

**MINUTES OF THE REGULAR BI-MONTHLY MEETING OF DIRECTORS
OF THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
July 13, 2016**

The regular bi-monthly meeting of the directors of The Water Works Board of the City of Birmingham was held on Wednesday, July 13, 2016, at 9:00 a.m., in the principal office of the Board, 3600 First Avenue North, Birmingham, Alabama.

The following Directors were present: Ronald A. Mims, Kevin B. McKie, and George Munchus.

Inasmuch as three Directors were present, Chairman Mims declared a quorum in attendance.

The meeting was also attended by: Mac Underwood, General Manager, Darryl Jones and Sonny Jones, Assistant General Managers; Grace Amison, Executive Assistant to the Board of Directors; Cynthia Williams, and Ben Sorrell, Board Employees; Courtney French and Samuel Ford, Fuston, Petway & French, LLP; Matthew Arrington, Terminus; Jerry Jones and Brian Ruggs, ARCADIS; David Germany and Steve Scaro, Regions Bank; Dan Meadows, S.S. Nesbit & Company; Dr. Jesse Lewis and Dorian Kendrick, The Lewis Group; Matt Adams, Raymond James; Walter Lewis, Piper Jaffray; Greg Sherrer, Birmingham County Commission; Rodney Givens, Jackson & Tull; Michael and Juanita Jones, Securities Capital; Chandra Abesingh, CE Associates; Bo Daniels and Russell Johnson, PNC Bank; Theo Johnson, Volkert, Inc.; David Merrida, Birmingham Construction Industry Authority; Greg Burrell, Morgan Stanley; John Ray, KHAFRA; Hal Humphrey, Gresham, Smith & Partners; W.A. Casey; and David Russell.

Chairman Mims called the meeting to order at 9:03 a.m. and prayer was offered by AGM Michael Johnson.

General Manager Underwood informed the meeting body that former General Manager Mike Vann was very ill and he asked the meeting body to remember him and his family in prayer.

General Manager Underwood proceeded with the business of the Board. He asked the Board to adopt a resolution commending Ms. Ann D. Florie for her nearly 6 years of service as a Board of Director and Second Vice-Chairwoman/Second Vice President of the Water Works Board, as set forth in agenda item 1. Subsequently, a motion was made and seconded and the following resolution was adopted:

“WHEREAS, on December 7, 2010, Ann D. Florie was appointed by the City Council of the City of Birmingham to serve as a member of the board of directors of The Water Works Board of the City of Birmingham; and,

WHEREAS, Mrs. Florie has served admirably and with distinction as a director for nearly six (6) years, in a manner which has been honorable, forthright, supportive and beneficial to the Water Works Board’s success; and,

WHEREAS, during Mrs. Florie’s tenure on the board of directors of the Water Works Board, Mrs. Florie has held the offices of Assistant Secretary-Treasurer and Second Vice-Chairwoman/Second Vice President; and,

WHEREAS, in addition to holding the offices of Assistant Secretary-Treasurer and Second Vice-Chairwoman/Second Vice President, Mrs. Florie has dutifully and faithfully served on the following Water Works Board committees: Executive Committee, Consultants Committee, Communications Committee, Anti-Terrorism/Security Committee; and Human Resources Committee; and,

WHEREAS, in her capacity as a member of the board of directors, as well as in serving on the above committees and holding the above offices, Mrs. Florie has exhibited a steadfast dedication and a superb contribution to the Water Works Board, its employees and customers; and,

WHEREAS, Mrs. Florie has throughout her service as a board of director exemplified and consistently supported the core values of the Water Works Board - those being committed to providing the highest quality water and service to its customers; being responsive to the customers' needs and providing service in a timely and courteous manner; continuous improvements at the corporate level and throughout its distribution system; and striving to maintain, preserve, and conserve its precious water resources in order to ensure adequate quality water and supply for future generations; and

