

**MINUTES OF REGULAR MEETING**  
**BOARD OF DIRECTORS**  
**LAGUNA MADRE WATER DISTRICT**

The **REGULAR MEETING** of the **LAGUNA MADRE WATER DISTRICT** was held at the Administration Office of the District at 105 Port Road, Port Isabel, Texas on the **13th day of January 2010** at the hour of **6:00 p.m.**, pursuant to written notice as prescribed by law.

**ITEM #1** **QUORUM**

The **CHAIRMAN** called the meeting to order and he determined the Notice of the Meeting had been duly posted in accordance with the law and the following present constituted a quorum:

Present: Scott D. Friedman-Chairman  
R. Kevin Tenison-Director  
Jeff Keplinger-Director  
Absent: Rudy Garcia-Secretary-Arrived at 6:15 pm  
Albert Barberena-Director

LMWD: Gavino Sotelo, General Manager; Pete Capistran, Finance Director; Maribel Hinojosa, Assistant to General Manager; J.A. Magallanes, Attorney.

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

The **CHAIRMAN** asked everyone to recite the Pledge of Allegiance.

**ITEM#3** **INVITATION TO AUDIENCE FOR DISCUSSION**

The **CHAIRMAN** asked if there was anyone in the audience, not already on the agenda, who would like to address the board. No one responded.

**ITEM#4** **CONSIDER AND DISCUSS PRESENTATION BY**  
**ESTRADA HINOJOSA & CO., INC. ON THE DISTRICT'S FINANCINGS**

The **CHAIRMAN** stated to consider and discuss presentation by **ESTRADA HINOJOSA** on the District's financings. **MR. HINOJOSA** of **ESTRADA HINOJOSA** made a presentation and summary of Revenue Debt Reserve Funds and Payments. He stated that the District was current on Debt Service Payments despite net revenue shortfall in fiscal year 2008-2009. He said that the notes were payable and secured by the Net Revenues of the District's waterworks and sewer system. He also said that to date the **DISTRICT** has paid all principal and interest that has come due on the notes, and the **DISTRICT** expects that it will be able to continue to do so in the future; however, an event that occurred during its 2008-2009 Fiscal Year caused a significant and unexpected reduction in revenue and a significant and unexpected increase in expenditures. He indicated that as a result, the **DISTRICT** was unable to generate net revenues in an amount equal to principal and interest requirements and was unable to meet its 1.35 times debt service coverage requirement contained in the Note Resolution. He also said that the **DISTRICT** used other available funds to make up the shortfall in net revenues in order to pay its debt service obligations and the notes during fiscal year 2008-2009. He mentioned that the **DISTRICT** established reserve funds in the past for revenue bonds that have been retired and said that the balance in those reserve funds were approximately \$2,093,948.28. He indicated that the **DISTRICT'S** bond counsel, **MCCALL, PARKHURT & HORTON**, had determined that those reserve funds were no longer required for original purpose were not available for other uses. **MR. HINOJOSA** said that **ESTRADA HINOJOSA** proposed that the **DISTRICT** use a portion of those funds to fund the following: 1.) \$622,828.33 to fully fund shortfall in 2007 Debt Service Reserve Fund; and 2.) \$744,000.00 to cash defeasance of 03/01/2010 principal and interest payment. He stated that the balance in excess reserve fund would be \$727,119.95 after funding two requirements mentioned above. He said that **ESTRADA HINOJOSA** advised the **DISTRICT** in 2009 to begin accumulating on a monthly basis to fully fund Debt Service Reserve Fund and the **DISTRICT** has contributed \$110,115.52 to date. He also suggested that the **DISTRICT** contribute the remaining \$622,828.33 from excess funds identified by **DISTRICT** Bond Counsel. **MR. GARCIA** entered the meeting at 6:15 pm.

