MINUTES OF
SOUTHEAST LOUISIANA FLOOD PROTECTION AUTHORITY-EAST
FINANCE COMMITTEE MEETING
HELD ON DECEMBER 21, 2023

PRESENT: William A. Settoon, Jr., Chair
Roy M. Arrigo, Committee Member
K. Randall Noel, Committee Member
Deborah M. Settoon, Committee Member

The Finance Committee of the Southeast Louisiana Flood Protection Authority-East (FPA or Authority) met on December 21, 2023, in the Franklin Avenue Administrative Complex, Meeting Room 201, 6920 Franklin Avenue, New Orleans, La. Mr. Settoon called the meeting to order at 10:34 a.m.

Opening Comments: None.

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 16, 2023.

Public Comments: None.

Regional Finance Director's Report:

Mr. Settoon advised that the Regional Finance Director was unable to attend the meeting; therefore, there was no report.

New Business:

A. Presentation by Financial Advisor Richard Kernion with Edward Jones.

Richard Kernion, Financial Advisor with Edward Jones, recommended that $15 million be transferred from the Louisiana Asset Management Pool (LAMP) account to the Edward Jones account in order to spread out maturity dates for some of the LAMP moneys. Multiple discussions took place over the past two years and as Treasury bills matured monies were transferred from Edward Jones to the LAMP account with the expectation of rising interest rates. However, interest rates are anticipated to flatten or possibly decline. At its last meeting, Federal Reserve expectations were that rates would be reduced three times in 2024.

Mr. Kernion explained that if the Federal Reserve starts lowering interest rates, LAMP rates would quickly decline. Therefore, he recommended positioning maturity dates into 2026, 2027 and 2028 to help remove reinvestment risks. Two years ago the LAMP rate was .1 percent and as of two weeks ago it was 5.4 percent. He warned that LAMP rates could decease as quickly as they increased. Edward Jones was attempting to leverage reinvestment risks with some of the LAMP monies. FPA's LAMP balance was approximately $113 million. He recommended that $15 million from LAMP be added to the proceeds of two Orleans Levee District bonds ($2.5 million each totaling $5 million) that matured in mid-December 2023 and an East Jefferson Levee District bond ($5 million) maturing in January 2024. The $25 million would be invested over the next month or two in bonds with maturities that fall in 2026, 2027 and 2028.

Mr. Noel inquired about the returns on the proposed bonds. Mr. Kernion explained that at this time the shorter the maturity, the higher the rate, creating an inverted yield curve. Interest rates were 4.3 percent on bonds maturing in 2026, 4.1 percent on bonds maturing in 2027 and 3.9 percent on bonds maturing in 2028.

Mr. Settoon noted that LAMP's interest rate as of December 19th was 5.14 percent. Kelli Chandler, Regional Director, explained that LAMP invests in short term securities; therefore, LAMP's reactions to the market are more volatile. If the yield curve is in a normal shape, generally, longer holdings would yield more return. Monies needed for liquidity are kept in LAMP. The FPA tries to capture and lock in longer term rates for monies not kept in LAMP.

Ms. Settoon commented that Mr. Kernion's recommendation was a good approach. Mr. Settoon explained that he wanted the Commissioners to understand that money would be taken from an account with a slightly higher interest rate at the current time and invested in longer term instruments with lower interest rates anticipating that the short term rate would fall.

Mr. Fierke asked the reason for reinvesting only $15 million from LAMP. Mr. Kernion explained that he was taking a conservative approach. If the Federal Reserve does not drop interest rates early in 2024, rates could creep up slightly. He wanted to see where the market stood in March, April or May, at which time he would recommend that an addition $15 million be reinvested.

Mr. Noel stated that he did not anticipate that interest rates would drop as precipitously as expected by brokers. The FPA would take a cut in returns to invest in the new bonds. He recommended that the FPA not invest in bonds with maturities longer than 2026. If Mr. Kernion was correct, interest rates would reverse sometime next year. However, if the Federal Reserve does not drop rates because inflation increases, new bonds with a 4.3 percent interest rate would be worth less money, but would be kept until maturity in 2026. Mr. Settoon pointed out that the FPA was not legally locked into the bonds until maturity, but a loss would be incurred if the bonds are sold prior to maturity. The LAMP account is very liquid and money can be transferred with one day's notice.

Mr. Fierke asked the cost for using LAMP. Mr. Noel responded that there was no cost for using LAMP. Mr. Fierke asked what was the commission per million for buying bonds. Mr. Kernion explained that, generally, the markup is about 0.1 percent on a treasury maturing in one or two years, 0.2 percent on a treasury expiring in two to three years, and 0.4 percent on a treasury expiring in four to five years. However, due to the FPA's volume of business, Edward Jones can generally reduce the markup by half. If the $25 million is invested as recommended over the next month or two, generally, with discounts the overall cost would be .15 percent.

Mr. Noel suggested that the $25 million be reinvested over the next thirty days to obtain the 4.3 interest rate. The FPA would have a better idea about the trend after the Federal Reserve meetings at the end of January or in February and in March.

Mr. Kernion recommended, based on interest rates as of December 21st, that $5 million be invested in bonds maturing in 2027, $5 million in bonds maturing in 2028 and $15 million be invested in bonds with maturities spread over 2026. The recommendation was an attempt to avoid reinvestment risks with a majority of potential interest rate outcomes and would gradually improve maturity dates. At the end of spring a determination can be made regarding other liquid assets at LAMP.

