MINUTES OF
SOUTHEAST LOUISIANA FLOOD PROTECTION AUTHORITY-EAST
FINANCE COMMITTEE MEETING
HELD ON DECEMBER 21, 2017

PRESENT: Mark L. Morgan, Chair
Quentin D. Dastugue, Committee Member
Richard A. Luettich, Jr., Committee Member

The Finance Committee of the Southeast Louisiana Flood Protection Authority-East (FPA or Authority) met on December 21, 2017, in the Franklin Avenue Administrative Complex, Meeting Room 201, 6920 Franklin Avenue, New Orleans, Louisiana. Mr. Morgan called the meeting to order at 9:40 a.m.

Opening Comments: Mr. Morgan explained that the meeting was scheduled for an earlier time due to the number of items on the agendas for the Finance and Operations Committees.

Adoption of Agenda: The Committee adopted the agenda as presented.

Approval of Minutes: The Committee approved the minutes of the Finance Committee meeting held on November 16, 2017.

Public Comments: None.

Regional Finance Director's Report:

Kelli Chandler, Regional Finance Director, provided the following updates:

- Staff has been working on the term sheets for the Permanent Canal Closures and Pumps (PCCP) and reviewing funding for the project.
- Payroll consolidation is in its final stages and scheduled to take effect on January 1st. The data has been copied, all codes have been standardized and test runs are being conducted today and tomorrow.
- The setup for a standard timekeeping system is almost complete. The next phase will be the setup of the benefits system.
- Data was gathered and submitted to the consultant for the compensation study. The only remaining item that must be provided is the length of time each employee has been in his/her current position. Staff is going through each individual's file to gather this information. Derek Boese, Chief Administrative Officer (CAO), clarified that the compensation study focuses on the most populated positions.

Mr. Boese advised that the Human Resources (HR) Department is severely understaffed due to the recent loss of its Director and the retirement last week of a senior East Jefferson Levee District (EJLD) staff member (HR Analyst C). Both positions were advertised and resumes were received. He anticipated conducting interviews during the first week in January. Due to the staff shortage, the Authority retained the services of Dee Everett, who is an expert on Civil Service, and Shannon Fazande, who conducted the focus groups, to assist with hiring and on-boarding.

Ms. Chandler advised that an offer will be extended for an Accountant 3 position that was vacant for several months. The advertisement period for the Deputy Regional Finance Director position closed yesterday and resumes are due within five days.

New Business:

A. Discussion of approval of proposed Cooperative Endeavor Agreement with <u>Sewerage & Water Board regarding the Permanent Canal Closures & Pumps.</u>

Mr. Luettich explained that there appears to be a strong spirit of cooperation between the FPA and the New Orleans Sewerage and Water Board (S&WB). The Cooperative Endeavor Agreement (CEA) seems to cover the language that is needed; however, a few pieces of verbiage could be cleaned up. The one issue that is not well addressed in the CEA is the payment for large periodic capital expenses (e.g., operating the system at a higher level during an extremely active hurricane season and significant periodic maintenance). The CEA projects an annual $2 million dollar contribution by both the FPA and S&WB ($4 million total annual budget), and a portion of this funding could be set aside for large periodic expenses. He suggested that the FPA set up the appropriate processes to set aside and to annually budget for large periodic expenses. The CEA sets aside $500,000 of the S&WB's initial contribution to start the process, which should be matched by the FPA. This would provide $1 million for placement in a dedicated strategic fund for large periodic expenses. Each year an amount, which can be adjusted as needed, should be budgeted for the dedicated fund, with equal contributions by the FPA and S&WB. Mr. Luettich stated that this issue has been discussed between the FPA and S&WB and that he was comfortable with moving forward with the CEA. He added that it would probably take a year or two of actual operation to identify the true operating costs. Mr. Morgan clarified that the FPA will need to establish budget and long term maintenance accounts.

Mr. Hassinger advised that everything that Mr. Luettich stated is consistent with the discussions between the FPA and S&WB throughout the CEA negotiations. The question was asked at the S&WB meeting yesterday, would the FPA come back in the future with a larger number for the annual contribution. Everyone anticipates that the $2 million S&WB share and $4 million cost estimate includes long term and periodic large costs, which are annualized over a fifty year period. The only way to capture and prepare for the large periodic costs is through a line item in the budget. He stated that throughout the negotiation process, the Mayor's staff and S&WB's staff have been extremely professional, engaged, cooperative and a pleasure to work with on this issue.

Mr. Luettich commented that the FPA had previously discussed setting up separate capital accounts for complex structures, and that it is particularly important in this situation because multiple agencies are involved.

