

MINUTES OF THE REGULAR BI-MONTHLY MEETING OF DIRECTORS
OF THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
AND PUBLIC HEARING
NOVEMBER 10, 2016

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 10, 2016, at 5:30 p.m., at 3600 First Avenue North, Birmingham, Alabama.

The following Directors were present: Ronald A. Mims, Kevin B. McKie, George Munchus, Sherry W. Lewis, and William R. Muhammad.

The meeting was also attended by: Mac Underwood, General Manager; Michael Johnson, Sonny Jones and Darryl Jones, Assistant General Managers; Grace E. Amison, Executive Assistant to the Board of Directors; Ben Sorrell, George Anderson, Jr., and Reginald W. Nall, Board employees; Jerry Jones, ARCADIS US, Inc.; Samuel Ford, Fuston, Petway & French, LLP; Dr. Jesse J. Lewis, Max Rykov, and Dorian Kendrick, The Lewis Group; Tina Hammonds, Ago; Christopher Woods, C. W. Woods Contracting Services, Inc.; Jeff Sherrer, Blount County Commission; The Honorable Tommy Joe Alexander, City of Irondale; Hannah Ward and Figg, FOX 6; Merlei Martinez and Philip Lancaster, WVTM 13; Lexi Coon, Starnes Publishing; Townsend Collins, Raftelis Financial Consultants, Inc.; Kent Hartzog, GS&P; James Stewart; Shirley Myers, Annie R. Taylor, Tyrone Williams, Brenda L. Roberson, Johnny Wright, Visitors; David Carrington and Brent Grainger, Jefferson County Commission; and Councilor Sheila Tyson, Birmingham City Council.

As there was a quorum, the meeting was called to order at 5:32 p.m. and IT Manager George Anderson opened the meeting with prayer.

Prior to proceeding with the business of the Board, the General Manager asked the Board to amend tonight's agenda by adding items 8.1 and 8.2 to the agenda. He called to the directors' attention that the revised Drought Surcharge recommendations had been distributed for their review and a copy is on file in today's Board Meeting book. 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 amends the agenda to add the following:

- 8.1 Request Board to rescind Resolution No. 7326 adopted October 25, 2016, approving the Drought Surcharge recommendations.
- 8.2 Request Board to approve revised Drought Surcharge recommendations.

Resolution No. 7329 is hereby adopted by unanimous vote."

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Next, the General Manager asked the Board to begin with agenda item 2, to allow for customers who might be in transit for the Public Hearing. Following, he asked the Board to approve payments of invoices for professional services, as set forth in agenda items 2.1 through 2.6 and stated management

recommends approval of the referenced items. On a motion duly made and seconded, the below resolution was adopted. Following, Director Lewis requested that invoices 2.3 and 2.6 to be approved separately wherein Director McKie stated the earlier motion would be to approve items 2.1, 2.2, 2.4 and 2.5.

“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:

2.1	<u>Carl Dalton NeSmith, Jr., LLC</u>	
2.1.1	For retainer fee for October 2016	<u>\$ 500.00</u>
2.1.2	For retainer fee for November 2016	<u>\$ 500.00</u>
2.1.3	For professional services rendered for November 2016	<u>\$ 800.00</u>
2.2	<u>Terminus Municipal Advisors, LLC</u>	
	For professional services rendered for October 2016	<u>\$ 6,500.00</u>
2.4	<u>Fine Geddie & Associates, LLC</u>	
	For professional services rendered for November 2016	<u>\$ 10,000.00</u>
2.5	<u>Birmingham Construction Industry Authority, Inc.</u>	
2.5.1	For professional services rendered for March 2016	<u>\$ 2,000.00</u>
2.5.2	For professional services rendered for April 2016	<u>\$ 2,000.00</u>
2.5.3	For professional services rendered for May 2016	<u>\$ 2,000.00</u>
2.5.4	For professional services rendered for August 2016	<u>\$ 2,000.00</u>
2.5.5	For professional services rendered for September 2016	<u>\$ 2,000.00</u>
2.5.6	For professional services rendered for October 2016	<u>\$ 2,000.00</u>
2.5.7	For professional services rendered for November 2016	<u>\$ 2,000.00</u>

Resolution No. 7330 is hereby adopted by unanimous vote.”

Next, the Board was asked to approve a payment of invoice for professional services, as set forth in agenda item 2.3. 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 Mr. George Munchus and seconded by Mr. Kevin B. McKie, that the Board hereby authorizes staff to execute payments to the following:

2.3	<u>Fleenor & Green, LLP</u>	
	For professional services rendered for October 2016	<u>\$ 9,995.70</u>

Resolution No. 7331 is hereby adopted by Directors Mims, McKie, Munchus, and Muhammad; Director Lewis opposed.”

Following, the General Manager asked the Board to approve a payment of invoice for professional services, as set forth in agenda item 2.6. 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 Mr. George Munchus and seconded by Mr. Kevin B. McKie, that the Board hereby authorizes staff to execute payments to the following:

- 2.6 David A. Sullivan
For professional services rendered October 2, 2016
through October 27, 2016 \$ 10,000.00

Resolution No. 7332 is hereby adopted by Directors Mims, McKie, Munchus, and Muhammad; Director Lewis opposed.”