WHEREAS, during Mrs. Florie's tenure on the board of directors of the Water Works Board, she has demonstrated an ability to provide keen and practical insight and thoughtful advice to the Board and its management team that has spanned the length of her service; and,

WHEREAS, the board of directors formally expresses its sincere appreciation to Mrs. Florie for her excellent and untiring contributions to the success of the Water Works Board during her years of service; and,

NOW, THEREFORE, BE IT RESOLVED BY the below signed members of the board of directors of The Water Works Board of the City of Birmingham, that members of the board of directors unanimously extend their sincere and heartfelt appreciation to Mrs. Florie for her past service, exceptional leadership, hard work and dedication, and her continued efforts toward ensuring that the Water Work Board's reputation for excellence continues.

BE IT FURTHER RESOLVED, that in recognition of Mrs. Florie's services to the Board, a copy of this resolution be spread upon the minutes of The Water Works Board of the City of Birmingham and a copy be presented to Mrs. Florie as a token of the board of directors' appreciation.

Adopted this 13th day of July 2016 by the board of directors of The Water Works Board of the City of Birmingham.”

Resolution No. 7224 is hereby adopted by unanimous vote.”

Next, as there was no old business for discussion, General Manager Underwood asked the Board to approve the Regular Board of Directors' minutes for March 9, 2016 and May 25, 2016, as set forth in agenda item 3. He commented that management has reviewed the referenced minutes and recommends them for approval. Subsequently, a motion was made and seconded and 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. George Munchus and seconded by Mr. Kevin B. McKie, that the Board hereby approves minutes of the following: Regular Board of Directors' Meeting held March 9, 2016, and Regular Board of Directors' Meeting held May 25, 2016. Resolution No. 7225 is hereby adopted by unanimous vote.”

Following, General Manager Underwood asked the Board to approve Director's actual travel expenses for the 2016 AWWA Annual Conference and Exposition: Director Mims in the amount of \$2,967.39; Director McKie in the amount of \$1,630. 75; and Director Lewis in the amount of \$2,849.08

.80. [NOTE: A Roll Call Vote is Required], as set forth in agenda item 4. Subsequently, a roll call vote was made and the following resolution was adopted:

“WHEREAS, the Board of Directors has adopted a Travel Expense Reimbursement Policy, as amended; and

WHEREAS, pursuant to Resolution No. 7082 adopted by the Board of Directors on December 21, 2015, approval was given to attend the 2016 AWWA Annual Conference and Exposition scheduled June 19 - 23, 2016, in Chicago, Illinois; and

WHEREAS, in accordance with Act No. 2015-164, approval is requested for the following actual expenses relative to the above-referenced conference.

NOW, THEREFORE, BE IT RESOLVED, on a motion duly made by Mr. George Munchus and seconded by Mr. Kevin B. McKie, that the following board member(s) be reimbursed for his/her actual expenses pertaining to said conference as follows:

- Ronald A. Mims for total expenses including conference registration, airline ticket, lodging (room and tax only), other incidental expenses, and business meals in the amount of \$2,967.39 (as itemized on the attached Travel and Business Expense Reimbursement form).
- Kevin B. McKie for total expenses including airline ticket, lodging (room and tax only), other incidental expenses, and business meals in the amount of \$1,630.75 (as itemized on the attached Travel and Business Expense Reimbursement form).
- Sherry W. Lewis for total expenses including conference registration, airline ticket, lodging (room and tax only), other incidental expenses, and business meals in the amount of \$2,849.08 (as itemized on the attached Travel and Business Expense Reimbursement form).

Resolution No. 7226 is hereby adopted on July 13, 2016 by a roll call vote: Chairman Mims, Aye Director McKie, Aye; and Director Munchus, Aye.”

