

MINUTES OF THE REGULAR BI-MONTHLY MEETING OF DIRECTORS
OF THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
October 24, 2013

The regular bi-monthly meeting of the directors of The Water Works Board of the City of Birmingham was held on Thursday, October 24, 2013, at 12:00 p.m., at 3600 First Avenue North, Birmingham, Alabama.

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

Inasmuch as four of the Directors were present, Chairman Robinson declared a quorum in attendance.

The meeting was also attended by: Mac Underwood, General Manager; Michael Johnson, T. M. "Sonny" Jones, and Darryl Jones, Assistant General Managers; Grace E. Amison, Executive Assistant to the Board of Directors; John Reymann, George Anderson, and Paul Lloyd, Board Employees; Peiffer Brandt, Raftelis Financial Consultants, Inc.; Matthew Arrington, Terminus Securities; Dr. Jesse J. Lewis, Sr., Dorian Kendrick, and Noelle Petties, The Lewis Group; Chandra Abesingh, CE Associates; Theo Johnson, Volkert, Inc.; Jerry Jones, ARCADIS US, Inc.; and Danny O. Meadows, S. S. Nesbitt & Company, Inc.

Chairman Robinson called the meeting to order at 12:15 p.m. and reminded everyone of the Classic Weekend game between Alabama State University and Alabama A&M University is on Saturday. An invocation was given by Accounting Manager Barry Williams.

Following, the General Manager proceeded with the agenda, and he asked the Board to adopt a resolution commending the October 2013 Employees of the Month, Western Filter Plant Superintendent Jonathan Harris, pointing out Mr. Harris received the "Operator of the Year Award" from the American Water Works Association (AWWA) – Alabama-Mississippi Section; and Shades Mountain Filter Plant Maintenance Supervisor Jarrod Shotts, pointing out Mr. Shotts received the "C. W. White Award" from the Alabama Water and Pollution Control Association (AWPCA), as set forth in agenda items 1.1 and 1.2, respectively, from the Operations and Technical Services Division. The General Manager indicated staff recommends approval of the referenced items. 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. David S. Herring and seconded by Dr. George Munchus, that the Board hereby recognizes and commends Jonathan Harris and Jarrod Shotts as the Operations and Technical Services Division's Employees of the Month for October 2013, having achieved outstanding job performance, attendance, and work above expected levels; and

RESOLVED FURTHER, that the Board and the General Manager are hereby authorized to sign a formal resolution, the wording of which will carry out the intent herein, and a copy of which will be presented to the employees named above. Resolution No. 6559 is hereby adopted by unanimous vote."

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Next, Human Resources Manager Paul Lloyd read Mr. Harris' commendation write-up, recognizing him for receiving the "Operator of the Year Award" for Alabama that was presented by the Alabama-

Mississippi Section of the AWWA at its conference in Tunica, Mississippi on October 15, the 2013. He stated said award is given to an operator of said section who has shown outstanding professionalism and made a productive impact on improving treatment and water quality operations; is dedicated to producing the highest quality water possible; and finds opportunities to continue enhancing methods of operations. Following, Mr. Lloyd said under Mr. Harris' guidance the Western Filter Plant has been recognized for consecutive "Plant Optimization" awards from the Alabama Department of Environmental Management (ADEM); Partnership for Safe Water Director Awards from the AWWA; and "Award of Excellence" recognitions from the AWPCA in previous years. Mr. Lloyd pointed out that Mr. Harris demonstrated outstanding leadership in his former position as Senior Operator and noted that he was recently promoted to the position of Plant Superintendent. He pointed out Mr. Harris is a member and captain of the Board's 2013 national champions Top Operators Team. Subsequently, Mr. Lloyd said the "Operator of the Year Award" is a reflection of Mr. Harris' leadership and commitment to improve and excel in all areas of water quality production. Mr. Lloyd commented that Mr. Harris was nominated by his supervisor, Purification Manager Floyd Stephens. Following, Mr. Stephens was recognized for additional comments and he expressed his satisfaction at Mr. Harris' recognition, pointing out that Mr. Harris is one (1) of the Board's most involved operators and indicated Mr. Harris always ensure the employees assigned to work with him understand the importance of what they are doing and why they are doing it. In addition, Mr. Stephens pointed out Mr. Harris not only shows the employees how to test the water but he explains why they are testing the water. Following, Mr. Stephens added that Mr. Harris encourages others to put forth their best efforts with regard to their duties to deliver the best water possible, pointing out he has assisted numerous employees in achieving their Grade IV Certification. Mr. Stephens noted that Mr. Harris is a true professional in his field and he is an outstanding mentor for the Board's employees to work with. At 12:20 p.m. Board Attorney Charlie Waldrep entered the meeting.

