

**MINUTES OF THE SLFPA-EAST FINANCE COMMITTEE
MEETING HELD ON MARCH 2, 2007
IN THE ORLEANS LEVEE DISTRICT CONFERENCE ROOM
6920 FRANKLIN AVENUE,
NEW ORLEANS, LOUISIANA**

PRESENT: Timothy Doody, Chairman
George Lososky, Committee Member
Sara Lee St. Vincent, Committee Member

FURTHERMORE PRESENT:

Stevan Spencer, OLD Director Hurricane and Flood Protection
Louis Capo, OLD Director Non-Flood Assets
James Bollinger, OLD Comptroller
Dawn Wagener, OLD Budget Officer
Cornelia Ullmann, OLD Interim Counsel
Gerry Gillen, OLD Chief Engineer
Richard Lewis, Superintendent OLD Police
Donald Booth, OLD Police
Glenda Boudreaux, OLD Executive Department
Albert J. Richard, III, Postlethwaite and Netterville
Sheila Grissett, Times Picayune

- I. Call to Order: Chairman Doody called the meeting to order at 1:00 p.m.
- II. Opening Comments – Chairman Doody stressed the Authority’s responsibility is flood protection of the geographic area, including Orleans Parish, and fiduciary responsibility to the citizens; therefore, the discussion of the Budget for the Orleans Levee District (OLD) for Fiscal Year 2008 (FY ‘08) has been placed on this agenda.
- III. Adoption of the Agenda – Chairman Doody requested that a report by the firm of Postlethwaite and Netterville be included under Item IV. There was no objection.
- IV. Summary presentation by Finance Department on the FY 2006 Audit Report for the Orleans Levee District

Mr. Albert J. Richard, III, Director at Postlethwaite and Netterville (P&N) reported on the audit of the OLD for the year ending June 30, 2006 (FY ‘06). Mr. Richard distributed copies of the Audit Report. He advised the Audit Report was presented on December 31, 2006 for inclusion in the State’s combined report. The audit included two reports: first, the report on the OLD’s financial statements, and, second, the single audit report, which is the audit of federal funds.

Mr. Richard advised the financial statements were audited in accordance with generally accepted auditing standards and governmental auditing standards. The purpose of the audit is to express an opinion on the financial statements, and Mr. Richard reported the OLD received a clean opinion, with no qualifications or exceptions to the opinion. Mr. Richard briefly explained the audit process, including controls reviewed and tests conducted, the development of an audit plan, and procedures utilized. There were no changes in the OLD’s significant accounting policies. P&N agreed that the methods for calculating accounting estimates and management judgments (e.g., litigation claims) were appropriate for the organization. P&N was satisfied with the estimated impairment losses recorded on fixed assets post-Katrina. He pointed out there were no disagreements with management relative to any accounting or auditing issues, and explained the only difficulties involved were relative to the significant reduction in staff and the loss of time caused by Hurricane Katrina.

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Several of the financial statements were reviewed, and Mr. Richard pointed out the data was provided by the OLD's Finance Department staff.

Chairman Doody asked that the reserve for non-paid workers comp be reviewed, and briefly discussed tax collection for calendar year 2005.

Relative to management notes, Mr. Richard explained two comments were noted in the single audit report that were findings; first, relating to Human Resources there was a period post-Katrina where a number of the controls in place were not being performed on the same routine and regular basis as they had been performed; and, second, post-Katrina there was one exception relative to the public bid law for the purchase of computer equipment. Ms. Ullmann noted that the computer equipment purchase fell under the Emergency Declaration issued by the Governor.

Mr. Richard advised the customary deadline date for the annual audit is September 1st. He also noted a large portion of the fixed assets built by the U.S. Army Corps of Engineers were not recorded by the State on the OLD's books.

Mr. Bollinger pointed out the two fundamental parts of the Audit Report; the first being the report traditionally put out by the OLD; and the second being largely the same information put out in the uniform format required by the State for consolidation purposes.

V. Consideration of request that Postlethwaite and Netterville be contracted for the audit of FY 2007 for the Orleans Levee District

Mr. Bollinger explained the Legislative Auditor manages the engagement of the independent auditing firm, with the OLD participating in the selection. Contracts are usually three years in length. P&N has completed a three year contract; however, the Legislative Auditor's Office has indicated they are not opposed to the extension of the P&N contract because of its expertise and familiarity with the organization, and the changes the OLD is now undergoing. Should the Authority desire to extend the contract with P&N, this must be expressed to the Legislative Auditor who will then discuss the matter and solicit a fee from P&N, and meet with all parties, including the OLD, to determine whether the fee is acceptable.

Chairman Doody concurred it would be good logic to extend P&N's contract for next year's audit.

VI. Discussion of stated positions of Louisiana Office of Statewide Reporting and Accounting Policy (SRAP) and Louisiana Legislative Auditor Postlethwaite and Netterville relative to appropriate reporting of the Orleans Levee District

Mr. Bollinger explained he spoke to representatives to SRAP and the Legislative Auditor and uncertainties and questions remain relative to reporting.

Chairman Doody did not feel those decisions would be made prior to April 1st; therefore, the best assumptions and efforts will be used to determine which things are flood and which are non-flood and budget for them accordingly. He asked that in the review of the budget the exceptions be pointed out.

