

**MINUTES OF THE FINANCE COMMITTEE MEETING
OF THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
May 22, 2024**

A Finance Committee meeting of the directors of The Water Works Board of the City of Birmingham was held on Wednesday, May 22, 2024, at 10:00 a.m., at 3600 First Avenue North, Birmingham, Alabama.

The following Committee members were present: Directors Ward (Committee Chairman), Burbage and Huffman. Also, present were Director Munchus and Director Taylor (via telephone).

Others present were: Michael Johnson, General Manager; Iris Fisher, Derrick Murphy, and Philip King, Assistant General Managers; Cynthia Williams, Board Administrator; Anitra Clark, Corporate Governance Specialist; Vanessa Washington, Executive Assistant; Colandus Mason, Rick Jackson, Paul Lloyd, Rosalind Jones, Cassandra Bell, Jeff Wade, Charles McGee, Anthony Hazel and David Walker, BWWB Employees; K. Mark Parnell, Parnell Thompson Law, LLC; Kelvin Howard, Kelvin W. Howard, LLC; Kessia Crenshaw, State of Alabama Attorney General's Office; Matthew Arrington, Terminus Municipal Advisors, LLC; Brad Green, Raymond James & Associates; and Bill Todd, O2 Ideas.

Inasmuch as all Committee members were present, a quorum was declared in attendance. Committee Chairman Ward called the meeting to order at 10:00 a.m., General Manager Johnson opened the meeting with prayer.

Following, the Committee proceeded to approval of the agenda. Director Huffman made a motion to approve the agenda and Director Burbage seconded the motion. On a motion duly made and seconded, the motion was approved by unanimous vote.

Next, the Committee proceeded to the first item on the agenda, Request Committee to approve minutes of March 20, 2024. Director Burbage made a motion to approve the minutes and Director Huffman seconded the motion. On a motion duly made and seconded, the motion was approved by unanimous vote.

Following, the Committee proceeded to Reports of Officers. Assistant General Manager Fisher was recognized to present an update to the Committee on the Finance and Administration Division Reports: Operating and Statistical (O&S) Report – March 2024 and the Historically Underutilized Business (HUB) Report. Assistant General Manager Fisher began the presentation by highlighting the company's number of active customers. In comparing February 2024 to March 2024, Assistant General Manager Fisher indicated that the number of active customers increased by 293. She said the majority were residential customers. Afterwards, she reviewed the Balance Sheet as of March 31, 2024. Per Assistant General Manager Fisher, assets are \$1,233,591,614.00, Liabilities are \$985,095,815.00, and a net position of \$248,495,800.00. Next, she gave an overview of the total operating net revenue available for debt service year-to-date for the first quarter. Operating revenues are under budget by \$632,736.00, because of leak adjustments. She commented that the leak adjustment policy was changed June 2023. Operating expenses are overbudgeted by \$2,318,797.00.

Also, Assistant General Manager Fisher discussed the large operating and maintenance variances that contributed to operating expenses being overbudgeted. The pension expense is \$1,189,479.00 over budget. It is non-cash, required to be booked, and when a loss occur, it is spread over the course of five years. The market took a hit 2021 and 2022, which caused the pension plan to take a hit. The company rebounded, but as a result there were expenses to be recorded. The company plan lost \$29 million dollars the year the market took a hit; however, in 2023, the company plan gained \$19 million dollars. Other year-to-date large operating and maintenance variances are as follows: legal claims/settlements \$575,000.00 overbudget, transportation expense \$403,996.00 over budget due to maintenance on old vehicles (awaiting to received new vehicles), labor \$325,801.00 over budget is contributed to overtime, power costs \$226,454.00 over budget is due to additional pumping during inclement weather, and the Federal Insurance Contributions Act (FICA) expense is \$177,049.00 over budget. Following, Assistant General Manager Fisher highlighted the year-to-date under budget variances consists of employee health costs by \$218,940.00, travel miscellaneous and other expenses by \$143,142.00, and the community education program by \$117,500.00. Afterwards, she gave an overview of the 2024 fees from the Jefferson County Collections Agreement. The total as of March 31, 2024, is \$3,310,190.00. Director Ward asked if the amount was what staff expected. Assistant General Manager Fisher responded the fees were less than anticipated. She stated the collection rate is 103%, which means the company is collecting more than it is billing. However, the projection was 98%. Then, she talked about the Reserve and PayGo Investment. Per Assistant General Manager Fisher, the Board recently approved The Toronto-Dominion Bank NY and the Naxis guaranteed investment contracts (GICs). She said there has been an increase in investment income in comparison to prior years. Assistant General Manager Fisher stated PayGo is \$27,245,773.00 for the first quarter. Regarding PayGo and Bond Proceeds Cash Flow, she stated the company's projected PayGo cash balance reserve to fund the capital program, based on budget, would be \$7,881,620.00 by August 2024. Afterwards, she reviewed the Historically Underutilized Businesses (HUB) Participation Summary year-to-date slide. The HUB participation goal is 30%; however, Birmingham Water Works is at 20.98%, which is 70% of the company's goal. Also, she reviewed a slide on the Full Time Employee Workforce (Actual to Budget) as of May 13, 2024. Assistant General Manager Fisher stated that opened positions dropped to 87.90%; the equivalent of 78 positions, which shows progress in filling those positions. Finally, she concluded her report with HomeServe USA monthly statistics. Assistant General Manager Fisher reminded directors that the company's agreement with HomeServe was terminated in February 2024. She stated the revenue shown on the report for HomeServe is for February 2024, because the revenue is recognized in March. Assistant General Manager Fisher said the revenue reported is the last commission received from HomeServe.

