

MINUTES OF WORKSHOP MEETING
BOARD OF DIRECTORS
LAGUNA MADRE WATER DISTRICT

The **WORKSHOP MEETING** of the **LAGUNA MADRE WATER DISTRICT** was held at the Administration Office of the District, 105 Port Road, Port Isabel, Texas on the **27th day of September 2008** at the hour of **9:00 a.m.** pursuant to written notice as prescribed by law.

ITEM#1 **QUORUM**

The **CHAIRMAN** called the **WORKSHOP MEETING** to order at **9:00 a.m.** and he determined the Notice of the Workshop had been duly posted in accordance with the law and the following present constituted a quorum:

Present: Jeff Keplinger, Vice Chairman
Rudy H. Garcia, Secretary
Scott Friedman, Director
R. Kevin Tenison, Director
Clifford Rowell

L.M.W.D.: Gavino Sotelo, General Manager; Arturo Martinez, Director of Operations; Carlos Galvan, Jr., Asst Director of Operations; Pete Capistran, Director of Finance; Maribel Hinojosa, Asst to the General Manager; Jake White, NRS Engineers.

ITEM#2 **PLEDGE OF ALLEGIANCE**

The **CHAIRMAN** stated for everyone to recite the Pledge of Allegiance.

ITEM#3 **DISCUSS DISTRICTS CAPITAL NEEDS AND METHODS OF FINANCING**

MR. SOTELO stated there would be discussion on the **DISTRICT'S** capital needs and methods of financing. He mentioned the report on the assessment conducted by **ALAN PLUMMER & ASSOCIATES** on the system and they provided the **DISTRICT** with a lot of information. He said they had put together a five-year projection on the needs of the **DISTRICT**. He said that he thought that some of the needs should be done next year and some others could wait for over a five-year period. He also said that the plan would allow to improve and upgrade the system such as low pressure and infiltration. He indicated that the plan would be analyzed each year with the budget. He asked the board to review and prioritize the project and also make suggestions on anything else they might see fit. He also reviewed several options on how to pay for the needs of the **DISTRICT**. He indicated that they had begun prioritizing for the water system followed by the wastewater system. He indicated that some of the projects could be delayed because of Hurricane Dolly but would resume repairs as much as possible. He also mentioned three scenarios and summary of proposed 2008 Revenue Bonds issues. He mentioned micro filtration at Water Plant No. 2 to improve the quantity of the water. He indicated that they had visited a plant in **ROBSTOWN** and said the cost between \$2-3 million. He also mentioned the chemical feed system for the pump stations need rehabilitation but immediate needs were to the clarifiers, chemical, electrical, filtration and the operations building. He said that the **DUNHAM ENGINEERS** would be hired next week to inspect all water storage facilities including the clearwells and estimated the cost at \$100,000.00. He also said that some of the water tanks had sustained damages from Hurricane Dolly and claims were submitted to **FEMA**. He indicated that he did not expect to see any money from **FEMA** until 8 months to a year. **MR. SOTELO** mentioned that they had discussed creating a separate construction crew for replacement of water and sewer lines. He also said he planned to make a presentation to the community on the repairs of water and sewer line reconstruction. He also said that the wastewater lines were an older system and most manholes need to be replaced. He indicated that there were also several valves in poor condition that need replacement. He mentioned that they would like to repair several liftstations including reconstruction of the main Liftstation #11 and said that he would like to use some of the bond money from the water meters to pay that cost but would have to inform **TCEQ**. He indicated that the cost to reline only 10 liftstations would be about \$100,000.00. **MR. SOTELO** indicated that sewer lines were definitely more costly because of the depth of the lines. He mentioned the Desal Plant and said that the cost would be estimated at \$12 million and once the pilot plant was complete then they would have the opportunity to review the findings. He reviewed the costs associated with all the projects and said he had prepared a list of proposals on how to pay for the projects. He said he divided into local monies which was money budgeted on an annual basis out of revenues; revenue bonds which were necessary for large projects; and general obligation bonds which were tax bonds. He indicated that they had identified \$7.9 million worth of needs for the coming year to be placed into revenue bonds. He asked the board to keep in mind the condition of the present market. He also said that some of the repairs from the recent hurricane came out of the Emergency Fund so that amount needs to be replaced next budget year. He mentioned that they would like to build up the Emergency Fund at least up to \$2 million or maybe more. He said that so far they had identified about \$1.3 million worth of damages by the hurricane and hoped to get at least 75% reimbursed by **FEMA**. He also indicated that they hoped to sell revenue bonds in January or February 2009 since the financial advisors said the market should improve by the end of the year.

