MINUTES OF
SOUTHEAST LOUISIANA FLOOD PROTECTION AUTHORITY-EAST
FINANCE COMMITTEE MEETING
HELD ON JANUARY 19, 2023

PRESENT: Roy M. Arrigo, Acting Chair
Richard G. Duplantier, Jr., Committee Member

The Finance Committee of the Southeast Louisiana Flood Protection Authority-East (FPA or Authority) met on January 19, 2023, in the Franklin Avenue Administrative Complex, Meeting Room 201, 6920 Franklin Avenue, New Orleans, LA. Mr. Arrigo chaired the meeting in Mr. Latiolais' absence and called the meeting to order at 10:35 a.m.

Opening Comments: None.

Adoption of Agenda: The Committee adopted the agenda.

Approval of Minutes: The Committee approved the minutes of the Finance Committee meeting held on November 17, 2022.

Public Comments: None.

Regional Finance Director's Report:

Denise Businelle, Regional Finance Director, advised that meetings are being conducted this week and next week with all departments for the development of the Fiscal Year (FY) 2024 Budget. The draft FY 2024 Budget will be presented at the next meeting.

New Business:

A. Presentation of Fiscal Year 2022 Financial Audit Report by Ericksen Krentel.

Josh Faubert, CPA, CITP, Manager in the Accounting and Auditing Services Section of Ericksen Krentel, advised that the FY 2022 Financial Audit was performed under the applicable standards (Generally Accepted Auditing Standards, Governmental Auditing Standards, and Louisiana Government Audit Guide and Uniform Guidance). At the conclusion of the audit, an unmodified opinion was issued for the June 30, 2022, combined financial statements for the FPA and Lakefront Management Authority (LMA). In addition, the auditor issued fairly stated "in relation to" opinions on the Schedule of Expenditures of Federal Awards; Schedules of Commissioners' Per Diem and Compensation, Benefits, and other Payments to Agency Head; and the Annual Fiscal Report to the Office of the Governor (AFR). No assurances were provided on the Management's Discussion and Analysis or any supplementary schedules that accompanied the financial statements; however, certain procedures were applied.

Mr. Faubert provided a high level overview of the financial statements, which included the LMA and long-term assets and liabilities.

- Assets and Deferred Outflows totaled over $7 billion and included Capital Assets (97%), the majority of which (over $5 billion) consists of the Hurricane and Storm Damage Risk Reduction System (HSDRRS), Cash and Investments ($156 million), Accounts Receivable ($3.7 million), Other (over $4 million), deferred outflows related to Pension and OPEB (Other Post-Employment Benefits) ($11.6 million), and Lease Receivables (LMA) (over $21 million).
- Liabilities, Deferred Inflows and Net Position primarily consisted of Capital Assets ($6.8 billion), Restricted Net Position ($500,00), Unrestricted Net Position ($94 million), Accounts Payable (over $19 million), Deferred Revenues (over $521,000), Lease Deferred Inflows (LMA) (over $22 million), and Net Pension and OPEB (about $62 million of long term liabilities).
- Cash and investments significantly outweighed any of the currently booked liabilities and on a short term basis the current ratio is in good condition.
- Changes in Net Position (sources and uses) were reviewed and highlights noted: The net loss of $75 million included the transfer of the Lake Borgne Basin Levee District pump stations to St. Bernard Parish Government (about $42 million in capital assets and $4 million cash), and increases in depreciation for the HSDRRS and other assets. Income was primarily made up of Taxes and Intergovernmental Revenues. Flood and Drainage Protection ($85 million) included depreciation.

Mr. Faubert reviewed the required communications with governance:

- The financial statements are the responsibility of FPA management. The auditor's responsibility is to form and express an opinion based on the audit and to plan and perform their audit to obtain reasonable, not absolute, assurance about whether the financial statements are free of material misstatement.
- The audit includes consideration of internal control, but does not provide an opinion on its effectiveness.
- The auditor is required to inform those charged with governance of any material illegal acts discovered. None were noted.
- No new accounting policies were adopted by the FPA. The new lease standard was adopted by the LMA.
- No transactions lacked authoritative guidance.
- Sensitive estimates affecting the financial statements consisted of depreciation expenses, Pension and OPEB Liability, amounts due to the U.S. Army Corps of Engineers (USACE), and values of USACE transfers.
- Financial statement disclosures are neutral, consistent, and clear.
- No difficulties were encountered while performing the audit.
- Corrected and uncorrected misstatements were not material to the financial statements taken as a whole.

- There were no disagreements with management about accounting policies.
- There were no management consultations with other independent accountants.
- There were no other audit findings or issues.

Mr. Faubert explained that two additional reports were issued that are primarily internal control communications. Under Government Auditing Standards and Uniform Guidance for Federal expenses, there were no material weaknesses, significant deficiencies or instances of noncompliance material to the financial statements or the FPA's major Federal programs.