Next, Mr. Lloyd recognized Mr. Shotts and he stated Mr. Shotts was nominated by Purification Manager Floyd Stephens. Following, Mr. Lloyd read the commendation write-up, recognizing Mr. Shotts for receiving the "Charles W. White Award" presented by the AWPCA at its conference in Montgomery, Alabama, on July 30, 2013. He stated said honor is the most prestigious award given by the association wherein it recognizes individuals who have made an outstanding contribution to the water industry that resulted in positive promotion of the water supply business in Alabama. Following, Mr. Lloyd said Mr. Shotts' contribution to the Board and to the water industry has also had a positive impact, commenting he believes Mr. Shotts deserves such recognition for his work ethic, positive teamwork attitude, and "can-do" spirit. Mr. Lloyd pointed out Mr. Stephens mentioned in the referenced write-up that during the recent retirement of former Shades Mountain Filter Plant Superintendent Guy Posey, Mr. Shotts volunteered and assisted in the daily operations of said plant in addition to performing his regular duties, and helped in fulfilling the tasks of his previous position as Special Projects Coordinator while said position was vacant. Mr. Stephens stated he was not surprised that Mr. Shotts received the "Charles W. White Award," pointing out he realized Mr. Shotts' efforts and dedication toward advancing his contributions to the water industry would be recognized in some way. He said Mr. Shotts has excelled in presenting a variety of topics related to the water industry, offered assistance to anyone interested in learning more about the procedures, and is always eager to help with any project at the Water Works outside of his regular duties. Subsequently, the meeting body extended applause for Messrs. Harris' and Shotts' accomplishments.

Following, Chairman Robinson commented that he believes the introductions of Messrs. Harris and Shotts and what they are doing exceed anything he can say to them, except how much the Board appreciates having two (2) of the best professionals in the business as a part of its team. On behalf of the directors and senior executive management, Chairman Robinson expressed his appreciation to Messrs. Harris and Shotts for their hard work and representation of the Birmingham Water Works Board. He said nothing can be better than the mentoring and attitude Mr. Stephens talked about, pointing out a lot of people know what to do but being able to teach others what to do and doing it with a positive attitude is truly professional. He presented

Messrs. Harris and Shotts with a commendation resolution along with a \$250.00 check for their efforts and recognized them for comments. Mr. Harris expressed his gratitude to the Board for its employees support. Following, Mr. Shotts also offered his gratitude and commented he has been blessed to have the opportunity to make presentations, to be able to learn and advance in a company he is very proud to work for. Subsequently, the meeting body again extended applause to Messrs. Harris and Shotts for jobs well done. Following, Assistant General Manager Darryl Jones commented that he is always proud for employees in the Operations & Technical Services Division to be represented, pointing out there has been a lot of transition relative to retirements this year in said division and commented they are proud of what the employees have accomplished. In response to Director Herring's inquiry if Employees of the Month receive copies of photos to share with their families, the General Manager said such photos are available to the employees. Following, Public Communications Manager Binnie Myles said photos would be given to the employees, and she pointed out such photos are put in the company's newsletter and on the Wall of Fame on the first floor of the Main Office Building. Subsequently, Chairman Robinson asked that such photos be framed and given to the employees.

