MINUTES OF
SOUTHEAST LOUISIANA FLOOD PROTECTION AUTHORITY-EAST
FINANCE COMMITTEE MEETING
HELD ON JANUARY 21, 2021

PRESENT: K. Randall Noel, Acting Chair
Joe Hassinger, Committee Member
Mark L. Morgan, Committee Member

The Finance Committee of the Southeast Louisiana Flood Protection Authority-East (FPA or Authority) met on January 21, 2021, in the Franklin Avenue Administrative Complex, Meeting Room 201, 6920 Franklin Avenue, New Orleans, Louisiana. Mr. Noel, Acting Chair, called the meeting to order at 10:00 a.m.

Opening Comments: Mr. Noel advised that he recently met with Kelli Chandler, Regional Finance Director, and that the FPA is in good hands.

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 19, 2020.

Public Comments: None

Regional Finance Director's Report:

Kelli Chandler, Regional Finance Director, distributed her written report and advised that Finance is continuing its on-going projects. A brief demonstration was provided on the new report writing software's capabilities. Reports are written by Finance staff and provided to Directors (e.g., budget to actuals and transaction reports). The report writing software goes into the accounting software and pulls data to create and update reports. A lot of tedious work is required for the Finance staff to find the appropriate data and create the queries required to produce a report. For the first time Directors have access to real time data and can update reports as needed.

New Business:

A. Review of FPA investment policy, current market conditions, and reserve accounts.

Ms. Chandler reviewed highlights of the Investment Policy adopted by the Board. The primary objective of the investment program is preservation of capital. The FPA is very risk adverse and greatly limits itself to safe investments while maximizing long term returns. It does not invest in stocks or risky investments. Investments are limited to U.S. Treasuries, government debt bonds and SEC registered mutual trust funds.

Ms. Chandler explained that the dedicated reserve accounts approved by the Board were opened, but not yet funded, because she first wanted to discuss market conditions and the Financial Advisor's recommendations. She introduced the FPA's Financial Advisor, Richard Kernion with Edward Jones.

Richard Kernion, who is a native New Orleanian, is a Financial Advisor with Edward Jones Investments and has been a partner in the firm for the past 16 years. Edward Jones is a partnership (not publicly traded) with a philosophy of doing what is right for the client and considers its clients' needs. Mr. Kernion explained that he has been working with Ms. Chandler and receiving information about the FPA's long term projects scheduled for 2024, 2026 and beyond. Accounts were established for each project. To simplify the process, large purchases of investments will be made in the main account and then designated portions will be transferred to the specific accounts. He noted that every account established through Edward Jones has preset restrictions in accordance with FPA policy regarding the type of purchases that can be made. Edward Jones' Compliance and Regulatory staff overseeing the accounts will not allow anything to take place other than what is authorized in the FPA's policy.

Mr. Kernion stated that the market at this time is very cloudy. A year ago Edward Jones hoped for a continued gradual rise in interest rates; however, the pandemic occurred and interest rates fell back to zero. There is no consensus in the financial experts' opinions about what will happen with interest rates. A common thread throughout discussions is that interest rates will probably not go up for the next 1-1/2 to 2 years; and if they do, it will be about a quarter or one-half percent, unless a dramatic economic change takes place.

Mr. Kernion advised that the Orleans accounts total about $82 million and the East Jefferson accounts total about $32 million. He recommended for Orleans that approximately $60 million remain in LAMP (Louisiana Asset Management Pool) due to the current interest rate (.1 %). Under current conditions, if the money is invested in treasuries or AAA rated government bonds, .1 % would not be achieved until 1-1/2 to 2 years of maturity. Therefore, he recommended that a larger portion of the monies be kept in LAMP until there are better opportunities. Relative to other monies, in order to diversify, the sweet spot for maturities is three to five years so that the FPA can achieve a higher interest rate than it is receiving from LAMP. Since it is not known when interest rates may rise, maturities should be laddered without going beyond five-years; i.e., some of the investments should be in three, four and five-year windows receiving .3 %, .4 % and .5 % as opposed to .1 % and becoming incrementally better, but with smaller portions of cash available. The windows would be analyzed every six months as maturities occur. He recommended the same strategy for East Jefferson, but with smaller amounts and that $11.5 million remain in LAMP.

Mr. Noel asked the reason for the five-year limit. Ms. Chandler responded that the five-year limit is currently driven by the market and is due to the uncertainty about when interest rates will rise. The FPA did not want to lock up money for too long a period so that it would have the cash available when rates begin to rise in order to purchase bonds with higher interest rates. As securities mature, the market can be analyzed and, if advantageous, adjustments can be made for longer periods of time. Although the money for certain projects may not be needed for a long period of time, flexibility is needed so that the FPA can react to the market depending on how it changes.

