

**MINUTES OF THE FINANCE COMMITTEE MEETING
OF THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
April 23, 2019**

A Finance Committee Meeting of The Water Works Board of the City of Birmingham was held on Tuesday, April 23, 2019, at 11:30 a.m., in the principal office of the Board, 3600 First Avenue North, Birmingham, Alabama.

The following Finance Committee Members were present: Directors Ronald A. Mims, Tommy J. Alexander, and Sherry W. Lewis. The following Non-Committee Members were also in attendance: Directors William “Butch” Burbage, Deborah Clark, Brenda J. Dickerson, George Munchus, and William R. Muhammad.

Inasmuch as all of the Committee members were present, a quorum was in attendance.

Also, the meeting was attended by: Michael Johnson, General Manager; T.M. “Sonny” Jones, Assistant General Manager; Grace Amison, Executive Assistant to the Board of Directors; Vanessa Washington, Executive Assistant; Rick Jackson, George Anderson, Rosalind Jones, Michael Griffin, Johnnie Mayfield, Josh Smith, Carolyn White, Dana Robinson, Derrick Maye, and BWWB Security, Board Employees; K. Mark Parnell, Parnell Thompson, LLC; Kelvin Howard, KWH, LLC. Tommy Palladino, and Andy Mitchell, Agency 54; Matthew Arrington, Terminus; Brian Ruggs and Patrick Flannelly, ARCADIS; Walter Lewis and Ryan Combs, Piper Jaffray; Peiffer Brandt and Townsend Collins, Raftelis; Lloyd Fitzpatrick, Burk Kleinpeter; Marquita Jackson, and JP Morgan.

Director Burbage called the meeting to order at 11:30 a.m. He turned the meeting over to Director Ronald A. Mims, the Committee Chair.

Next, Director Mims proceeded with agenda item one which requested the Committee to approve the minutes of July 19, 2018; October 10, 2018; October 19, 2018; October 31, 2018. Director Sherry W. Lewis made a motion to approve said item. Director Tommy J. Alexander seconded the motion. The agenda item passed unanimously.

Following, agenda item two requested the Committee to hear a presentation on the Cost of Service Project. Director Mims turned meeting over to GM Michael Johnson. GM Johnson asked Johnnie Mayfield who works with all the Consecutive Systems to give a presentation, before the Raftelis Cost of Service Project presentation. Mr. Mayfield gave an overview from a handout entitled *Value Added Services for our Consecutive Systems Partners (a copy of which is on file with the Board Meeting Book)*. He discussed whole sale water rates and the impact on BWWB. He talked about the successful changes implemented to the water system that provided new technology and captured more revenue. Per Mr. Mayfield, BWWB works with the Consecutive Systems to help improve their distribution system water quality. Dr. Munchus inquired as to what is a Consecutive System and how many are there? Mr. Mayfield explained that Consecutive Systems are other utilities that BWWB sells water to directly. He stated there are six that the company sells to on a continuous basis. There are four systems considered to be sole source users, because they purchase water from Western Filter Plant (WFP) only. The other two on the northern side are supplied water by Carson Filter Plant. Those two systems have “take or pay” contracts. They buy water from other water utilities in Blount County because of geographical problems; therefore, BWWB only supplies water to parts of their system. Director Muhammad inquired as to why Remlap buys water from Oneonta being that it is close to Inland Lake. Mr. Mayfield stated it is due to elevation issues. Then, he discussed the consumption and revenue for the water systems. Director Lewis expressed concerns of a decline in revenue from the water systems. She indicated that the Board needs to evaluate the effects on BWWB, because there

is a decrease in the usage and purchase of water. There is a movement for conservation; however, BWWB needs address the changes and re-evaluate how it does business. Mr. Mayfield stated that part of the reason was due to the drought, which takes approximately 3- 5 years for recovery. Relative to Business and Economic Development, Dr. Munchus asked whether any of the water systems were opened to acquisition. Mr. Mayfield answered that everything was neutral with the water systems at this time. After no other questions, he concluded his presentation.

Following, Peiffer Brandt continued the presentation from a handout entitled *Birmingham Water Works Board Cost of Service Study – Continuation (a copy of which is on file with the Board Meeting Book)*. He indicated that the goal is to achieve equity. He discussed the summary findings regarding residential, non-residential, raw water, fire protection, and wholesale rates relative to cost of service. Dr. Dickerson inquired whether the loss of water was computed in his calculation, which Mr. Brandt stated a dollar amount is not assigned to the loss of water. He discussed whether to adopt, hold flat, or immediate implement wholesale rate changes to address deviations from cost of service or to phase in those changes over a three to five-year timeline. Then, Mr. Brandt talked about wholesale rate and cost of service study implementation/options. Director Alexander recommended that the cities BWWB sells water to are properly notified about the increase to fire protection services to prevent them from being underbudget. GM Johnson acknowledged it was a challenge with the last cost of service study; therefore, BWWB would notify those cities in a timely manner. Attorney Mark Parnell stated the process would involve the board's approval of the cost of service study. Thus, the resolution drafted relative to this matter would implement what is necessary to equalize the various costs, etc. Then, Mr. Brandt ended the presentation with a discussion on the cost of service options for rate structure, affordability programs and communication plan.

