New Orleans, Louisiana

January 29, 2020

A special meeting of the Board of Liquidation, City Debt (Board) was held this date at the office of the Board, Room 8E17, New Orleans, Louisiana pursuant to notice duly given as provided by law. The special meeting was called to order at 4:07 P.M. by the President, Ms. Mary K. Zervigon. Ms. Zervigon asked the Secretary to call the roll and announce the number of members present. The roll call was as follows:

PRESENT:	Mr. Arnold Mr. Kimbrough Mr. O'Connor Mr. Sloss Ms. Zervigon	FIVE MEMBERS AND A QUORUM
ABSENT:	Mayor Cantrell Mr. Johnson Councilmember Moreno Councilmember Williams	

Also present were Ms. Lisa L. Daniel, PFM Financial Advisors and Mr. Shawn Barney, CLB Porter, co-financial advisors; Ms. Meredith Hathorn, (by conference call),Mr. Jason Akers, Foley & Judell L.L.P., and Ms. Maria Auzenne, Auzenne and Associates LLC, co-bond counsel; Mr. William R. Forrester, Jr., (by conference call) legal counsel; Mr. Ghassan Korban, Executive Director, and Ms. Yvette Downs, Chief Financial Officer of the Sewerage and Water Board of New Orleans.

The notice calling the meeting more than 48 hours prior to the date of the meeting was received and ordered filed in the minutes.

The President stated that the minutes of the November 20, 2019, regular meeting had been circulated to the members. She asked if there were any comments, there being none the minutes were adopted as circulated.

The President also stated that the auditor's letter for the months of November 2019; and October 2019 were in each member's folder. She asked the members to review the letter and address any questions to the Secretary. There being none, the monthly audit letters were ordered filed.

The President asked the Secretary to address item #4 on the agenda, a resolution selecting from responses to a Request for Qualifications (RFQ), a senior manager to negotiate not to exceed $75,000,000 Sewerage Service Revenue Bonds, Series 2020 (SSRB 2020). Mr. Gernhauser said a draft of the resolution was in the members folder along with a summary of the responses to the RFQ. He asked Ms. Lisa Daniel, co-financial advisor to the Board, to address the responses and the co-financial advisor's recommendation of a senior manager to the Board. Ms. Daniel stated that much has happened with regard to the SSRB 2020 RFQ since the Board last convened on November 20, 2019. She said at that meeting, the Board was notified of an affirmed A- rating by Standard & Poor's and that Mr. Arnold expressed concern about the ability to sell the SSRB 2020 without audited financial statements. She said the Board authorized the issuance of the RFQ to receive underwriter's opinions with regard to the sale of SSRB 2020, which was released on December 3, 2019. After the release of the RFQ and before receiving the responses due December 18, 2019, Fitch Ratings released a downgrade of the Sewerage & Water Board of New Orleans (SWBNO) Sewerage Service Revenue Bond rating from A- to BBB+ with a stable outlook. She said a copy of the December 13, 2019, Fitch Ratings report was on the Board website www.bolcd.com. Ms. Daniel said the Fitch report focused on the SWBNO financial condition of the Sewer system two years ago, which coincided with the last review of the Sewer credit. She stated that although the Sewer System is stronger today, the Fitch report put a strong emphasis on the condition of the system at that time. She said there were 10 responses to the RFQ to serve as senior underwriter for the SSRB 2020. She said while none of the proposals suggested it was impossible to sell the SSRB, several pointed out concerns and challenges of selling the bonds without a completed audit of the SWBNO financials. The responding firms cited the late financial filings, billing problems, and the extraordinary expenditures used in the coverage calculations for both water and sewer bond covenants. Ms. Daniel stated that these responses reflected the concerns of trying to issue these bonds in the short window before the end of February. She said the co-financial advisors agree that the SWBNO should wait until the final 2019 audit is completed to issue the SSRB 2020. She said that the SWBNO had indicated there is a need and urgency for immediate proceeds to meet the SWBNO DEQ consent decree as well as other financial obligations creating a cashflow deficit, based upon projected drawdown schedules through the second quarter of 2020. Ms. Zervigon asked if these financial obligations were for capital expenditures and not operating expenses. Ms. Daniel said these needs were all capital expenditures of the SWBNO. She said the BLCD members were forwarded two letters prior to the meeting 1) from Ms. Yvette Downs, chief financial officer of the SWBNO, expressing the need for the SSRB 2020 and 2) from the Board's co-financial advisors detailing the timeline of the SSRB 2020 and a table reflecting the needs of the SWBNO within that timeline. She said that the co-financial advisors agree that the Board should select an underwriter from the responses to the RFQ today, and suggests that the firm selected act as a placement agent to issue a private placement bond of approximately $10,000,000 with a maturity of up to 12 years by the next Board meeting in March 2020. She said this loan would fund the $7.5 million deficit needed in the second quarter of 2020. She stated the Board could then go to market with the remaining $65,000,000, in the latter part of August 2020, once the SWBNO final audit is complete. She said the Board would not be voting to issue the SSRB 2020 today, but would select a purchaser for the Bonds and come back to the Board in March 2020 to select the bank or other underwriters and award the private placement bonds at that time.

