MINUTES OF
SOUTHEAST LOUISIANA FLOOD PROTECTION AUTHORITY-EAST
FINANCE COMMITTEE MEETING
HELD ON MAY 18, 2017

PRESENT: Mark L. Morgan, Chair
Quentin Dastugue, Committee Member
Richard A. Luettich, Jr., Committee Member

The Finance Committee of the Southeast Louisiana Flood Protection Authority-East (SLFPA-E or Authority) met on May 18, 2017, in the Franklin Avenue Administrative Complex, Meeting Room 201, 6920 Franklin Avenue, New Orleans, Louisiana. Mr. Morgan called the meeting to order at 10:00 a.m.

Opening Comments: Mr. Morgan advised that he would be unable to attend the June 15th Finance Committee meeting as he would be on vacation.

Adoption of Agenda: Mr. Luettich requested that the Finance Committee Agenda be amended to include the consideration of a resolution to be presented to the Board relative to House Bill (HB) 438. HB 438 is currently under consideration by the Louisiana Senate and concerns funding across levee district lines for the flood defense system. Mr. Morgan commented that HB 438 would allow the Authority to treat the flood defense system as a system and everyone protected by the system to contribute equally and fairly. Mr. Luettich requested public comment on the proposed amendment of the agenda. There was no comment. The Committee members unanimously approved the addition to the agenda and adopted the agenda as amended.

Approval of Minutes: The Committee approved the minutes of the meeting held on April 20, 2017.

Public Comments:

Tim Avenyo, representing Eagan Insurance Agency (Eagan), commented that Eagan found out last week that a decision may be made today relative to the use of a single agency. Eagan has handled certain Orleans Levee District (O.L.D.) policies over the past 30 years and participated in past O.L.D. Request for Proposal (RFP) processes.

Trey Maddox, Vice President of Morrison Insurance Agency (Morrison), advised that representatives of Morrison and Eagan were at today's meeting to discuss the insurance coverages and the way in which the Authority is going about appointing a sole agent. He commented on the benefit of competition and that the Authority would not receive the benefit of competition by using a single agent. Morrison was awarded a contract in 1993 after participating in a RFP process. He commented that the best way to save taxpayers' money is by utilizing the RFP process. He asked how another agent would save money on the O.L.D.'s Workers Compensation (WC) coverage currently being handled by Morrison. He explained that in the mid-1990's Morrison moved the

O.L.D. from a self-insured fund WC program where the O.L.D. was paying in excess of $500,000 per year to LWCC paying approximately $300,000. He distributed a handout listing LWCC premium adjustments and dividends received by the O.L.D since 2003, and stated that the LWCC premium adjustments and dividends of approximately $1.3 million received since 2003 were a result of Morrison placing the O.L.D. with LWCC. He asked the reason the Authority did not conduct a bid process and was this fair to the public.

Mr. Morgan commented that he understood the insurance business fairly well because of the amount of insurance that he is involved in purchasing. He explained that realistically agents are consultants that go into the market and recommend the best insurance coverage at the lowest cost. The recommendation of staff is that the insurance coverages be consolidated through Arthur J. Gallagher & Co. (Gallagher).

Mr. Hassinger explained that the Authority was approached by Gallagher and advised that they could save money for the Authority. Gallagher developed pricing that indicates savings of approximately $300,000 to $400,000 per year. Most of the Authority's coverages, with the exception of several O.L.D. policies, are written through Gallagher. He pointed out that one of the O.L.D. policies (police coverage) written through Morrison is actually secured through Gallagher. Mr. Maddox pointed out that Morrison does not collect a commission. Mr. Hassinger further explained that the Authority has an opportunity to save several hundred thousand dollars per year with the consolidation and that he did not care which agent or broker is used. He pointed out that the Non-Flood Protection Asset Management Authority (NFPAMA) went through the same process several years ago and saved in excess of $200,000 in premiums. The consolidation of insurance coverages makes sense as the Authority continues the consolidation and centralization of every other process. He noted that the NFPAMA is wrestling with the issue since a component of the consolidation could include the NFPAMA potentially saving money.

Mr. Avenyo stated he was the agent appointed four years ago to save the NFPAMA money and that some of the facts that he was hearing were not correct.

Nyka Scott, SLFPA-E Executive Counsel, advised that the consolidation of insurance coverages will be effective July 1st.

Mr. Morgan commented that he viewed insurance agents or brokers as consultants and that every agent will recommend LWCC. He added that perhaps the Authority should receive presentations and make a selection; however, he understood if there is not sufficient time to do so.

