

MINUTES OF
SOUTHEAST LOUISIANA FLOOD PROTECTION AUTHORITY-EAST
FINANCE COMMITTEE MEETING / BUDGET WORKSHOP
HELD ON MARCH 4, 2008

PRESENT: George Losonsky, Chairman
Timothy Doody, Committee Member
Thomas L. Jackson, Committee Member

ABSENT: Sara Lee St. Vincent, Committee Member

The Finance Committee met on March 4, 2008, in the Second Floor Hall of the Lake Vista Community Center, 6500 Spanish Fort Blvd., New Orleans, LA. Chairman Losonsky called the meeting to order at 2:05 p.m.

The Committee adopted an amended agenda, which included as an additional item the approval of the February 14, 2008 Finance Committee meeting minutes. The February 14th Finance Committee meeting minutes were approved, with one correction on page 3, second to last paragraph, line 3 to change the word "will" to "may".

OLD BUSINESS:

A. Discussion of FY 2009 Budgets for Southeast Louisiana Flood Protection Authority-East (SLFP AE), East Jefferson Levee District (EJLD), Lake Borgne Basin Levee District (LBBLD) and Orleans Levee District (O.L.D.).

Southeast Louisiana Flood Protection Authority-East (SLFP AE):

Mr. Robert Turner, SLFP AE Regional Director, explained, based on discussions at the last Finance Committee meeting, \$138,000 has been included under Revenues for reimbursements from the O.L.D., LBBLD and EJLD to cover Commissioners' per diem, FICA/Medicare, travel and mileage expenses, as well as cost of Public Officials Liability Insurance coverage. These expenses were apportioned based upon the number of commissioners on the levee districts' prior boards (EJLD 5, O.L.D. 8 and LBBLD 3). Therefore, EJLD would be responsible for 5/16 (\$43,000), O.L.D. 1/2 (\$69,000) and, LBBLD 3/16 (\$26,000) of the total costs (\$138,000).

The Committee discussed possible methodologies or formulas that could be used for allocating these expenses. Mr. Turner explained public officials liability insurance coverage was consolidated at the regional levee; therefore, each levee district is paying a lesser cost than it would have paid had the coverage not been consolidated. Therefore, using the number of commissioners for each levee district prior to regionalization would be a reasonable method for allocating this insurance expense and could be extended to further allocate per diem costs. Mr. Doody requested that Mr. Turner make a comparison

to assure no individual levee district would be paying more for those combined costs than before consolidation. Mr. Losonsky concurred with the methodology used.

Mr. Turner explained this is a cash basis budget; however, the end of the year financial statements are done in the GASB format and presented on a cash basis and accrual basis, which includes depreciation. He reviewed the expenses budgeted for the Authority and the basis for each projection. He noted \$50,000 is budgeted the Operational Audit and Strategic Plan; however, no money is in the budget for the Pump Drainage Study. Expenses total \$708,700. The net change in the fund balance is a negative \$69,700 (deficit). A fund balance of \$118,000 is anticipated beginning of FY'09; therefore, subtracting the anticipated deficit, the final fund balance would be \$48,300.

The Committee discussed budget formats and whether additional line items should be consolidated. The budget submitted to the Department of Natural Resources (DNR) is for accountability purposes and submitted in the DNR requested format based on categories.

Mr. Jackson felt the prior year's surplus should not be budgeted into the operating budget, which should be based on actual annual revenues received; however, the prior year's surplus could be used to purchase capital improvements, such as a vehicle or computer equipment. He also felt there should be more distribution of expenses to the levee districts, which are managed by the Authority, such as a reasonable allocation of staff salaries since much of the work is performed on behalf of the individual levee districts. Mr. Turner pointed out that guidance is needed from the Committee on which expenses should be allocated and how the allocation should be done. Mr. Doody stated he would hope the Authority would add value and would not just be a financial burden on the individual levee districts.