Next, General Manager Underwood asked the Board to approve payments of invoices for professional services, as set forth in agenda items 5.1 through 5.7. He indicated that management has reviewed said invoices and recommends approval. Subsequently, a motion was made and seconded and 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. George Munchus and seconded by Mr. Kevin B. McKie, that the Board hereby authorizes staff to execute payments to the following:

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| 5.1 | <u>Carl Dalton NeSmith Jr., LLC</u> For retainer for July 2016 | \$ <u>500.00</u> |
| 5.2 | <u>Birmingham Construction Industry Authority</u> For professional services rendered for June 2016 | \$ <u>2,000.00</u> |
| 5.3 | <u>Terminus Municipal Advisors, LLC</u> For professional services rendered for June 2016 | \$ <u>6,500.00</u> |
| 5.4 | <u>Fine Geddie & Associates, LLC</u> | |

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| 5.5 | For professional services rendered for July 2016 <u>Volkert, Inc.</u> For professional services rendered for June 2016 | \$ <u>10,000.00</u> \$ <u>15,000.00</u> |
| 5.6 | <u>The Lewis Group</u> For professional services rendered for May 2016 | \$ <u>25,000.00</u> |
| 5.7 | <u>ARCADIS U.S., Inc.</u> For professional services rendered per May's 2016 Progress Report (May 2016) | \$ <u>630,179.45</u> |

Resolution No. 7227 is hereby adopted by unanimous vote.”

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Following, General Manager Underwood asked the Board to approve expansion/remodeling to the existing Board Room on the second floor at an estimated cost of \$66,500.00; and to approve and authorize the General Manager and/or the Assistant General Manager to accept a Scope Services Agreement from KHAFRA, as set forth in agenda item 6. He indicated that management recommends approval of said item. Director McKie asked if remodeling work on the existing Board Room would begin immediately. General Manager Underwood responded that construction work will begin once the designs, bids and specifications are complete for the referenced project. Subsequently, a motion was made and seconded and 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. George Munchus and seconded by Mr. Kevin B. McKie, that the Board hereby approves and authorizes the following, as recommended by the Finance Committee:

- 6.1 The expansion/remodeling of the Existing Boardroom on the Second Floor at an estimated cost of \$66,500.00.
- 6.2 The acceptance of a Scope of Service Agreement from KHAFRA to provide plans, specifications, bidding and construction services for the Boardroom Expansion at an estimated cost of \$30,000.00; and authorizes the General Manager and/or the Assistant General Manager to accept said agreement.

Resolution No. 7228 is hereby adopted by unanimous vote.”

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Next, General Manager Underwood asked the Board to approve and authorize the General Manager and/or the Assistant General Manager to accept the following Scope of Services Agreements, as recommended by the Finance Committee, and as set forth in agenda items 7.1 through 7.3. Item 7.1 relates to Gresham, Smith & Partners for the design and inspection of a water main replacement project in two (2) locations in the City of Birmingham. Item 7.2 relates to CE Associates for the design and inspection of a water main replacement project along 60th Street South; 63rd Street, and Avenue “D” located in the City of Fairfield, Alabama. Item 7.3 relates to Burk-Kleinpeter, Inc., for the design and inspection of a water main replacement project along Pine Street Lane; 86th Place South, 1st Avenue South, Fulton Avenue North; and 49th Court, North located in the City of Birmingham and the City of Tarrant. General Manager Underwood indicated that management recommends approval of said items. Subsequently, a motion was made and seconded and 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. George Munchus and seconded by Mr. Kevin B. McKie, that the Board hereby approves and authorizes the General Manager and/or the Assistant General Manager to accept the following Scope of Services Agreements, as recommended by the Finance Committee:

