MINUTES OF
SOUTHEAST LOUISIANA FLOOD PROTECTION AUTHORITY-EAST
SPECIAL FINANCE COMMITTEE MEETING
HELD ON OCTOBER 10, 2019

PRESENT: Quentin D. Dastugue, Chair
Mark L. Morgan, Committee Member
Lambert J. Hassinger, Jr., Committee Member
Herbert I. Miller, President, Ex Officio Member

ALSO PRESENT: K. Randall Noel, Commissioner

The Finance Committee of the Southeast Louisiana Flood Protection Authority-East (FPA or Authority) met on October 10, 2019, in the Franklin Avenue Administrative Complex, Meeting Room 201, 6920 Franklin Avenue, New Orleans, Louisiana. Mr. Dastugue called the meeting to order at 10:00 a.m.

Opening Comments: Mr. Dastugue advised that he requested that this meeting be held to discuss the FPA's short and long term financial status. The immediate matter before the Committee is the roll back/roll forward of ad valorem tax millages; however, an encompassing presentation will be provided by staff on the financial status of the organization, and long term and short term goals and expenses so that good decisions can be made moving forward. The FPA has a responsibility not only as a flood protection authority, but as a steward of monies entrusted by taxpayers.

Adoption of Agenda: The Committee adopted the agenda. The public was advised that comments would be taken at their option before or after the consideration of items.

Approval of Minutes: The minutes of the Finance Committee meeting held on September 19, 2019 were approved.

Public Comments:

Carol Byram, a resident of Orleans Parish, stated that she has waited for years for the FAP to acknowledge the unfair use of Orleans Parish property taxes. She stated that the roll back of Orleans Levee District (O.L.D.) millage rates is a good start and that she was thankful for this action, but added that almost as critical is the need to address the high cost share percentage assigned to the O.L.D. for administration and other expenses. She stated that, in her opinion, an unfair formula had been applied and that the exact percentage seemed to be a mystery. A few years ago it was 58%; however, now the percentage must be at least in the mid-60s. She asked why was Orleans Parish taxpayers paying two-thirds of the FPA's expenses. The FPA is now well organized and fully manned and should be able to figure out exactly how and where the money has been spent. She asked the Committee to not only roll back the millage rates, but also to take the time and effort to look honestly at the past, present and future expenses and determine what is and what is not Orleans' responsibility, and whether the percentage paid by Orleans taxpayers can be reduced. Orleans Parish residents voted at the direction of Tim Doody to raise their tax millage, which she said was more than was needed by the O.L.D. and Orleans Parish taxpayers should not be forced to use the extra money to pay two-thirds of the expenses in a three parish authority.

New Business:

A. Discussion of millage rollback and future roll forward options, and
B. Orleans Levee District Financial Overview and Revenue Sources.

Items A and B were taken together for discussion.

Kelli Chandler, Regional Finance Director, reviewed the O.L.D.'s current ad valorem tax millages and an overview of the O.L.D.'s current revenues and expenses:

Ad Valorem Tax Millages and Generated Revenues

Constitutional:	5.46 (perpetual)
Voter Approved Maintenance Tax:	0.75 (perpetual)
Special Levee Improvement Tax:	6.07 (expires 2045)
Non-Flood Portion:	(0.61)
Total Net Mills Levied	11.67
Annual Revenue Generated	$ 43,877,000
Revenue per Mill	$ 3,760,000

Revenues:

Annual Tax Revenue:	$43,877,000
State Revenue Sharing:	$ 1,100,000
Interest & Royalties:	$ 1,550,000
Total Annual Revenues:	$46,527,000

Expenses:

FY 2019 Actual Expense: $42,000,000 (includes the O.L.D.'s portion of the FPA's expenses - 61%)

FY 2020 Budgeted Expense: $51,900,000

Ms. Chandler explained that the actual expenses fluctuate from year-to-year depending on the timing of projects. Therefore, expenses can range from $42 million to $50 million per year, including capital projects and on-going costs. She then reviewed the O.L.D.'s investment and reserve balance:

O.L.D. Investment and Reserve Balance:

Complex Structure Maintenance: $15,500,000

General Reserves: $90,175,000
Total Reserves: $105,675,000

Not included in the presentation is the restricted reserve set aside for Post Employment Benefits.

Ms. Chandler advised that there are a number of unknowns when attempting to develop long term costs; e.g., replacement of outdated equipment for the Permanent Canal Closures and Pump Station (PCCP) facilities, future levee lifts, complex structure maintenance (dewatering of structures) and outfall canal erosion mitigation. Information was received last night on an estimate of the costs. The current estimate for long term and on-going costs is between $44 million and $50 million per year.