As there was no old business for discussion in agenda item 2, the General Manager asked the Board to authorize reimbursement of the operating account for capital expenditures for the period ending September 30, 2013, as set forth in agenda item 3. The General Manager indicated that staff has reviewed the referenced item and recommends it for Board approval. On a motion duly made and seconded, the following resolution was adopted:

“WHEREAS, ARCADIS US, Incorporated, in a Certificate dated October 11, 2013, certified that during the period ending September 30, 2013 that there were expenditures for the cost of system improvements, which were paid out of the Operating Account and reimbursement of that account is now due in the preliminary amount of \$4,672,546.39; and

WHEREAS, transfers to the Operating Account can be made from any, or a combination, of the following: the 2002 Construction Fund, the Improvement Fund, and/or the Revenue Account; and

NOW, THEREFORE, BE IT RESOLVED By The Water Works Board of the City of Birmingham, on a motion duly made by Mr. David S. Herring and seconded by Dr. George Munchus, that the Trustee be, and is hereby instructed to immediately transfer \$4,672,546.39 to the Operating Account from any, or a combination, of the following: The 2002 Construction Fund, the Improvement Fund, and/or the Revenue Account. Resolution No. 6560 is hereby adopted by unanimous vote.”

Following, the Board was asked to approve payments of invoices for professional services, as set forth in agenda items 4.1 through 4.4. The General Manager indicated staff recommends approval of said items. 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. David S. Herring and seconded by Dr. George Munchus, that the Board hereby authorizes staff to execute payments to the following:

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|-----|--|---------------------|
| 4.1 | <u>Raftelis Financial Consultants, Inc.</u>
For professional services rendered through September 2013 | <u>\$ 26,154.32</u> |
| 4.2 | <u>Volkert, Inc.</u>
For professional services rendered through September 2013 | <u>\$ 48,462.29</u> |

- 4.3 Waldrep Stewart & Kendrick, LLC
For professional services rendered through September 2013 \$ 92,605.30
- 4.4 ARCADIS US., Inc.
For professional services rendered per September 2013's Progress
Report (September 2013) \$ 471,244.88

Resolution No. 6561 is hereby adopted by unanimous vote.”

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Following, the General Manager asked the Board to take bids, as set forth in agenda items 5.1 through 5.3, as recommended by the Engineering and Maintenance Committee. The General Manager indicated the referenced items were reviewed in said committee meeting and staff recommends approval. 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. David S. Herring and seconded by Dr. George Munchus, that the Board hereby authorizes staff to take bids on the following:

- 5.1 To paint the flocculator arms at the Shades Mountain Filter Plant at an estimated out-of-pocket cost to the Board of \$200,000.00, as recommended by the Engineering and Maintenance Committee.
- 5.2 For installation of approximately 7,160 feet of 36-inch DICL pipe, fittings and related appurtenances along Rex Lake Road and an acquired United States Steel Corporation right-of-way in Jefferson County, Alabama, for the Carson Loop Phase 6B pipeline project at an estimated out-of-pocket cost to the Board of \$6,800,000.00, as recommended by the Engineering and Maintenance Committee.
- 5.3 For electrical control panels, fencing, etc., for completion of the Lake Purdy Wells Project in preparation of electrical service by Alabama Power Company as a part of the Lake Purdy Drought Recovery Project at an estimated total out-of-pocket cost to the Board of \$991,400.00, as recommended by the Engineering and Maintenance Committee.

Resolution No. 6562 is hereby adopted by unanimous vote.”

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Next, the Board was asked to award a bid to Ferguson Water Works, the lowest responsible and responsive bidder, as set forth in agenda item 6, for estimated annual quantities of unions to replenish the Warehouse inventory. The General Manager pointed out said item is estimated because only the amount that is needed would be purchased during the year and indicated staff recommends approval. After the motions were made, the General Manager responded to Director Munchus relative to the vendor’s longevity at the Board and he indicated the referenced vendor has been a longtime vendor. Subsequently, 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. David S. Herring and seconded by Dr. George Munchus, that the Board hereby

authorizes staff to award bid to Ferguson Water Works, the lowest responsible and responsive bidder, for estimated annual quantities of unions to replenish the Warehouse inventory at an estimated total out-of-pocket cost to the Board of \$153,605.90. Resolution No. 6563 is hereby adopted by unanimous vote.”