- 5.1 Gresham, Smith & Partners for the design and inspection of a water main replacement project in two (2) locations in the City of Birmingham. Area #1: Delta Street, South; Beta Street, South; 2nd Street, South; and 16th Avenue, South. Area #2: Mayfield Avenue SW; 19th Street SW; 20th Place SW; 22nd Street SW; and 23rd Street SW. The water mains to be replaced in the City of Birmingham are 2-inch unlined cast iron pipe, galvanized steel and cast iron cement lined pipe installed prior to 1940. The 2-inch water mains in both locations have a high leakage rate based upon the Rehabilitation & Replacement Model. The estimated out-of-pocket cost to the Board for the Scope of Services is \$102,000.00.
- 5.2 CE Associates for the design and inspection of a water main replacement project along 60th Street; 63rd Street; and Avenue “D” located in the City of Fairfield, Alabama. The water mains to be replaced in the City of Fairfield are 2-inch unlined cast iron pipe and galvanized steel pipe installed prior to 1925. The 2-inch water mains in this location have a high leakage rate based upon the Rehabilitation & Replacement Model. The estimated out-of-pocket cost to the Board for the Scope of Services is \$107,652.60.
- 5.3 Burk-Kleinpeter, Inc., for the design and inspection of a water main replacement project along Pine Tree Lane; 86th Street, South; 86th Place South, 87th Street, South; 1st Avenue, South; Fulton Avenue North; and 49th Court, North located in the City of Birmingham and the City of Tarrant. Burk-Kleinpeter, Inc. and A.G. Gaston have formed a joint venture for these projects. The water mains to be replaced in the City of Birmingham are 2-inch unlined cast iron pipe, galvanized steel pipe and cast iron cement lined pipe installed prior to 1948. The water mains to be replaced in the City of Tarrant are 2-inch galvanized steel pipe installed prior to 1929. The 2-inch water mains in both locations have a high leakage rate based upon the Rehabilitation & Replacement Model. The estimated out-of-pocket cost to the Board is for the Scope of Services is \$176,593.00.

Resolution No. 7229 is hereby adopted by unanimous vote.”

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Next, General Manager Underwood asked the Board to take bids for the Inland Lake Dam Evaluation and Monitoring Program to collect real time data to measure well performance; and to establish trend line for data acquisition, storage, evaluation and reporting, as set forth in agenda item 8; and as recommended by the Finance Committee. General Manager Underwood indicated that management recommends approval of said item. Subsequently, a motion was made and seconded and the following resolution was adopted:

“BE IT RESOLVED By The Water Works and Sewer Board of the City of Birmingham (“the Board”), on a motion duly made by Mr. George Munchus and seconded by Mr. Kevin B. McKie, that the Board hereby authorizes staff to take bids on the Inland Lake Dam Evaluation and Monitoring Program to collect real time data to ensure well performance; and to establish trend line data acquisition, storage, evaluation and reporting, as recommended by the Finance Committee. Resolution No. 7230 is hereby adopted by unanimous vote.”

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Following, General Manager Underwood asked the Board to approve a Custodian Agreement with Regions Institutional Services to provide Master Trust and Custody Services; and to authorize the General Manager and/or the Assistant General Manager to execute said agreement, subject to review by the Board's Attorneys, as set forth in agenda item 9; and as recommended by the Finance Committee. General Manager Underwood indicated that upon approval of the agreement from the Board's Attorneys, management would execute said agreement. Attorney French pointed out that review of the referenced agreement has been completed by the Board's Attorneys and no problems were found. Subsequently, a motion was made and seconded and 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. George Munchus and seconded by Mr. Kevin B. McKie, that the Board hereby approves an agreement with Regions Institutional Services as provider of Master Trustee and Custody Services; and to authorize the General Manager and/or the Assistant General Manager to execute said agreement, subject to final review by the Board's Attorneys, as recommended by the Finance Committee.

Resolution No. 7231 is hereby adopted by unanimous vote.”