**ITEM#5 CONSIDER AND APPROVE RESOLUTION NO. 39-01-10 AUTHORIZING DISPOSITION OF AVAILABLE FUNDS ON DEPOSIT IN THE DEBT SERVICE RESERVE FUND AND EMERGENCY FUND RELATED TO CERTAIN RETIRED REVENUE BONDS, AUTHORIZING THE DEFEASANCE OF CERTAIN OUTSTANDING REVENUE BONDS AND APPROVING A DEPOSIT AGREEMENT RELATED TO SUCH DEFEASANCE, AND APPROVING OTHER MATTERS THERETO**

The **CHAIRMAN** stated to consider and approve Resolution No. 39-01-10 Authorizing Disposition of available funds on deposit in the Debt Service Reserve Fund and Emergency Fund related to certain retired Revenue Bonds, Authorizing the defeasance of certain outstanding Revenue Bonds and approving a Deposit Agreement related to such defeasance, and approving other matters thereto. **MR. CAPISTRAN** indicated that he had found approximately \$2 million that had slipped by previous audits in revenue money sitting in debt service money from previous revenue bond issued. He said that they had bond issues dating back to 1973 in which case money was placed in the reserve debt service but never moved back to the general fund. He stated that the extension research determined \$2,000,093 including interest. **MR. HINOJOSA** clarified that the 4-5 loans made since 1973 on a Revenue Bond basis was required by the lender to set aside 1-year's payment on the loan. He indicated that from 1973 thru 1997 there was 1-years payment accumulated on the restricted reserves. He said that in 1997 the **DISTRICT** took out all those bonds and the reserve funds stayed. He stated that they were supposed to be placed either in the fund balance or into projects. He also suggested that they place the balance of \$727,119.95 into a restricted fund called Emergency Reserve Fund in order to fix the system. A motion was made by **MR. TENISON** to approve Resolution No. 39-01-10 and the motion was seconded by **MR. KEPLINGER**. **MOTION CARRIED UNANIMOUSLY.**

**ITEM#6** **PRESENTATION BY WAYNE HUNTER ON HYDRAULIC OPTIMIZATION STUDY**

The **CHAIRMAN** stated that there would be a presentation by **MR. WAYNE HUNTER** on **HYDRAULIC OPTIMIZATION STUDY**. **MR. WAYNE HUNTER** of **ESPEY CONSULTANTS** reported that the objective of this study was to evaluate the raw water pumping and pipeline system identifying hydraulic bottlenecks that restrict the **LMWD** capabilities to meet present and future demands and recommend prioritized modifications to meet these demands. He said the reason was to adequately supply raw water to treatment facilities and to maintain delivery reliability of the entire raw water supply system. He mentioned the river intake pump station deficiencies were reduction in pump output due to silt abrasion; unsafe working conditions due to water leakage through corroded discharge header; malfunctioning flap gates resulting in re-circulating and re-pumping same water, and lack of pump contraction and isolation valves. He also mentioned the Reservoir No. 4 Pump Station deficiencies as malfunctioning flap gates resulting in re-circulating and re-pumping same water; lack of pump control and isolation valves; and need to replace pumps due to reduced pipe size after slip-line rehab required to reduce leakage and improve reliability. He also said Reservoir No. 4 Task Order No. 1 recommended option for system was: 1.) Fusible PVC Pipe-Underground Solutions-lowest cost option in terms of pipe material and installation, least inside diameter among all options, require large pumps, lowest cost among all alternatives; 2.) 150 hp pumps; 3.) Variable Frequency Drives; 4.) Pump Control/Isolation Valves; 5.) Air Release Valve for pipeline; and 6.) Other related electrical modifications. He also mentioned Cuates Pump Station deficiencies as: 1.) Deteriorated pumps; 2.) Excessive vibration observed; 3.) Isolation valves hard to operate due to aging; 4.) Need higher pumping capacity to meet the required flow demand; 5.) Unsafe working conditions due to leaky discharge heads. He recommended replacing 15" with a 20" pipeline and 16" with a 24" pipe and install 325 hp pumps at Cuates Pump Station at a total construction cost of \$6.17 million. **MR. HUNTER** explained to the board that he had made a list of all recommendations implementation with schedules and funding obligations including additional projects. He also said that a grant application was submitted January 6, 2010 and was told that the **DISTRICT** was in pretty good position for funding but would know for sure by next month.

**ITEM#7** **CONSIDER AND APPROVE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2009**

The **CHAIRMAN** stated to consider and approve Financial Statement as of December 31, 2009. **MR. CAPISTRAN** reported the year to date actual on the General Fund was \$5,131,435 in total revenue and \$5,380,626 in expenditures. He stated that they were about a quarter of a million short and in addition incumbents of \$150,000 and both combined were a total of \$400,000 deficit at this point. He said that he anticipated receiving at least half a million before the year end from **FEMA** and in addition \$231,000 from the **TEXAS WATER DEVELOPMENT BOARD** grant on the **DESAL PILOT PROJECT**. He said the total of about \$750,000 would offset the deficit and would put us back in the black.

