

**MINUTES OF EXECUTIVE COMMITTEE MEETING
OF THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
January 27, 2015**

An Executive Committee Meeting of The Water Works Board of the City of Birmingham was held at 9:00 a.m., on Tuesday, January 27, 2015, in the principal office of the Board, 3600 First Avenue North, Birmingham, Alabama.

The following Directors were present: Mr. A. Jackie Robinson, III, Ms. Sherry W. Lewis, Mrs. Ann D. Florie and Mr. George Munchus. Director David S. Herring was not present.

The meeting was also attended by: Mac Underwood, General Manager; Michael Johnson, Darryl Jones and Sonny Jones, Assistant General Managers; Grace Amison, Executive Assistant to the Board of Directors; Anitra Hendrix, Executive Assistant to the General Manager; Barry Williams and Rick Jackson, Board Employees; Mary Thompson, K. Mark Parnell and Kelvin Howard, Waldrep, Stewart & Kendrick; Jesse Lewis and Dorian Kendrick, The Lewis Group; David Merrida, Birmingham Construction Industry Authority; Jeff White, Banks, Finley, White & Company; and Todd Golden, Matthew Foster, Jackie Brown and Greg Rudd, Renasant Bank.

Vice Chairman Lewis called the meeting to order at 9:06 a.m. There were five (5) items on the agenda that were reviewed and discussed.

As there were no items under the first agenda item, the committee moved to the second item on the agenda, Request Committee to Review the Report on BWWB Internal Controls over Jefferson County Sewer Billing and Collection System. The General Manager recognized Jeff White, Banks, Finley, White & Company, to make a presentation. Mr. White stated the official report is about forty pages; therefore, he would give a summary of the findings. He stated the purpose of the report is to ensure the sewer billing for Jefferson County is properly handled, charged and collected. He stated the agreement with Jefferson County has been in place since 1961 but the audit has been conducted the past 10-15 years. Director Florie requested whether the audit is conducted yearly and who requests the report. Mr. White stated the report is done every two years at the request of BWWB. Mr. White stated the report covers the two year period ended February 28, 2014 and extends to cover the time period of February 28, 2014 to December 31, 2014. He stated two types of reports are conducted for SOC-1 which test controls and the effectiveness of them. He stated the other test is the SSAE16 standard to ensure the controls are working properly. He indicated the report is intended for use by management and is related solely to Jefferson County. Director Munchus questioned who the current auditors for Jefferson County are. Mr. White responded the current auditors are Warren Averrett. Mr. White then gave an overview of the responsibilities and stated BWWB has accepted responsibility of the procedures and controls in seven areas. He indicated BWWB is required to report any problems with controls. Mr. White indicated the opinion of the audit states the description fairly presents the sewer billing and collection system that was designed and implemented; the controls provide reasonable assurance the goal objective would be achieved; and the controls were tested and provide reasonable assurance. He indicated the audit is a clean report. He then gave an overview of the controls tested. Director Munchus questioned what Jefferson County provides BWWB. The General Manager stated Jefferson County signed an agreement for BWWB to collect for

them, they do not provide anything to BWWB. Director Munchus questioned whether Jefferson County sets their own rates. The General Manager responded yes. Director Florie questioned whether BWWB conducts an audit for other systems that they serve. Mr. White stated other systems can request an audit be conducted. Director Munchus questioned the percentage BWWB gets for handling collections for Jefferson County. The General Manager stated the percentage is approximately 3.5%-4% of the collection amount. Director Munchus questioned whether the contract with Jefferson County could be amended. The General Manager stated the contract could be amended. Director Lewis stated Jefferson County would pass the additional costs on to its customers.