Mr. Avenyo suggested that a RFP process be conducted next year and reiterated that what he was hearing through the marketplace and various people is that things are being presented to the Authority that are not totally correct.

Susan Paisant, representing Louisiana Workers Compensation Corporation (LWCC), presented a dividend check to the O.L.D. in the amount of $95,547. LWCC is a mutual company; therefore, when LWCC makes money at the end of the year, some of the money is added to LWCC's surplus to maintain an A rating and the remainder is returned to policyholders. It was noted that the East Jefferson Levee District (EJLD) and Lake Borgne Basin Levee District (LBBLD) also received dividend checks from LWCC.

<u>Regional Finance Director's Report</u>:

Kelli Chandler, SLFPA-E Regional Finance Director, provided the following report:

- An audit entrance conference was held that included the NFPAMA. A Prepared by Client (PBC) listing was received that included all of the schedules that would be needed along with due dates. The goal for completion of the audit is September 1.
- First NBC Bank failed during the past month and its parent company filed for bankruptcy protection. First NBC Bank was the financial institution where the EJLD had its checking account and CDs. All of the EJLD's cash has been moved from First NBC Bank, except for a few checks that will soon be cleared. The checking accounts for all of the levee districts under the Authority's jurisdiction are now at Capital One and linked. On line access will be established for transfers.
- The proposed future organizational structure for the Finance Department has been completed.
- Synchronization of the pay cycles has been completed.
- A team has been established to review and evaluate the policies and procedures across the Authority relative to timekeeping, payroll and benefits, in order to move forward with payroll consolidation.
- Several meetings were held with representatives of NetChecks (a payroll provider). NetChecks' demonstration was very impressive and its technology was good; however, the firm did not have a great amount of experience with government clients. The Authority decided to move forward with the consolidation of payroll utilizing ADP.
- The Regional Finance Director is continuing to evaluate accounting packages. A new position of IT Liaison Officer is proposed in the new organizational structure to assist with the technology side of all projects (e.g., accounting package selection and automating vendor payments). The position description has been drafted in order to move forward with filling the position. The filling of this position will help move the Finance technology process forward while the Regional Finance Director is working on the financial audit and other business.

<u>New Business</u>:

A. <u>Discussion of proposed Board resolution concerning HB 438.</u>

Mr. Luettich explained that HB 438, which has moved through the House and is now in the Senate, provides a mechanism for regionalizing the financing of the perimeter flood defense system across levee district boundaries. HB 438 would allow the Authority to treat and finance the perimeter flood defense system as a whole system. He stated that the Authority's legislative liaison, Wilma Heaton, brought to his attention the fact that the Board has not made any statement as to how the Authority would accomplish this allocation. Therefore, requests were being made for clarity. The proposed methodology would allocate the cost of the system using a fixed percentage based on revenues currently collected by each of the levee districts. He provided the following example: Based on numbers provided by the Director of Engineering and Operations, Robert Turner, the Authority projected that about $18 million is required each year to fund the operation and maintenance (O&M) of the perimeter system. The levee districts are anticipated to collect the following revenues based on budgeted revenue projections: EJLD - $9.5 million, LBBLD - $3.7 million and O.L.D. - $39 million. The percentage needed to collect $18 million is then calculated, which is approximately 35 percent. The percentage could potentially change over the course of time depending on the actual costs for O&M of the perimeter system. The proposal is to take an equal proportion from each district to fund the O&M cost of the perimeter system. Thirty-five percent is a target number for planning purposes. He added that the proposed methodology seems reasonable.

Mr. Luettich asked that Mr. Boese comment concerning the potential impact of the proposed methodology on the EJLD and the levee district's local efforts. Mr. Boese advised that 35 percent would be very close to what EJLD is currently paying for maintenance costs. The EJLD flood defense system is virtually all part of the Federal system. The EJLD currently budgeted approximately $3.2 million for the cost.

Mr. Luettich commented that it seemed reasonable that legislators considering HB 438 would want to have some guidance on the methodology that would be used in implementing the bill. Ms. Heaton noted that HB 438 was anticipated to be considered by the Senate on Monday.

Mr. Morgan commented concerning the Memorandums of Understanding (MOUs) put in place by the West Flood Protection Authority to fund the cost of the system in Plaquemines, Orleans (West Bank) and West Jefferson Parishes. The proposed resolution allows the SLFPA-E Board to decide a fair and equitable method of payment for the levee districts.