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Next, the Board was asked to authorize the General Manager and/or the Assistant General Manager to terminate its agreement with Renasant Wealth Management as Investment Consultant and Custodian for the Pension Plan and Pension Payment Administrator, as set forth in agenda item 3. The General Manager reminded the directors that BB&T was appointed to provide Master Trust and Custody Services on October 13, 2016 and the agreement with Renasant would have to be terminated. Subsequently, the General Manager said Renasant would continue in its position until the change with BB&T is complete and staff recommends approval of said item. 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 Mr. Kevin B. McKie and seconded by Mr. George Munchus, that the Board hereby authorizes the General Manager and/or the Assistant General Manager to terminate its agreement with Renasant Wealth Management as Investment Consultant and Custodian for the Pension Plan and Pension Payment Administrator. [NOTE: As instructed by the Board’s Attorneys, Renasant will continue as Investment Consultant, Custodian and Pension Payment Administrator until the conversion with BB&T is complete.] Resolution No. 7333 is hereby adopted by unanimous vote.”

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After adoption of the above resolution, Director Munchus asked if the transition between Renasant and BB&T would be smooth. The General Manager said he believes all agreements are in place. He pointed out the key is making it to the end of the year before pension plan payments are switched to BB&T wherein timing is an issue.

Following, the Board was requested to amend the COBRA rates for 2017, as set forth in agenda item 4. Assistant General Manager Michael Johnson was recognized, and he explained that an error was made when said rates were approved. 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 Mr. George Munchus and seconded by Mr. Kevin B. McKie, that the Board hereby amends Resolution No. 7284, relative to the COBRA rates for 2017, which was adopted on August 25,

2016. The amended COBRA rates are effective January 1, 2017 attached hereto the resolution. Resolution No. 7334 is hereby adopted by unanimous vote.”

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Next, the General Manager requested the Board to approve its medical Stop Loss Insurance with HM Insurance Group for 2017 at an annual estimated premium cost of \$517,509.00, as set forth in agenda item 5. The General Manager pointed out that S. S. Nesbitt & Company shopped for said insurance and senior executive management recommends approval of said item. In response to Director Munchus’ inquiry as to who previously had said insurance, Mr. Dan Meadows responded that Lloyd’s of London Insurance Company had the referenced insurance for 2016. He stated said company’s renewal rate for 2017 was much higher and included over \$2 million in lasers cost, pointing out this would be another deductible. Mr. Meadows said HM Insurance Group’s rate is good and it does not include lasers cost. Following, Mr. Meadows said Alan Woods of S. S. Nesbitt shops the insurance out to market and he has done a good job. Subsequently, Director Munchus thanked Messrs. Meadows and Woods for a job well done. 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 Mr. George Munchus and seconded by Mr. Kevin B. McKie, that the Board hereby authorizes the General Manager and/or the Assistant General Manager to accept a proposal from HM Insurance Group for BWWB’s 2017 medical stop loss insurance at an estimated annual premium cost of \$517,509.00 (with a deductible of \$150,000.00). Resolution No. 7335 is hereby adopted by unanimous vote.”

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Following, the Board was asked to amend Attorney David Sullivan’s agreement to provide representation to the Board regarding Jefferson County Sewer Collection, as set forth in agenda item 6. Director Munchus requested to change the language in said item and the resolution relative to removing “Jefferson County Sewer Collection” and inserting “regarding other work as assigned by the Board.” Following, Director McKie proposed a second option relative to said agreement wherein he recommended setting an amount and assigning projects. Director Lewis questioned why the Board is being asked to amend said attorney’s agreement and at what cost, pointing out the Board has attorneys. She then asked what Attorney Sullivan would be doing that the Board’s attorneys are not equipped to do, noting said attorney was paid an additional \$22,850.00 in November 2016. Director Lewis commented that she had taken issue with the clause in Attorney Sullivan’s agreement that allows him to hire any attorney on behalf of the Board. At 5:46 p.m., City Councilor Shelia Tyson entered the meeting. Director Lewis asked whether the Board’s attorneys would continue attending meetings with Jefferson County concerning the sewer collection agreement or if they would remove themselves and if Director Muhammad had met with the Board’s attorneys relative to Jefferson County Sewer Collection. Director Muhammad responded yes. Director Lewis said she does not believe amending Attorney Sullivan’s agreement would be money well spent by the Board because the agreement is vague and she asked what would be the amount for the amended agreement for said attorney. Director Muhammad replied that he did not know. Director Lewis pointed out the request to amend Attorney Sullivan’s agreement as presented means the Board would have to pay whatever invoice amount submitted by said attorney. Director McKie suggested capping Attorney Sullivan’s amended agreement at \$5,000.00 and the Board agreed. After a motion was made and seconded, Director Lewis inquired as to why the entire Board is not making the decision as to who would meet with Jefferson County. Director Muhammad replied that it was agreed that Chairman Mims and he would meet with Jefferson County Commissioners Jimmy

Stephens and George Bowman. He added that said commissioners would only negotiate with two Board members concerning the sewer issue. Director Lewis commented that she was not informed of the meeting and indicated that the entire Board should have been informed of the meeting.