He mentioned that all expenditures had been stopped except for emergencies and day to day expenses. **MR. SOTELO** also mentioned that they anticipate close to half a million in additional revenue by the end of the year. **MR. CAPISTRAN** also reported on the Debt Service and said that the actual year to date was \$2,184,216 mainly from property taxes. He also said that on the expenditure side we had \$752,471. He indicated that the Capital Projects Fund had a total \$90,626,646 and the Revenue side was \$1,531,000 on the expense side. A motion was made by **MR. GARCIA** to approve financial statements as of December 31, 2009 and the motion was seconded by **MR. TENISON**.

**ITEM#8**                    **CONSIDER AND APPROVE WINDSTORM INSURANCE RENEWAL PROPOSAL FROM SCHINNERER & COMPANY**

The **CHAIRMAN** stated to consider and approve Windstorm Insurance Renewal Proposal from **SCHINNERER & COMPANY**. **MR. CAPISTRAN** stated that the current policy expires at the end of January. He said that **SCHINNERER & COMPANY** had given the **DISTRICT** three options and he recommended Option 1 which included a 100% co-insurance and deductible of 1% or \$1,000 whichever was greater or a total of \$57,251. He said that there was a 16% increase on the premium with the majority due to increase in valuation of inventory for capital assets. He recommended renew proposal from **SCHINNERER & COMPANY** Option 1 at \$74,416 premium. A motion was made by **MR. TENISON** to approve Windstorm Insurance proposal and the motion was seconded by **MR. GARCIA**. **MOTION CARRIED UNANIMOUSLY**.

**ITEM#9**                    **CONSIDER AND APPROVE EMERGENCY REPAIR TO PUMPS AT CUATES PUMP STATION**

The **CHAIRMAN** stated to consider and approve Emergency Repair to pumps at Cuates Pump Station. **MR. MARTINEZ** stated that **CUATES PUMP STATION** now had three 100 hp pumps. He said that one pump had malfunctioned and was repaired for a total amount of \$6, 725.00 from **PORT MACHINE SHOP**. He recommended ratification of this expense for emergency repair to pump at **CUATES PUMP STATION** to **PORT MACHINE SHOP** for \$6,725.00. A motion was made by **MR. TENISON** to approve emergency repair and the motion was seconded by **MR. KEPLINGER**. **MOTION CARRIED UNANIMOUSLY**.

**ITEM#10**                **CONSIDER AND APPROVE TO REJECT BIDS FOR CONCRETE REPAIR PROJECT PHASE I ON PALM BLVD**

The **CHAIRMAN** stated to consider and approve to reject bids for concrete Repair Project Phase I on Palm Blvd. **MR. MARTINEZ** stated that they had solicited sealed bids for replacement of driveways on Palm Blvd. in **LAGUNA VISTA**. He said that the two lowest bidders were non-responsive and as a result staff recommended the board reject the bids and allow to re-bid the project. **MR. SOTELO** added that one reason they were non-responsive was that they did not receive addendum that was sent out. A motion was made by **MR. TENISON** to reject bids for Concrete Repair Project and the motion was seconded by **MR. KEPLINGER**. **MOTION CARRIED UNANIMOUSLY**.

**ITEM#11**                **CONSIDER AND APPROVE TO REJECT BIDS FOR CONCRETE FOUNDATION PROJECT AT WATER PLANT 2**

*The* **CHAIRMAN** stated to consider and approve to reject bids for Concrete Foundation Project at Water Plant No. 2. **MR. MARTINEZ** stated that he had passed out a preliminary draft plan for the **MICROFILTRATION** at **WATER PLANT 2**. He said that they had solicited seal bids for the concrete foundation at **WATER PLANT 2** which was for a control building demolished due to water damage from **HURRICANE DOLLY**. He indicated that they planned to locate the micro-filtration building close to chemical and clarifiers for better operations. He stated that staff recommended the board reject Concrete Foundation Project at **WATER PLANT 2**. **MR. GARCIA** made a motion to reject bids for Concrete Foundation Project at **WATER PLANT 2** and the motion was seconded by **MR. TENISON**. **MOTION CARRIED UNANIMOUSLY**.