VII. Review of Orleans Levee District FY 2008 Budget

Copies of the FY'08 Budget were distributed. Mr. Bollinger explained in addition to the two budgets traditionally prepared by the OLD (Operating Budget and Capital Budget), a third (Non-Flood Budget) will be prepared. The Committee would be discussing the flood control operating budget (copy of which was distributed) and flood construction budget, which must be submitted to the Joint Legislative Committee on the Budget by April 1st. He briefly explained the procedures used to prepare the budget,

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which included receipt of departmental requests, the Finance Department review process, and review with the OLD Director.

To continue operations at the present level would require a budget of approximately \$13 million, with payroll representing \$9 million or 69 percent of the budget.

Mr. Bollinger pointed out some general, important assumptions in the FY'08 Budget, the first being the operating budget for the flood control operations contains no SLIP transfers. In the twenty years following the reduction in income because of the Bohemia settlement and other reasons, transfers were made from Special Levee Improvement Fund (SLIP) to the General Fund in amounts up to \$4 million annually; however, even with this transfer, in the last ten years the OLD has not done much more than break even. Major revenue assumptions in this budget include \$300,000 per month in mineral revenues, and property tax income equivalent to 70 percent of that collected in FY'05. The Committee briefly discussed '08 being a reassessment year and tax collection concerns.

Mr. Bollinger explained the OLD lost a significant number of employees due to post-Katrina uncertainties and policy changes. The OLD had 221 employees at the end of 2005, and currently has 151 employees. One hundred thirty-one positions are budgeted, and the budget request is for an additional 38 positions, for a total request of 169 positions. The budget request includes the following additional positions: three engineers in the Engineering Department, two positions in the Finance Department, one in the Technology Department, one in Human Resources, and 30 in field operations.

Mr. Stevan Spencer addressed the Engineering Department needs. The Department currently has three engineers on staff (i.e., Director of Flood Control, Chief Engineer and a third engineer who may be close to retirement), and the Emergency Operations Center (EOC) staff, consisting of upper level engineering technicians, who are close to retirement and at such time as these positions become vacant may require filling by engineers to provide the needed level of expertise.

The Committee briefly discussed justification for the additional requested positions, the current and anticipated flood and non-flood duties/work performed by the various departments, the current computer technology and software being used by the District, and the possible study of this technology/software to determine whether it meets the OLD's current needs.

The Committee reviewed equipment needs, much of which requires replacement due to age. No funding was provided in the FY'07 budget for equipment; \$250,000 has been included in the FY'08 budget. Reinstatement of the vehicle take home policy for essential personnel, especially during hurricane season, was discussed.

The Committee requested a list of administrative personnel with pay levels and responsibilities, and whether a take home vehicle would be needed.

It was pointed out the OLD Police Department was included in the flood operations budget. Cost allocation procedures historically used were explained; however, the budget presented to the Committee did not anticipate billing back to the non-flood side any expense for Police work on the non-flood assets. Chairman Doody asked that a reasonable split of the total cost of these services, including payroll, equipment depreciation and maintenance, be determined. OLD police have been trained in closing floodgates and anticipate future training on levee inspection. Other duties performed by the police, including reading tide gages, policing Lakeshore Drive and the parks were discussed, as well as the possibility of grants available under Homeland Security.

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Mr. Bollinger explained, since the Authority's viewpoint was not known on allocation of employees or costs, the budget assumption was that the administrative staff of the flood operations (i.e., Human Resources, Finance Department, etc.) would continue to support the non-flood operations and no reimbursement was budgeted; however, those individuals who physically work for the Airport and the marinas were moved to the non-flood operations budget. Chairman Doody instructed that flood operations and non-flood operations each budget for their needs. The Committee further requested that the apportionment of services be noted as to whether it is anticipated to be a normal, regular apportionment or an unusual apportionment.

Mr. Bollinger pointed out the OLD will not have to start repaying the CDL loans and GO Zone Bonds until 2012.

The SLIP Fund Budget and future SLIP fund tax revenues were reviewed. Mr. Bollinger explained the State is currently paying the debt service on the OLD's bonds until 2009; however, the OLD will not only have approximately \$5 million debt service per year for the years 2010 thru 2014, but will also have a 15 year amortization of the portion paid under the Go Zone program. The SLIP tax, if not extended, will expire in 2015.

Chairman Doody requested a revised budget be prepared and forwarded to the Committee members, which would include everything discussed today, including a reimbursement and apportionment of various personnel between flood versus non-flood, based upon the best information available, and that the OLD be prepared to give a presentation on the revised budget at the March 15th meeting.

Concern was expressed about the non-flood side being able to support itself in the short term.

The Committee briefly discussed the possibility of a deficit budget. Chairman Doody indicated he was adverse to a deficit budget and requested that those additional positions critical to flood protection be identified. Mr. Spencer pointed out that 27 additional people are being requested for Field Operations, which had experienced a significant loss in personnel, in order to keep up maintenance efforts, perform inspections and rebuild floodgate crews.

Mr. Bollinger indicated the positions may need to be added, although it may cause deficit spending in the short run, but at the same time a more critical look should be taken of the entire organization to determine whether there are other areas where costs can be reduced, and pointed out the difficulty in balancing a post-Katrina budget.

It was also pointed out that South Shore Harbor is expected to be operational in approximately 18 months.

There were no further items discussed, therefore, the meeting was adjourned at 4:10 p.m.