Mr. Turner emphasized this is a bare bones budget and the amount of work that needs to be done far exceeds the current capability at the Authority level—additional staff is needed in the SLFPAE office to accomplish the work that needs to be done. The Operational Audit is sorely needed to determine possibilities for reorganization and what can be done to draw on other resources.

Mr. Jackson concurred with Mr. Turner regarding staffing, emphasizing this is particularly true during this period of reconstruction. For example, in the review of project plans, there is a gap in overall coordination from the Authority's point of view and the Authority should be effectively tracking all proposed construction, including borrow and all other requirements.

Mr. Losonsky commented project management capability and other resources are needed; however, current expenditures are \$208,000 more than the funding allotted by the State for the Authority's operations. Therefore, the budget presented today is less than bare bones and based on comments the operational budget should be at least \$1 million. He asked for comments on the value provided to the individual levee districts and on the urgent need to solve this funding problem.

Mr. Turner explained the partnership, which includes among others, the Authority and the U.S. Army Corps of Engineers, has embarked on a \$15 billion construction program to provide the 100 year level of protection over the course of the next three to four years. This will take a considerable amount of work from all parties involved to assure each stakeholder in the process has a voice. The Authority has a responsibility to assure concepts are right and local sponsors will be able to take over and maintain at a reasonable level whatever is constructed. This must be done from a systems approach and in such a way that in the long term all participants can afford. This cannot be done in a centralized place by three people in a 1,000 sq. ft. office.

The Committee briefly discussed the proposed Operational Study and possible efficiencies that could result from both an administrative and operations/maintenance perspective.

Mr. Losonsky pointed out the Board is looking to Mr. Turner as the Regional Director to assure the money spent on the Authority brings both value to the levee districts and flood protection. He reiterated the very serious financial problem is that currently the Authority is receiving from the State about half of what is needed to actually manage what it has been asked to manage.

EJLD Executive Director Fran Campbell stated the true value of the Authority has yet to be seen because there is not enough money to be effective. A Regional Director with a staff of two employees and a \$500,000 budget is nowhere near what is needed to accomplish such a big task and expect quality accomplishments.

O.L.D. Executive Director Stevan Spencer felt O.L.D.'s current allocation is a bargain, considering the expertise contributed by the Commissioners and the number of hours they spend participating in meetings on projects such as the permanent pump stations, IHNC and MRGO flood protection, etc., and the value received from these contributions. He suggested that an inspection department staffed with well trained inspectors and proper technology should be considered at the regional level in order to bring consistency to the districts and streamline processes; however, this could potentially cost an additional million dollars for staff and equipment.

Because of the level of importance of flood protection to the community, Mr. Jackson questioned whether the Authority and levee districts should be classified as a State agency, as was done in the State of California. Mr. Doody added, the focus needs to be on regionalization of flood protection and advised he met with many individuals after the last Board meeting in an attempt to bring energy to the effort of solving the financial crisis faced by this region. Recently, it was learned the Governor will hopefully be committing \$300,000 million from the surplus to help fund flood protects; however, this funding may be spread statewide. He pointed out it was clear in the legislation that was passed that the Authority was not to interrupt the operations of the individual levee districts, and until there is some value that can be seen, there will not be the trust of the people. Therefore, value must be demonstrated to the levee districts and elected officials, so the Authority can be seen as good stewards of the public's money. He also emphasized the focus

must be southeast Louisiana, which is tied closely together as a region, and should one parish flood, the effects will be felt by the entire region. Mr. Losonsky added, how effectively the Authority is able to manage that process today will determine how effective flood protection will actually be when completed.

Mr. Jackson recommended that the Legislature be approached regarding this problem in the upcoming session.

Mr. Turner advised an approved budget accompanied by a Board resolution must be sent to State by April 1st. He added, line items in the budget will be consolidated into major categories for publication. The Committee discussed a means to communicate the Authority's overall mission and goals, and the things necessary for it to be as effective as possible. Mr. Bollinger suggested the budget situation and shortcomings could be explained in the budget letter that is addressed to the Board and becomes a part of the budget submitted to the Legislature.

