MINUTES OF
SOUTHEAST LOUISIANA FLOOD PROTECTION AUTHORITY-EAST
FINANCE COMMITTEE MEETING
HELD ON APRIL 19, 2018

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

The Finance Committee of the Southeast Louisiana Flood Protection Authority-East (FPA or Authority) met on April 19, 2018, in the Second Floor Council Chambers, Joseph Yenni Building, 1221 Elmwood Park Blvd., Harahan, LA. Mr. Morgan called the meeting to order at 9:30 a.m.

Opening Comments: Mr. Morgan advised that the Finance Committee is cognizant of and looking for ways to improve the Lake Borgne Basin Levee District's (LBBLD) financial situation. An issue that recently came up is the LBBLD's payment for the services of a St. Bernard Sheriff's Office Deputy. The FPA's Internal Auditor was tasked with researching the payments and the number of trustees performing work in order to determine whether this situation is in the best interest of the LBBLD. The issue may be included on next month's Finance Committee agenda for discussion and decision on a course of action. Negotiations are on-going relative to the pump stations located in St. Bernard Parish.

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 March 15, 2018.

Public Comments: None.

Regional Finance Director's Report:

Kelli Chandler, Regional Finance Director, provided the highlights of her report:

- LBBLD Financial Update: Ms. Chandler advised that she was unable to book all of the entries for the payroll consolidation in order to provide an update at today's meeting; however, this process should be completed this week. The process proved to be more complicated that initially anticipated. She expected to submit the financial update next week on the LBBLD, as well as its anticipated financial situation by the end of the year. A budget analysis of all three levee districts will be provided at the May Committee meeting, along with proposed budget amendments, if needed.
- The Finance Department is taking on billings and payments for police details, which will be a major project. Historically, the Police Departments handled police detail billings and payments. Payments will be made through the payroll system in order to automate the process. Staff must evaluate and determine the appropriate system

to utilize for this purpose. It was noted that the Orleans Levee District (O.L.D.) Police have a significant number of details. An administrative fee will be collected for each hour worked to offset costs. Mr. Luettich pointed out that police detail billings / payments must be a breakeven / self-supporting effort.

- Ms. Chandler advised that she has been partnering with Fazande Consulting for timeclock registrations, supervisor training on approving timesheets, and initial spreadsheets for the establishment of the HR system component.
- Ms. Chandler explained that this month she attended a training session held by the Laitram Company that proved to be very beneficial. In the session Laitram representatives discussed the company's culture, values and business philosophy. She advised that she combined information from the session with the FPA's adopted culture and values to develop and implement Finance Department cultural initiatives. Finance established a subcommittee within the department to discuss and implement its cultural initiatives.
- Finance staff is working to implement the adopted Purchasing Policy.
- Approval was received from the LA Legislative Auditor for the FPA and the Non-Flood Protection Asset Management Authority (NFA) to have separate audits; however, the report for the FPA and NFA must be combined.
- Implementation of the new timekeeping process is almost complete. It was noted that LBBLD pump station operators who previously kept written timekeeping records are now clocking in and out using smart phones. Employees can review leave balances, pay statements and other information using smart phones. The regional timekeeping system will feed into the payroll system. The system is anticipated to go live regionally in about two weeks.
- Finance will begin receiving demonstrations of financial software packages within the next month after completing the timekeeping process. Mapping the payroll feed into the accounting package is one of the next priorities.

Mr. Luettich expressed concern about the FPA's inability to establish a long term financially solvent plan for the LBBLD. This issue has been discussed for over two years and the only progress made to date was the Layoff Avoidance measures and/or reassignment of personnel. Less maintenance is being performed than is needed, particularly on the pump stations. The LBBLD is continuing to accumulate deferred maintenance, potentially creating a disastrous situation. The perimeter system, which is critical and the FPA's mission, is being prioritized. However, a situation is being created of internal drainage problems down the road, which is not doing the citizens any good. He brought up the situation that took place in New Orleans with the Sewerage and Water Board last summer when the interior drainage system was not properly managed and commented that he did not want to see this happen in the LBBLD.