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Following, the Board was asked to approve and authorize the General Manager and/or the Assistant General Manager to accept a Scope of Services Agreement from ARCADIS US, Inc., as set forth in agenda item 7, to perform a storage volume analysis as well as design and bid services for the Lake Purdy Reservoir and Expansion Dam Improvements Project, as recommended by the Engineering and Maintenance Committee. The General Manager pointed out that the referenced item had been reviewed by said committee and staff recommends approval. 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. David S. Herring and seconded by Dr. George Munchus, that the Board hereby approves and authorizes the General Manager and/or the Assistant General Manager to accept a Scope of Services Agreement from ARCADIS U.S., Inc., to perform a storage volume analysis as well as design and bid services for the Lake Purdy Reservoir Expansion and Dam Improvements Project at an estimated total out-of-pocket cost to the Board of \$1,752,708.00, as recommended by the Engineering and Maintenance Committee. Resolution No. 6564 is hereby adopted by unanimous vote.”

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Next, the Board was asked to approve and authorize the General Manager and/or the Assistant General Manager to accept an agreement from Banks, Finley, White & Company, as set forth in agenda item 8, to perform Financial and Single Audits of the Water Works Board for the year ending December 31, 2013. The General Manager pointed out this is a one-year renewal of said company’s agreement and that the Board would not have to pay for the Single Audit if it is not needed. He explained that a Single Audit is required if a certain amount of federal funds is received. Subsequently, the General Manager indicated staff recommends approval of the referenced 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. David S. Herring and seconded by Dr. George Munchus, that the Board hereby approves and authorizes the General Manager and/or the Assistant General Manager to accept to accept an agreement from Banks, Finley, White & Company, Certified Public Accountants, to audit the financial statements of the Water Works Board at an annual fee of \$124,250.00 for the financial audit and an annual fee of \$25,000.00 for the Single Audit for year ending December 31, 2013. Resolution No. 6565 is hereby adopted by unanimous vote.”

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Following, the General Manager asked the Board to approve expenditures with Eaton Corporation, as set forth in agenda item 9, to provide for the supply and installation of goods and services to upgrade the electrical system at the Alabama Street Pumping Station; and to authorize the General Manager and/or the Assistant General Manager to accept a Supply Agreement from said corporation. Assistant General Manager Darryl Jones was recognized wherein he distributed to the directors a diagram showing the location of said station. A copy of said chart is on file in today’s Diligent Boardbooks™. Assistant General Manager Darryl Jones said the raw water pump station supplies water off of the Board’s Inland Pipeline to the Putnam Filter Plant, and said pump station’s equipment is at least 50 years old and had sustained some electrical damages.

He noted that Electrical and Maintenance Manager John Reymann would describe the circumstances surrounding the electrical upgrade. Assistant General Manager Darryl Jones pointed out that the Alabama Street Pumping Station is one (1) of the Board's critical facilities, and he called to the directors' attention said station on a diagram, pointing out it pulls water off of the Inland Pipeline and pumps it to the Putnam Filter Plant. Subsequently, he recognized Mr. Reymann to briefly comment on the electrical issue that happened at said station. Following, Mr. Reymann indicated there was an explosion recently at the Alabama Power Substation that is mounted on a pole just outside of the plant, pointing out the gear was installed in 1956 wherein it does not have the surge suppression equipment and it blew up one (1) of the starters. Mr. Reymann said the coils and reactor let all of the smoke out wherein they do not work anymore and staff had to purchase and hand make some devices to patch the pump. He said currently the pump is running in hand only, noting that an employee must be sent to turn the pump on and off each time because it is in a precarious state. Director Munchus asked if Alabama Power caused said damage and Chairman Robinson asked if Alabama Power would take care of the damage. Mr. Reymann said Alabama Power had a failure on its switch which blew up and went to ground at the same time the Board's switch failed, pointing out staff cannot say whether or not the Board's switch caused Alabama Power's switch failure or vice versa. Subsequently, Mr. Reymann said the gear was quite old and the actual depreciated value would not be known as the Board has been getting its money's worth out of the gear since 1956. Director Munchus asked if Alabama Power admitted to liability and Mr. Reymann said Alabama Power did not admit to anything and neither did staff because Alabama Power's transformer also blew up. Director Herring said this is his first knowledge of the Board having anything on Alabama Street and it was noted that said station is in Tarrant near the Cedar House Restaurant and behind ABC Coke. Director Herring commented that no one is physically at the station and Mr. Reymann said it is an unmanned facility for raw water pumping. Director Herring asked if said station automatically does what it needs to do and Mr. Reymann said SCADA turns the pump on. Assistant General Manager Darryl Jones pointed out signals to cut the pump on and off are sent to the plant and noted the expected life span of the gear that blew up is about 30 years. Assistant General Manager Darryl Jones indicated staff is asking the Board to support replacing this gear as a part of the company's critical operations. Chairman Robinson asked if staff could guarantee the new equipment would last for 55 years and Assistant General Manager Darryl Jones said if we get 30 years it would be doing well, pointing out it is something that really is critical for the Board's operations. 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 Dr. George Munchus and seconded by Mr. David S. Herring, that the Board hereby approves expenditures with Eaton Corporation, a sole source provider, to provide for the supply and installation of goods and services to upgrade the electrical system at Alabama Street Pumping Station at an out-of-pocket cost to the Board of \$164,030.00; and to authorize the General Manager and the Assistant General Manager to accept a Supply Agreement from said corporation. [NOTE: This expenditure is exempt from bidding under the Alabama State Competitive Bid Law because it is a sole source.] Resolution No. 6566 is hereby adopted by unanimous vote.”