MR. SOTELO reviewed the 2008 Revenue Bond scenarios and advised the board to review all proposed issues. He mentioned that one thing that was needed was a rate study and were looking into it for this year. He commented that the **DISTRICT** had not had a rate increase since 2004. He said that the maximum amount based on revenue strength without a rate increase would be about \$18 million. **MR. SOTELO** commented that the fund balance should be considered sacred and thought it should not be touched unless a serious emergency developed. He said that they were not making as much as last year but still a healthy budget remained. He mentioned that all supervisors had been keeping an eye on all their expenditures. **MR. CAPISTRAN** mentioned in reference on changing the fiscal year and said that the two options were to have a six month audit or an 18-month audit. **MR. SOTELO** recommended the change since it was a lot easier for tax purposes and reporting purposes. **MR. KEPLINGER** asked what would happen to the Capital Improvements Project after the bond issue. **MR. SOTELO** indicated that the \$575,000.00 would cover the normal projects then it would pay for itself. **MR. KEPLINGER** also mentioned that the delay in starting the projects by the engineers after the last revenue bond issue was a major problem and hoped this time would be different. **MR. SOTELO** assured him that this time there would not be problems with the engineers. **MR. KEPLINGER** agreed that all the projects were needed but found nothing mentioned about water conservation or water reuse. **MR. SOTELO** responded that they were waiting for the **SCHOOL DISTRICT** to decide on how they would handle the project. **MR. KEPLINGER** mentioned that the **DISTRICT** should go ahead with the reuse project for the **SCHOOL DISTRICT**. **MR. ROWELL** mentioned that there could be some health issues. **MR. KEPLINGER** responded that there were no health issues and raw water has been used everywhere. The **CHAIRMAN** said that the **DISTRICT** could not force the **SCHOOL DISTRICT** to place the line in at their expense. **MR. KEPLINGER** then asked about the **LONG ISLAND PROJECT** and **MR. SOTELO** responded that they had met with the developers and they were still discussing the issue with positive feedback. He also said that the **SOUTH PADRE ISLAND GOLF COURSE** was also looking into using effluent water for more of their needs. **MR. KEPLINGER** commented that portable water should not be used for irrigating and something needs to be done soon. **MR. SOTELO** said that they would keep in touch with the **SCHOOL DISTRICT** and come back to the board with a plan on effluent including a cost estimate. **MR. ROWELL** asked about in-house engineering process and **MR. SOTELO** responded that he had discussed the issue with two potential companies and was still waiting on their response. **MR. TENISON** asked about the General Obligation Bonds at long range within the next five years. **MR. CAPISTRAN** responded that by the time the projects start they would have already paid off some of the older bonds. **MR. SOTELO** mentioned that the General Obligation Bonds would allow the **DISTRICT** to keep the same tax rate and would not increase property taxes. **MR. SOTELO** stated that they would skip down to Item#5 until the engineer arrived to discuss Item #4.

