy is on file with the Board's meeting book). Mac Underwood also called the Board's attention to item 8, a request for the Board to approve electronic billing and payment provider (EBP): (Acculynk or Paymentus), effective March 1, 2015, subject to the Board's attorney review of the agreement. Mac Underwood stated Staff will be asking for approval on these items next week.

Next, Rick Jackson announced a copy of the latest Birmingham Times paper was available for the Board. Also the name for the next SAP phase was revealed as a result of the

recent companywide contest, "The Wave". Rick Jackson stated the new BWW Television is almost ready to kick-off. An update was given on the poster contest in the local schools with Rick Jackson adding that he had plans to expand the program outside of Birmingham.

As there was no further business before the Board, a motion was duly made and seconded, and the meeting was adjourned at 10:22 a.m.

/s/
A. Jackie Robinson, III
Chairman/President

Attest:

/s/
David S. Herring
Secretary-Treasurer