Following, the committee moved to the third item on the agenda, Review Pension Plan Investment Performance for the Year Ended December 31, 2014. The General Manager stated all the returns for the year were good. He stated the actuarial rate exceeded 7.5%. He then recognized Renasant Bank to make a presentation. Director Robinson arrived to the meeting at 9:27 a.m. Greg Rudd, Renasant Bank, presented the committee with a handout. A copy of the handout is on file with said meeting book. Mr. Rudd stated since 2012 the assets in the plan have increased 27% due to investment returns, employer contributions and employee contributions. He stated the plan paid \$8.8 million or 81% to pensioners, 11% to tax withholding and 8% to plan administration costs. He indicated the plan is on the low end of expenses to administer, only operating at 6 or 7 basis points lower than similar plans across the country. Mr. Rudd stated the assets are growing and expenses are decreasing. Next, Matthew Foster, Renasant Bank, stated as of December 21, 2014 the plan exceeded the actuarial target. He stated the beginning market value was \$118,337,060.00 and the ending value was \$129,160,548.00. He gave a summary of the returns indicating the gross return was 7.73% and bonds returned 6%. Mr. Foster gave an overview of the current asset allocation. He stated the plan has an exposure of 32% to bonds. Director Munchus questioned what the alternative investments were. Mr. Foster responded two money managers were changed in 2014 due to their under performance. He stated the alternatives can cover the areas of real estate, commodities or global investments and long short investments. Director Lewis questioned what the alternative was for BWWB in 2014. Mr. Foster responded there was a long short manager on stocks and bonds. He indicated those managers were eliminated. He then gave an overview of the performance review. He stated large cap performed at 35%, U.S. mid cap stocks performed 14.8% and U.S. small cap performed at 8.6%. Director Robinson questioned why the small cap stock struggles. Mr. Foster responded the small cap stocks lagged behind but it has time to catch up. Next, Todd Golden, Renasant Bank, gave an overview of interest rates and its exposure to the plan. He stated in the beginning of 2014 the yield on a 10 year treasury was 3%. He stated the number was expected to rise to 3.5% and it is currently 1.75%. He stated bonds were at 6.1% for 2014. He stated the plan is being cautious with the use of bonds. He indicated Hughes Capital Management had a phenomenal year performing at 6.5%. Mr. Golden stated short term bonds are just shy of \$1 million. He stated Renasant is in the process of compiling a plan to be competitive; diversification is paramount. Next, Mr. Foster gave an overview of the alternative investments stating 4.7% of the plan is invested in alternatives. He stated the money managers were Mainstay Marketfield and Good Harbor. He stated their performance was monitored for several months and it was determined to be very negative. He stated those managers were replaced with managers, Dryfus and Wastach, that have conservative profiles. He stated the alternatives have increased. Mr. Foster stated Renasant's policy is to put a money manager on watch when it under performs. Subsequently, Director Robinson questioned whether Renasant has been in touch with Hughes Capital

regarding changes with the company. Mr. Foster stated they have been in contact with Frankie Hughes regarding the sale of her company and she has offered to come speak with the Board. Mr. Foster stated they are pleased with the transition and feel comfortable with the fact that the majority of her team is still on board. Assistant General Manager Michael Johnson stated Ms. Hughes contacted management regarding the sale of her company and indicated the new company would like to meet with the board soon.

Next, the committee moved to the fourth item on the agenda, Review and Discuss changes to the Minority Vendor Program and Front End Bid Documents. The General Manager presented the committee with a handout. A copy is on file with said meeting book. He stated the general goal is to reach thirty percent participation on construction contracts. He indicated there is a not a quota to reach or a requirement. He then gave an overview of the minority vendor program goals. The General Manager stated the program requests the contractors make a good faith effort to provide opportunities for minority vendors on any bid or quote. Director Lewis questioned whether the thirty percent participation is the only change to the program. The General Manager stated the major change to the program is the thirty percent participation request. Board Attorney Mark Parnell stated several changes were made to the program by combining information from BWWB, Birmingham Construction Industry Authority (BCIA) and Alabama Department of Environmental Management (ADEM). He stated the program requires a response from the contractor, if not they are considered non-responsive. He stated if a contractor has an issue with a sub-contractor, they are required to report that to BWWB. He stated the contractors will not be allowed to change sub-contractors without prior consent from BWWB. Director Florie questioned whether BCIA has received any feedback from contractors regarding the program. David Merrida, BCIA, stated some contractors feel BWWB does not want to work with minorities but that is not true. He stated some minorities don't meet the qualifications needed for certain jobs. He stated contractors can be trained regarding BWWB requirements which will assist them in becoming qualified for the projects. He indicated he has developed an educational program that will roll out soon. Director Florie questioned Mr. Merrida whether he was currently being paid by BWWB to perform the tasks he mentioned. Mr. Merrida stated some of the tasks he mentioned are being performed by BCIA; however, they are not conducting training with the contractors. Subsequently, the General Manager stated the documents for the program will be reviewed by the attorneys before they are finalized. Director Lewis questioned when the program will be distributed to the contractors. The General Manager stated the contractors will receive the requirements as a part of the bid package when they are looking to bid on projects. Director Lewis then questioned the date of implementation. The General Manager stated the goal is to get the documents approved by February 10, 2015; however, board approval is required before the program can be implemented.

