

**MINUTES OF
SOUTHEAST LOUISIANA FLOOD PROTECTION AUTHORITY-EAST
FINANCE COMMITTEE MEETING
HELD ON MARCH 18, 2021**

PRESENT: K. Randall Noel, 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 March 18, 2021, in the Franklin Avenue Administrative Complex, Meeting Room 201, 6920 Franklin Avenue, New Orleans, Louisiana. Mr. Noel called the meeting to order at 10:00 a.m.

Opening Comments: Mr. Noel thanked the Finance Department for the work accomplished over the past month.

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 February 18, 2021.

Public Comments: None

Regional Finance Director's Report:

Kelli Chandler, Regional Finance Director, reported that the Finance Department began preparations to move to the new Asset Management Software system. The FPA has over 1,500 pieces of equipment and properties defined as assets (moveable and immovable). The assets are listed in about five different places within the current software systems and include differing descriptions and locations. The term "asset" is being more precisely defined and the data is being scrubbed prior to the move. Staff anticipates full implementation of the new Asset Management Software system in September. Defining and tracking assets will be a continuing process. Assets, including flood defense features, are financially depreciated over time. Finance staff is ensuring that a comprehensive list of assets, along with their dollar values, is compiled.

Derek Bose, Chief Administrative Officer (CAO), explained that the surplus 17th Street Canal properties have been exchanged in accordance with a settlement agreed to by the Board. The FPA is working towards selling the Plauche Court property, which was the former East Jefferson Levee District Administration Building and is no longer needed.

New Business:

A. Discussion of the proposed Fiscal Year 2022 Budgets for the Flood Protection Authority, East Jefferson Levee District (EJLD), Orleans Levee District (O.L.D.) and Lake Borgne Basin Levee District (LBBLD).

Ms. Chandler advised that insurance premium costs are increased across the board in the Fiscal Year (FY) 2022 Budgets. Tree replacement along Lakeshore Drive was included in the O.L.D. FY 2022 Budget. The fund balances from the Financial Audit as of June 30, 2020, were adjusted to take into account the reserves previously approved by the Board and used as the current fund balances. No additions were made to the reserve amounts at this time due to the deficit projected for the current year and because the FPA is still identifying the investments it wishes to make. The headcount in the FY 2022 Budgets remains consistent with FY 2021 and was reduced in some areas. Capital projects are moving forward with nine construction projects being awarded in January, 2021.

The Committee will recommend that the Board approve the FY 2022 Budgets.

B. Discussion of proposed revisions to the FPA Investment Policy

Ms. Chandler advised that Richard Kernion with Edward Jones was present to provide information in response to two questions posed by the Committee in January related to risks; i.e., bond ratings of BBB versus A and AA and the investment timeline. She recommended retaining the provision currently in the FPA Investment Policy, which provides a maximum timeline for maturities of five years unless matched to a specific cash flow or project, because of the unknowns when dealing with a longer period of time.

Mr. Noel inquired about comparing the FPA's investments to an index. Mr. Kernion responded that this could be done; however, it would not be a direct comparison since most indexes have ten-year maturities and the FPA retains much of its funding in a five-year window in a cash or money market position in the Louisiana Asset Management Pool (LAMP).

Mr. Kernion reviewed the charts provided to the Committee members with data regarding investment risks:

Corporate bonds and treasuries:

- No AAA or AA-rated bond with a one-year time frame has defaulted since 1981. The chance of default in a one-year time frame for a BBB-rated bond is less than ¼ of one percent. It was noted that Lehman Brothers, an A-rated bond, defaulted in 2008 and the only AAA-rated bond that every defaulted over time (a 15-year window) was General Motors. Therefore, AAA or AA ratings have presented almost no risks historically.

- Eight AAA-rated global bonds defaulted since 1981 (7 in the United States). The average time for the bonds to default was 15 years. The FPA's investments have a five-year window; therefore, there is very little risk.
- Since 1981 average default times of 7, 8 and 9-year windows can be seen for BBB-rated bonds, which is the lowest rating allowed in the FPA's investment policy. A more in depth discussion is needed relative to risks should the FPA wish to use a ten-year window for an investment for a specific project.
- Bonds that defaulted within a five-year window started with a B+ or B rating.

Ratings for municipal bonds:

- No defaults of AAA and AA-rated bonds had occurred. A-rated and BBB-rated bonds experienced less than 5 percent default in any one time frame (defaults were mainly Puerto Rico and Detroit). The vast majority of municipalities even with an A-rating are secure; however, they are not without some risk.

Corporate bond 10-year yields (5 year look):

- It was noted that there was not much difference historically in the spread from AA to BBB ratings. The question is whether the benefit is worth the extra risk.

Mr. Kernion recommended that the FPA retain more than 50 percent of its \$100 million of funding in LAMP. Relative to corporate bonds, which have a little more risk but provide a little better return, he stated he would never recommend from a risk perspective that anyone put more than two to three percent of their worth in any one company. Therefore, he would only recommend investments in very small sleeves of \$200,000 to \$300,000 so that the risks would be kept within relative terms of the FPA's net worth.