Derek Boese, Chief Administrative Officer, explained that staff realized that a long term Operations and Maintenance (O&M) study had not been done on the Hurricane and Storm Damage Risk Reduction System (HSRRS) since the 2011-2012 timeframe. The 2012 study included a number of assumptions and estimates. The FPA retained a cost firm that specializes in this type of work and has three of the people who worked for the U.S. Army Corps of Engineers (USACE) as consultants on the initial projects. The study is not as detailed as needed for the long term, but was done fairly quickly in order to have information for today's discussion. The study validated that the estimated cost projection for the O.L.D. is between $44 million and $50 million per year over the next 50 years. The costs spike in certain years (generally seven to ten years) due to large projects such as levee lifts. The spikes increase to about $61 million on about a ten-year basis. The estimate includes cost escalation; however, contingencies are not included. An estimate was included for the proposed Lakefront Airport Floodwall. He cautioned that the current study is preliminary and does not include 200-year protection, which is a question that the Board wishes to consider. The FPA has very preliminary numbers from the USACE's study as part of the General Reevaluation Report. The USACE advised that the estimated cost for 200-year protection is about $2 billion for the Lake Pontchartrain and Vicinity (LPV) system (four parishes, including St. Charles Parish) with protection for Orleans Parish being about half of the estimated cost.

Mr. Dastugue asked had any substantial savings resulted from the regionalization. Mr. Boese responded that efficiencies were gained; however, savings had not yet been experienced since a number of things had not previously been done to professional standards. The FPA currently has about 250 employees, not including Police Reserve Officers.

Mr. Morgan asked did the study indicate the approximate amount of money needed in reserve by the O.L.D. Mr. Boese responded that the study is still being reviewed and provides a starting point for determining what should be in the reserves. There is a need to better delineate and segregate the O.L.D.'s current reserves and savings for specific purposes; e.g., the O.L.D. will own about $10 million to the USACE for pre-Katrina cost share credits going back to the 1960's. PCCP costs are the biggest unknown since there is insufficient historical data on the facilities and the USACE is still addressing warranty related work and issues. Ms. Chandler pointed out that the reserves are also used to cover large unanticipated costs.

Ms. Chandler reviewed the roll back/roll forward options going forward:

> O.L.D. is required by law to roll back following a reassessment.
>
> O.L.D. may roll forward in <u>any year</u> prior to the next reassessment (A.G. Opinion 00-245 and 00-245(A).
>
> O.L.D. may roll forward in multiple increments up to the year of the next reassessment as long as the maximum authorized levy is not exceeded.

Ms. Chandler noted that property values are reassessed every four years and that millage rates are basically locked when the next reassessment occurs. Mr. Boese commented that in the past the Lake Borgne Basin Levee District (LBBLD) Board had rolled back millage rates, and as property values decreased, the LBBLD did not receive sufficient revenues leading to the current situation.

Ms. Chandler reviewed additional potential revenue sources, including assessment of fees or fines, State and Federal Grants, and the future profitability of the O.L.D.'s non-flood protection assets. The statute that created the FPA and Lakefront Management Authority (LMA) provides that after the non-flood protection assets become profitable that the extra revenues go to the O.L.D. for flood protection. Wilma Heaton, Director of Governmental Affairs and LMA Chair, advised that the LMA Executive Director, Louis Capo, was present to answer questions regarding the LMA's budget.

Mr. Capo advised that the LMA budget is $8.3 - $8.4 million per year. The 0.61 mills dedicated from the Special Levee Improvement Tax generates between $1.8 - $2 million in revenues each year for the LMA. He explained that after Hurricane Karina when the division of the O.L.D.'s flood protection assets from the non-flood protection assets took place, many of the non-flood protection assets were significantly damaged and not producing revenues. Bally's Casino, which was located at South Shore Harbor, had been producing $4.5 - $5 million per year in revenues for the O.L.D. A settlement in the amount of $7.9 million was reached between the O.L.D. and Bally's when the gaming boat left South Shore Harbor. After the division in 2007, the Non-Flood Protection Asset Management Authority (now LMA) operated off the $7.9 settlement as the properties began to be repaired and placed back on line. All of the properties are now back on line and generating revenues. Orleans Marina is at 85% occupancy and 40 to 45 slips are currently being repaired and will be brought back on line. South Shore Harbor is at 60 - 65% occupancy. The Non-Flood Protection Asset Management Authority was drawing down about $2.2 million per year for operations and the settlement was used up just prior to the approval of the 0.61 mills by the voters in 2012, which went into effect in 2016. Revenues from the 0.61 mills are needed to maintain the non-revenue producing properties, such as parks and recreational areas along the lakefront, interior parks and other public areas, which is estimated at $1.7 - $1.8 per year. Lakefront Airport is currently losing some money; however, fuel sales and rents are increasing. The LMA is attempting to maximize the properties and rentals. The

0.61 mills do not generate sufficient revenue to address park or recreational area drainage issues.

