

Final

EXECUTIVE SUMMARY

REPORT ON OPERATIONS FOR 2019

B&V PROJECT NO. 405668

PREPARED FOR

Sewerage and Water Board of New Orleans

8 MARCH 2022



MISSION STATEMENT

We serve the people of New Orleans and improve their quality of life by providing safe drinking water, removing waste water for safe return to the environment and draining storm water to protect our community. Our team of experts do this reliably, continuously, and at a reasonable cost.

VISION STATEMENT

Our vision is to earn and hold the trust and confidence of our customers and community for reliable and sustainable water services and to be a model utility in the water industry.

OUR GUIDING PRINCIPLES

Team Work
Customer Focus
Honesty & Integrity
Service Excellence
Safety
Workplace Climate
Accountability

Executive Summary

The Report on Operations of the Sewerage and Water Board of New Orleans presents findings of studies made in compliance with covenants of the General Water Revenue Bond Resolution and the General Sewerage Service Revenue Bond Resolution (General Resolution). The report includes recommendations designed to assist the Board and its staff in planning future operational policies. Subjects covered in the report include:

1. Adherence to covenants of the General Water Revenue Bond Resolution and the General Sewerage Service Revenue Bond Resolution.
2. Operations of the water, sewerage, and drainage systems.

Ability to Finance Future Operations and Proposed Improvements

Black & Veatch has been preparing this report for the Board for over five decades, which has included an analysis of the Board's ability to finance projected revenue requirements, including proposed capital improvements. However, due to unusual circumstances that the Board experienced in 2020 and 2021, which delayed the release of financial documents to support the projections of revenue and revenue requirements for 2020 and beyond and their accuracy, a joint decision was made by Black & Veatch and the Board not to include projections for 2020 and beyond in this report. Instead, the Comprehensive Financial Planning, Cost of Service, and Rate Design Study currently underway will include an analysis of the projected financial plan for 2022 through 2027.

In addition, due to COVID-19, the Black & Veatch team could not conduct the onsite inspections of the above ground facilities until October 2020. Therefore, the reported findings in the Facilities Evaluations section refers to the condition as of October 2020.

Findings of the report are summarized as follows:

WATER DEPARTMENT

- Sewerage and Water Board financial operations for 2019 have complied with the requirements set forth in the General Water Revenue Bond Resolution.
- The total revenue from water sales, delinquent fees, interest income and other income increased from \$93,284,726 in 2018 to \$124,155,678 in 2019. Operation and maintenance expenses increased from \$94,075,558 in 2018 to \$97,668,096 in 2019. After debt service payments of \$13,394,550, a balance of \$13,093,082 was available for capital related expenditures in 2019.
- Capital improvement expenditures totaled \$43,945,787 in 2019.

SEWERAGE DEPARTMENT

- Sewerage and Water Board financial operations for 2019 have complied with the requirements set forth in the General Sewerage Revenue Bond Resolution
- The total revenue from sewer charges, delinquent fees, interest income and other income increased from \$116,449,730 in 2018 to \$155,359,847 in 2019. Operation and maintenance expenses decreased

from \$95,538,207 in 2018 to \$95,220,260 in 2019. After deducting debt service payments of \$21,713,963, a balance of \$38,425,625 was available for capital related expenditures in 2019.

- Capital improvement expenditures totaled \$25,671,540 in 2019.

DRAINAGE DEPARTMENT

- Total revenues received from all sources, including interest income, increased from 57,660,416 in 2018 to \$77,424,117 in 2019, mainly due to an increase in fair share revenue received in 2019. Total operation and maintenance expenses decreased from \$41,690,821 in 2018 to 41,007,056 in 2019. After deducting debt service payments of \$2,028,500, a balance of \$34,338,621 was available for capital-related expenditures in 2019.
- Capital improvement expenditures totaled \$34,338,621 in 2019.