ITEM#4

DISCUSS DESAL PILOT PROJECT

MR. JAKE WHITE of **NRS ENGINEERS** began with his presentation on the **SEAWATER DESALINATION PILOT STUDY** Operational Overview. He stated that the presentation overview consisted of: project goals, site overview; water quality testing; pilot operations; and overview of data analysis. He began with the project goals and said that would document and evaluate the quality of seawater at the proposed intake location and verify the performance of the conceptual open water intake. He also said that they would evaluate long-term performance of pretreatment units and the seawater membrane treatment process. He mentioned that all this would serve as an educational and public relations tool for seawater desalination technology and define the most economical and effective components. He stated that the intake consisted of two pretreatment units which were conventional and microfiltration; and reverse osmosis. He explained that the open intake in the Gulf of Mexico consisted of approximately 1,500 linear feet of intake pipe and the intake structure with screen was designed to minimize entrainment and impingement. He also said it included two intake pumps designed for 100 gallons per minute each. He mentioned the **PALL MICROFILTRATION** unit and said that it consisted of Microza which had a microfiltration, pressure feed, outside-in process, and a 200 micron pre-screen. He also mentioned the conventional units which had a rapid mix two stage flocculation dosing ferric chloride, and plate setter with dual media filtration. He continued with the Reverse Osmosis and said that a single-pass Seawater Reverse Osmosis train or **DOW/FILMTEC** had an 8-inch diameter, 7-element vessel with a 45-50% recovery. He said that the water quality testing was an intense water quality sampling and testing with requirements of **TCEQ**. He indicated that they would gain additional information needed to successfully design the full-scale facility with the testing of raw water, pretreatment filtrate, RO feed, RO permeate, and RO concentrate. He also said that water quality testing was required on-site daily and operations for **TCEQ** Protocol conducted with an evaluation duration of at least 10 days. He said that Stage 1 would be an evaluation and optimization consisting of stage objectives and membrane performance parameters; State 2 would be Pilot the Preferred Operating conditions that would take 30 days; and Stage 3 would be loss of flux and fouling evaluation with that would 10 days followed by assessment by recoverable flux and determine rate of irreversible fouling. He mentioned that the Pilot Operations Requirements were: daily water quality sample and testing; daily evaluation of system performance; mechanical modifications, maintenance, and repair; operation of the conventional units, and special testing. He also said that maintenance of turbidimeters, calibration of instrumentation, chemical dosage monitoring and chemical loading were required.

MR. WHITE said that that evaluation of pretreatment and Ro performance were a key factor. He also said that they would analyze performance independently of *TCEQ* requirements but adhere to their general guidelines. He provided the board with several typical pretreatment performance data tables which measured the consistency of the water. *MR. WHITE* indicated that he hoped that the board had a more clear insight of what occurs at a pilot plant. *MR. TENISON* stated that he had expressed his expectations and increased his comfort level. *MR. SOTELO* commented that it was a complicated process but very interesting. The *CHAIRMAN* thanked everyone for making the workshop very informative.

ITEM#5 DISCUSS THE EXTENSION OF UTILITIES TO NORTH SIDE OF SOUTH PADRE ISLAND

MR. SOTELO mentioned the agreement with the developers to pay for extension costs of water and wastewater north of *SOUTH PADRE ISLAND*. He indicated that the \$2.2 million in escrow to pay for construction and emphasized there was no money for contingencies or litigation. He stated that they decided to go out for bids anyway and authorized engineers for preliminary plans to get an idea of costs. He then said that *MRS. ANGELA EDWARDS* which had been heading the project had asked for the *DISTRICT* to take out the re-use line and use the money to pay for everything. He said that they would keep the re-use line and go with an alternate bid. He said that another issue was that they were confused since the contract stated that the engineering fees would be \$277,000.00. He indicated that \$120,000.00 which had been release to the *DISTRICT* was to pay for the annexation fees and engineering fees after preliminary. He also said that they thought that the engineer wanted to hold \$277,000.00 up front before doing any work. *MR. SOTELO* said that the engineer had never said that and knows he would not get paid until after work has been complete and invoiced to the *DISTRICT*. He said that they had stopped the project because of the \$277,000.00. He mentioned that the contract stated that the fees for engineers was to go out for bids \$277,000.00 and if the project was to continue they needed to abide by the contract. He said that they understood that they would pay the engineers once the work was completed. *MR. SOTELO* said that they had received a check on Friday for \$120,000.00 to pay the engineers and attorneys for annexation costs. The *CHAIRMAN* asked about the timeframe and *MR. SOTELO* responded that *MR. NORRIS* thought he could complete the bid proposals by November. He said that the reason the timeframe was in November was because of the issue with the contract on engineering costs. The meeting was recessed at 11:157 am and continued at 11:27 am with Item #4 with *MR. KEPLINGER* and *MR. GARCIA* absent

The *CHAIRMAN* adjourned the meeting at *12:20 p.m.*

SCOTT D FRIEDMAN, CHAIRMAN

RUDY H. GARCIA, SECRETARY

MINUTES APPROVED THIS _____ DAY OF _____ 2008.