



The Sewerage & Water Board OF NEW ORLEANS

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New Orleans City Council
Public Works Committee
1300 Perdido Street
New Orleans, LA 70112

May 1, 2019

Dear Honorable Members of the City Council:

Please allow this to serve as the Sewerage and Water Board of New Orleans' (SWBNO) annual report, as required by La. R.S. 33:4091(A). This report provides an overarching review of strategic initiatives SWBNO has pursued over the past year, the utility's comprehensive financial status, significant operational changes, and thoughtful shifts in management and organizational structure. Also attached are detailed documents reflecting legislatively required data and performance metrics, including SWBNO's 2019 Q1 Report¹ (with exhibits) and the completed 2017 CAFR.²

SWBNO is now operationally stable and moving into a period of planning and improvement after spending much of 2018 in a crisis mode. On that front, SWBNO leadership engaged in a series of strategic planning workshops with peer water utility leaders from around the country to prioritize issues, collaborate on potential solutions, and develop a 12-month plan of action – all in an effort to continually improve our level of service to our customers.³

Our priority areas of focus fall into three categories: finance, operations, and communications/culture. Below is a detailed look at the progress made in these areas over the last year, ongoing challenges, and the next steps required for SWBNO to become the model utility that our great city deserves.

Finance

1. Financial Status

SWBNO continues its efforts to overcome the fiscal deficit created by emergency spending after the 2017 floods and the January 2018 freeze. The drainage division spent down all of its nearly \$30M reserve account to repair pump and power assets between August 2017 and November 2018.

¹ 2019 Q1 Report, attached as Exhibit 1.

² 2017 CAFR, attached as Exhibit 2.

³ New Orleans Utility Leader Strike Force Report, attached as Exhibit 3.

To supplement its operations and maintenance budget, the drainage division borrowed cash from the sewer and water divisions. This resulted in reduced cash on hand for each of the three divisions, and threatened SWBNO's ability to pay all its vendors in a timely fashion and satisfy its 90-day cash on hand requirements for its water and sewer bonds.

In the fourth quarter of 2018, the utility received a total of approximately \$40M in FEMA reimbursements. Those funds, some of which were previously considered restricted but were freed for use after extensive research by SWBNO staff and our bond counsel, enabled the utility to replenish the drainage coffers, pay down debt owed to sewer and water and, ultimately, meet bond obligations for the year. As a result, SWBNO maintained its "A-" bond rating and is investigating the feasibility of going back to the market for a bond issuance in late 2019.

Going into 2019, however, drainage operations and maintenance remained woefully underfunded. Rather than beginning the year with reserve funds and/or the flexibility to borrow from other divisions, SWBNO used all available cash to pay outstanding debt to vendors. This necessary expenditure enabled the completion of several significant projects prior to the beginning of hurricane season (including the Claiborne water tower – the first phase of the hazard mitigation water hammer project). As a result, drainage started the year with only the \$56M generated from annual property taxes—the bare minimum required for operations and maintenance, excluding any capital improvements or debt.

SWBNO is committed to keeping the financial instability of the past year just that: in the past. To that end, several initiatives are underway to improve how costs and revenue are tracked. Prominently, we have redesigned our procurement policy and produced a manual⁴ to guide our departments through purchasing and other business processes. The policy governing change orders also has been revamped to give leadership and the Board of Directors more oversight of previously unforeseen costs.

2. Revenue Generation Efforts

To improve its financial position, SWBNO actively has pursued several additional revenue streams. The utility will apply for a federal WIFIA loan in July, which could provide more than \$200M for significant projects such as replacement of the Sycamore water filter gallery and completion of critical sewer consent decree mandates. The loan terms include a 35-year repayment schedule and low, treasury-level interest rates. SWBNO also has partnered with the City to obtain a \$100M Sustainability Partners grant to fund a solar power plant, which could be a significant source of redundancy for the entire power system. At the same time, SWBNO actively is seeking forgiveness of its SELA repayment obligations, which begin this year in the amount of \$2.4M but ramp up to \$11M a year by 2023.