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Prior to continuing with the agenda, the General Manager asked Assistant General Manager Michael Johnson to distribute a summary of the 2014 budget to the directors. He indicated after main points of the summary are reviewed, staff would be asking the Board to approve agenda items 10, 11, and 12. A copy of said summary is on file in today's Diligent Boardbooks™. Following, the General Manager reviewed the summary and pointed out the Key Assumptions of 40,400,000 CCF; 14,100,000 CCF; 16,100,000 CCF; and 10,200,000 CCF for total, residential, non-residential, and raw water demand, respectively. He pointed out the 40,400,000 CCF total demand is less than 2012 and a little higher than 2013 because of the rainfall and the 2014 consumption was increased marginally above the present 2013 consumption. Following, the

General Manager said senior executive management had previously reviewed the Updated Targets with the Board, pointing out some of the policy targets for the Rate Stabilization and Equalization (RSE) model had been changed. He emphasized that the 25% PAYGO funding would be phased in over a five-year period and noted that such is stated in Resolution No. 6569. Subsequently, he indicated all of the other goals and targets are currently being met. Following, the General Manager reviewed the Items for Approval and indicated the Board would be asked to approve the Operating and Maintenance (O&M) Budget of \$90,100,718.00, which includes a cost of living adjustment (COLA) and merit increase of 2% each, pointing out the COLA would be a one-time payment. He noted that the 2014 budget is 4.3% less than the 2013 budget. In addition, the General Manager indicated the Board would be asked to approve the Capital Budget of \$55,000,000.00. Following, the General Manager reviewed the results of the RSE model, pointing out the 2014 budget includes a total rate increase of 3.9%. He pointed out the Board is in the third year of its Cost of Service Study phase-in, wherein base charges have increased more than the volumetric charges. He noted that Chairman Robinson had previously inquired about revenues and the General Manager said a large part of the additional revenues would come from the increase in base charges. Following, the General Manager pointed out the average customer using approximately 7,500 gallons of water per month would see a \$1.40 increase in their water bills. Subsequently, he said base charges are projected to cover 97.9% of the debt service, reminding the directors that said charges were increased in order to get closer to 100% of the debt service coverage. In response to Director Munchus' inquiry if the Board has two (2) years remaining on its Cost of Service Study, the General Manager stated said study was phased in over a three-year period and 2013 is the third year. Director Munchus asked if the Board would be using a Cost of Service Study going forward and the General Manager responded yes.