Mr. Noel asked if there was a reason the five-year limit in the policy could not be changed to a longer period to match the reserves. Mr. Kernion pointed out that the policy includes an exception that gives the FPA the ability to go beyond the five-year maturity, however, this would be for specific projects (cash flows). He stated that he did not personally recommend going out for longer periods at this time because of current interest rates (e.g., the current ten-year interest rate is 8/10's of a percent). Therefore, the Board should give this some thought before going out more than five years. Ms. Chandler added that the Committee may need to revisit this provision at some point. Mr. Noel requested that the issue be included on the Committee's next agenda.

Mr. Kernion advised that this year he began working with Ms. Chandler to understand the estimated costs and scheduling of specific projects. Certain projects are anticipated to begin in 2024 or 2026; however, they could be delayed. He recommended that at least 40 percent of the assets be kept in a one or two-year window of maturity since the FPA could need access to cash should unforeseen issues arise. The FPA could access the proceeds from a short maturity bond with minimal expense or damage even in a rising interest rate environment. He said he appreciated having LAMP available because it allows constant cash availability without penalties or holding periods.

Mr. Noel asked was there a downside in going from BBB to A on investment quality. Mr. Kernion responded that the difference today is about 2/10's of a percent on average for the same maturity. He questioned whether the extra risk is worth such a small step up under current conditions. He stated, in his opinion, if the goal is preservation, why reach out to purchase BBB when the distinction is not that great. Mr. Noel noted that if the policy is changed, the Committee may wish to think about changing this provision.

Mr. Morgan explained that Capital One was the FPA's Financial Advisor about three or four years ago and the FPA received notice that Capital One was no longer providing this service. Therefore, he and Ms. Chandler put together a list of qualified financial advisors and selected Edward Jones due to its national reputation for handling public monies. He agreed that some flexibility could be added to the policy so that the FPA could take advantage of unpredicted short term changes in the financial market.

Mr. Kernion explained that when seeking a bond for the FPA to purchase, Edward Jones has the ability, due to the size of the FPA, to do some tremendous negotiating; e.g., a $5 million investment allows a lot more leeway than a $1 million investment when negotiating purchases. He stated that Edward Jones does not work for free and that on a typical bond, the commission generated for Edward Jones is about 4/10's of a percent. However, due to the business relationship with the FPA, he provides at least a 50 percent discount on any commissions.

Mr. Morgan pointed out that the Board's fiduciary responsibility is to protect the public's monies; therefore, a provision should be included in the policy for holding quarterly meetings with staff and for the Financial Advisor to appear once a year before the Board to summarize investment activities.

Mr. Kernion reiterated that, due to a slightly rising interest rate (2/100ths of a percent last month), his recommendation is to keep a vast majority of the FPA's monies short term in LAMP due to the current interest rate, and that some cash remain on hand in order to look at three, four and five-year maturities and obtain triple or quadruple interest over LAMP. He also recommended that interest rates be analyzed in May, June and December and afterwards in six-month intervals, as investments mature, to determine whether monies should be taken from the LAMP accounts in order to take advantage of better interest rates. Analyzing investment rates will remain a continuing process.

B. Review of the FPA Financial Audit Report,

Mr. Noel stated that the auditor's opinions in the Financial Audit Report for the Fiscal Year (FY) ending June 30, 2020 were favorable.

Ms. Chandler advised that there were no audit findings. The FPA's total net position at the close of FY 2020 was $7.2 billion. The FPA's total net position at the close of FY 2019 was $5.66 billion. The $1.5 billion increase is due to the increase in the value of the Hurricane and Storm Damage Risk Reduction System as calculated by the U.S. Army Corps of Engineers (USACE). The FPA's net program loss increased by $2 million due to an increase in spending on drainage and flood protection and a $10 million offset by an increase in grant revenue mainly received by the Lakefront Management Authority for the Lakefront Airport of $6.5 million. The FPA received $58 million of tax revenues (the majority of the FPA's revenues), and had flood related expenses of $68 million.

C. Update on status of current grants.

Ms. Chandler distributed a spreadsheet on the current grants. Grant money for Hurricane Katrina projects is still being received. The FPA has a number of outstanding grants that must be managed, which includes quarterly reports, providing additional documentation and meetings. There may be additional grants related to 2020 tropical storms/hurricanes and the COVID-19 pandemic. As the FPA searches for additional grants, this work will increase. Mr. Morgan noted that the Board authorized the retention of a grant writing consultant who is ready to move forward.

D. Update on renewal of insurance policies.

Rusty Kennedy, Deputy Chief Administrative Officer, reviewed the changes made to the FPA's insurance coverages renewed effective January 1st.