After due discussion of revising the language of Mr. Sullivan's agreement and the cost of Mr. Sullivan's amended agreement, Chairman Mims asked Director Munchus to restate his suggested request to amend Attorney Sullivan's agreement. Director Munchus requested the Board to amend Attorney Sullivan's legal agreement to provide representation to the Board on work as assigned by the Board relative to said matter at a one-time amount not to exceed \$5,000.00. Subsequently, Chairman Mims called for the vote 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 amends Attorney David Sullivan's legal agreement to provide representation to the Board on work as assigned by the Board relative to Jefferson County Sewer Collection at a one-time amount not to exceed \$5,000.00. Resolution No. 7336 is hereby adopted by Directors Mims, McKie, Munchus; and Directors Lewis and Muhammad opposed."

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Next, the General Manager asked the Board to transfer \$2,000,000.00 from its Economic Development Fund to a Contract Compliance Program, as set forth in agenda item 7. After the motions were made, Director Lewis commented that the Board is already performing the majority of items listed on the email dated November 9, 2016, outlining said program. She questioned how said amount was determined; pointing out a Contract Compliance Program is not associated with Economic Development. Following, Director Lewis said she is not aware of any discussion on said item and indicated it did not go through the proper committee, wherein she has a problem with it just appearing on the agenda. Director Muhammad said the request to transfer money from said fund is a suggestion and it is the Board's prerogative if it wants to work on a Contract Compliance Program. Subsequently, Director Lewis made a motion that said item be sent to committee. Following, Director McKie asked for clarification as to whether the Board is moving funds from the Capital Budget for said program wherein the General Manager stated capital funds should be spent on capital projects and indicated the Contract Compliance Program would be an operational expense. The General Manager added that money for the Contract Compliance Program would be moved from the reserve funds to the Operating and Maintenance (O&M) Budget. He pointed out the drawback would be how said program would be sustained after it is implemented. Subsequently, the General Manager stated said program should be added to the O&M Budget. Following, Director McKie commented that regardless of the amount of money that is moved, no funds would be spent unless the Board votes on a particular item. He then asked Director Muhammad for clarification as to whether he is asking to spend \$2,000,000.00, or asking the Board to move said fund to the O&M Budget and later vote on it if the Board wants to move forward with said program wherein Director Muhammad responded yes. Director Lewis stated this is not her understanding of a Contract Compliance Program and pointed out the Board is just now openly discussing said item. Following, she asked if the Board is moving money "just in case" and Director McKie said the funds would be accessible to initiate said program. Following, some additional discussion ensued relative to conducting a disparity study and it was pointed out that said study is part of the Contract Compliance Program which would not cost \$2,000,000.00. Director Lewis stated she does not believe the Board should just arbitrarily move money around when it is set aside in a reserve fund for a specific purpose. Director McKie said if a portion of said funds is used, the remainder could be returned to the reserve funds. Following, Director Lewis questioned how this would affect the rates wherein Director Muhammad said rates would not be

changed. After the discussion, Chairman Mims called for the vote, 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. William R. Muhammad, that the Board hereby transfers \$2,000,000.00 from its Reserve Fund allotted for Economic Development to its Operational Fund relative to a Contract Compliance Program. Resolution No. 7337 is hereby adopted by Directors Mims, McKie, Munchus, and Muhammad; Director Lewis opposed.”

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After adoption of the above resolution, Director Lewis reminded the Board of her motion to send agenda item 7 to committee wherein Director Muhammad indicated Director Lewis’ motion died due to a lack of a second.

Following, the Board was requested to rescind Resolution No. 7326 adopted October 25, 2016, approving the Drought Surcharge recommendations; and to approve revised Drought Surcharge recommendations, as set forth in agenda items 8.1 and 8.2, respectively. The General Manager pointed out that Stage Four (4) of the drought became effective on November 4, 2016, wherein surcharges would affect bills mailed after December 4, 2016. On a motion duly made and seconded, the following resolutions were 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:

- 8.1 Rescinds Resolution No. 7326 adopted October 25, 2016, approving the Drought Surcharge recommendations.

Resolution No. 7338 is hereby adopted by unanimous vote.”

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“WHEREAS, The Water Works Board of the City of Birmingham (the “Water Works Board”) has adopted a policy for addressing drought conditions referred to as its Drought Management Plan; and

WHEREAS, Stages Three, Four and Five of said Plan calls for the implementation of surcharges to financially reinforce water conservation measures; and

WHEREAS, The Water Works Board’s rate consultant, Raftelis Financial Consultants, Inc., in conjunction with the Water Works Board’s staff, has reviewed and analyzed the factors and considerations for implementing a surcharge, and have determined such surcharges as are necessary in accordance with the goals of said Plan.