Next, Assistant General Manager Fisher provided an overview of the Historically Underutilized Businesses Report for January 2024 through March 2024. She summarized various pie charts in the report, such as, non-HUB versus HUB vendors expense and participation, suppliers and services, consultants, and pipeline replacement program expense. The pie charts displayed the dollar amounts and percentages. She concluded the report with highlights of HUBs' classification by category and ethnic group.

Following, Director Munchus asked Assistant General Manager Fisher to revisit the Finance Division Operating and Statistical (O&S) Report as of March 2024 and to explain page 25,

Birmingham Water Works Delinquent Customers Accounts - January 2024 through April 2024. He stated staff was making good progress and asked what attributed to the progress. Assistant General Manager Fisher responded that delinquent accounts were \$21 million at the end of 2022. She said the collections process was started in early 2023. Customers' delinquent accounts were \$9.2 million (down by 60%) in 2023 and are down by 30% through April 2024. The company was down 70% in delinquent accounts before collections efforts were started. Assistant General Manager Fisher said collections stopped during the time staff had to work through billing issues. She stated that when the collection process started again, staff began collecting from the higher dollar amount delinquent accounts and customer accounts that were delinquent over a year. Per Assistant General Manager Fisher, staff is currently working on the 22 days delinquent accounts. She indicated that customer accounts over 30 days delinquent are subject to service disconnection. Director Munchus asked if the payment plans for non-payment were working for the customers. Assistant General Manager Fisher responded yes.

Next, the Committee proceeded to the second item on the agenda, Request Committee to recommend to the Board to approve the allocation of \$10,000.00 from funds budgeted for its Community Educational Program, in support of the Transplant Life Foundation's Transplant Games of America, highlighting the importance of hydration and the important role water plays for athletes in connection with the Water Works Water Boy Program, that will have a beneficial impact on the Water Works Board's service area, as it works to carry out its Corporate Purpose; and to authorize the General Manager to take such steps as is necessary to sponsor the Transplant Games of America. Board Attorney Parnell suggested staff explain said item. Rick Jackson, Public Relations Manager, explained that this was a unique opportunity for Birmingham Water Works. He said the Transplant Life Foundation's Transplant Games of America bring in thousands of donors, recipients of organs, and those waiting to become recipients of organs to gather for Olympic style games. Mr. Jackson stated that there will be 60 different locations for this event, approximately thousands of participants, as well as spectators. The Birmingham Water Works role is to explain the importance of water for recipients of organ transplants because a significant amount of water consumption involved in the organ transplant process. He said hydration material will be distributed for participants and staff will discuss Birmingham Water Works clean water initiative. He said the Birmingham Water Works clean water initiative highlights the process for high quality water. Mr. Jackson stated that when Birmingham Water Works was asked to partner on this event, staff thought it would be a great opportunity for collaboration of the company's water program, which reaches out to athletes. Board Attorney Parnell provided the opinion that based on the information staff presented, said item meets the corporate purpose. Director Huffman made a motion to recommend said item be moved to the full Board for approval and Director Burbage seconded the motion. On a motion duly made and seconded, the motion was approved by unanimous vote.

Following, the Committee proceeded to the third item on the agenda, Request Committee to recommend to the Board to adopt a resolution authorizing the BWWB Infrastructure Repair and Rehabilitation Project, the execution and delivery of a Water Infrastructure Finance and Innovation Act (WIFIA) loan agreement, WIFIA bond, WIFIA term sheet, supplemental indenture, and certain related documents. Director Huffman made a motion to recommend said items be moved to the full

Board for approval and Director Burbage seconded the motion. On a motion duly made and seconded, the motion was approved by unanimous vote.