Subsequently, Director Lewis then questioned Mr. Merrida whether his goal would be to get potential contractors to meet with BWWB staff for training. Mr. Merrida stated he would like to have a training session once a month with minority contracts. Director Florie stated she didn't understand why the training sessions are not occurring at all and questioned Mr. Merrida on the work he has performed. Mr. Merrida stated BWWB send projects to BCIA that they would like to bid and they distribute that information to contractors. He stated prior to 2014 there were not any goals for the program. Director Florie stated she did not understand adding more money to a contract for work to be performed that should have been ongoing. Director Lewis stated her concern is Mr. Merrida stating he would like to have the monthly training instead of ensuring he

would have the training. She questioned Mr. Merrida if he has researched the specifics of the training. Mr. Merrida stated he has done the research. Director Lewis questioned who would be responsible for notifying contractors of the training. Mr. Merrida stated BCIA will be responsible for notifying the contractors. Director Robinson questioned whether the firms BWWB business works with have a formal mentor/mentee program. Mr. Merrida stated there are such programs at certain firms; however, they are large companies. He stated the companies that perform work for BWWB do not have protégé programs. Director Robinson stated there should be a joint venture. Director Florie stated she needs to see a detailed and exact plan.

Next, the committee moved to the fifth item on the agenda, Review and Discuss Internal Investment Policy and process to invest the system's internal operating reserve funds. The General Manager stated management has worked on a policy with Board Financial Advisor Matthew Arrington and Board Attorney Fred Simpler. He then presented the committee with a handout. A copy of the handout is on file with said meeting book. He then gave an overview of the guidelines for investing operating revenue and other operating funds. Director Munchus left the meeting at 10:45 a.m. The General Manager stated there is \$50 million that needs to be invested. He stated the objective would be to invest the funds in compliance with Code of Alabama Section 11-81-21 regarding the public investment of funds. He then gave an overview of proposed fee structure and advisors. He indicated the portfolio would have \$4 million investments per quarter consisting of U. S. government backed and treasury type items. He stated an advisor would be hired to perform all of the investments or one would be hired to advise management on a transaction basis. He indicated the fees associated with transactions are much less than the fees of a actively management basis. The General Manager then gave an overview of the fees associated with the advisors. He stated the returns would be reported to the Board. He stated the internal team would consist of himself, Assistant General Manager Michael Johnson, Accounting Manager Iris Fisher and Assistant Accounting Manager Sonji Campbell. He indicated they would need to be authorized to make the transactions. Director Robinson questioned what the current process is. The General Manager stated a quote has been taken on \$40 million and an investment was made. He indicated since October 2014 it has been in an overnight investments. Director Robinson questioned what the yield has been. The General Manager stated the yield has been 50 or 60 basis points. Assistant General Manager Michael Johnson stated the 50 or 60 basis was due to low interest rates. He stated making the right investment has a lot to do with timing. Director Robinson questioned whether the change would be quarterly. Assistant General Manager Michael Johnson stated the change would happen as needed. Director Florie left the meeting at 10:53 a.m. which resulted in no quorum. Therefore, the meeting adjourned at 10:53 a.m. and the item continued to be discussed for information purposes.

The following action items were requested of staff by the Committee:

1. BWWB Internal Investment policy to be reviewed and added to board agenda for approval.
2. BWWB Minority Vendor Program to be reviewed and added to board agenda for approval.

/s/

Mac Underwood
General Manager

/s/

Mr. A. Jackie Robinson, III
Chairman/President

/s/

Ms. Sherry W. Lewis
First Vice Chairman/First Vice President

/s/

Mrs. Ann D. Florie
Second Vice Chairman/Second Vice President

/s/

Mr. George Munchus
Assistant Secretary/Assistant Treasurer