Mr. Luettich asked that Ms. Chandler prioritize and perform a very thorough analysis on what is spent on the Hurricane Storm Damage Risk Reduction System (HSDRRS) (the perimeter system) and what is spent on the interior system. He requested that a projection be done to determine when the LBBLD will run out of money based on current obligations and the current spending rate. He stressed that the FPA cannot wait until the LBBLD runs out of money to figure out a solution. The FPA needs to know when the LBBLD will run out of money, using its very best estimate, and start backing up, if for no other reason than if layoffs are required, to provide as much notice as possible. He stated that at some point the FPA will have to walk away from the internal drainage. He added that he did not think that anyone wants to walk away and that the FPA wants the handover to be as efficient and effective as possible in order to provide maximum service. However, at some point the FPA will have to walk away, which can be as early as January 1, 2019, because the LBBLD is spending more than it is taking in. However, rather than speculate, he asked that this critical, essential planning exercise be done.

Mr. Luettich commented that next month would be a good time to present this information since the Board meeting will be held in St. Bernard and people can be informed exactly where the LBBLD is headed and about the decisions that the FPA will be forced to make. This will allow as much time as possible so that a better solution can be formulated than at some point the FPA walking away and handing over the keys to the pump stations.

New Business:

A. Discussion of proposed adoption of the millage rate (4.01 mills) for the East Jefferson Levee District for the 2018 tax roll.

Ms. Chandler advised that the Board would be recertifying last year's millage rate for inclusion on the Jefferson Parish 2018 tax rolls.

The Committee will recommend that the Board recertify the East Jefferson Levee District's (EJLD) current millage rate.

B. Discussion of approval of proposed pre-applications to the Statewide Flood Protection Program to seek funding assistance to mitigate the risk of future flooding damages for the Flood Protection Authority and East Jefferson, Lake Borgne Basin and Orleans Levee Districts.

Derek Boese, Chief Administrative Officer (CAO), recommended that the item be removed or deferred. Information was received after the issuance of the agenda that the FPA and levee districts were not eligible for assistance since the entities did not experience recent enough flooding to qualify.

C. Motion authorizing the transfer of Oil and Gas Lease from BOPCO, LLC and TBP Holdings, LLC to Time Energy, et al.

Nyka Scott, Executive Counsel, advised that approval was requested for BOBOP, LLC and TBP Holdings, LCC to assign their lease to Time Energy. Mr. Morgan noted that the property is owned by the O.L.D.

Ms. Scott advised that she and the Deputy Regional Finance Director will meet to ensure that the FPA has a complete listing of its oil, gas and mineral leases, including lessees and any assignments, and that the appropriate information is placed into the GIS. The same exercise will be performed for cell phone tower leases. A comprehensive report will be provided.

D. Discussion of the proposed issuance of a Request for Qualifications (RFQ) for insurance consultation services.

Mr. Morgan advised that in lieu of requesting qualifications, an agreement will be negotiated with one of the consultants who have been highly recommended for the review of the FPA's overall insurance program. The review is to ensure that the FPA is properly insured. A Request for Proposals will be developed in order for brokers to submit proposals based on current insurance requirements.

E. Discussion of proposed procurement of Property and Boiler Insurance Coverage for the Permanent Canal Closures and Pumps.

Mr. Boese advised that the FPA anticipates the official turn over of the Permanent Canal Closures and Pumps (PCCP) as early as Friday (April 20). Arthur J. Gallagher (AJG), the FPA's Agent of Record, has been obtaining insurance coverage estimates for the PCCP.

Matt Byrd with AJG explained that a discussion is needed on the FPA's risk tolerance; i.e., how much of the risk is the FPA willing to self-insure. The PCCP includes 30 large Caterpillar generators. Should one of the generators go down, the potential loss could be in excess of $2 million. In addition, multiple generators could go down in a calendar year. He pointed out that the property component of the coverage is not the biggest risk. The biggest risk is the boiler and machinery component because of the number of Caterpillar diesel generators.