Mr. Dastugue asked could gaming be brought back to South Shore Harbor. Mr. Capo responded, no; since all of the Louisiana licenses for gaming vessels have been issued. A major development is under construction at South Shore Harbor that includes a building for the World War II Museum, and may, at some point in time, include an amphitheater, and is producing a revenue stream for the LMA. If flood protection is constructed for Lakefront Airport, development and fuel sales at the Airport would increase, supplementing the airport's revenue stream. If the LMA does not receive the revenues from the 0.61 mills, the lakefront and interior parks and recreational areas would suffer since the revenue producing assets do not at this time produce sufficient revenues for their maintenance.

Mr. Dastugue requested that Ms. Chandler address the levee districts' cost share percentages. Ms. Chandler explained that the current method for allocating the FPA's operating costs is based on each levee district's portion of the total ad valorem tax revenues collected each year. The percentages fluctuate from year-to-year. The O.L.D.'s share of the total revenues collected from ad valorem taxes for this year is 61%; therefore, the O.L.D. currently pays for 61% of the FPA's costs. There are multiple methodologies that could be used for this purpose. Mr. Boese pointed out that the cost share was a major topic about 1-1/2 years ago during the discussions concerning the LBBLD's financial condition and that multiple methodologies and iterations were considered, including using assessed property values, miles of levee and number of gates. Many of the methods literally bankrupted one of the three levee districts, including the East Jefferson Levee District, depending on the calculations.

Ms. Chandler explained that O&M costs for the flood protection system are allocated to the levee district in which a specific feature is located, as well as costs that are directly associated with a levee district. However, a methodology is needed for allocating overhead and other shared costs, such as administration, engineering and IT. Mr. Dastugue suggested using the O&M flood defense system percentage for allocating overhead and other costs. Ms. Chandler commented that the budgets basically match the ad valorem taxes; therefore, the O.L.D.'s percentage would still be about 61%.

C. Discussion of the certification of Ad Valorem Tax Millage Rates for the Orleans Levee District for the 2020 tax rolls.

Ms. Chandler explained that the FPA is statutorily required to roll back the O.L.D.'s millage rates after the reassessment so that the O.L.D. would collect the same amount of revenues in 2020 that it collected in 2019; however, the rolled back millage rates could not be provided at the meeting since the City of New Orleans had not provided the reassessed property values needed to calculate the rates. The City was working through appeals and protests filed in response to the new assessments; therefore, the reassessed property values had not been finalized. The City of New Orleans required

that the FPA provide a resolution by October 31st certifying the O.L.D.'s millage rates for 2020.
Mr. Dastugue inquired about whether the rates could be reduced lower than the rolled back rates. Michelle White, Executive Counsel, explained that two actions would take place; first, the rates would be rolled back to the revenue neutral rates, and then millage rates that are lower than the rolled back rates could be assessed and certified.

Mr. Morgan pointed out that the O.L.D.'s budget will probably be between $44 - $50 million and that any savings from last year could be used this year. He suggested staying at the lower end of the estimate at this time and that the management of projects and determination of sufficient reserves be looked at for going forward. Ms. Chandler added that the FPA needed to tighten up some of the estimates and assumptions, and that she would like to bring recommendations to the Committee regarding specific reserves and other specific items. Mr. Boese reminded everyone that the study was provided to staff last evening. He stated that he was comfortable with the general cost range, but was not with recommending specific reserves prior to the October Board meeting. He indicated that he would be more comfortable with this discussion at the November meeting and during the next budgeting cycle.

Mr. Dastugue suggested that the Finance Committee recommend that the Board roll back the O.L.D.'s millage as required by law, and that if any of the Committee members wished to consider the certification of lower rates, the issue be discussed at a Finance Committee meeting held prior to the Board meeting. The discussion on establishing reserves and long term operation expenses was deferred to the November meeting.

Mr. Hassinger pointed out that the discussion of reserves should not only include capital costs, but also money that would be needed should a catastrophic event occur and the Federal government does not pick up the tab. Mr. Boese advised that staff is developing a recommendation for a reserve to respond to a catastrophic event. The trend is that FEMA is reimbursing less and less and obtaining reimbursement from FEMA is becoming more difficult. Therefore, the FPA must be prepared to take on a greater burden should a catastrophic event occur.

