

**MINUTES OF THE FINANCE COMMITTEE MEETING  
OF THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM  
September 25, 2015**

A Finance Committee Meeting of The Water Works Board of the City of Birmingham was held on Friday, September 25, 2015, at 9:30 a.m., in the principal office of the Board, 3600 First Avenue North, Birmingham, Alabama.

The following Committee Members were present: Ronald A. Mims and Kevin B. McKie. Directors Ann D. Florie, George Munchus, and Sherry W. Lewis, Non-Committee members were also in attendance.

Inasmuch as all of the Directors were present, Chairman Mims declared a quorum in attendance.

The meeting was also attended by: Mac Underwood, General Manager; Michael Johnson and Sonny Jones, Assistant General Managers; Grace Amison, Executive Assistant to the Board of Directors; Cynthia Williams, Iris Fisher, Barry Williams, Paul Lloyd, Shelia Patterson and George Anderson, Board Employees; K. Mark Parnell and Mary Thompson Waldrep, Stewart & Kendrick; G. Courtney French, Fuston, Petway & French, LLP; Peiffer Brandt, Raftelis Financial Consultants, Inc.; Jerry Jones, ARCADIS; Dorian Kendrick and Brandon Wilson, The Lewis Group.

The General Manager called the meeting to order at 9:43 a.m.

The General Manager proceeded with the agenda. As there was no old business for discussion, Mr. Underwood recognized AGM Michael Johnson to present the draft 2016 Operating and Maintenance Budget. Director Florie inquired of other meeting dates regarding the budget. Mr. Johnson responded as he distributed a draft copy of a proposed budget meeting calendar. (a copy of said document is on file in Diligent Boardbooks). Mr. Johnson stated that in order to comply with the new legislation requirement relative to rate increases, the Board is required to hold a Public Hearing prior to any vote on rate increases. Mr. Johnson reviewed the referenced document and stated that management would like to issue a Public Hearing notice on November 1, 2015 or November 2, 2015. Next, Mr. Johnson reviewed the proposed budget workshop dates, which are October 6, 2015, October 13, 2015<sup>th</sup> and November 10, 2015, if needed. The proposed Public Hearing dates are November 2<sup>nd</sup> and November 5<sup>th</sup>. The proposed budget approval dates are November 12, 2015 and November 18, 2015. Mr. Johnson proceeded and stated that the presentation would cover the following topics: Rate Setting Overview; Financial Policies; Operating and Maintenance (O&M) Budget– Implemented Strategies, the Budget Process, Key Budget Assumptions and the Preliminary O&M Budget; Demand and Next Steps. Mr. Johnson stated that before rates are determined, revenue requirements are reviewed. Said requirements are driven by what the O&M Budget needs to be to operate along with needs for the Capital Budget. Mr. Johnson reviewed the BWWB's Financial Goals and Policies and he stated that over the past few years the national rate increase has been around 5.5 percent. He stated that the targets for rate increases are to keep them below the industry average of 5.5 percent. The rate increase for 2012, 2014 and 2015 was 3.9 percent and the increase for 2013 was 4.9 percent. He stated another goal is to maintain annual O&M increases less than 5 percent; however, the projected base increase for 2016 is 5.4 percent. The goal is to have 25 percent of the Capital Budget funded from PAYGO by 2017. Doing so would reduce the borrowing cost for the BWWB. AGM Michael Johnson commented that the BWWB received strong bond ratings from the rating agencies. Mr. Johnson reviewed the RSE targets/coverages. Mr. Johnson reviewed the large 2016 rate increase drivers, which are employee related expenses, license fees, power costs, transmission and distribution maintenance material, consultants, along with other O&M expenses. He stated that the 2016 O&M Budget Analyses

documentation provides a more detailed explanation of the referenced rate increase drivers. (a copy of the referenced document is on file in Diligent Boardbooks). Next, Mr. Johnson reviewed the O&M Budget process. He stated that there were individual departmental meetings with Senior Management, Accounting and Budget staff along with each departmental manager and key persons. The goal was to focus on individual line items and variances. The key budget assumptions for 2016 are to meet operational needs and to meet the financial policy targets. Mr. Johnson stated that a 5.4 percent increase is projected in the O&M budget for 2016. The referenced total budget is based on budget projections exclusive of any wage increases. The total net O&M budget for 2015 was \$92,326,425.00 dollars and the total projected O&M budget for 2016 is \$97,278,542.00 dollars. Labor and employee expenses are approximately 53 percent of the costs. Director Lewis asked Mr. Johnson to provide the total budget amount for 2014. Mr. Johnson stated that he would provide the requested information. Mr. Johnson reviewed some of the projected individual department budgets for 2016. The proposed 2016 net budget for the Executive Department is \$1,036,760.00 compared to \$1,138,543.00 dollars in 2015. The proposed 2016 company wide net budget is \$27,520,802.00 dollars compared to \$23,389,024.00 dollars for 2015. The proposed 2016 Board net budget is \$112,505.00 dollars compared to \$158,344.00 dollars for 2015. The remaining comparisons for each department are located on pages 20 through 42 of the budget presentation and it also includes expenses related to each department. Mr. Underwood commented that schedule "F" in the handout provided (O&M Analyses & Supporting Documentation) includes a high level summary of the major differences in the proposed budget.