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Next, General Manager Underwood asked the Board to approve the Bond Issuance Team for the 2016 Refunding Bonds, as set forth in agenda item 10. Chairman Mims commented that prior to approval of the referenced item he would like to make some changes to the underwriters' team. Chairman Mims pointed out that after further review of the underwriters' team recommended during the Finance Committee Meeting on Tuesday, July 12, 2016, the companies were thoroughly reviewed and changes are being made in the best interest of the BWWB. Chairman Mims expressed apologies to his fellow Board Members for not informing them of the changes prior to today's Board Meeting. Chairman Mims stated that his changes of companies and percentages are as follows:

- Goldman Sachs (Lead Underwriter) 40 %
- Citi Group 25%
- Morgan Stanley 15 %
- SCC Capital Management (Minority Firm) 10 %
- The Frazier-Lanier Company 5 %
- Northwest Financial 5 %

Director Munchus asked if he could offer a friendly amendment. He asked that Piper Jaffray be the lead underwriters for the BWWB's next bond deal. Chairman Mims responded that he understood Director Munchus' concerns. Chairman Mims pointed out that he consulted with his personal attorney relative to making a commitment to a company for future use. Chairman Mims stated that Piper Jaffray could be included in a pool to be considered for future use by the Board; however, he was unsure if said commitment could be made today for future Board Members. Chairman Mims added that he would support Piper Jaffray as lead underwriters during his tenure as a Board Member. Subsequently, a motion was made and seconded and 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. Ronald A. Mims and seconded by Mr. Kevin B. McKie , that the Board hereby approves its 2016 Refunding Bond Issuance Underwriters Team as follows:

- 1. Goldman Sachs (Lead Underwriter) - 40%
- 2. Citi Group - 25%
- 3. Morgan Stanley - 15%
- 4. SCC Capital Management (Minority Firm) - 10%

- 4. The Frazier Lanier Co. - 5%
- 5. Northwest Financial - 5%

Resolution No. 7233 is hereby adopted by unanimous vote.”

Following, Attorney French informed the Board that action for bond counsel, co-bond counsel and disclosure counsel would need to be voted on separately from the bond underwriters’ team. Subsequently, a motion was made and seconded and the following resolutions were adopted:

“BE IT RESOLVED By The Water Works Board of the City of Birmingham (“the Board”), on a motion duly made by Mr. Kevin B. McKie and seconded by Mr. George Munchus, that the Board hereby approves Maynard Cooper & Gale, as Bond Counsel, for the 2016 Refunding Bond Issuance. Resolution No.7233 is hereby adopted by unanimous vote.”

“BE IT RESOLVED By The Water Works Board of the City of Birmingham (“the Board”), on a motion duly made by Mr. Kevin B. McKie and seconded by Mr. George Munchus, that the Board hereby approves Yvonne Green-Davis P.C., as Co-Bond Counsel, for the 2016 Refunding Bond Issuance. Resolution No. 7234 is hereby adopted by unanimous vote.”

“BE IT RESOLVED By The Water Works Board of the City of Birmingham (“the Board”), on a motion duly made by Mr. Kevin B. McKie and seconded by Mr. George Munchus, that the Board hereby approves Sirote and Permutt, as Disclosure Counsel, for the 2016 Refunding Bond Issuance. Resolution No. 7235 is hereby adopted by unanimous vote.”

Next, General Manager Underwood proceeded with the agenda and he asked the Board to approve an agreement with Morgan Stanley to provide Pension and OPEB Consulting Services; and to authorize the General Manager and/or the Assistant General Manager to execute said agreement, subject to review by the Board’s Attorneys, as set forth in agenda item 11. Chairman Mims stated that he would like to table item 11 until the information he requested is provided pertaining to HUB participation with Pension and OPEB consulting services. Subsequently, a motion was made and seconded and 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. Ronald A. Mims and seconded by Mr. George Munchus, that the Board hereby tables, agenda item 11, an agreement with Morgan Stanley to provide Pension and OPEB consulting services. Resolution No.7236 is hereby adopted by unanimous vote.”

Following, Under Other Business, Chairman Mims submitted a recommendation to the Board to approve an agreement with Russell Management Group, LLC (RGM) located in Huntsville, Alabama, to provide program management services for a 3-year period, effective July 13, 2016 to July 13, 2019; and to authorize the Chairman/President and/or the General Manager and/or Assistant General Manager to

execute said agreement, as added to the agenda under other business.. Subsequently, a motion was made and seconded and 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. Ronald A. Mims and seconded by Mr. Kevin B. McKie, that the Board hereby approves an agreement with Russell Management Group, LLC (RGM) to provide program management services for a three-year period, effective July 13, 2016 to July 13, 2019, as outlined in the agreement; and to authorize the Chairman/President and/or the General Manager and/or the Assistant General Manager to execute said agreement. Resolution No. 7237 is hereby adopted by unanimous vote.”