Next, the General Manager asked the Board to consider approving its Operating and Maintenance (O&M) and Capital budgets for calendar year 2014, as set forth in agenda item 10. He indicated staff recommends approval of said item. On a motion duly made and seconded, the following resolution was adopted:

“WHEREAS, The Water Works Board of the City of Birmingham ("the Board") has prepared its 2014 Operations and Maintenance (O&M) Budget with expenditures totaling \$90,100,718.00; and

WHEREAS, the Board has prepared its 2014 Capital Budget totaling \$54,992,023.00; and

WHEREAS, the Board desires to approve as a part of its O&M Budget a combined 4 percent compensation adjustment, comprised of a Merit Raise of no more than 2% of the gross labor budget not to exceed \$700,892.00 and a one-time cost of living adjustment of no more than 2% of the gross labor budget not to exceed \$823,883.00.

NOW, THEREFORE, BE IT RESOLVED By Board, on a motion duly made by Mr. David S. Herring and seconded by Dr. George Munchus, that the Board hereby approves its ① Operating and Maintenance Budget totaling \$90,100,718.00 for 2014, and ② Capital Budget totaling \$54,992,023.00 for 2014 and ③ a combined 4 percent compensation adjustment comprised of a merit of no more than 2% of the gross labor budget not to exceed \$700,892.00 and a one-time cost of living adjustment of no more than 2% of the gross labor budget not to exceed \$823,883.00. The one-time cost of living adjustment shall be paid no later than January 10, 2014. Resolution No. 6567 is hereby adopted by unanimous vote.”

Next, the Board was asked to adopt a resolution amending the Salary Administration Plan, as set forth in agenda item 11, to limit the total increase for merit raises in the Net Labor Line of the 2014 Operating and Maintenance (O&M) Budget. The General Manager pointed out the merit increase must be

limited to 2% and indicated senior executive management would make the needed adjustments when it goes through the process. Subsequently, he indicated that staff recommends approval of the referenced item. On a motion duly made and seconded, the following resolution was adopted:

“WHEREAS, on December 12, 1996, The Water Works Board of the City of Birmingham (the “Water Works Board”) adopted its current Salary Administration Plan (the “Plan”); and,

WHEREAS, since its adoption, the Plan has been amended from time to time; and,

WHEREAS, the Plan provides for certain Merit Raises; and,

WHEREAS, on October 24, 2013, the Water Works Board adopted its Operating and Maintenance Budget (“O&M Budget”) for fiscal year 2014 in the total amount of \$90,100,718,00; and,

WHEREAS, the Board approved its 2014 O&M Budget limiting the total increase for Merit Raises to be no more than 2% of the gross labor budget; and,

WHEREAS, the Water Works Board desires to now further amend the Plan to comply with the approved 2014 O&M Budget.

NOW, THEREFORE, on a motion made by Mr. David S. Herring and seconded by Dr. George Munchus, as follows:

Effective the first pay day in January 2014, Merit Raises shall be limited so as to ensure that the total increase to the Merit Raise portion of the Net Labor line for the 2014 O&M Budget shall not exceed \$459,087.00. Resolution No. 6568 is hereby adopted by unanimous vote.”

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For the final agenda item, the General Manager asked the Board to adopt a resolution modifying and amending the Reserve Fund Policy and the Rate Stabilization Equalization targets, as set forth in agenda item 12, effective October 2013, as recommended by the Finance Committee. The General Manager stated said targets were discussed in the Finance Committee Meetings held October 14, 2013 and October 21, 2013 and indicated staff recommends approval of the referenced item. On a motion duly made and seconded, the following resolution was adopted:

“WHEREAS, The Water Works Board of the City of Birmingham (“the Board”) recognized its need to establish financial policies that demonstrated financial responsibility and stewardship; and

WHEREAS, the Board originally adopted its Reserve Fund Policies in 2004 which included the following:

Reserve Funds:

- Revenue Fund – 12.5% of Annual Operating Revenues
- Demand Shortfall Fund – 5% of Annual Operating Revenues
- Rate Stabilization Fund - 5% of Annual Operating Revenues
- Capital Reserve Fund – 20% of Capital Improvement Program

WHEREAS, the Board also adopted its Rate Stabilization and Equalization (RSE) Plan in 2004 which included minimum, maximum and target Debt Service Reserve Fund Coverage:

RSE Targets:

	<u>Senior Debt Service Coverage</u>	<u>Total Debt Service Coverage</u>
- Target	1.50	1.20
- Max	1.65	1.30
- Min	1.35	1.10