Following, Mr. Peiffer Brandt was recognized to address DEMAND. Mr. Brandt commented that demand is important because revenue requirements divided by customer demand equals water rates. If the decision would be made to estimate higher level demands, then the proposed rate increase could be lower. Mr. Brandt stated that being conservative in projected demand would require higher rates, as discussed today. He stated that the consumption trend for the past few years resulted in declining per capita usage. Mr. Brandt reviewed the three (3) residential blocks of water usage. He stated that there has been a decline in consumption for each block since 2007. Block 1 which relates to persons using 0-3 ccf's is a function of bathing, washing clothes, drinking water and flushing toilets. Consumption for said block in 2007 was 5,725,000 ccf's compared to an estimate of 5,125,000 ccf's for 2016. Block 2 which relates to persons using 3-15 ccf's is a function of non-essential water use such as the weather and economy. Consumption for said block in 2007 was 9,000,000 ccf's compared to an estimate of 5,000,000 ccf's for 2016. Block 3 wherein the greatest function is due to the weather relates to persons using greater than 15 ccf's. Consumption for said block was 3,750,000 ccf's in 2007 compared to an estimate of 1,250,000 ccf's for 2016. Next, Mr. Brandt reviewed consumption trends for non-residential customers. Consumption for non-residential customers was 16,900,000 ccf's in 2007 compared to an estimate of 15,900,000 for 2016. Consumption for raw water customers was 12,250,000 ccf's for 2007 compared to an estimate of 8,750,000 ccf's for 2016. Mr. Brandt commented that the original projection for raw water customers was around 11.6 million ccf's. Since that time, consumption reduced by approximately 3 million ccf's due to USX changes and plans. USX expects to reduce usage by 8 to 10 million gallons per day. Mr. Brandt stated that this alone would require a 2 percent rate increase. He stated that most utilities across the country and in the Southeast are experiencing declining per capita demand. In 2010, total per capita use was down by 17 percent from usage levels in 2005. Mr. Brandt commented that the BWWB is protected more than most utilities because of the fixed revenue from base charges. Mr. Brandt stated the demand projections reviewed today are based on data received through August 2015. Projections would be reviewed again upon receipt of data through September 2015. During that time, demand projections could possibly require some adjustments. Overall, there will be a significant drop in water usage for 2016.

Next, Mr. Johnson reviewed three (3) projected O&M scenarios relative to revenue. Mr. Johnson reviewed requirements for each scenario. The base budget for scenario 1 is \$97.3 million dollars. Revenue required for said scenario is \$177,144,226.00 dollars. This scenario would require a 5.2 percent rate increase. Said scenario includes the estimated healthcare budget of \$12.9 million dollars but no wage increases. The base budget for scenario 2 is \$98.8 million dollars. Revenue required for said scenario is

\$178,634,659.00 dollars. This scenario would require a 6.10 percent rate increase. Said scenario includes the estimated healthcare budget of \$12.9 million dollars and a 2 percent COLA and 2 percent Merit increase. The base budget for scenario 3 is \$99.7 million dollars. Revenue required for said scenario is \$179,508,709.00 dollars. This scenario would require a 6.60 percent rate increase. Said scenario includes the estimated healthcare budget of \$12.9 million dollars along with a 3 percent COLA and 3 percent Merit increase.

Discussion ensued as various Directors voiced concern relative to the rate increases and concern relative to the estimated healthcare budget. There was also concern as to when the last time employees received no wage increase. Mr. Underwood commented that employees have always received a wage increase. However, there were a couple of times wherein employees received a one-time COLA bonus.

Chairman Mims stated that for the last twenty (20) years the BWWB has been rated as one of the top five (5) utilities in the country. Said statement is one of the reasons he feels employees should be rewarded. Some Directors agreed that there should be a wage increase. Subsequently, staff was asked to revisit the projected budget by line item to find other areas of savings.

Next, Mr. Johnson revisited the next steps. The first budget workshop is scheduled for October 6, 2015. Additional budget workshops are to be determined. A brief discussion ensued regarding the Public Hearing. Mr. Underwood stated that Senior Management and the Board's Attorneys interpreted language in the law differently. After a brief discussion, it was agreed that Senior Management and the Board's Attorneys would discuss the referenced matter further. (Director Florie left the room at 11:12 a.m. and returned at 11:14 a.m.)

Following, AGM Sonny Jones was recognized to review the Proposed Capital Budget for 2016. He reviewed the large projects for general capital, technology and distribution for 2016. Some of the projects include Shades Mountain Filter Plant Improvements, SAP Implementation (Phase 2.0), Lake Purdy Dam Rehabilitation and Spillway Upgrades, Western Filter Plant Electrical upgrades and others. Mr. Jones reviewed the large proposed Maintenance and Repair Projects for 2016. Some of the projects include maintenance of existing assets, new distribution mains and hydrants, new customer service connections, meters and metering technologies, distribution main replacements, economic development, tank maintenance and repairs and others. Mr. Jones stated that the proposed Capital Budget for 2016 is \$60,357,889.00 dollars. Next, Mr. Jones reviewed the 5-year Capital Plan located in the last page of the 2016 Capital Budget presentation. He stated that there are plans for the filter plants, plans for raw water and distribution, plans for IT/Security, plans for the Main Campus, maintenance and repair plans and plans for capitalized operations and maintenance. In closing remarks, Mr. Underwood commented that senior management would revisit line items as requested to determine if there can be additional cuts.

Director Florie asked management to consider renegotiation of some contracts while they are being reviewed by staff.

Director Munchus stated that for the record, his editorial comment is that he feels Blue Cross and Blue Shield is whacking the BWWB.

As there was no further business before the Committee, a motion was duly made and seconded, and the meeting adjourned at 10:28 a.m.

/s/

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Ronald A. Mims  
Chairman/President

/s/

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Kevin B. McKie, Esq.  
First Vice-Chairman/  
First Vice President