NOW, THEREFORE, BE IT RESOLVED, By the Board of Directors of the Water Works Board of the City of Birmingham, on a motion duly made by Mr. George Munchus and seconded by Mr. Kevin B. McKie, as follows:

- 1. Based upon the above, as well as the recommendation of the Board’s rate consultant Raftelis Financial Consultants, Inc., in conjunction with the board’s staff, the surcharge rate for Stage Four of said Drought Management Plan shall be as follows:

- a. Residential customers shall be surcharged for all water usage above 12 ccf at a rate of 400% of the Board’s residential block rate(s), as established by the Board.
 - b. Non-residential and raw water customers shall be surcharged for all water usage above 110% of such customers’ annual average usage at a rate of 400% of the Board’s non-residential or raw water uniform rate(s), as established by the Board.
2. Based upon the above, as well as the recommendation of the Board’s rate consultant Raftelis Financial Consultants, Inc., in conjunction with the Board’s staff, the surcharge rate for Stage Five of said Drought Management Plan shall be the same rate as Stage Four.
 3. Based on the announcement of Stage Four, on November 4, 2016, all usage from this point forward may be surcharged. Therefore, this resolution will affect all bills generated and mailed after December 4, 2016 until the Board is in Stage 2 or lower.

Resolution No. 7339 is hereby adopted by unanimous vote.”

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Next, the General Manager said in accordance to Act No. 2015-164, Section (4c) the Birmingham Water Works Board is required to hold a Public Hearing to consider taking action consistent with Resolution No. 4166 adopted on December 22, 2003 as amended and as set forth in agenda item 1, which would result in a rate increase. Following, the General Manager thanked everyone for attending said hearing and noted public comments would be addressed at the end of tonight’s meeting. He then introduced senior executive management and the Board of Directors. The General Manager asked guests to sign in and complete the Speaker Registration form if they wanted to openly address their concerns. Following, Chairman Mims recognized Councilor Sheila Tyson to address her concerns prior to agenda item 1 because she has to depart early due to a previous appointment.

Following, Councilor Tyson expressed her appreciation, and indicated she is concerned about calls she is receiving from ratepayers regarding the \$14 billion sewer debt lawsuit filed by Jefferson County, pointing out she realizes the Board hired Attorney David Sullivan to act on behalf of the ratepayers and she wants to make sure they are being represented in the case. Following, Councilor Tyson said she lives in the City of Birmingham and her sewer bill has increased five (5) times the amount of her water bill. She said in trying to reduce expenses she had all of her pipes replaced, house insulated, water meter changed and she took out sewer coverage with HomeServe. Following, Councilor Tyson said she is concerned as to whether she would be able to maintain living in said city two (2) years from now without getting an outdoor toilet. Councilor Tyson said she cannot continue to pay such high sewer bills, pointing out her neighborhood has a lot of senior citizens wherein she can imagine the problems they are having trying to pay their bills. Councilor Tyson said she wants to make sure ratepayers are being represented at the hearings but she cannot attend all of them due to other obligations concerning District Six (6). Subsequently, Councilor Tyson said the State of Alabama could not repay \$14 billion, and she asked for comments from the Board relative to ongoing representation for ratepayers at sewer hearings. Director Muhammad said when he spoke with senior citizens at the East Pinson Valley Center they expressed concern because the county indicated the Water Works would increase water rates. He noted that the problem is not water rates rather it is sewer rates. Director Muhammad said money the Board pays Attorney Sullivan and whoever he hires is not used to represent the sewer ratepayers. He stated said attorney is working on the Board’s lawsuit against Senator Jabo Waggoner’s bill to expand the Water Works Board and to take control of said Board away from the City of Birmingham, pointing out all of the

work said attorney has done for the sewer ratepayers has been pro bono. At 6:08 p.m., Director Lewis departed the meeting. Following, Director Muhammad said Councilor Tyson's concerns are valid. He said he recently discovered the county stated it could return to the bond market in ten (10) years. Director Muhammad said the county did a Capital Appreciation Bond and pointed out Mr. Jim White's report that was presented to the Board indicated the county borrowed \$1.8 billion in said bonds. He said the \$2.4 billion that Jefferson County would owe in ten (10) years would be paid in sewer rates by the citizens for ten (10) years wherein none of it would be used to reduce the debt. Subsequently, Director Muhammad said the debt would increase in said years, and commented he does not know if the county would be able to go back to said market. In response to Councilor Tyson's inquiry as to why she is just hearing about this, Director Muhammad stated the information has been public and noted perhaps many people may not understand it. At 6:10 p.m., Councilor Tyson departed the meeting.