- The overall liability package moved from ACE (Chubb) to Euclid because the self-insurance retentions were being raised from $100,000 to $250,000. Obtaining coverage from Euclide allowed the majority of the self-insurance retentions to remain at $100,000, with the exception of General Liability which was raised to $200,000. Euclid also offered enhancements in various areas relative to drones, sexual abuse, and other policies that are part of the package.

- Public Officials Liability Insurance – Coverage was increased from $10 million to $15 million and secured at a favorable rate.
- Cyber Insurance – The FPA reassessed its coverage and risks because of recent cyberattacks, including communicating with State and local government entities that experienced cyberattacks relative to recovery costs and issues. The FPA determined that its original coverage of $1 million at the current cost of about $12,000 was not adequate; therefore, the coverage was increased to $3 million at a cost of about $50,000. The FPA determined that the $3 million policy was a good value based on threat levels.

Mr. Kennedy advised that the remainder of the insurance policies were renewed with the same coverages at various increases and decreases in premium. The FPA includes increases in the budget for insurance based on market conditions. Mr. Chandler added that insurance renewals are on a calendar year basis and the FPA's budget is on a fiscal year basis; therefore, adjustments are made to the next fiscal year budget for any shortfalls.

E. Discussion of proposed authorization to pursue matching funding from Federal, State and other sources for the construction of flood protection for the New Orleans Lakefront Airport.

Mr. Hassinger advised that the issue of flood protection for Lakefront Airport had been placed on the agenda for the Board's November meeting, but was deferred due to his inability to attend the meeting. The question was could flood protection be constructed at the Airport and what would be the cost. In November of 2019, the Board selected ARCADIS for the New Orleans Lakefront Airport Flood Protection Feasibility Study. ARCADIS initially developed 11 potential flood protection options, then narrowed the options to three and developed cost estimates ranging from $150 million to $330 million.

Mr. Hassinger explained that the proposed next step was to narrow and fine tune the cost estimates at a cost in excess of $300,000. However, in the interim, there was a change in the administration in Washington, D.C., new control of the Congress, and what appears to be an appetite to quickly implement infrastructure, programs or other spending measures, resulting in an opportunity that did not exist several months ago. He stressed that time is of the essence and rather than spend another six months and an additional $300,000 to better define the proposed costs, possibly missing the opportunity presented by the first 100-day push of the administration, he proposed that the Board adopt a resolution that would commit the FPA to providing the typical cost share for USACE projects (35 percent) up to $75 million, assuming that the funding is available and Bond Commissioner approval is obtained, and subject to the FPA's success in obtaining Federal and State funding for the project. The FPA has precedent for doing substantial projects that make sense and fall within its scope, such as the Lakefront Seawall Erosion Control Project. Should a commitment of Federal funding be obtained, the FPA could take the next step; however, if Federal funding is not obtained, the project would be too large for the FPA to construct.

Mr. Boese advised that the FPA conferred with grant writing consultants that pursue Federal work to ensure that the resolution was as strongly worded as possible in order to be most favorable with elected officials and stakeholders. The resolution would allow staff with the support of the Board to pursue grant opportunities. Should financial conditions change in the future, the Board could withdraw the resolution.

Mr. Hassinger offered a motion, which was seconded by Mr. Noel, that the Committee recommend the Board adopt the proposed resolution as written, committing a 35% cost share up to an amount of $75 million, subject to the receipt of Federal and State assistance.

Mr. Morgan asked would the formerly proposed resolution to refine the estimated costs previously on the Board agenda be off the table. Mr. Hassinger replied, yes. He noted that the newly proposed resolution would result in project funding totaling about $220 million.

Eugene Joanen commented that he spent some time reviewing the study and that in his opinion in a reasonable fashion the cost could be brought much lower than $330 million. The FPA has considerable knowledge about the construction of flood protection and should have data to support any options and projections; therefore, the project does not need further study. He pointed out that the construction of flood protection for Lakefront Airport is a geotechnical question.

Mr. Hassinger advised that the FPA Engineering staff and Lakefront Management Authority staff reviewed the study and estimated a cost of about $200 million, which is consistent with the resolution. Mr. Joanen commented that the estimate could be lower than $200 million.

Mr. Joanen advised that the more he looks at Lakefront Airport, the more important and crucial he sees it. The FPA has an asset that is in jeopardy. Mr. Hassinger explained that the FPA attempted to include sufficient history in the resolution so that readers could have an understanding of Lakefront Airport's role and importance. Many lives have been touched by the Airport and a lot of lives saved because of the Airport. Mr. Joanen stated that moving forward he foresees Lakefront Airport becoming an even more important asset. Removing the threat of flooding is a stepping stone in the right direction for the citizens of the region.

The Committee voted unanimously in favor of the motion on the table.

There was no further business; therefore, the meeting was adjourned at 10:45 a.m.