Mr. Hassinger stated that the Lakefront Management Authority has made great strides over the past couple of years getting the properties up and running and effectively managing the properties; however, he did not know whether they would ever produce excess revenue. He stated that he would hate to see anything interfere with the outstanding strides that have been made and the effective management of the public facilities and parks. Relative to the question about whether savings were achieved as a result of the regionalization, he explained that on the surface the answer is, no; however, bringing in the slate of directors currently on staff has resulted in efficiencies and cost savings. Mr. Boese commented that staff is attempting to figure out a way to calculate savings resulting from the regionalization. He pointed out that there was a cost in bringing operations across the board up to standards that had not been previously met. The recent regionalization of the Maintenance Department will achieve efficiencies and savings. Ms. Chandler added that any type of merger requires upfront costs, such as standardizing software and services; however, savings are realized in the future due to the efficiencies. Mr. Hassinger added that had the Board not imaged the regionalized FPA, it could not have accepted the huge responsibility of operating and maintaining the PCCP.

Mr. Dastugue commented that he was a big critic of levee boards when he served in the Louisiana Legislature. One of the reforms that was passed was that levee boards had to present their budgets to the Joint Legislative Committee. He stated that the FPA is heads above what was done in the 1980's and 1990's and commended the FPA for bringing professionalism to the organization. He stated that, in his opinion, the Board must be careful to ensure sufficient monies for operations and emergencies; however, he would rather allow taxpayers to make the decision regarding reserves for emergencies and that a balance should be achieved.

Roy Arrigo, a resident of Orleans Parish, commented about the issuance of the Rand Study three weeks after Orleans Parish voters approved the renewal of the Special Levee Improvement Tax in 2012 and that the tax renewal was spearheaded by FPA leadership from St. Bernard Parish. However, the tax millages for the LBBLD could not be increased. He stated that the 61% cost share allocation to the O.L.D. is based on the tax revenues received, and that the tax revenues have been inflated in Orleans and Jefferson Parishes and deflated in St. Bernard Parish. Therefore, Orleans Parish taxpayers pay more of the costs because they pay more taxes. He added that he attends many of the St. Bernard Parish Council meetings and that St. Bernard Parish leadership regularly points to the surpluses of the O.L.D. and EJLD as the reason those levee districts should be paying for LBBLD's flood protection.

Craig Berthold, a resident of Orleans Parish and retired art instructor, requested that flood protection for the Lakefront Airport remain in consideration and not be effected in any type of roll back. He explained that he has been involved in the restoration of the Four Winds Fountain, which Enrique Alferez commented was the best work that he had done in his entire life. The fountain, which is located at Lakefront Airport, as well as the Terminal Building, which houses historic murals, are world class. He reiterated his request that flood protection for Lakefront Airport not become lost in the process.

Mr. Boese advised that a number was provided in the long term cost estimate for flood protection at Lakefront Airport. A recommendation for the selection of an Engineering firm for the floodwall study will be presented at the Board November meeting.

Mr. Berthold commented that his small 1,200 sq. ft. home in Orleans Parish was assessed at $370,000; however, the house was appraised at $252,000. He appealed the assessment and a settled value of $300,000 was reached. The Assessor advised that he did know the reason the home was assessed $70,000 above what it should have been assessed. This is an example of the appeals currently taking place. In addition, he stated he heard that the uptown region would not be assessed until next year.

Ms. Heaton explained that several months ago when the Board was approached about the need for a floodwall at Lakefront Airport, not only was the historic aspects presented to the Board, but over 40 major organizations supported the need for a floodwall due to the designation of Lakefront Airport in the Region 1 Medical Institution Evacuation Plan (MIEP) for emergency preparedness. Letters were provided from the State Director of Emergency Preparedness and the Business Council of City of New Orleans because the airport must have flood protection in order to continue saving lives. The reason for providing flood protection for the airport presented at the meeting was for emergency purposes and savings lives. Assurances were made at the meeting that the flood protection could be constructed under the existing tax revenue. None of the organizations asked for a reduction in taxes. Ms. Heaton stated that she personally represented that she would not advocate for a penny more than was collected last year. She stated that although the Board did not have the property assessment values and exact millage rates at this time, from a public policy perspective the Committee could state that the FPA does not intent to collect any more than was collected last year. She explained that the LMA is the property manager of the properties not related to flood protection that are owned by the O.L.D. The members of the LMA Board serve without pay. The LMA must absorb any major capital expenditures on non-revenue producing properties from rents collected from properties that received hundreds of millions of dollars of damage from Hurricane Katrina. The airport has had to be subsidized about $1 million per year. The LMA has been aggressively seeking Grant funding. She urged the FPA not to collect a penny less in revenue for the LMA than was collected last year.

Mr. Hassinger offered a motion that the Finance Committee recommend that the Board adjust the O.L.D.'s millage rates so that the same amount of revenue is generated from Orleans Parish taxpayers for calendar year 2020 and was generated in 2019. Mr. Morgan seconded the motion. The motion was unanimously adopted.

There was no further business; therefore, the meeting was adjourned at 11:05 p.m.