Mr. Byrd further explained that based on feedback from multiple carriers, the total value of the buildings and contents (total construction cost includes engineering fees and time) is about $130 million. The total value is primarily for contents, which includes the diesel generators, motors and pumps. Property and boiler/machinery coverage is currently estimated at thirty cents per $100 of the $130 million total value. AJG is working to reduce the estimated rate. The more risk the FPA is willing to take in terms of retained loss and deductible, the lower the chances that a carrier will end up paying a loss, thereby potentially reducing the rate.

Mr. Byrd advised that in addition to the 20 generators, the PCCP has 17 motors and 17 switchgears. He explained that estimating values has been difficult because U.S. Army Corps of Engineers' (USACE) delivery method for the guaranteed cost for bid of the PCCP did not require contractors to provide specific values for components, such as a generator or a motor, but only required contractors to provide the total cost to produce the facility. Therefore, AJG had to use outside engineering help to derive values for the generators, motors, etc. He explained that the value of a generator could be $1-1/2 to 2 million; however, because of the considerable lead time to produce a generator, the cost to expedite production must be included in the event a facility's operations are impaired.

Mr. Byrd explained that the property component covers perils such as fire, wind, and, for example, falling objects. If a machinery part breaks, the break is not covered; however, the resulting damage would be covered. For example, if a crankshaft blows out, while the crankshaft may cost $25,000 to repair and would not be covered, the potential $1-1/2 million of resulting damage to the generator system caused by the break would be covered.

Mr. Byrd explained that the boiler and machinery component includes flood coverage; however, discussions are ongoing about whether the property component should include flood coverage because of the PCCP's design requirements. AJG will provide recommendations regarding this issue. Wind damage is covered. The buildings were constructed to withstand 155 mph sustained winds and 205 mph three second gusts. Therefore, the likelihood of an event from a wind perspective is low. In addition, since there are three locations, the likelihood of one occurrence affecting all three facilities is low.

Mr. Byrd advised that coverage can be structured in whatever way the FPA wishes and can include a loss limit. The estimate used a boiler/machinery deductible of $100,000.

It was noted that the FPA does not currently have insurance coverage on any of the HSDRRS structures. Mr. Morgan commented that the insurance consultant will take this issue into consideration and develop a program or plan.

Mr. Boese advised that the estimated premium for $130 million of coverage is approximately $380,000 to $400,000 per year. AGJ is still obtaining quotes for coverage. The FPA is responsible for half of the premium cost as per the Cooperative Endeavor Agreement with the New Orleans Sewerage and Water Board.

Mr. Byrd pointed out that half of the estimated premium is associated with the property component and half is associated with the boiler/machinery component. He reiterated that the most critical component of the discussion includes setting deductibles and the FPA's risk tolerance. For example, if the FPA can fund the loss of one generator, the deductible can be set at that level. The farther removed a carrier is placed from the possibility of paying a loss, the lower the premium rate.

Mr. Luettich suggested that the value of the coverage would be for a catastrophic failure as opposed to lower level failures; therefore, a high deductible would make sense. The FPA should have the ability to self-insure at a modest level.

Mr. Boese suggested that if the issue is discussed by the Board, that it allow the President and/or Finance Committee Chair to make a decision regarding the insurance coverage. The FPA has not yet determined the appropriate level of coverage; however, he was concerned with the PCCP being uninsured during the interval between its turn over to the FPA and the May Board meeting. Mr. Luettich concurred with the suggestion; however, his guidance was to use a fairly high deductible. Mr. Morgan suggested that 10 percent of the value ($13 million) be used as a maximum limit.

Mr. Morgan stated that he would confer with staff to determine the best solution in order to finalize quotes.

Stevan Spencer, Regional Chief Engineer, pointed out that the HSDRRS is eligible under PL 84-99 for the repair of storm damages at 100 percent Federal cost, as long as the FPA can prove through documentation that it is maintaining the system.

There was no further business; therefore, the meeting was adjourned at 10:07 a.m.