The Committee approved submittal of the budget as presented to the Board for approval.

East Jefferson Levee District (EJLD):

Ms. Campbell advised an amendment will be needed to include the aforementioned allocation of the Authority's expenses. Revenues and Expenses were reviewed (Administrative, Maintenance and Police) and she explained the basis for each proposed projection.

Mr. Doody noted the cost of publication of meeting proceedings could also be allocated to the districts. The Committee discussed the possible farming out of O.L.D. information technology (IT) resources to the other districts with reimbursement for services rendered. Ms. Campbell pointed out funding is budgeted for mapping and a right-of-way database. The Committee discussed similar technology for all the levee districts.

While discussing the purchase of a truck that can be used for spraying herbicides, Mr. Doody requested Mr. Turner review this situation to determine how the levee districts could better utilize a single piece of equipment such as this, rather than each levee district purchasing such an item. Mr. Jackson also suggested a future goal should be for the Authority and levee districts to be on a single computer network.

FY'09 total revenues are \$6,686,000 and total expenditures are \$5,514,353, leaving a net amount of \$1,171,647. This does not include a contribution towards levee improvements.

Mr. Doody pointed out an average increase of 15% is the trend in the health insurance industry and this should be taken into consideration.

The Committee approved submittal of the EJLD budget to the Board for approval with revisions to provide for an anticipated industry-average increase in health insurance costs and the \$43,000 allocation of the Authority's expenses.

Orleans Levee District (O.L.D.):

Mr. Jim Bollinger, O.L.D. Comptroller, explained in 2008 a transfer from the Special Levee Improvement (SLIP) Fund of \$1.7 million is designated because of an assumed interruption of mineral revenues; however, he recommended that the transfer not be made until the year's end in order to determine exactly how much will be necessary.

The assumption is made in FY'09 that Ad Valorem taxes will be rolled forward to 12.76 mils, primarily to provide revenues to offset the potential continued loss of mineral revenues. The tax was computed with no growth in assessed values; however, individual assessed values may change significantly. In 2009 the State will continue to pay the O.L.D. debt service, which is indicated as "Borrowing" in the amount of \$3.2 million. The FY'09 budget is seeded with values at 106% of the FY'07 level. The budget also assumes a Special Entry Rate for field yard workers effective December, 2007. The anticipated surplus for FY'09 is \$1.5 million; however, should "Borrowing" be excluded from this budget, the deficit would be \$1.65. In 2010 the debt service will no longer be paid by the State and the O.L.D. will have to start paying its debt service again, and even with rolling ad valorem taxes forward to 12.76 mils, if the loss in mineral revenues continues, the O.L.D. will be in a deficit position. The large number of expense categories were distilled down into several large numbers. It was pointed out that 100% of the cost (\$2.5 million) for the O.L.D. Police Department is shown in expenses for FY'05 and FY'07; however, in FY09 50% of the cost (\$1.2 million) of the Police Department is included in the FY'09 (Flood Division) Budget.

The SLIP fund budget was reviewed. Unlike the General Fund, the SLIP fund will not be placed in a deficit in 2010 when the O.L.D. begins to pay the SLIP debt service of \$5.5 million due to the current SLIP fund surplus. The SLIP tax and bonds will extinguish in 2014. Projections for repayment of GoZone and CDL are not included in the budget.

Vacant positions (17—five administrative and 12 operations/maintenance) were reviewed. Personnel needs, IT resources and replacement of the financial management system were discussed. It was noted that an Engineer is needed to oversee inspection processes, and the requested maintenance and trades apprentices would also assist floodgate crews with daily maintenance and operation during storms. Planned equipment purchases in 2008 total \$432,000; however, \$138,000 of that amount is to be reimbursed by FEMA. The FY'09 equipment budget was reviewed, which includes several heavy duty pieces of equipment, and peripherals and software for a new financial system. Currently, the O.L.D. is paying approximately \$120,000 per year for software support and data base and application maintenance, along with the cost of server maintenance.