Next, the Committee proceeded to the fourth item on the agenda, Request Committee to recommend to the Board to adopt a resolution authorizing the 2024 Bond Anticipation Note (BAN). Board Attorney Parnell suggested Matthew Arrington, Financial Advisor, explain the WIFIA (previous item) and the referenced item. Mr. Arrington said the WIFA item was a required resolution that was necessary to move the WIFIA Loan forward. He said since the Committee has approved the WIFIA item in this meeting, the WIFIA item will be presented to the full Board for approval at the June 5, 2024, Regular Board of Directors' Meeting, and the WIFIA Loan closing will be June 18, 2024. Per Mr. Arrington, the rate will not be available into documents until June 18, 2024, (it is locked on the morning of the closing), as it is based off the Treasury. He stated we will not be drawing on the loan anytime soon, because we will be allowed to get a better treasury rate as long as 51% of the BWB Infrastructure Repair and Rehabilitation Project has not been completed. Mr. Arrington said the treasury rates are currently high; however, if the company waits until next year, it can renegotiate a lower treasury rate before drawing on the loan. Afterwards, Mr. Arrington asked Brad Green, Raymond James & Associates, to come forward and assist him with any questions regarding the 2024 Bond Anticipation Note. Mr. Arrington began discussing the Bond Anticipation Note. He said the Bond Anticipation Note helps the Board continue its capital projects. Mr. Arrington stated that the company currently has approximately \$27 million dollars but must make sure there is enough money to continue. He said the Ban Anticipation Note will take approximately 60 day to complete. Per Mr. Arrington, the Bond Anticipation Note is a direct loan with one lender. He said they will go out and scan the market and ask for a one-to-three-year loan treasury rate, to ensure getting a good rate, which can be paid off at any time after one year. He stated the company does not want to draw off the WIFIA Loan unless necessary, because there is a lot of cost associated. Mr. Arrington indicated that staff would prefer one loan to pay everything off. In addition, he said the Bond Anticipation Note can also be paid off with a bond. He said short-term loan treasury rates are high, but said loan is tax deductible. Mr. Arrington stated that one advantage, is that the loan can be invested. Mr. Arrington said the company could possibly gain an additional one to two million dollars in interest earnings by investing the loan dollars. Mr. Arrington stated the next item will be asking the Board to approve the team for Board Counsel, Attorney Mark Parnell; Matthew Arrington, Financial Advisor; and Sirote Denton (worked on the WIFIA Loan and got the Environmental Protection Agency (EPA) approval). Also, he indicated that a Placement Agent needs to be hired and recommended Raymond James Associates. Mr. Arrington said the placement agent goes out to the market and to talk to a buyer to seek the best treasury rate for the company. He reiterated that the process takes 60 days. Mr. Arrington said different rate term scenarios (one-year, two-years, etc.) will be reviewed; however, he would like to maintain the flexibility to pay off the loan at any time. Director Ward asked if the company pays the loan off whenever we want, why would we automatically go for two or three-year rates. Mr. Arrington responded that everyone is asked for one-year, two-year, and three-year rate bids, because some people will not do two or three bids. He said everyone is asked to provide a bid for all three years to make sure that the required three bids are received. Afterwards, Director Ward asked whether they had spoken to any investors. Mr. Green responded no. He said this process is different. Per Mr. Green, the Board's current indenture does not allow this type of structure, because there is an additional bond's test. Mr. Green stated that if the company is issuing a one-year bond anticipation note, with

over \$50,000,000.00 of principal interest in one year, the Board cannot meet the requirement of the indenture. Therefore, the Board must move down the ladder from a credit perspective, which the alternative is to issue subordinate debt. He said there must be approval from all the subordinate bond holders to issue subordinate debt, which will be discussed with legal and finance teams. Mr. Green stated there is still work to be done to figure out the best approach, but the company needs to be flexible to all investors, their preferences, and get as much feedback as possible. Director Huffman made a motion to recommend said items be moved to the full Board for approval and Director Burbage seconded the motion. On a motion duly made and seconded, the motion was approved by unanimous vote.

Subsequently, the Committee proceeded to the fifth item on the agenda, Request Committee to recommend to the Board to adopt a resolution authorizing Professionals in connection with the WIFIA Loan and a Bond Anticipation Note. Director Huffman made a motion to recommend said item be moved to the full Board for approval and Director Burbage seconded the motion. On a motion duly made and seconded, the motion was approved by unanimous vote.

As there was no further business before the Committee, Director Huffman made a motion to adjourn the meeting and Director Burbage seconded the motion. On a motion duly made and seconded, the motion was approved, and the meeting adjourned at 10:30 a.m.

Michael Johnson
General Manager

_____/s/_____
Larry Ward
Committee Chairman

_____/s/_____
William "Butch" Burbage, Jr.
Director

_____/s/_____
Tereshia Q. Huffman
Director