B. <u>Presentation on investment opportunities – Gary Welchel, Orleans Capital.</u>

Kelli Chandler, Regional Director, introduced Gary Welchel and advised that she had known Mr. Welchel for over twenty years and worked with Orleans Capital in the past.

Mr. Welchel, Executive Vice President of Business Development, advised that Orleans Capital is a privately held, majority woman owned firm founded in 1991. He introduced Cathy Johnson, Partner, and Emily Becker, Chief Investment Officer and President.

Ms. Becker explained that Orleans Capital is a Louisiana based, SEC registered investment advisor with offices in Mandeville and Metairie. The firm has $1.4 billion in assets under management as of December 31, 2022, and uses a team approach in management. About $1 billion of the assets is fixed income. All accounts are separately managed and customized according to a client's specific needs. Portfolio managers average over 25 years of experience. The firm has GIPS verification in terms of its performance composites. Orleans Capital's clients include numerous public pension systems, foundations and endowments, and insurance and institutional services.

Ms. Becker noted that a bond is a fixed income instrument representing a loan by an investor to a borrower and has a term that includes interest and final maturity. The FPA's Investment Policy only allows investments in bonds, which are the most stable asset class. Fixed income sectors include corporate bonds, government securities, mortgage backed securities and cash/money market instruments. The purpose of the presentation was to discuss two of the instruments in the fixed market sector, corporate bonds and government securities, and how they can benefit the FPA.

Ms. Becker described the benefits and risks for government securities, which are allowable under FPA Investment Policy, as follows:

- Treasuries – Direct obligation of the U.S. Government and have the highest credit rating, but lowest yields. Risks: While they have the full faith and credit of the U.S. government, they are the most sensitive to changes in interest rates.
- U.S. Agencies – Obligation of governmental agencies (FNMA, FHLMC, FCCB and FHLB) and have high credit ratings, but marginally higher yields versus Treasuries. Risks: Have an implied government guarantee, but are the next most sensitive to changes in interest rates.

Ms. Chandler pointed out that the FPA's current portfolio consists of Treasuries and Government Agencies. Currently, the portfolio does not have any corporate debt or corporate bonds, which is the asset class that the FPA will be looking into in the future.

Ms. Becker explained that Orleans Capital heavily invests in corporate bonds in its core fixed strategies. Corporate bonds are the obligation of the corporation issuing the debt, and the credit rating is assigned based upon the corporation's ability to repay the debt. The yields vary in accordance with the bond ratings, which are (highest to lowest) AAA, AA, A and BBB. Corporate bonds are priced in terms of spreads (the yield above and beyond Treasuries). The FPA Investment Policy allows investment in AAA and AA rated corporate bonds. She stated that there is an opportunity to increase the yield in the FPA's portfolio by introducing corporate bonds into the FPA's management plan.

Ms. Chandler explained that in the past the FPA did not have an investment portfolio; therefore, when one was created, it was introduced slowly by taking as little risks as possible in order to provide time to determine future cash flows and ensure the required liquidity (e.g., payments to the USACE) is available when needed. The FPA has a significant investment in LAMP (Louisiana Asset Management Pool), which is very liquid, but offers lower yields. There is an opportunity within the FPA's current Investment Policy to take advantage of some of the corporate opportunities having higher yields by taking funding from the LAMP account and investing it in corporate bonds.

Ms. Becker advised that the LMA is a client of Orleans Capital and took advantage of this opportunity by having a portfolio that includes 20% corporate bonds and 20% taxable municipal bonds (which are also available to the FPA). As an active manager, Orleans Capital can create a customized portfolio, not only taking advantage of opportunities and yields, particularly at this time when short term yields are attractive, but it can match these opportunities to suit the FPA's unique funding needs (cash flow needs), thus generating higher returns.

Ms. Becker discussed last year's historic rise in interest rates, which had been declining for about a decade, and the impact on Treasury yields (e.g., the yield for a one month Treasury bill increase from 0.01% at 12/31/21 to 3.99% at 12/31/22). LAMP is currently paying about 4.35%.

Ms. Becker reviewed a sample proposed portfolio consisting of Treasuries (60%), U.S. Agencies (20%) and AA corporate bonds (20%) The laddered portfolio consisted of maturities of 0 to 4 years and an average maturity of 1-1/2 years with a yield of 4.57 to 4.60%. The FPA Investment Policy allows up to five-year maturities; however, the curve begins to invert at that point. The FPA would not be extending or reducing the quality its portfolio, but taking advantage of existing market opportunities.

Ms. Becker discussed the market outlook. The U.S. is still in a very strong inflationary environment and heading in the right direction; however, the question is whether or not the country will be going into a recession this year, which she thought was possible, but that it would not be lengthy or particularly deep. Orleans Capital is watching inflation, the labor and housing markets, consumer sentiment and retail sales, and the yield curve, which has an inverse shape that points toward a recession.