Prior to staff's presentation - a copy of the Birmingham Water Works Board Fiscal year 2017 Budget Presentation - Public Hearing - was distributed to the meeting body. In addition - a handout was distributed on the 2015 versus 2016 water delivery in the last 30 days, a graph of Lake Purdy storage, a map of the Board's four intakes, and a copy of the November 8, 2016 Alabama U.S. Drought Monitor Map. Copies of these documents are on file in the today's Board Meeting book. Following, Assistant General Manager Darryl Jones was recognized to provide a summary of the Water Works' system. He reviewed the agenda for the Public Hearing. He pointed out on a map the Board's raw and finished water system that was included in his handout and a copy is on file in tonight's Board Meeting book. Assistant General Manager Darryl Jones said the Board supplies water to a large portion of Jefferson County. He noted the Board's four (4) intakes are Lake Purdy and the Cahaba River which are located in Shelby and Jefferson Counties; Inland Lake in Blount County; Smith Lake in Cullman County at the Sipsey Fork of the Warrior River; and the Mulberry Intake in Walker County. Following, Assistant General Manager Darryl Jones stated the referenced intakes supply water to the Shades Mountain, Western, Putnam and Carson Filter Plants wherein said treatment plants collectively can supply a maximum of 189 millions of gallons per day (MGD). Assistant General Manager Darryl Jones stated the Board's water system serves an area of about 700 square miles and has over 4,000 miles of distribution pipe that supplies water to approximately 195,000 connections, which provide service to about 600,000 people. Following, Assistant General Manager Darryl Jones said the Birmingham Water Works has the largest water system in the State of Alabama, it produces an average of 100 MGD and studies that have been done on its water supply indicate resources are good. Assistant General Manager Darryl Jones pointed out the pumping capacities of the aforementioned raw water intakes, noting a maximum of 289 MGD can be delivered system wide when a sufficient supply of water is available. He said the Board sells about 35 MGD of raw water to its industrial customers such as USX, American Cast Iron Pipe Company, U. S. Pipe and ABC By-Products.

Following, Assistant General Manager Darryl Jones called the directors' attention to the U. S. Drought Monitor that was included in the earlier referenced handout and noted that Jefferson County is in an exceptional drought. He said the current drought is serious and pointed out it was 1924 when the last drought persisted for 60 days. Assistant General Manager Darryl Jones said senior executive management developed a Drought Management Plan as a part of its strategy when dealing with weather emergencies. He stated said plan contains very strategic initiatives which would give customers opportunities to adjust their usage patterns so that resources would hopefully last longer. Following, Assistant General Manager Darryl Jones said in order to further decrease demand after Stages One (1) - through Three (3) were put into effect, he indicated that Stage Four (4) was implemented. He then reviewed a graph of the Lake Purdy water level. He pointed out the safe yield line and noted this year said line was crossed in late August or early September when rainfall ceased. Subsequently, Assistant General Manager Darryl Jones said customers have been very cooperative with the different stages of the drought by reducing their usage. Following, Assistant General Manager Darryl Jones reviewed a comparison of the 2015 delivery

versus the 2016 delivery for the last 30 days, pointing out about 115 MGD were supplied to customers when Stage Three (3) was implemented on October 19th. He said Stage Four (4) was implemented on November 4th wherein delivery was about 105 MGD. Subsequently, Assistant General Manager Darryl Jones said senior executive management would share more information about the drought and what customers are being advised to do. He stated that staff would continue managing resources to make sure adequate water is available to meet the customers' basic needs going forward.

Next, Assistant General Manager Darryl Jones recognized Assistant General Manager Michael Johnson to review Effective Utility Management (EUM), as outlined in said presentation. He pointed out the EUM attributes were developed by the American Water Works Association along with other organizations. He discussed the contents of EUM and indicated that senior executive management uses EUM to establish and compile the Operating and Maintenance (O&M) and Capital Budgets wherein it is the framework within which the Water Works manages its system. Subsequently, he pointed out all phases of the Board's operations are covered under EUM wherein the directors approve policies that cover everything done at the Birmingham Water Works. Following, Assistant General Manager Michael Johnson discussed the Rate Stabilization and Equalization Model (RSE), indicating it is a key tool and that senior executive management uses all of the variables that impact the aforementioned budgets, reserve funds, and revenue to establish the budgets.

Following, Assistant General Manager Michael Johnson gave some background on the RSE Model, as outlined in said presentation. He said rate increases are also generated by the RSE Model, pointing out senior executive management does not hastily establish said increase. Following, Assistant General Manager Michael Johnson reported that revenue projections affect how well the Board's debt is covered and whether the Board is meeting its reserve fund requirements. He reviewed the RSE targets for debt service coverage, noting said targets must be met as established by the Board's policies. Following, Assistant General Manager Michael Johnson said the Board's debt is classified as senior debt, subordinate debt and total debt service coverage. He reviewed the Board's Financial Goals and Policies, pointing out said goals go hand-in-hand with the RSE Model. Assistant General Manager Michael Johnson said senior executive management's goal is to keep rate increases below the industry average of 5.5% wherein a 3.9% rate increase is proposed for 2017. Also, he pointed out that the Board's rate increases have been below said average since 2012.