WHEREAS, the Board also adopted a target of rate financing (pay-as-you go or PAYGO financing) 20% of its annual Capital Improvement Program and financing the remaining 80% through the issuance of debt; and

WHEREAS, the Board revised its Strategic Plan in 2012 to include the following specific goal: “To be recognized as a Financially Viable and Fiscally Prudent water utility”; and

WHEREAS, the Board now desires to strengthen its Reserve Fund Policies to help ensure sustainability of the System’s financial condition;

NOW, THEREFORE, BE IT RESOLVED, on a motion made by Mr. David S. Herring and seconded by Dr. George Munchus, that the Board hereby modifies and amends its Reserve Fund Policies, its RSE Targets, and its Capital Improvement Program rate financing target as follows:

Reserve Funds:

- Revenue Fund – 15% of Annual Operating Revenues
- Economic Development Fund – 5% of Annual Operating Revenues
- Demand Shortfall Fund – 5% of Annual Operating Revenues
- Rate Stabilization Fund – 5% of Annual Operating Revenues
- Capital Reserve Fund – 25% of Capital Improvement Program

RSE Targets:

	<u>Senior Debt Service Coverage</u>	<u>Total Debt Service Coverage</u>
- Target	1.75	1.20
- Max	2.00	1.30
- Min	1.50	1.10

Capital Improvement Program Financing:

Goal of 25% rate financing (PAYGO financing) and 75% debt financing within five (5) years

Resolution No. 6569 is hereby adopted by unanimous vote.”

Following, the General Manager expressed his appreciation to management, senior executive management, the Board, Mr. Peiffer Brandt of Raftelis Financial Consultants, Inc., and Mr. Matthew Arrington of Terminus Securities for their involvement in working on and finalizing the 2014 budget. He pointed out that Messrs. Brandt and Arrington did a lot of work to ensure senior executive management was aware of the Water Works’ position and its financial situation. The General Manager pointed out to the directors everything that was approved in said budgets would strengthen the company’s financial position with the rating agencies.

Subsequently, the General Manager asked if there were any questions and Chairman Robinson recognized Board members. Director Herring commented that he believes the budget process went well and expressed his appreciation to management, pointing out he believes the 2014 budget presentation was better than in the past. He said senior executive management provided more information to the directors and responded very well to their questions. Following, Chairman Robinson congratulated the senior executive staff for its hard work on the budget and also the Board for its due diligence and input. He noted that the budgeting process is difficult and it is a constant balancing act between continually trying to do what is best for the company, the employees and the customers. He commented depending upon the day or the hour of the day those three (3) entities rotate from the priority level and indicated at the end of the day the three (3) are equally as important and are what it takes for the Board to continually try and run a sound, best of breed utility like it continues to do. He pointed out reductions to the company's budget have been accomplished by consolidations, eliminating some areas where a particular resource is no longer needed, and by restructuring some financial debt to further strengthen the Board's financial position and solidify its AAA bond rating. In addition, Chairman Robinson pointed out the reserve targets have been strengthened; the PAYGO targets are moving in the direction from 20% to 25%, wherein it would allow the Board to continue borrowing less money as it moves forward and begins to reduce the debt service burden. Chairman Robinson commented it has been a tough year from a rainfall standpoint that affected the revenues. In addition, Chairman Robinson addressed some changes that were made regarding the employees' medical insurance, pointing out the reduction in the emergency room copays and costs which was a major concern for employees. The health and Wellness Center was revamped wherein it is becoming more expedient and helpful to the employees. He pointed out that the Board is now able to do 90-days on prescriptions for ongoing acute problems and that the Board would continue to help reduce and keep costs contained on the insurance side for everyone. Following, Chairman Robinson pointed out the Board was able to provide a COLA and merit increase. He said there has been discussion relative to starting the budget process early again next year, perhaps in June, looking at insurance companies with Medicaid advantage options that the Affordable Healthcare Act should bring, pointing out he believes this would pay some significant dividends in what the Board can do for its retirees and employees. Chairman Robinson said the culmination of reducing some cost and the above items discussed have allowed the Board to retain its stated goals of keeping its rate increase no more than the 3.9%, pointing out that every other water utility is increasing rates 6% or more, wherein some municipalities in this area have almost done double digit increases this year in order to keep up with costs. Subsequently, Chairman Robinson said he believes the Water Works is doing an excellent job of managing costs and is dedicated to making sure it remains sensitive to its customer base and only do what is necessary for the company to cover operating expenses and debt service. Following, Chairman Robinson thanked everyone for their hard work.