Mr. Welchel closed by stating that Orleans Capital's clients include Pension and Retirement Systems for the following Louisiana groups: District Attorneys, Firefighters, Assessors, Clerks of Court, Register of Voters, School Employees, and State Police, as well as the Louisiana State Employees' Retirement System and Municipal Police Employees' Retirement System.

Ms. Chandler advised that a meeting will be scheduled with Jason Latiolais, Finance Committee Chair, and Randy Noel, President, to review the FPA's portfolio and liquidity needs and a recommendation will be made at the February Finance Committee and Board meetings. The final amount of the payment by the Orleans Levee District to the USACE for the pre-Katrina cost share was expected to be determined prior to the meetings. She further advised that FPA monies are currently invested in LAMP and Edward Jones (mainly Treasuries); therefore, it is not actively managed day-to-day.

C. <u>Update on January 1, 2023 insurance renewals.</u>

Martin Eilers, Director of Risks and Property Management, advised that the Property Insurance Policy for the FPA's non-flood related facilities was bound prior to December 31, 2022. The properties consist of the Franklin Complex, three East Jefferson Levee District facilities, Lake Borgne Basin Levee District facility and Orleans Levee District Police Station. The market is challenging because private insurers are being selective, taking on less risks, requiring higher deductibles and increasing rates to improve profitability. Driving factors include significant loss activity, the reinsurance market's requirement for higher deductibles and retentions for primary insurers and/or reduced capacities or limits, inflation leading to higher claims, and a likely economic recession.

Mr. Eilers explained that updated property appraisals were performed during the fourth quarter of 2022 and that the FPA is continuously evaluating its risk exposure and determining acceptable levels of retained risks. Thirty-five domestic and international markets were approached for property insurance and numerous options were considered. The property insurance package bound by the FPA includes a Loss Limit of $50 million and is layered as follows (after deductibles): Lloyds of London (lead - $5 million), Lexington and Lloyds of London (5 million), Markel ($5 million), Kinsale & Global Excess Partners ($10 million), and Munich Re, Westchester & James River ($25 million). The policy has a named windstorm cap, which applies to hurricanes, of $25 million. The FPA has primary flood policies for all buildings separate from the property insurance package. The expiring premium for property insurance was $979,792 and the renewal premium for the one year period commencing January 1, 2023, is $1,784,534 (an increase of $804,000 or 82%). Key changes to the coverage are as follows:

- The total insured valuation of the properties increased from approximately $60 million to $72 million (an increase of $11.9 million or 20%).
- The rate (per unit of insurance) used to determine premium costs increased 53% from $1.62280 to $2.47551.
- The lead carrier changed from AmRISC to Lloyds of London.
- The flood limit increased 50% from $2.5 million to $5 million.

- The Named Wind Storm (NWS) deductible increased from 5% to 10%.

Mr. Eilers advised that the following insurance coverages will be renewed on April 1, 2023: Commercial Liability, Accidental Death and Dismemberment, Public Officials Liability, Cyber Liability, Hull and Vessel, Workers Comp and Crime. These renewals are anticipated to be flat or at a 5 to 10% increase in premium. The Workers Comp EMODs decreased as follows: FPA from 1.21 to 1.09, Orleans Levee District Police Department from 1.59 to 1.56, and East Jefferson Levee District Police Department from 1.42 to 1.22. The following changes took place last year relative to the liability coverages:

- The premium increased 12% from $1.68 million to $1.9 million.
- Cyber Liability was moved to a different insurer resulting in a 30% decrease in premium ($17,040).
- Auto Physical Damage limit was increased 200% (from $1 million to $3 million).
- All policies except property and flood were realigned to renew on April 1st to more closely align with the new fiscal year.
- Public Officials Liability and Excess Public Liability were restructured.

Mr. Eilers explained that the FPA's losses or claims for the current coverage period (2022-2023) with two months remaining total approximately $177,000, which is a decrease of about 67 % from the 2021-2022 period (about $587,000). The FPA has 12 open claims that it is working to resolve prior to going to the market. He also advised that in 2021 the FPA received about $284,000 in dividends from LWCC. A total of $3.2 million in dividends was received over the last 20 years from LWCC.

Mr. Eilers advised that Star Technical, the current insurer, did an risk assessment last week of the Permanent Canal Closures and Pumps (PCCP). An outside risk assessment has been performed three years in a row after which feedback and suggested risk reduction measures were provided. This year Star Technical did not have any recommendations and were very complimentary. The information from the assessment can be used to allow potential insurers to have a greater understanding of the risk exposure.

D. Discussion of a proposed payment up to $26,995,218.22 by the Orleans Levee District to the U.S. Army Corps of Engineers for the local cost share for the Original Lake Pontchartrain and Vicinity, Louisiana Project constructed within the Orleans Levee District prior to Hurricane Katrina on August 23, 2005.

Ms. Chandler requested that Item D be deferred until next month because the FPA is still in discussions with the USACE and must review some additional reports.

There was no further business; therefore, the meeting was adjourned at 11:15 a.m.