Mr. Dastugue asked whether the revenues used in the calculation were from a dedicated tax approved by a vote of the people or the Constitutional millage tax. Mr. Luettich advised that the ad valorem tax millages were used. Mr. Dastugue asked whether the percentage could be changed by a majority vote of the Board. Mr. Luettich responded that the proposed resolution is to provide clarity and the Board's intent should HB 438 be passed by the Legislature; however, it could be changed a majority vote of the Board.

Mr. Hassinger pointed out that currently the implementation of the Board's resolution would not be politically feasible because HB 438 was amended to provide that the funding would be by proportion related to the property value in each levee district. Should HB 438 be passed with the amendment related to property values, 75 percent of the EJLD's current budget would go towards payment for the Federal system as opposed to 35 percent as proposed by the Authority.

Mr. Luettich read the proposed resolution:

"WHEREAS, the Louisiana Legislature is considering HB 438, which provides for funding across levee districts for the perimeter flood defense system.

BE IT HEREBY RESOLVED, that the Southeast Louisiana Flood Protection Authority-East proposes to allocate funding as an equal percentage of the annual revenue collected from ad valorem taxes in each levee district."

Mr. Luettich offered a motion that the Committee recommend that the Board adopt the proposed resolution. The motion was seconded and the Committee members were unanimously in favor of recommending the proposed resolution.

Roy Arrigo commented that he supported an equitable methodology for allocating costs for the perimeter system; however, the proposed resolution assumes that the amounts that the levee districts are currently paying are equitable. He stated that the current amounts are not equitable and very disproportionate. St. Bernard Parish is paying a pre-Katrina rate for both flood protection and drainage. The 2011 Rand Study stated that St. Bernard Parish was running into deficits and that Orleans and Jefferson Parishes would have significant surpluses in the tens of millions of dollars each year. Even after the Rand Report was issued the former Chair of the Board sought and received millage increases for Orleans and Jefferson Parishes; however, St. Bernard Parish residents voted down a proposed millage increase. He asked that he be able to work with the Authority to resolve the inequity.

Mr. Luettich explained that he realized that people would interpret the proposed methodology differently; however, the Authority is diligently working to ensure that it has enough money to fund the system. If the flood defense system breaks because of funding, then the Authority would have failed in its job. He added that he understood Mr. Arrigo's position; however, at this time the proposed methodology is the best compromise for funding the system.

Carol Byram commented that she blamed former Board President Tim Doody for the failure of the tax referendums in St. Bernard Parish for not educating the residents during his tenure. She asked that the flood, legal and financial experts on the Authority clarify the issues addressed in HB 438, including which sections of New Orleans are supposed to be protected by the Federal system. She commented that prior to the Transportation Committee meeting she overheard some representatives ask an individual who appeared to be a lobbyist whether HB 438 would affect their parishes (there was no representative from New Orleans present) and his answer to everyone was, no, it only affects Orleans Parish. She stated that, in her opinion, Mr. Zeringue and Mr. Doody presented misleading information almost making Orleans Parish appear as though it had not been carrying its load. No one understood that Orleans Parish had already been paying the majority of St. Bernard Parish's flood protection expenses for ten years. She pointed out that the LBBLD's millage revenues pay the cost for flood protection and drainage; however, Orleans and Jefferson Parish residents pay a separate drainage millage. She commented that two-thirds of the residents in Orleans Parish do not pay property taxes, leaving one-third of the residents to carry the burden, and that the residents of New Orleans have been bombarded with property taxes. She pointed out that 75 residents in Lake Vista Subdivision have declared that if their property taxes are increased one more time, they intend to leave the Parish. She asked that the Authority take a serious look at exactly what portion of New Orleans is affected by the Federal system and make the apportionment as equitable as possible.

Edward Fineman, a resident along the 17th Street Canal, commented that taxes will be a big issue in the next New Orleans mayoral race. He commented that Orleans Parish monies are being used to subsidize St. Bernard Parish and to some degree Jefferson Parish. He stated that the 17th Street Canal will soon be overloaded with more water coming from Jefferson Parish.

B. <u>Review of budget to actual third quarter analysis.</u>

Ms. Chandler advised that the Authority and levee districts are expected to be under budget for the current fiscal year.