The General Manager announced that Healthstat had assigned the Board a new representative for the Health and Wellness Center. He said Assistant General Manager Michael Johnson and he met with the Healthstat representative last week and she mentioned a lot of things that should be happening at said center and driven by Healthstat, which had not previously been revealed. The General Manager said senior executive management expects some good changes at the clinic going forward. Chairman Robinson asked if the new representative is permanent and the General Manager said yes. Director Munchus asked the General Manager if he could share some of the things Healthstat's representative said they should have been doing and the General Manager said she mentioned some of the reporting procedures and some methods Healthstat should be assuming to help drive employees to the clinic, wherein senior executive management would not have to mull over such. He said the representative also talked about some things Healthstat has "on the shelf" to drive employees to the Health and Wellness Center that they have not used. Subsequently, the General Manager commented the Water Works needs to listen to the Healthstat representative and make sure it does what she requests.

Next, the General Manager mentioned a minor issue that needed to be discussed in an Executive Session, pointing out he believes it could be dealt with in a short period of time. Following, Assistant General Manager Darryl Jones reported that he attended the 16th Annual Alabama Department of Environmental Management's (ADEM) Drinking Water Branch Surface Water Meeting in Montgomery, Alabama on Monday and Tuesday of this week. He said the Shades Mountain, Putnam, and Western Filter Plants have won ADEM's Area Wide Optimization Award of excellence for two (2) consecutive years and the Carson Filter Plant has won said award for four (4) consecutive years. Assistant General Manager Darryl Jones emphasized the significant of the work the Board's operators do, and the quality of the Board's water is validated by third party agencies that confirm the excellence of the work done by these operators. He indicated more information would be forthcoming. Following, Chairman Robinson expressed his delight in the plants' awards and asked if ADEM grades every water plant and how often said award is given. Assistant General Manager Darryl Jones indicated every surface water plant within the state has certain treatment standards, pointing out if the clarity of the water is below a certain value point of 0.1, NTU 95% of the time a plant meets the standards. Assistant General Manager Darryl Jones said the data represents that a plant is operating at an excellent level for the entire year. He said the optimization award has also allowed the Board to be recognized with the AWWA's national Partnership for Safe Drinking Water Level Three Award. Assistant General Manager Darryl Jones indicated said award is given annually. Following, Chairman Robinson asked if the awards Messrs. Jonathan Harris and Jarrod Shotts received are the best in Alabama and Assistant General Manager Darryl Jones responded yes, noting that the "C. W. White Award" Mr. Shotts won is the highest that the Alabama Water and Pollution Control Association gives. He said the AWWA – Alabama-Mississippi Section started the "Operator of the Year Award" in 2013 and there was not a close second to Mr. Harris.

Next, Assistant General Manager Sonny Jones announced that senior executive management would attend the Jefferson County Fire Chiefs Association's meeting on November 6, 2013 at 12:00 p.m. at the Cahaba Pumping Station. He noted that management tries to accommodate said meeting annually and would answer questions from the fire chiefs and work on any problems that may arise. He then invited the directors to attend said meeting.

Following, the General Manager informed the directors that signage renaming the Cahaba Pumping Station in honor of former Board of Director Anthony L. Barnes is up at said location and indicated he would send the directors an email with pictures of the signage from various angles of the building.

Subsequently, Chairman Robinson said he had been informed that the Executive Session would not be needed. As there was no further business before the Board, he entertained a motion to adjourn the meeting. A motion was made and seconded, and the meeting adjourned at 12:55 p.m. Chairman Robinson then thanked everyone for coming and wished all a safe and enjoyable Classic Weekend.

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

Attest:

/s/
David S. Herring
Secretary-Treasurer