Following, Assistant General Manager Michael Johnson reported that senior executive management is projecting a 4.1% increase for O&M expenses and pointed out said percentage is less than the targeted 5% increase. He noted the goal is to fund 25% of the Capital Budget from PAYGO in 2017. Following, Assistant General Manager Michael Johnson said the Board maintains five (5) reserve funds, has reserves of approximately 241 days of operating expenses and a current balance of nearly 407 days of cash available. Assistant General Manager Michael Johnson commented that the Board received strong bond ratings of AA and Aa2 in 2016 from Standard & Poors and Moody's Investors Service, respectively. Following, he reviewed the budget process; he pointed out senior executive management, Budget Officer Sheila Patterson and department managers track the budgets because it is important to monitor what the various departments do. He reported the preliminary 2017 total O&M Budget is \$100,363,662.00 as compared to the 2016 total O&M Budget of \$95,390,994.00, and indicated the total O&M variances would increase \$3.9 million for 2017.

Following, Assistant General Manager Michael Johnson reviewed the demand for water. He stated revenue requirements divided by customer demand equal water rates. He reported on the trends for residential customers, non-residential customers and raw water customers. He noted consumption has declined in each of the referenced groups since 2007 and pointed out this is nationwide due in part to water efficiency appliances, plumbing fixtures and emphasis on the environment and conservation.

Following, Assistant General Manager Michael Johnson said senior executive management believes the 47.3% decrease in raw water consumption between 2015 and 2016 has slightly stabilized. In response to Director Munchus' inquiry as to who is the Board's number two (2) raw water customer, Assistant General Manager Darryl Jones replied it fluctuates between American Cast Iron Pipe Company, ABC By-Products, U. S. Pipe and USX. Director Munchus asked if senior executive management works closely with said entities to make sure everything is done to accommodate their needs. Assistant General Manager Darryl Jones stated the requirements of said companies are being met wherein said management offers them a very efficient raw water system. Following, Assistant General Manager Michael Johnson stated senior executive management reviewed the budgeted consumption and the revised projected consumption for 2016, pointing out the latter projection may be increased slightly based on the current drought.

Next, Assistant General Manager Michael Johnson reported on the 2017 projected debt service coverage, pointing out the recent 2016 refunding wherein the Board saved about \$71 million in present value savings allows the Board to reduce its debt service by approximately \$8.2 million. Following, Assistant General Manager Michael Johnson explained some reasons for the rate increase which include slightly lower projections for retail consumption, much lower projections for raw water, slightly higher O&M expenses, and financial requirements to maintain the system, bond ratings and adequate reserves. Following, Assistant General Manager Michael Johnson stated the impact of the proposed 2017 rate increase for customers using 4,500 and 7,500 gallons of water per month would result in an increase of \$1.52 and \$1.92 in their monthly bills, respectively. In response to Director Munchus' inquiry as to what would happen if customers exceed the typical monthly use, Assistant General Manager Michael Johnson said customers would pay more if their water usage reaches a higher tier. Following, Ms. Brenda Roberson commented that about nine (9) years ago when the Birmingham Water Works had a drought and water rates were increased, she stated those rates never decreased but continued to increase. Assistant General Manager Michael Johnson said rates implemented for excessive use such as the current drought do not remain in place permanently. Ms. Roberson commented that said rate increases are being placed on poor people wherein Assistant General Manager Michael Johnson said senior executive management tries to keep rates at a level for only what is needed. Following, Director Muhammad said he believes Ms. Roberson was referring to sewer rates and he pointed out a distinction needs to be made. Ms. Roberson stated she was talking about water and sewer rates. She said nothing has been changed since the occupational tax was eliminated. Following, Ms. Roberson said she believes the bright minds in the City of Birmingham should have found a solution for letting people who live in other areas work in said city and not contribute. Subsequently, Ms. Roberson said many people in Birmingham are aware of this but no one says anything and poor people continue to pay.

Next, Assistant General Manager Sonny Jones presented the Capital Improvement Plan, as outlined in said presentation. He stated said plan's mission is to assist the Birmingham Water Works Board in providing the highest quality water at affordable prices by maintaining existing assets at their peak performance levels. He pointed out the historical value of the Board's assets is \$1.2 billion and includes four (4) treatment plants, 45 pump stations, 6,000 miles of distribution pipes, five (5) dams, 48,000 valves and 14,000 fire hydrants. Assistant General Manager Sonny Jones reported on a history of the capital program from 2001 to current, pointing out in 2001 capital expenditures totaled \$9.4 million wherein the 2016 projection is \$55 million. He stated the proposed total capital budget for 2017 is \$61,196,973.00 and is divided into General Capital, Technology and Distribution Projects, pointing out the referenced items include 11 projects. He informed the directors that a cost breakdown of said items had been provided for their review and a copy is on file in today's Board Meeting booklet. Following, Assistant General Manager Sonny Jones stated said budget also includes: Maintenance and Repair Projects wherein said category tends to be used to fix pumps, motors and pipes; and Capitalized O&M expenses, noting such projects are done in-house to protect existing assets wherein they can be capitalized