**ITEM#12**                **CONSIDER AND APPROVE ANDY BOWIE ELEVATED WATER STORAGE TANK #2 REHABILITATION PROJECT BID**

The **CHAIRMAN** stated to consider and approve Andy Bowie Elevated Water Storage Tank #2 Rehabilitation Project Bid. **MR. MARTINEZ** stated that after reviewing bid tabulation for the **ANDY BOWIE ELEVATED WATER STORAGE TANK#2 REHABILITATION PROJECT BID** he recommended **TMI COATING** with a total base bid of \$444,000.00.

He also recommended additive Bid Item#1 and #2 be awarded and necessary for contract document as presented by *DUNHAM ENGINEERING*. A motion was made by *MR. GARCIA* to approve *ANDY BOWIE ELEVATED WATER STORAGE TANK #2 REHABILITATION PROJECT BID* and the motion was seconded by *MR. TENISON*. *MOTION CARRIED UNANIMOUSLY*.

**0ITEM#13** **CONSIDER AND APPROVE DISBURSEMENTS**

The *CHAIRMAN* stated to consider and approve Disbursements. A motion was made by *MR. KEPLINGER* to approve Disbursements including Supplemental List and the motion seconded by *MR. TENISON*. *MOTION CARRIED UNANIMOUSLY*.

**ITEM# 14** **ENGINEER'S REPORT**

- A. UPDATE ON THE DESAL PLANT**
- B. UPDATE ON THE EXTENSION OF UTILITIES TO NORTH SPI**
- C. UPDATE ON PROJECTS UNDER THE 07 BOND ISSUE**

*MR. JAKE WHITE* updated the board on the *DESALINATION PLANT* and said that they were wrapping up testing on different items including the testing on the RO Permeate Water. He stated that permeate water was a very clean water and chemicals have to be added in order to stabilize it before placing it into the distribution system. He also said that they were meeting with *SEAENERGY* or wave energy pilot that hopefully would be installed at the current pilot plant site. He said that he did not have an update on the *EXTENSION OF UTILITIES TO NORTH SPI* and project had already been competed. He also said that the projects under the *07 BOND ISSUE* the *WASTEWATER TREATMENT FACILITIES* had been substantially completed with some small items remaining on their punch list but plants were up and operational. He also updated on the *MICRO-FILTRATION SYSTEM* and said that the proposed location of the building would be much closer to the existing clarifiers and actual facility. He said that one of the reasons was to not disturb any areas located in low ground and not deal with *ARMY CORPSE OF ENGINEERING* permitting and other issues. He said that the road would have to be relocated but was not a significant concern since there was plenty of room between the existing road and reservoir.

**ITEM#15** **GENERAL MANAGER'S REPORT**

*MR. SOTELO* reported on the *WATER TOWERS* and said that contractors should be completed by mid-February and would wait until later in the summer for repairs on the other towers. He also said that they were working on upgrades on *SOUTH PADRE ISLAND*. He mentioned the *LAGUNA HEIGHTS* upgrades and said he had met with *COMMISSIONER GARZA* and he said that he was concerned about the re-paving of the streets for repairs but they knew of the projects beforehand. He said that they would have to cut alongside of the street but would install some speed bumps along the way. He said that they would be meeting with the county for bids to get the project started. He also reported that they had been trying to clean out the lagoon at *WATER PLANT NO. 2* but said the project was on hold due to the weather. He stated that *LIFTSTATION #11* bids would be going out at the end of the month and that would involve the transfer of monies from the 2007 Bond. He said that there was a little over half a million in the 2007 Bond Issue in interest and attorney would research on transferring monies to use for projects. He also mentioned the project for the metal frame building at the Warehouse had begun and would be working with *FEMA* to get the money back as quickly as possible. He also asked the board for a Workshop to review projects on February 6, 2010 and the board agreed.

**ITEM#16** **ADJOURNMENT**

The *CHAIRMAN* adjourned the meeting at 7:45 p.m.

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**SCOTT D. FRIEDMAN, CHAIRMAN**

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**RUDY H. GARCIA, SECRETARY**

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