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Next, General Manager Underwood asked to address an item not listed on the agenda that falls under old business. Documents pertaining to the BWWB’s Financial Statement Audits for 2014 and 2015 were distributed. (copies of said documents are on file in Diligent Boardbooks). General Manager Underwood pointed out that relative to the Audit Report presented to the Board by Banks, Finley, White & Company (BFW), he felt that an update was necessary. General Manager Underwood addressed comments in pink of the handouts. He reminded the Board that BFW gave an unmodified opinion which is the best possible opinion that could have been given. He stated that no material non-compliance was found by the audit. BFW noted a material weakness related to internal controls. General Manager Underwood pointed out that when there are implementations of new Accounting Standards and Accounting Principles, typically there is a re-statement of the financial statements. General Manager Underwood commented that highlighted notes reflect that management has properly recorded and implemented the GASB 65 and 68 accordingly per audit statement by BFW and the internal audit review by the Board’s Internal Auditors. Next, General Manager Underwood addressed the Capital Improvement process. He stated that requests to take bids and award bids are presented to the Board periodically. After approval, contracts are executed by management and funds are expended in accordance with the terms of the contract. ARCADIS verifies that all funds have been properly expended on capital projects. Management receives a certified reimbursement letter from ARCADIS at which time management request the Board to approve reimbursement of operating expenditures via a resolution. This process certifies that all funds were properly expended. Some projects were not closed in a timely manner in 2014 which resulted in re-classifying cost from construction work in process to utility plant equipment. General Manager Underwood commented that relative to the 2015 Financial Statement Audit, all funds were used according to the Board’s Policies and Procedures and in accordance with the BWWB’s indenture. General Manager Underwood commented that BFW and the Internal Auditors addressed the \$20.6 million dollars of deferred loss on refunding of debt. Relative to communication with management, the auditors encountered no difficulties with the management team while performing the audit. All known misstatements were corrected in the financial statements. There were no disagreements with management on financial accounting, reporting, or auditing matters.

Next, General Manager Underwood addressed the December 2014 Audit performed by Carr, Riggs & Ingram, CPAs. There are several line items throughout the referenced handout that were restated. General Manager Underwood pointed out that restatements of financial statements occur during the time when auditors are changed and when implementing new Governmental Accounting Standard Board Guidelines. General Manager Underwood concluded and stated that he will be available to answer any questions board members may have pertaining to the referenced audit reports.

Director Munchus commented on the explanation of the audit reports provided by General Manager Underwood. Director Munchus added that based on his knowledge of general accepted accounting practices, the audit reports revealed fairly common occurrences, even with the noted material weaknesses. Director Munchus stated that the most important thing is that there is no impact with cash and he is ok with the restatements in the financial audit report(s).

Following, Attorney French pointed out that an Executive Session was needed to discuss a potential litigation matter. Attorney French stated that Senior Executive Management, Mr. Jerry Jones and the Board's Attorneys would remain for the Executive Session. Subsequently a motion was made and seconded to enter in to an Executive Session at 9:20 a.m., and 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. Kevin B. McKie and seconded by Mr. George Munchus, that the Board hereby approves an Executive Session to discuss a potential litigation matter. Resolution No. 7238 is hereby adopted by unanimous vote.”

At 9:27 a.m. a motion was duly made and seconded to adjourn the Executive Session and the meeting reopened.

As there was no further business to come before the Board, at 9:28 a motion was duly made and seconded, and the meeting was adjourned.

/s/
Ronald A. Mims
Chairman/President

Attest:

/s/
George Munchus, Ph.D.
Secretary-Treasurer