and spread out over multiple years. Following, Assistant General Manager Sonny Jones reported on the top five capital projects for 2017: Shades Mountain Filter Plant Improvements; Carson Loop – Phase 6C Pipeline; SAP Implementation (Phase 2.0); SAP Implementation (Phase 3.0 - HR); and the Lake Purdy Dam Rehabilitation & Spillway/Capacity Upgrades. Assistant General Manager Sonny Jones said other significant maintenance projects include replacement of existing mains and services; tank rehabilitation and painting; repairs and replacements of valves, hydrants, pumps, motors and electrical equipment; and replacement of meters and metering technology. Following, Assistant General Manager Sonny Jones pointed out the Board’s system contains about 350 miles of galvanized steel mains with a maximum life expectancy of about 40 to 50 years, pointing out some of said mains have been in the system for 70 and up to 90 years. Subsequently, he said it would cost about \$250 million to replace said mains.

Following, Assistant General Manager Michael Johnson reported on some of the Board’s system recognitions, as outlined in said presentation. He indicated the Birmingham Water Works is a member of several professional organizations including the Association of Metropolitan Water Agencies (AMWA), Environmental Protection Agency (EPA) and Training Magazine’s Annual Top 125 that allows it and other utilities to apply for various awards. Assistant General Manager Michael Johnson noted that the Board was ranked No. 95 in 2013 when the application was first submitted to said magazine and No. 10 in 2016. Following, Assistant General Manager Michael Johnson called to the directors’ attention a list of awards won by the Board’s various plants from 2012 to 2016 that include Optimized Plant Award, Best Operated Plant Award, Excellence in Operations Award, Partnership for Safe Water – 10 Year Director’s Award, and Plant of the Year Award.

Next, Assistant General Manager Michael Johnson reviewed excerpts from Moody’s Investor Services and Standard & Poor’s that acknowledged the Water Works’ long-standing history of well-managed operations, sound fiscal planning, well-developed asset management plan, history of stable debt service coverage and willingness to raise rates as needed, and a combination of very strong enterprise and financial risk profiles.

Following, Assistant General Manager Darryl Jones reminded the public that comment sheets are located in the back of the room for persons who had concerns and wanted to address the Board and senior executive management. He commented the Board uses money wisely from its customers and senior executive management makes sure the Board’s assets are taken care of. Subsequently, Assistant General Manager Darryl Jones opened the floor to the public for comments.

The following are public comments: Ms. Brenda Roberson asked if anything would be done to try and adjust sewer rates for inner-city customers and Director Munchus assured Ms. Roberson the Board would do something to try and stabilize said rates. He pointed out that the Board does not set said rates wherein this is done by the Jefferson County Commission. Director Munchus said the Board sets water rates but he knows both are connected, regardless of what one reads in the newspapers. He said the Board appreciates Ms. Roberson’s attendance and her comments. Following, Chairman Mims said the Board could not do anything about sewer rates and has no control over what Jefferson County does, pointing out the Water Works only collects sewer fees for said county. Following, Director Muhammad commented that the Board recently approved a resolution informing Jefferson County of its intent to discontinue collecting said rates. Subsequently, Ms. Roberson thanked the Board and Assistant General Manager Darryl Jones thanked the citizens for attending tonight’s meeting.

Next, Director Muhammad asked Assistant General Manager Darryl Jones to explain the importance of Carson Loop relative to the current drought. Assistant General Manager Darryl Jones said the Carson Filter Plant is located in the Pinson Community and receives water from Inland Lake or the Sipsey Intake. He said staff installed almost 20 miles of pipeline from said plant to the eastern part of

Jefferson County to supply areas in the southern part of the Board's system and the Highway 280 Corridor. Following, Assistant General Manager Darryl Jones said the 36-inch pipeline would transport water from the northern part of the system to the southern part of the system relative to continuous usage including drought situations. He pointed out senior executive management has been working on this project for over ten (10) years wherein more than \$50 million have been spent. Following, Assistant General Manager Darryl Jones said the Carson Filter Plant is currently a 25 millions of gallons per day (mgd) treatment plant wherein it would increase to 35 mgd when it is expanded. He stated said plant and the Carson Loop would produce about 18 mgd from the northern part of the Board's system to the southern part which would help to support Lake Purdy and the Cahaba River. He said plans for the pipeline have been ongoing for many years, pointing out it is funded annually and it is almost 75% complete. Subsequently, Assistant General Manager Darryl Jones said senior executive management uses this strategy to manage droughts wherein it would also be part of its future plans. In response to Director Munchus' inquiry if the referenced project is still in the design stage, Assistant General Manager Darryl Jones stated said project is completed in phases as funding becomes available, pointing out some of the projects are in the design stage and some are ready for construction. Following, Director Munchus commented that he realizes there is a lot of uneasiness regarding the concept of the design build wherein he believes senior executive management should reconsider the issue since it is an emergency. He said he is aware of public state entities utilizing design bids effectively and cited UAB as an example. Subsequently, Director Munchus pointed out this is one of the reasons the Board has to start the Contract Compliance Program. He then asked Assistant General Manager Sonny Jones to further revisit the design build with the Board's engineers and lawyers and the State Board of Licensed General Contractors to find out why the Board cannot do this in an emergency. Following, Director Munchus asked if he was on point that it is currently based on certain interpretations not allowed by the Board and Assistant General Manager Sonny Jones stated it has nothing to do with the Board and he pointed out the current State of Alabama Public Works Law does not permit such.