The professional services budget was discussed. The Committee felt there was no need at this time to budget for services of a petroleum consultant or for an allocation of the Operational Audit.

Mr. Turner reported discussions have taken place with the Director of the O.L.D. Non-Flood Division regarding on-going issues dealing with personnel support. Mr. Losonsky requested an item be placed on the agenda for the next Committee meeting to discuss expediting this separation process relative to personnel support.

The amount budgeted for legal expenses was discussed and Mr. Bollinger was requested to contact Mr. Robert Lacour in order to determine a reasonable budget figure.

The FY'09 budget by department was reviewed. Seventeen vacancies are included in the total of 99 positions. The ratio of administrative personnel to maintenance personnel was discussed; however, it was pointed out that this issue would be considered in the Operational Audit. Fuel costs were also briefly discussed.

Mr. Bollinger advised the O.L.D. will likely receive \$1 million in grants in 2008 for benefits and salaries paid immediately after Hurricane Katrina, which could influence the anticipated transfer from the SLIP fund budget for FY'08.

With revisions to be made as discussed under Legal and Professional Services, the Committee approved submittal of the proposed budget to the Board.

Lake Borgne Basin Levee District (LLBLD):

Mr. Turner reviewed revenues totaling approximately \$3.1 million, which includes an estimated \$2.6 million in Ad Valorem taxes, based on projections from the St. Bernard Parish Assessors' Office and collections thus far, and \$200,000 in FEMA grants; however, the timing of receipt of the FEMA funds is not known. Administrative and Executive Expenses total \$466,000 were reviewed, which includes four positions (Executive Director, Administrative Assistant and two clerical positions), a projected 10% increase for Group Benefits (insurance), \$25,000 for technological improvements (office equipment, interoperable radios and technology associated with levee inspections). Professional Services and General Liability Insurance were reviewed. The total budget for Levees and Canals Maintenance is \$936,000, with a total of nine employees (three new employees are requested) in the department consisting of a foreman, tractor drivers, heavy equipment operations and expenses for the single deputy. The total Pump Station Budget is \$1.66 million, the major portion of which is for salaries (four new employees will be required to operate the three new pump stations soon to be completed). Capital Outlays are budgeted at \$518,000 for equipment and costs for the new building, Sheriff's Pension Cost is \$80,000, and \$150,000 is budgeted for the drainage feasibility study that was started prior to Katrina.

Expenses total \$4,146,000, resulting in a deficit of \$1,019,400. The fund balance of \$4.1 million that was saved over the last two years because operations were reduced by approximately 40% will be drawn upon to fund the deficit. Should the budget remain the same, this savings (fund balance) can be used for two years; however, beyond that the LLBLD will be in trouble should the revenue stream in St. Bernard not return (a minimum

of \$1 million is required in the fund balance for cash flow throughout the year). The debt service and capital projects fund were reviewed.

With the inclusion of the \$26,000 allocation of the Authority's expenses, the Committee approved submittal of the LBBLD proposed budget to the Board for approval.

Since Board members were invited to attend the Finance Committee Budget Workshop to review the details of the budgets, the Committee felt the use of a consistent summary format with an appropriate level of detail should be used by SLFP&E and the levee districts for presentation to the Board and requested that Mr. Turner coordinate this effort.

NEW BUSINESS:

- A. To discuss holding regularly scheduled committee meetings two weeks prior to the regular monthly Board meeting.

The Committee agreed to hold the regularly scheduled monthly Finance Committee meeting two weeks prior to the monthly Board meeting at 2:00 p.m. Mr. Losonsky advised an additional Finance Committee meeting would not be necessary in March; therefore, the next Finance Committee meeting would be held on April 3, 2008, at 2:00 p.m.

There was no additional business, therefore, the meeting was adjourned at 2:10 p.m.