

**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 **4<sup>th</sup> day of April 2009** 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: Scott Friedman, Chairman  
Jeff Keplinger, Director  
:  
Rudy H. Garcia, Director  
R. Kevin Tenison, Director  
Absent: Clifford Rowell, Vice-Chairman

L.M.W.D.: Gavino Sotelo, General Manager; Arturo Martinez, Director of Operations; Pete Capistran, Director of Finance; Maribel Hinojosa, Asst to the General Manager.

**ITEM#2** **PLEDGE OF ALLEGIANCE**

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

**ITEM#3** **DISCUSS BUDGET FOR 2008-2009**

**MR. SOTELO** began with discussions of the Budget for 2008-2009 and also some other information on requests made on funds to federal and state for stimulus packages. He mentioned that they were #12 on the list for state funds on the desalination plant. He also said that the **TEXAS WATER DEVELOPMENT BOARD** would not make a make decision until June. He indicated that one of the needs that they would be proposing was to repair the 36" line coming in from the river to **CUATES RESERVOIR**. He stated that **MR. WAYNE HUNTER** of **ESPEY CONSULTANTS** put together an application for repair of the line. He said that the application was submitted to the **TWDB** at no cost to the **DISTRICT**. He also mentioned that **NRS ENGINEERS** was working on the **DESALINATION PLANT** and moving forward. He said that they had talked with state senator on the **TEIP** Funds and hoped that they could have some influence in our favor. He indicated that they would need to advertise for engineering services for this type of project which was a requirement of the **TWDB**. He also said that they could enter into a contract with **ESPEY CONSULTANTS** for this project and at the same time if the funds do not come through then they would stop the project. He said that it could cost anywhere from \$75,000 to \$100,000 and the job would be completed by June. **MR.SOTELO** said that he recommended that they go forward with this project as it was a priority. He also said that **WATER PLANT NO. 2** needed the clarifier replaced and is critical in the water treatment system. He stated that they had taken around \$300,000 from the Emergency Fund to pay for repairs caused by **HURRICANE DOLLY**. He also said that repairs to water towers and other repairs due to **HURRICANE DOLLY** came to about \$1.7 million and 75% should be reimbursed by **FEMA**. **MR. SOTELO** stated that if the money was taken from the Emergency Fund to fund the repairs for the water towers then that reduces the fund balance only temporarily. He mentioned that there was \$1.2 million for dedicated emergencies. He also said that he included a list of the projects and time schedule as to when the choices would be made for all projects and said that he would keep the board updated. They also discussed the \$10.4 million for the raw water projects. He indicated that it probably would be less by removing some of the things instead of replacing them. He asked the board to review the lists and keep in mind that they had not anticipated the rate increase of **HURRICANE DOLLY** and said the needs were still there but funding was not. He mentioned that he was delaying the projects because he was concerned about revenues and not being able to meet the budget. He informed the board that revenues declined until about November thru December and then went up higher than last year but then declined again in February thru March. He also mentioned that they declined not only on **SOUTH PADRE ISLAND** but also **PORT ISABEL**, **LAGUNA HEIGHTS** and **LAGUNA VISTA**. He also informed the board that they would be doing some landscaping at the **DISTRICT OFFICE** soon. He said that he would like to repair the water towers all at once instead of waiting two or more years. He also mentioned the **LAGUNA VISTA LINE REPLACEMENT PROJECT** and said that they would be continuing work throughout the year. **MR. CAPISTRAN** asked the board to review the status of the revenue bonds. **MR. SOTELO** stated that he had called the bond attorney to discuss the bond issue and he should be contacting him soon. He also mentioned that they had \$120,000.00 left in the old Revenue Bond to be approved at the next meeting to be used for some of the water projects. He also informed the board he was looking into signing into a one-year not e and asked bond counsel for advice. He said that he had also provided them with a list of damages from the hurricane including cost estimates and sources of funds. He said that they needed to replace the truck barn and move it over to the warehouse area and build a storage facility. He also mentioned that the truck barn was appraised for \$50,000.00.

The board asked **MR. SOTELO** if they should sell the truck barn and he said that he thought they did not need the property since they had plenty on the other side of the office. He stated that they needed storage buildings to store equipment and units at the warehouse. He said that **MR. MARTINEZ** has stressed for employees to wash their units more regularly. **MR. SOTELO** said that some employees were very good at keeping their units clean. He then went on to the next item.