Finally, the City has led negotiations with the hospitality industry over the past several months to funnel additional funding from those entities to the City and SWBNO for critical infrastructure needs. SWBNO anticipates that it will receive between \$40 and \$50M in a one-time influx of funding in 2019, which would enable it to satisfy vendor and other debt obligations and make

⁴ See Procurement Policy and Manual attached to 2019 Q1 Report.

critical repairs to drainage infrastructure. This includes “winterizing” Turbine 6 for year-round use and purchasing another frequency converter for power redundancy prior to hurricane season.

In addition to one-time funding, SWBNO anticipates up to \$25M in recurring dollars beginning in 2020. Those funds could be used to match the WIFIA loan, repay SELA obligations, or advance the utility’s goal of modernizing its steam-based power and drainage systems.

3. Billing and Collections

Billing and collections data is reported in the 2019 Q1 report, attached as Exhibit 1. It is worth highlighting several recently implemented strategic improvements to those systems. First, SWBNO has worked extensively with Utiliworks, a national consultant, to remedy issues caused by its billing process. Utiliworks’ recommendations have led to improvements already underway. Of note is a redesign of meter reader routes that has improved accuracy and efficiency. Utiliworks also suggested a change in the methodology for estimating bills by increasing the estimation amount to the national average for water consumption – a shift that should allow customers to better plan for payments. Where SWBNO has estimated households use 3,000 gallons a month, the national average is closer to 5,000 gallons. The ultimate solution for billing accuracy, however, continues to be implementation of an automated meter system – a multi-year, multi-million dollar undertaking.

SWBNO customers have responded positively to the availability of affordability plans as an alternative to water shut-offs. Shut-offs continue to be a last resort, and customers have been engaging the utility through the dispute resolution process and financing options to manage payments. We will continue to aggressively pursue delinquent accounts and have engaged a collection agency to assist in recovering delinquent funds from “closed” accounts. That agency is testing the data at the time of this report, and we anticipate the first collections notices to former customers will be sent in the second week of May.

SWBNO’s strike force on transfer accounts has been successful, reducing the number of transfer accounts from 12,000 to approximately 300 over the past year.

As a final note, we are on track to timely submit the 2018 CAFR by June 30, 2019. We will provide the full report to you as soon as it is available for a thorough, audited statement of SWBNO’s financial standings during 2018.

Operations

1. Infrastructure Status

SWBNO’s power and pumping system is in stable condition, providing more power and pumping capacity than the city has experienced since well before 2017. Of its 120 available drainage pumps, 115 are fully operational. This provides enough pumping capacity and redundancy throughout the City to respond to most rain events. New Orleans continues to experience street flooding during periods of extreme rainfall – more than an inch per hour for extended periods of time. This is not uncommon in cities around the country, but it is exacerbated by our century-old system and the need for additional water storage space and green infrastructure.

On the power side, the utility has five turbines, two frequency changers, and five EMDs capable of producing at least 74MW of power – more than enough to run the entire drainage system with some power to spare. Testing and repairs are underway to bring that total to the system’s maximum available power of about 86MW. These power sources are connected to drainage pumping stations by a redundant system of underground feeders. SWBNO recently instituted regular calls with Entergy to proactively resolve power-related issues and plan for system improvements. These calls have improved communications and teamwork between the utilities.

SWBNO sends after-action reports to the City Council, the Mayor, and Orleans Parish legislative delegation after each rain event that generates a flood or severe thunderstorm watch. Our operations staff has a deep knowledge of our unique system and has been nimble and creative in resolving issues as they arise, particularly in the midst of emergency events. We remain committed to absolute transparency in the status and capacity of our drainage assets.