OTHER FINDINGS

The following items are a summary of the findings during the site inspections:

- Due to retirement, the management team is losing individuals with significant water, sewerage, and drainage experience. This experience is occurring both internally at the Board and other respected water and sewer utilities. This concern was also noted by LDEQ as a major deficiency at both of the WPPs during their 2017 and 2018 WPP inspections. This situation did not improve in 2019.
- Staffing remains a key item of concern for the Board. Like many water and sewer utilities across the United States, the Board departments are faced with a significant number of pending retirements. Approximately 17.4 percent of current employees are either in DROP or are eligible for retirement. Unless these employees are replaced with qualified individuals, these pending retirements pose a significant threat to the Board's ability to perform its core operational and administrative functions. Succession planning and recruitment of qualified employees to mitigate the pending retirements will be a key element for the Board. This problem was noted by each department at the time of the visit, as well as previous years' reports, especially for Water Operations, Control Center, and Facility Maintenance.
- Several departments are experiencing vacancies, including the water purification unit of the Operations department, the Facilities Maintenance department, and the Networks department. The Board needs to address these vacancies as soon as possible to ensure effective operational performance, maintenance performance, and administrative oversight.
- Construction of the two MG water towers — as part of the water hammer project — started in late 2016, and contractors continued to work on both towers in 2018. Both towers were completed in 2019 and brought online.
- In December 2019, an explosion occurred in Turbine 5, rendering that unit inoperable. Evaluation of options to repair and/or replace that unit were underway in 2020.
- The pumping and power department is continuously trying to reduce overtime by focusing on training operators and using overtime to bridge the knowledge gap. Retirement was mentioned as a continuous staffing problem in this department, especially at higher pay levels such as turbine and boiler operations positions. Approximately nine senior operators or supervisors are set to retire in five years or less. Additionally, it was also noted that the Chief of Operations retired in September 2020, and a successor has not yet been identified. Additional staff need to be hired and trained at all levels of the organization due to existing vacancies and those created by retirement.

- The Operations department was made aware of a cross-connection to the cooling systems for Turbines 1 and 3 and the Carrollton WPP clearwell, and it was noted in the 2018 report. The department plans to retire Turbines 1 and 3 as soon as possible to address this issue. Steam Pumps A and B also contribute to the cross-connection. The recent conversion of the drive to electricity on Pump A has eliminated that contribution to the cross-connection. Pump B will also be converted to an electric drive, and that work was scheduled for 2020.
- Operations noted that no retirements occurred in 2019; however, the department has continued to hire more entry-level staff. The department would like to hire experienced operators, ideally with certifications, but has difficulty due to the residency requirements and pay rates. Staff feels that there is no incentive to become certified, and there is a lack of certified operators state-wide. Additionally, no management staff was hired in 2019. It was noted in the 2018 report that the Chief of Operations retires in September 2020, though a successor is not currently in place to take over.
- It was noted during the site visit that Central Control still did not have enough trained and experienced staff. This staffing situation was cited as the Center's largest issue. This issue was still a concern in 2019.
- The Board has a clear understanding of the drainage, water, and sewage facilities existing conditions and is aware of the immediate needs within each division and area; however, funding is needed for the Board to address these issues. This was still the case at the time of the visit in 2019. Many CIP projects are on hold due to funding, such as the new chemical building at the Carrollton WPP and other sewerage and WWP improvements.
- The Board continued and completed emergency filter repairs in 2019 that included four additional filters in Sycamore galleries (the contract is for eight total filters). The remainder of the work on Claiborne filter galleries will be completed when additional funding is available.
- Aging infrastructure and lack of equipment, especially vehicles, needed to make repairs were noted as Networks' main concern in 2019. It was noted that a lack of needed equipment, especially vehicles, is causing additional stress on existing equipment, reducing its overall reliability. Networks noted that in 2019 the sewer and water board received a level 1 rating for fire service from the NFPLA.
- It was noted that the most frequent issues at the SLSs were damaged valves, overly-worn shafts, leaking, motors burning out, etc. The most constant issue noticed at the SLSs on the west bank was worn-out shafts discovered at four separate stations. The Board is aware of the issues and has a plan to make necessary repairs. The repairs are currently held up by a lack of funding and skilled workers. Of the 82 SLSs across the city, 16 stations are not operating at full capacity due to a pump being out of service. Most of these stations can operate with one pump or have a portable pump on-site to assist the station. Of the 25 DPSs across the city, only four are not currently operating at full capacity due to pumps being out of service.

In conducting our analyses and in forming an opinion of the projection of future operations summarized in this report, Black & Veatch has made certain assumptions with respect to conditions, events, and circumstances that may occur in the future. The methodology utilized by Black & Veatch in performing the analysis follows generally accepted practices for such projections. Such assumptions and methodologies are summarized in this report and are reasonable and appropriate for the purpose for which they are used. While Black & Veatch believes the assumptions are reasonable and the projection methodology valid, actual results may differ materially from those projected, as influenced by the conditions, events, and circumstances that actually occur.