#### **ITEM#4**

#### **DISCUSS BUDGET FOR 2009-2010**

**MR. SOTELO** discussed the proposed budget and said that he had tried to tone the budget down quite a bit. He indicated that they were quite worried during the year on not only water sales but also water and sewer taps. He said that the difference from this year's revenues compared to last year's was \$1.7 million or about 20%. He said that it was anticipated that by the end of this fiscal year to get \$6.9 million in revenue from all sources and about \$670,000.00 less than budgeted. He also said that they would be proposing a budget of \$7,063,246.00 for 2009-2010 and a difference of about half a million dollars for this year. He mentioned that there was an increase in the expense summary for Administration and Debt Service payment. He said that there was a lot of work in the Finance Department and had made changes in staff and moved them around. He stated that the audit was coming up and staff was getting prepared for the end of the year audit. He also said that expenses had been reduced quite a bit compared to last year to about \$400,000.00. He said that it would have been more if they had not budgeted the Debt Service Payment. He also said that based on projections for next year's budget they should have about \$48,000.00 left at the end of the year with the hope that revenues would increase. **MR. SOTELO** anticipated no major problems and said the **DISTRICT** had a very healthy fund balance. He mentioned that one change that could happen was a change on the billing cycles from 3 cycles to 1 cycle billing. He also said that they may change the way meters were set up at customer locations since they were having trouble with the transmitters. He stated that 90% over overtime increase was caused by **HURRICANE DOLLY** but would get reimbursed by **FEMA**. **MR. CAPISTRAN** also mentioned that he would like to purchase a module for report writer which helps out with multiple reports. He also said that he would like to purchase upgrades for inventory module, accounts receivable module, and work order modules. **MR. SOTELO** indicated that he had asked all department heads to keep tabs on every expenditure and they have been doing a great job. He mentioned that **LIFTSTATION NO. 11** was in bad shape and needed to be repaired. **MR. KEPLINGER** asked **MR. SOTELO** to move forward with repairs to the clarifiers with the revenue bond money and contact **MR. BUDDY GARCIA** at **TCEQ** to make this money was spent appropriately. He said that budget cuts had to be made from each department. He mentioned that a new department was created for **ROBERT VELA** as an Electrician and two employees were taken from the Maintenance Department and placed under **MR. VELA** to train them. He said that he would provide them a list of options on funding replacement of clarifier at **WP NO# 2** and the repairs to the water towers. He asked the board to review the budget and ask any questions. He then went on to the next item.

#### **ITEM#5**

#### **DISCUSS RATE STUDY**

**MR. SOTELO** introduced **MR. JEFF SNOWDEN** of **CAPEX CONSULTING GROUP** who performed the water and wastewater rate study. **MR. SNOWDEN** stated that the study objectives were to compare **LMWD's** utility rates to surrounding utilities for the purpose of assessing the potential to implement rate adjustments that would be acceptable. He also said that the study would analyze the consumption of all current and recommended customer classes in order to assess peak/average day demands. He indicated that it forecasted the addition of new accounts based on conservative growth estimates and evaluated the planned issuance of debt obligations in order to calculate the annual cash requirements for debt services, reserve funding, and rate/additional bonds debt service coverage. He also said that he evaluated operations, maintenance and capital costs for the current fiscal year and generated forecasts throughout the amortization periods of the proposed deb. He also said that he employed **AWWA MI** cost of service methodology in order to provide a just and reasonable rate design for each defined customer class. He then provided the board with a summary of water revenues and expenditures and also a comparison of raw water pumped, water treated, metered and sold, and net flows to the waste water treatment plants. He mentioned each comparison on a monthly rate schedule by meter sizes. He also showed them water and wastewater commercial monthly rate comparison at different intervals of gallons of metered consumption by sizes. He then reviewed the metered water usage by customer class and billed water revenue by customer class. He explained the customer class peaking factors and comparison of average monthly residential metered consumption. He also summarized the current outstanding debt and capital improvement project for water and sewer. He included a summary of the proposed debt and a 30 year forecast for water and wastewater accounts with operating and capital costs. He also mentioned the reserve funding detail and forecast net revenue requirement. He then mentioned the proposed water and wastewater rates for different sized meters and compared each utility for residential on usage of 5,000 gallons and more. **MR. SOTELO** suggested that they go before the **CHAMBER OF COMMERCE** and city councils and inform them of the rates in the valley. He mentioned that based on the **DISTRICT'S** tax rate and revenues without a tax increase the **DISTRICT** can do about \$18 million. **MR. SNOWDEN** discussed the increase of water rates and how much would be gained charging 100% instead of the 75% and several other scenarios. He mentioned that there had not been a rate increase since 2002 and most of the people would feel a big change and we would definitely hear a lot of complaints. He also said that we have to go with a good selling job and take it out their so the community can comprehend and identify with the **DISTRICT**. **MR. SOTELO** commented that if the business community and elected officials understand the increase of rates then they have more chance of taking if to the people.

The *CHAIRMAN* adjourned the meeting at *5:40 p.m.*

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SCOTT D FRIEDMAN, CHAIRMAN

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RUDY H. GARCIA, SECRETARY

MINUTES APPROVED THIS \_\_\_\_\_ DAY OF \_\_\_\_\_ 2009.