Ms. Chandler noted that all of the FPA's funding that is not otherwise invested is currently invested in LAMP, which very liquid, earns about .07 percent interest and has an average maturity of less than a year. There is \$13 million in LAMP that can be placed in longer term instruments. Mr. Kernion pointed out that currently LAMP investments are earning .07 percent interest and two-year treasuries are earning .05 percent interest. Some investments for the FPA were made in January and February and would continue over the next week or two if interest rates continue creeping up. Should rates increase through the Federal Reserve, instead of being pushed up by the market, he would recommend that more money from LAMP be invested in other instruments. The FPA currently has about \$40 million invested in treasuries with various maturities.

Mr. Kernion explained that the Federal Reserve Board started to raise interest rates in 2019; however, when the COVID-19 pandemic struck, interest rates were reduced immediately to zero. The major financial crisis in 2007-2008 caused interest rates to drop to zero and it took 31 months for the U.S. Government to taper its bond purchasing process (about \$80 billion per month) before rates were raised from zero percent.

Today, the U.S. Government is buying \$120 billion of bonds per month to help support the economy. The Federal Reserve Board advised in its March 17th meeting that it is not looking to taper the purchasing at this point and the majority of the voting members basically said they would not vote for a rate hike through 2023. Interest rates have increased on a ten-year treasury about 7/10's of a percent in the last three months; however, this is considered an anomaly of a spike that will probably come back down and stabilize in 2022 or 2023.

Ms. Chandler advised that she would feel comfortable with revising the Investment Policy to allow a rating of A or BBB. Mr. Noel recommended that the Investment Policy be revised to allow a BBB rating. There was no objection from the Committee relative to the recommended change.

The Committee discussed the process for purchasing corporate bonds. Ms. Chandler recommended that the Investment Policy be revised to include a \$500,000 cap on the purchase of corporate bonds without Board approval.

The Committee briefly discussed the levee districts' need for liquidity and cash flow, as well as the uncertainty of the timing of FEMA reimbursement payments.

The Committee recommended that the additional revisions approved in today's meeting be included in the revised Investment Policy and that the revised Investment Policy be forwarded to the Board for approval.

C. Discussion of the sale of surplus items by the EJLD, O.L.D. and LBBLD by an auction.

Ms. Chandler advised that a list was compiled of the surplus items appraised by the auctioneer. The auction will be held virtually on April 29th. If the minimum value assigned an item is not attained, the sale would not take place and the FPA would determine its disposition at a later time. All of the items have depreciated to zero value on the FPA's financial records. FPA Board members and employees cannot participate in the auction. Board approval is needed of the items and their assigned values.

The Committee will recommend that the Board approve the sale of the surplus items by auction.

D. Discussion of proposed selection of Asset Management Software.

Rusty Kennedy, Deputy CAO, explained that the FPA engaged technology advisors to assess its operations, improve asset reliability and increase efficiencies. FPA Directors were involved throughout the process and identified process needs. The Request for Information was submitted to about 30 vendors (1/3 were responsive, 1/3 were not responsive and 1/3 were eliminated as not good fits). Seven vendors provided two-hour web based demonstrations, which were scored. The short-listed vendors were narrowed to three consisting of IFS and Pronto, which provide full Asset Management

Software systems with financing, and Cartegraph, which provides a maintenance specific system that did not include a financial component. The three vendors provided two full-day remote demonstrations in which additional FPA supervisory staff at multiple levels participated in order to receive feedback and buy-in by staff. IFS scored higher than Pronto due to its GIS tie-in capability. Staff communicated with the references provided by the vendors. Contract reviews and negotiations are in progress in order to obtain the best fit and best value for the FPA. Staff recommended that the FPA pursue the software system provided by IFS.

Mr. Kennedy further explained that the FPA currently runs eight software systems at an annual cost of approximately \$140,000, which would be replaced with a single solution. The proposed budget for the new Asset Management Software is \$250,000 annually (current proposals range between \$180,000 to \$240,000) with \$550,000 for the one-time implementation (current proposals range between \$400,000 to \$540,000). Funding is included in the FY 2021 Budget for the software. Staff is working on contract reviews, negotiations, subscription and implementation costs, and scheduling.

Ms. Chandler explained that preparations have already commenced and the intention is to fully implement the financial component by July 1st (the beginning of the fiscal Year). The old and new software systems will run parallel for a period of time. The target date for implementing other components of the software (e.g., Engineering) is September 1st. The new Asset Management Software system is the next stage of the regionalization process and examples of the efficiencies that it will bring to the various operational functions were provided.

There was a unanimous vote of the Committee to recommend that the Board allow staff to pursue implementation of the Asset Management Software provided by IFS.

There was no further business; therefore, the meeting was adjourned at 10:50 a.m.