Following, the following are public comments: Mr. Johnny Wright was recognized for questions and/or comments. He informed the meeting body that he lives in a single household and his sewer bill is sometimes less than his water bill. Mr. Wright said he talked with some of his neighbors as well as residents in the western section and their water and sewer bills are similar to his wherein he is seldom home. Following, Mr. Wright said on numerous occasions when he complained he was told he has a leak however, he said this is not true because he checks for leaks before he calls. Mr. Wright wanted to know the reason for his high bill. He pointed out the amounts vary, then decrease and remain the same for about six (6) or seven (7) months. Assistant General Manager Darryl Jones stated meters are read on a monthly basis and only register when water flows through them, pointing out he does not know if Mr. Wright's toilet occasionally runs during the day. Subsequently, Assistant General Manager Darryl Jones said he had not seen Mr. Wright's account but would get his contact information and have someone to call and review the account with him. Following, Assistant General Manager Darryl Jones thanked the citizens for attending tonight's Public Hearing.

At the conclusion of the Public Hearing, the General Manager asked the Board to consider approving its budgets for calendar year 2017: the Operating and Maintenance Budget totaling \$100,363,662.00; and the Capital Budget totaling \$61,196,973.00. He stated the directors could approve said budgets tonight or at the November 22nd Board Meeting. Following, Director Munchus suggested that the referenced budgets be approved at tonight's meeting. Subsequently, a motion was duly made and seconded, and the following resolutions were adopted:

“WHEREAS, The Water Works Board of the City of Birmingham (the “Board”) properly noticed and conducted a public hearing on Thursday, November 10, 2016, at 5:30 p.m., pursuant to Act No. 2015-164, Section 4(c); and,

WHEREAS, the Board has prepared its 2017 Operating and Maintenance (O&M) Budget with expenditures totaling \$100,363,662.00; and,

WHEREAS, the Board desires to approve as part of its O&M Budget a combined 4.12 percent compensation adjustment, comprised of a Merit Raise of no more than 2.12 percent of the gross labor budget not to exceed \$823,090.00 and a cost of living adjustment of no more than 2 percent of the gross labor budget not to exceed \$742,179.00.

NOW, THEREFORE, BE IT RESOLVED By the Board, on a motion duly made by Mr. Kevin B. McKie and seconded by Mr. George Munchus, as follows:

1. The Board hereby approves its O & M Budget totaling \$100,363,662.00 for 2017; and,
2. As part of the of O & M Budget, the Board hereby approves a combined 4.12 percent compensation adjustment comprised of a merit of no more than 2.12 percent of the gross labor budget not to exceed \$823,090.00 and a cost of living adjustment of no more that 2 percent of the gross labor budget not to exceed \$742,179.00; and
3. In accordance with Act No. 2015-164 and Resolution No. 4166, which was adopted on December 23, 2003, as amended, (adoption of the Rate Stabilization and Equalization Procedure (RSE Model)), notice is hereby given that approval of the O & M Budget along with the contemporaneous approval of a Capital Budget for the Board for 2017 in the amount of \$61,196,973.00, will result in a rate adjustment of 3.9% and said rate adjustment will be effective January 1, 2017.

Resolution No. 7340 is hereby adopted by unanimous vote.”

“WHEREAS, The Water Works Board of the City of Birmingham (the “Board”) properly noticed and conducted a public hearing on Thursday, November 10, 2016, at 5:30 p.m, pursuant to Act No. 2015-164, Section 4(c); and,

WHEREAS, the Board has prepared its 2017 Capital Budget totaling \$61,196,973.00.

NOW, THEREFORE, BE IT RESOLVED By the Board, on a motion duly made by Mr. Kevin B. McKie and seconded by Mr. George Munchus, as follows:

1. The Board hereby approves its Capital Budget totaling \$61,196,973.00 for 2017, and,
2. In accordance with Act No. 2015-164 and Resolution No. 4166, which was adopted on December 23, 2003, as amended, (adoption of the Rate Stabilization and Equalization Procedure (RSE Model)), notice is hereby given that approval of and the Capital Budget along with the contemporaneous approval of the O & M Budget for the Board for 2017 in the amount of \$100,363,662.00, will result in a rate adjustment of 3.9% and said rate adjustment will be effective January 1, 2017.

Resolution No. 7341 is hereby adopted by unanimous vote.”

As there was no further business before the Board, a motion was duly made and seconded, and the meeting and Public Hearing adjourned at 7:10 p.m.

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

Attest

_____/s/_____
George Munchus
Secretary-Treasurer