There was a discussion among the group for expanding the fix-a-leak and the Helping to Others (H2O) programs. Afterwards, Director Muhammad expressed his concerns on base rates relative to meter size vs lowering the base rate relative to water usage. Per Director Muhammad, someone using less water would pay a lower base charge. Mr. Brandt explained that it is like a peak demand rate. Director Lewis stated the purpose of the base charge is to aid in the repair and replacement of old pipes. However, she is not against lowering the base charge consistently for everyone. Attorney Parnell explained that changing the base charge based on water usage comes with risks and would have to be evaluated (*every class of customers would have to be treated the same*). Dr. Dickerson inquired whether BWWB had a strategic communication plan, which GM Johnson indicated that there was not a written plan; however, Rick Jackson was working on the matter. In Addition, Director Clark stated a strategic plan was also needed for the utility. GM Johnson recommended the rates changes for the May board agenda, based on the cost of service study and approval. Director Lewis asked to receive the previous years cost of service study for review. Director Clark asked that the time frame be included since there was discussion on staggering the rate changes based on the fiscal years of the cities involved. Attorney Parnell suggested drafting the resolution and presenting it a Finance Committee Meeting prior to the Board Meeting.

Next, agenda item three requested the Committee to hear a presentation on the Debt Reduction Plan. A handout entitled *Birmingham Water Works Board Debt Reduction Strategies (a copy of which is on file with the Board Meeting Book)* was provided. Matthew Arrington, Terminus, gave a recap on BWWB's Capital Borrowing Plan. He stated the company's adjustment to the PAYGO Policy reduced the company's estimated debt by \$338,000,000.00. Per Mr. Arrington, the strategy review would be to refinance existing debt, reduce O&M/Capital Costs, and Implement Greater Rate Increases. Then, he turned the presentation over to Mr. Brandt to review the company's current plan and strategies.

Following, the presentation continued with Mr. Arrington informing the group about current refunding opportunities. He stated the company has an opportunity for an additional \$111 million reduction in outstanding principal that could reduce outstanding debt to \$864 million. Mr. Arrington recommended that BWWB wait before going to the market for refunding, because the savings can potentially double, the

board does not need the money at this time, and the uncertainty regarding Board leadership with the rating agencies. Afterwards, Mr. Brandt talked about strategy enhancements and concluded the discussion with long term targets/goals and the next steps.

Finally, agenda item four requested the Committee to hear a presentation on BWWB's investments and proposed updates. A handout entitled *Birmingham Water Works Board Updated Internal Investment Policy (a copy of which is on file with the Board Meeting Book)* was distributed for reference. Mr. Arrington gave an overview on the company's internal investment policy. He stated the company updated its RSE targets, which lead to an increase in reserves. Therefore, investments were needed more often so the investment policy was adopted to allow the General Manager to invest money as needed. Mr. Arrington indicated that approximately \$49 million in reserves can be re-invested with the following changes: Creation of a separate section to expand upon the usage of Guaranteed Investment Contracts (GICs), delegate the AGM of Finance and Administration and Cash and Debt Management Analyst to have the oversight responsibility while affirming the General Manager and/or Assistant General Manager of Finance Administration with the authority to execute any required documents, and add a section to encourage and give preference to HUB and local vendors where applicable. Director Lewis stated she has concerns about the recommended changes. Director Muhammad stated he does not want HUB to be an empty program and inquired about the structure for HUB banks. Per Director Muhammad, HUB banks (which are small) cannot compete with the large banks unless a policy is in place. Director Lewis requested a list of minority banks listing things the banks can do to assist with a policy change. Then, the presentation was concluded.

As there was no further business to be brought before the Committee, a motion to adjourn the meeting was duly made and seconded, and the meeting adjourned at 1:44 p.m.

_____/s/_____
Ronald A. Mims
Secretary-Treasurer

_____/s/_____
Tommy J. Alexander
Assistant Secretary-Treasurer

_____/s/_____
Sherry W. Lewis
Director

_____/s/_____
Michael Johnson, C.P.A.
General Manager