The utility’s water delivery system continues to degrade with age. SWBNO’s “networks” team responds to reports of broken water mains and significant pipe leaks on a routine basis. The networks staff has shown skill and innovation in resolving these issues, in some instances preventing high-volume corridors of the city from losing water pressure. Nevertheless, the city continues to lose approximately 72% of water produced through pipe leaks, water theft, and other issues, as detailed in the attached 2019 Q1 report.

SWBNO and the City’s Department of Public Works continue to work closely together on the Joint Infrastructure Recovery Road program and Max Pave, the combined service cut repaving effort underway across the city. This collaboration recently was formalized in a CEA governing each party’s fiscal and operational responsibilities.

A complete list of recently completed capital projects is included in the attached 2019 Q1 Report.

2. Modernizing Assets and Future Planning

SWBNO has made a significant shift in its asset-based strategy from a “stable” outlook to a visionary outlook in the last six months. Rather than continuing to repair old and poorly maintained equipment, the utility has made an affirmative policy decision to replace outdated assets with modern infrastructure. This means that capital resources will be used first to move from steam-based to gas-based power generation. This includes “winterizing” Turbine 6 – SWBNO’s newest gas turbine – so that it can become an everyday source of power, and eventually purchasing an additional gas turbine and frequency converter (which will allow the decommissioning of steam-based assets, which are expensive and less reliable due to their age).

SWBNO also is moving forward with a plan to construct an Entergy substation at the Carrollton Water Plant, thereby enabling the utility to purchase power at a lower cost than it can be generated. Funding for these projects may come from several sources, including federal hazard mitigation reimbursements and Entergy settlement funds.

Finally, it is critical that SWBNO begin a master plan to guide its modernization efforts over the coming years. In addition to the projects detailed above, the utility must move forward with an automated meter system, extensive water line replacements, and other significant projects that will

require advance financial and logistical planning. While each of these projects is independently crucial to the health and safety of New Orleans, they will be successful only with appropriate planning and prioritization. In that vein, SWBNO plans to hire a strategic planning officer in the coming months to internally lead this initiative.

Communications & Culture

Both internal and external communications are key to transform SWBNO into a model utility. Internally, the utility's leadership team recently engaged local and national expertise to redesign the organizational management structure to meet the needs of a modern utility – the first such effort since before 2017. The updated organizational structure does the following, among other things: elevates customer service into its own executive-level department; creates a Chief Administrative Officer position to guide cross-sectional efforts (including HR and IT functions); places a customer service liaison into operational departments; moves internal auditing to a board-reporting function; and creates a Continuous Improvement Officer position to develop and track performance metrics. Through these changes, SWBNO aims to increase its service level and work more efficiently than ever before.

SWBNO employees recently created an Executive Director's Employee Advocacy Committee. The EDEAC represents the utility's 1,200-person workforce on issues such as employee incentives, internal communications, and professional development. They will advocate for issues such as in-house training opportunities and electronic timesheets – benefits that are crucial to creating a healthy workplace for SWBNO's employees, who are first responders charged with protecting the health and safety of all New Orleanians.

Externally, the SWBNO communications team has rolled out a new, easy-to-read website with clear access to important notices, customer accounts, and public meetings. Other online initiatives will be launching in coming days. A good example is a new interactive mapping tool that allows residents to verify areas impacted during a boil water advisory. This launched on Monday, April 29, and can be found at swbno.org/news/boilwater.

They have also established a strong social media presence and continue to connect with customers via Twitter (@SWBNewOrleans). SWBNO has created an extensive community outreach calendar, participating in events across the city from Earth Day to neighborhood listening sessions.

In conclusion, SWBNO is committed to serving the people of New Orleans and improving their quality of life by providing safe drinking water, removing waste water for safe return to the environment, and draining storm water to protect the community. There is much work to be done, but we look forward to engaging our customers, employees, and stakeholders in the important work of transforming SWBNO into a benchmark utility.

Yours in service,



Ghassan Korban
Executive Director