Mr. Dastugue inquired about the budget for the PCCP. Mr. Hassinger explained that the FPA must prepare the budget. The USACE provided an annualized estimate of what it determined the cost would be to operate and maintain the PCCP ($4 million per year). The $4 million can be broken down for the specific budget categories. Mr. Dastugue asked what would happen should the budget exceed the $4 million estimated cost. Mr. Hassinger responded that the CEA provides that currently the parties anticipate that the cost is $4 million and that it may be higher or lower. Mr. Dastugue inquired about guarantees regarding the S&WB's annual contribution. Mr. Hassinger responded that the contribution would be submitted in advance once each year (July 1st). The CEA provides that should the contribution not be submitted when due, the FPA can immediately terminate the agreement. The initial $2.5 million contribution will be submitted by the S&WB at the time the CEA is executed. The CEA will be executed after approval by the FPA and tweaking of language and approval by the CPRA. Most of the language in the CEA was drafted by the CPRA. Mr. Luettich pointed out that the language in the CEA makes it clear that the cost will be split 50/50.

Mr. Dastugue inquired about staff expertise for the operation and maintenance of the PCCP. Mr. Boese responded that at the senior level relative to operations Gerry Gillen has taken charge of the PCCP. The FPA understands that it needs additional staff and expertise for permanent positions and is working with a consultant to develop the position descriptions for between five and eight permanent staff members. The FPA is working through the position descriptions, which are anticipated to be completed next week, and whether the positions will be classified or unclassified. The positions may include an electrical engineer, a mechanical engineer, a SKADA controls expert, and probably a full time operator per station. The PCCP is anticipated to be turned over to the FPA in February or March. Staffing is a crucial point for moving forward. The contractor operated the PCCP during testing.

Mr. Dastugue inquired about the administrative expense cap of five percent in the CEA. Mr. Hassinger clarified that the CEA refers to the FPA's administrative expenses.

Mr. Morgan commented about the role of the CPRA in the oversight of construction and inspections of the PCCP and that he would like the section of the CEA relative to the CPRA to be modified so that the CPRA, as the local sponsor, would not be stepping away from the PCCP at this point. He added that the consultant retained by the CPRA did a full phased report in about 2010 on the PCCP and the West Closure Complex.

Mr. Dastugue asked whether the City's new administration is on board with the CEA. Mr. Hassinger responded, yes. He explained that he met with the Mayor-elect and that she is very much a supporter of cooperation among government partners and appreciates the FPA stepping up and agreeing to take on the operation and maintenance of the PCCP. The signatories on the CEA are the S&WB, FPA and CPRA.

Zack Butterworth, Executive Counsel for the Mayor of New Orleans, advised that he helped negotiate the agreement along with Mr. Hassinger. The S&WB collects its millages at the beginning of each calendar year and receives a chunk of the payment for the drainage system at that time; therefore, it is just a matter of the S&WB setting aside its contribution. The S&WB Board adopted its annual operations budget yesterday, which included the annual $2 million payment to the FPA. The S&WB operates on a different fiscal year cycle than the FPA. The S&WB is working on the initial payment of $2.5 million that will essentially be for six months of operations; however, it will be reconciled over the summer when returning to the fiscal cycle. He commented that the Committee's discussion regarding accounting for capital costs versus annual operations costs is smart. As the FPA gets a handle on the budget numbers and a better understanding of the costs, a process can be put in place where separate accounts are set up for capital costs, operations costs and for emergencies.

Mr. Morgan advised that the Committee's comments will be summarized at the Board meeting.

B. Discussion of PCCP Property Insurance and status report on ongoing insurance renewals.

Mr. Boese advised that the information provided by the USACE regarding the PCCP was submitted to Arthur J. Gallagher (Gallagher). Matt Byrd with Gallagher explained that the firm is reviewing the USACE's information and is attempting to evaluate a probable maximum loss should a failure occur. The PCCP buildings have a 200 mile per hour wind rating; therefore, a wind event is not a primary concern. The main concern is the internal boiler and machinery, along with the potential extra expense depending on the time of year to expeditiously rebuild the system in the event of a failure. The dollar value needed in the case of an emergency, the deducible and method for funding the deductible must be developed. The marketplace is expressing a tremendous amount of interest due to the superior construction of PCCP buildings and the low likelihood of a failure. At the current time Gallagher estimates an insurance cost of 12 cents per $100 dollars in value. Gallagher must also consider risk tolerance. The initial construction cost of the PCCP (3 locations) is $640 million. He suggested that the full replacement cost ($640 million) not be used in the financial planning because of the low likelihood of a failure at all three buildings during one occurrence. Gallagher is working through the process for putting the required systems in place should a failure occur at one building that would include expenses to expedite rebuilding the system. He reiterated that the risk tolerance is still being determined.

Mr. Morgan explained that the FPA has about $12 billion of Hurricane and Storm Damage Risk Reduction System (HSDRRS) assets, which includes about $3 billion of structures, and inquired about properly insuring those assets. Mr. Byrd advised that Gallagher is capable of determining the exposure for the FPA's assets. Mr. Luettich pointed out that the ownership of the HSDRRS assets are still in limbo. Mr. Boese explained that the PCCP will be the first part of the HSDRRS that is signed down from the CPRA to the FPA. While the FPA is operating and maintaining much of the perimeter system, the CPRA has not signed down those parts of the HSDDRS via a CEA to the FPA.