- The Authority will be under budget due to savings in unfilled positions that were budgeted and positions that were not filled for the entire year. The Authority's savings filter down to the levee districts.
- A large variance is shown in the O.L.D.'s tax revenues for the third quarter; however, the revenues are expected to be in line by the end of the fiscal year. The O.L.D. is experiencing savings due to unfilled positions and lower than anticipated fuel costs. A large positive variance is shown in the O.L.D. Special Levee Improvement (SLIP) Fund budget; however, the O.L.D. is expected to spend approximately $7 million in April on levee lifts and seawall erosion control projects. In addition, $2 million budgeted for the construction of the O.L.D. police station has not been spent.
- The EJLD is anticipated to be under budget due to fuel cost savings and slightly higher than anticipated tax revenues. Funding for levee lifts and construction of the EJLD consolidated facilities not expected to be spent prior to June 30th will be moved to the upcoming fiscal year.
- The LBBLD will be under budget due to savings in personnel services due to three employees being on leave without pay, substantial fuel cost savings and lower than expected Engineering Consulting expenses.

C. <u>Update on East Jefferson Levee District investment plan.</u>

Ms. Chandler advised that the EJLD's cash and CDs totaling approximately $45 million were moved from First NBC Bank to Capital One. The EJLD is expected to need about $8 million in near term expenses for projects and operating costs; therefore, she recommended that this sum be left in the EJLD's checking account. She recommended that funds needed during the next fiscal year [$12 million for the construction of the consolidated facilities and safe house and a reserve of $5 million (six months' operating expenses)] be invested in LAMP, and that the remaining approximately $20 million be invested in a treasury note maturing in November, 2018, and a Federal Farms Credit Bureau Bond with a higher interest rate maturing in May, 2019.

Mr. Morgan agreed with Ms. Chandler's recommendation and instructed that she proceed with the investments.

D. <u>Review of insurance coverages and premiums.</u>

Hardie Edgecombe, area President of Gallagher, explained that the firm currently handles 25 of the 28 insurance policies across the Authority. Due to the consolidation process, Gallagher proposes that the current 28 policies be reduced to about eight policies. He anticipated that significant savings can be achieved by combining the policies for the Authority and three levee districts (e.g. general liability and auto) and eliminating some of the umbrella coverage.

Mr. Morgan stated that the Authority's staff recommended that Gallagher be approved as the Authority's agent of record. Gallagher would then obtain final quotes and provide a recommendation to the Board at its June 15th meeting. Mr. Edgecombe advised that Gallagher had quotes for some coverages, such as general liability and auto, and discussed potential savings by combining policies with the underwriters. Matt Byrd, representing Gallagher, added that the appropriate information was provided to the underwriters who responded with a firm indication regarding costs; however, a bindable quote had not yet been received because Gallagher did not yet have authority.

Mr. Morgan asked was staff comfortable that Gallagher would recommend the best course of action. Mr. Boese responded that he was comfortable with the recommendation of Gallagher. Mr. Morgan added that the recommendation is to consolidate using one broker (Gallagher) to shop all markets this year. Next year the Committee can review whether Gallagher did a good job and provided the service that was expected, and determine a future course of action. Mr. Luettich added that next year the Authority should have a more open process; however, this year the Authority is in a position of needing to move forward. Mr. Boese recommended that with the number of actions and moving parts currently going on within the Authority due to the restructuring, consolidation at this time is the smart way to proceed. Gallagher is a proven firm and he stated that he was comfortable with using Gallagher at this time. According to State law, the Authority is not required to issue a RFP for this service. He agreed that next year the process can be reassessed. The Authority is in the process of standardizing purchasing and procurement procedures. He pointed out that a decision is required in order to put the coverages in place by July 1st. There are indications that the Authority will experience significant savings. Dealing with one entity from staff's perspective is a huge benefit. Mr. Morgan clarified that staff is recommending that Gallagher be approved as the sole agent of record and broker for the upcoming year and that the other brokers be so informed. Mr. Boese responded, yes, that was his recommendation. Mr. Morgan stated that he did not have a problem with staff's recommendation. Mr. Luettich stated that he agreed with the recommendation.

Andrew Eagan, representing Eagan, commented that the O.L.D.'s property insurance coverage's renewal date is July 1st and that the account has already been negotiated and the current carrier is not going to change its rates. He stated that Eagan would be coming in with substantial savings due to market conditions and that there would be no change with Gallagher taking over the account.

E. <u>Review of purchasing procedures.</u>

Mr. Morgan advised that the review of purchasing procedures was deferred.

F. <u>Update on regionalization.</u>

Information was provided under the Regional Finance Director's report.

G. <u>Discussion of update of check signature authorizations.</u>

Mr. Morgan advised that a resolution will be presented to the Board updating check signatories (primary and backup). Checks in an amount under $5,000 will require one signature and checks in an amount of $5,000 or more will require two signatures.

There was no further business; therefore, the meeting was adjourned at 11:00 a.m.