Mr. O'Connor asked what would happen if the underwriter came back to the Board with an unacceptable offer on the private placement bonds. Ms. Daniel stated it is the Board's option to reject or accept the bids offered on the private placement bonds. She said if the Board rejects the bid, then the SWBNO would need to defer to another plan. Mr. Arnold said issuing the bonds in two parts sends a message to the market that the SWBNO is in need of cash. He said for the members to keep in mind this is why he objected to issuing the RFQ without a completed 2019 SWBNO audit. Ms. Zervigon stated it would be hard to hide the circumstance of the SWBNO need for cash. Mr. Arnold said the deal can be done this way, but he did not want to approve the issuance of these bonds before the SWBNO audit is completed and to make an application to the Louisiana State Bond Commission (SBC) before the Board is provided with the necessary information. He said he had read all the RFQ responses and what stood out to him was that Goldman Sachs and Morgan Stanley had not responded. He said the SWBNO has cash flow problems and that there should have been some method in place to give the Board members information as to where the SWBNO financials stand at the time the authorization of the RFQ was approved. He said the SBC should expect that the Board had reviewed this information before sending to them for approval. Mr. Kimbrough asked if the two-step process invites an issuer to the table and if the loan would be another meeting of the Board to consider that borrowing. Ms. Daniel said the Board would be selecting an underwriter today who would then solicit a private placement lender, to present to the Board at another meeting for approval. Mr. O'Connor stated that this is being referred to as a loan, but is actually a bond issue maturing in 12 years. Ms. Daniel agreed. Mr. Arnold stated that the disclosure in the short borrowing will not include the audit, rating agency reports, or an official statement, but that all will be included in the longer term borrowing in August. He said there were substantial changes in the financial reporting of the SWBNO from the end of December 2018 to the amounts reported in the final 2018 audit. He said he is glad the Board is not going out to the market with the full $75,000,000, with only the SWBNO 2018 audit. He said this would give Mr. Ghassan Korban, executive director of the SWBNO, the opportunity to present the changes he has made at SWBNO, to the bond market. Ms. Zervigon asked when that would be available. Mr. Arnold said when the SWBNO 2019 audit is released and the Board goes to the bond market with the remaining $65,000,000 of bonds. Mr. O'Connor stated that the Board will not be able to sell the $65,000,000 SSRB 2020 without the SWBNO 2019 audit. Mr. Arnold stated that this would not only give the markets a better picture of the SWBNO, but give the residents of the city more understanding of where the SWBNO is financially. He said there should be transparency reflecting a cash flow statement of the SWBNO financials at the very least, quarterly. He stated that he cannot explain the 25% increase in revenue the SWBNO is reflecting in its monthly reporting online. He assumed the increase in revenue would probably have come from previous years and not in 2019. Mr. Sloss said that the 2019 revenue increase could be a result of 2018 collections. Mr. Arnold said the audit should reflect the increases in rates as well as the increase in collections in the corresponding years. Mr. Arnold said he will vote in favor of this resolution because of the emergency situation and the urgent need for cash at the SWBNO to meet the capital financial obligations. He said he would prefer the SWBNO look internally to meet these obligations.

Mr. Sloss asked the effective difference between issuing $12,500,000 SSRB 2020 as the first installment versus issuing $10,000,000. He asked why wouldn't we issue the $12,500,000. Ms. Daniel stated that the SWBNO cash flow projections reflect a deficit of $7.5 million by the second quarter of 2020, and suggested the $10,000,000 issuance reflects the critical need for the SWBNO. She said in theory the more that can be deferred to August the better, and to have the audit to support the issuance.

Ms. Daniel said that she appreciated all of the firms responding to the RFQ and felt they were all very competitive. She stated each made excellent points in their proposal. She said there was a summary of all proposals enclosed in each member's folder. Mr. Sloss asked to explain the takedown and spreads in the summary of proposals received. Ms. Daniel said that the takedown proposed by each firm designates the expense to sell and the commission paid for selling the bonds. She said the spread is an index to municipal market data (MMD), which is a price index relative to the market data allowing each proposal spreads to be judged equally to the MMD index. Mr. Sloss asked if the MMD index referred to AAA bond ratings. Ms. Daniel said the MMD index uses AAA municipal bond ratings in their data. Ms. Daniel stated the spreads in the proposals received ranged from a 47 to an 85. She said this bond issue would sell at a 50 to 60 point spread in the marketplace. She said the takedowns or commissions range from a high of $3.50 to a low of $1.00 per bond. Ms. Daniel said that the Board co- financial advisors recommend the Board select J.P. Morgan Securities, LLC as the senior manager for the SSRB 2020, with a takedown fee of $1.00. Mr. O'Connor asked if the takedown would apply to the first installment of $10 to $12 million of bonds sold in March. Ms. Daniel said the $1.00 takedown proposed by J. P. Morgan Securities would apply to both installments of bonds being sold. Mr. Arnold said there would be less expenses with the private placement because there would be no official statement or bond rating costs.

Mr. Arnold moved to adopt the resolution to select J.P. Morgan Securities, LLC, as senior manager for not to exceed $75,000,000 Sewerage Service Revenue Bonds, Series 2020 (SSRB 2020), as well as the ability to solicit for the Board, a private placement sale of not to exceed $12,500,000 SSRB 2020, and to serve as senior manager of the remaining authorization of SSRB 2020 through a negotiated sale later in 2020. Mr. Sloss seconded and on roll call the vote was as follows:

AYES: ARNOLD; KIMBROUGH; O'CONNOR; SLOSS; ZERVIGON

NAYS: NONE

ABSENT: CANTRELL; JOHNSON; MORENO; WILLIAMS

And the resolution was adopted.

There being no further business to come before the Board, Ms. Zervigon motioned for adjournment, Mr. Sloss seconded, there being no objections, the meeting was adjourned by the President at 4:31 P.M.

David W. Gernhauser
Secretary