The Finance Committee established a special subcommittee chaired by Mr. Boese to address the HSDRRS insurance issues.

Mr. Byrd explained that policies are currently in place for property insurance coverage for the FPA's various facilities. Coverage for the PCCP would be under a differ type of property insurance policy due to the vast difference between the PCCP structures and the FPA's facilities and the very different risks. A far superior rate is anticipated to be received for the PCCP buildings. Mr. Luettich asked whether coverage for the PCCP would be in place at the time the FPA takes over the operations and maintenance. Mr. Morgan and Mr. Boese concurred that the coverage should be in place at that point. Mr. Byrd explained that an engineer from a property insurance carrier is scheduled to inspect the PCCP buildings on January 4th, evaluate the risk from his/her perspective and develop a report to be provided to the marketplace for evaluation. Therefore, additional information should be available by mid-January. Gallagher will provide a limit recommendation after this process takes place. Mr. Morgan volunteered to be a member of the special subcommittee.

The Committee noted that approximately $330,000 was saved by the FPA with the consolidation of policies across the districts. The FPA is still in the process of syncing renewal dates for all of the coverages.

C. Discussion of potential amendments to the Fiscal Year 2018 budgets and changes to the budget preparation process for the Fiscal Year 2019.

Ms. Chandler explained that the FPA is planning on budgeting for the PCCP and that the department code structure has been redesigned to allow for PCCP expenses. The FPA will lean heavily on budgets provided by the USACE or CPRA for the PCCP for the first year. As more experience is gained and actual expenditures become known, the budget numbers for the PCCP can be fine-tuned. The FY 2019 Budgets must be submitted to the appropriate entities by April 1st; therefore, the budgets must be approved by the Board in March. Once the payroll consolidation takes place and the reorganization of staff positions is finalized, sufficient data can be produced for the budgeting process.

D. Review of draft purchasing policy.

Mr. Boese explained that the staff intends to present a comprehensive updated purchasing policy to the Finance Committee and Board in January. Certain LA Revised Statutes (R.S.) must be followed by the FPA. The FPA is putting in place a more stringent purchasing approval process than previously implemented prior to the reorganization. A rough draft of the policy was provided to Committee members.

Mr. Boese further explained that R.S. Title 38 applies to the FPA; however, R.S. Title 39 does not apply to the FPA. There are some elements of R.S. Title 39 that staff proposes that the FPA selectively adopt, particularly in regards to sole sources and used equipment. He also requested guidance from Board members regarding the approval process for modifications to construction or service contracts. The Board's practice to date has been to approve the bid amount. However, a modification to a contract may be required that could potentially hold up the project while awaiting Committee or Board approval and a delay cost could be incurred. He recommended that the Board approve a ten percent contingency with a limit of $1 million for construction contracts.

Mr. Dastugue recommended that in lieu of the Board approving a ten percent contingency that the Board approve a certain overage percentage with the approval of Chair of the Finance Committee and the President. Mr. Luettich commented that in past projects that he has dealt with a contingency was set aside and identified for a variety of usages (e.g., modifications to the construction and/or engineer's contracts). Mr. Boese explained that the intent of staff's recommendation related to the approval process.

Mr. Morgan suggested that the use of credit cards be included in the proposed policy.

E. Discussion of FY 2017 Financial Audit Report.

Ms. Chandler advised that the FY 2017 Financial Audit Report will be issued with a clean audit opinion and no qualifications. She further advised that she submitted the FPA's position letter to the audit firm several days ago.

F. Discussion of proposed amendment of Resolution No 02-19-09-09 to authorize the Chief Administrative Officer (CAO) to purchase an item that is not included on the detailed list provided in the Annual Fiscal Year Budgets, through the Louisiana State Contract or under the Public Law, if applicable, for any amount less than $100,000.00; and to provide that if the CAO purchases an item that is not on the detailed list provided in the Annual Fiscal Year Budgets, then he must obtain prior written approval from the Board President, who shall notify the Finance Committee Chair, and the CAO shall include the purchase in his monthly report to the Board.

Mr. Boese explained that the 2009 Board resolution is very restrictive. Staff is not allowed to substitute equipment items in the budget (e.g., purchase a truck instead of a car) or purchase capital items over $5,000 that were not explicitly included in the budget without first obtaining Board approval. The proposed amendment to the resolution would allow the purchase of such items under $100,000 that are not explicitly listed in the most recently approved budget with written approval from the President, notification of the Finance Committee Chair and including the item in the CAO's monthly report. The amendment would also allow the purchase of unanticipated capital items for the PCCP.

Mr. Dastugue commented about ensuring that sufficient safeguards are put in place to avoid misuse. Mr. Luettich commented about transparency and noted that staff's recommendation includes a fair amount of reporting and adequate transparency. Mr. Morgan advised that he concurred with the recommendation; however, the issue may be revisited depending upon the number of times the proposed authority is used.

There was no further business; therefore, the meeting was adjourned at 10:35 a.m.