Mr. Noel offered a motion, which was seconded by Mr. Arrigo and unanimously adopted, to recommend that the Board approve the investment of $25 million over the next thirty days ($25 transferred from the LAMP account, $5 million in bonds that matured in mid-December and the $5 million bond maturing in mid-January) in bonds maturing in 2026. He also recommended that the issue be revisited in January. Mr. Kernion noted that he would invest in multiple bonds with staggering maturities in 2026.

B. Discussion of the investment of proceeds of maturing bonds and Louisiana Asset Management Account (LAMP) funds in new bonds and recommendation to the Board.

Discussion and recommendation for Item B took place during agenda item A.

C. Discussion of the potential roll forward and certification of ad valorem tax millage rates for the Orleans Levee District for Calendar Year 2024 and recommendation to the Board.

Mr. Noel inquired about the separation of the portion of the Special Levee Improvement (SLIP) ad valorem tax millage dedicated to the Orleans Levee District (O.L.D.) non-flood protection assets. Kirk Ordoyne, Executive Counsel, explained that according to the Legislative Auditor's tax review officers, the FPA could approve a partial roll forward of the SLIP tax. Mr. Duplantier disagreed and stated that if the FPA tried to approve a partial roll forward of the SLIP tax only for the portion of the tax dedicated to the non-flood protection assets, it would end up in litigation.

Ms. Chandler advised that if the Board approved a partial roll forward of the SLIP tax, some of the resulting revenue would have to go to the flood protection assets (O.L.D.) and some to the non-flood protection assets managed by the Lakefront Management Authority (LMA). The Board can partially roll forward the tax; however, it cannot change the percentages approved by the voters when the tax was passed.

Mr. Arrigo asked Mr. Ordoyne did he agree with Ms. Chandler's explanation. Mr. Ordoyne responded that Ms. Chandler was more on top of this issue than he was. He stated that he reached out to the Legislative Auditor's office to assist. Ms. Chandler stated that the question posed by Mr. Ordoyne was could the FPA partially roll forward the tax and the answer was yes. The SLIP millage rate must be rolled back to 5.33 mills in order to retain the same revenues. The Board can roll forward to any rate between 5.33 and 6.07 mills. If the rate is rolled forward, a portion of the millage would go to the O.L.D. and a portion to the LMA; however, the percentages must stay the same because that is what the voters originally approved.

Mr. Noel asked if the Board approved a partial roll forward of the LMA's portion of the tax, would it be sued. Mr. Duplantier responded, yes; it would be sued by the citizens of New Orleans. He stated that in his opinion the Board just needed to roll back the SLIP millage rate so that the FPA and LMA receive the same revenues as last year and the budgets would not change. He added that, in his legal opinion, the Board could not just roll forward the LMA's portion of the tax, otherwise it would be inviting very expensive litigation.

Mr. Settoon clarified that the Board was required by law to roll back all of the O.L.D.'s millage rates and it has the option to roll the rates forward. He pointed out that the FPA received a letter dated July 24, 2023, from the New Orleans City Council that asked taxing authorities to not roll forward millage rates. Mr. Settoon advised that he also received a call from State Representative Stephanie Hilferty, who represents a portion of Orleans Parish under the FPA's jurisdiction, along with a number of emails from citizens, asking that the millage rates not be rolled forward. Mr. Duplantier added that on December 20th he spoke to Councilman Giarrusso and that he was advised that the City Council was not rolling rates forward and asked that other taxing authorities not roll forward rates. The School Board was rolling forward its millage rates; however, the action was not well received. The School Board cancelled its vote and moved it to January due to the controversy.

Ms. Settoon suggested that out of an abundance of caution, given inflation, higher insurance rates and other factors impacting peoples' budgets, the Board not roll forward millage rates. The FPA would still have sufficient revenue to accomplish what was needed. She added that the LMA needed to do what it could to increase revenues from the non-flood protection assets and become more viable.

Mr. Arrigo noted that a request was received from the LMA Board to roll forward the portion of the SLIP tax millage rate for the non-flood protection assets. Louis Capo, LMA Director, explained that the resolution was adopted by the LMA Board on December 14th. At the time the resolution was vetted, the LMA Board did not have knowledge about or possession of the letter from the City Council. The LMA did not receive a copy of the letter until December 19th. If the LMA had knowledge of the City Council's letter on December 14th, the Board would probably have taken a difference course. He explained that the resolution was put forth by the LMA without having full information. LMA Board includes Commissioners who represent members of the City

Council. He stated that he and the LMA Board would respect the FPA's decision and plan to move forward accordingly.

Mr. Noel asked what additional revenues would be achieved from a full roll forward of millage rates. Ms. Chandler provided the estimated additional revenues that would result from a full roll forward of the taxes: General (Constitutional) Tax - $2.9 million, Maintenance Tax - $465,000 and SLIP Tax - $3.4 million (totaling approximately $6.8 million). Mr. Noel asked that the record include, in considering the citizens of New Orleans and not rolling the millage rates forward, the FPA was sacrificing an additional $6.8 million of revenues that could have been used for flood protection. Mr. Settoon pointed out that the O.L.D. would have significant capital outlays in the future; however, it also had significant funds invested in LAMP and bonds (Edward Jones). Mr. Rabb noted that the O.L.D. would have sufficient revenues to cover its budget.

Ms. Settoon offered a motion, which was seconded by Mr. Arrigo, and unanimously adopted, to recommend that the Board roll back and not roll forward the Orleans Levee District's three millage rates for calendar year 2024.

There was no further business; therefore, the meeting was adjourned at 11:10 a.m.