

TO: Board Members

THROUGH: Kevin Patteson, Executive Administrator
Jeff Walker, Deputy Executive Administrator, Water Supply and Infrastructure
Les Trobman, General Counsel

FROM: Jessica Zuba, Director, Regional Water Planning and Development
Mireya Loewe, South Regional Manager, Regional Water Planning and Development
Joe Reynolds, Attorney, Office of General Counsel

BOARD DATE: January 29, 2015

SUBJECT: City of McAllen, Project No. 73659
South Wastewater Treatment Plant Upgrade Project
Request for Extension of Commitment

ACTION REQUESTED

Approve, by resolution, a request from the City of McAllen (Hidalgo County) to amend TWDB Resolution 14-07, as amended by TWDB Resolution No. 14-78, for the Clean Water State Revolving Fund commitment (L1000237 and LF1000282) to extend the commitment expiration from January 31, 2015 to July 31, 2015.

BACKGROUND

On January 23, 2014, the City of McAllen (City) received a commitment from the Texas Water Development Board’s Clean Water State Revolving Fund (CWSRF) consisting of a \$30 million loan and \$202,322 in loan forgiveness for the construction of the City’s South Wastewater Treatment Plant (WWTP) project.

On September 4, 2014, through TWDB Resolution 14-78, the TWDB authorized the City’s request to amend TWDB Resolution No. 14-07 and increase the financial assistance to \$40,202,322, consisting of a \$40 million loan and \$202,322 in loan forgiveness.

The project will provide upgrades at the South WWTP, including both the liquid and solids treatment processes, to improve treatment and increase efficiency. As part of the upgrade to the wastewater treatment plant, the City has elected to include the construction of a new belt filter press. The project will also include enclosure of the dewatering facility and the provision of the odor control system, which were initially taken out of the project.

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| <p>Our Mission</p> <p>To provide leadership, information, education, and support for planning, financial assistance, and outreach for the conservation and responsible development of water for Texas</p> | <p>⋮</p> <p>⋮</p> <p>⋮</p> <p>⋮</p> <p>⋮</p> <p>⋮</p> | <p>Board Members</p> <p>Carlos Rubinstein, Chairman Bech Bruun, Member Kathleen Jackson, Member</p> <p>Kevin Patteson, Executive Administrator</p> |
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KEY ISSUES

On December 16, 2014, the McAllen Public Utility Board (MPUB), on behalf of the City, requested a six-month extension to its commitment because when the project was bid for construction, the MPUB only received two bids that were both above the project budget. The lowest bid was approximately 25% above the budgeted amount. The MPUB has been negotiating with the lowest bidder to reduce the cost. The MPUB must now make a decision whether to accept the negotiated price or re-bid the project. If the MPUB decides to re-bid the project, they will revise the plans and specifications to incorporate cost reduction measures. Regardless of the decision the MPUB makes, the City does not have sufficient time to complete the closing process by the January 31, 2015 expiration date.

A six month extension will provide sufficient time for the MPUB to either accept the negotiated price or re-bid the project, and for the City to close the commitment.

RECOMMENDATION

The Executive Administrator recommends approval of the MPUB's request to amend TWDB Resolution No. 14-07, as amended by TWDB Resolution No. 14-78, for the Clean Water State Revolving Fund commitment (L1000237 and LF1000282) to extend the commitment expiration from January 31, 2015 to July 31, 2015.

Attachments:

- 1) Resolution (15-)
- 2) Resolution (14-78)
- 3) Resolution (14-07)
- 4) Letter from City of McAllen Public Utility

A RESOLUTION OF THE TEXAS WATER DEVELOPMENT BOARD
AMENDING TWDB RESOLUTION NO. 14-07
AS AMENDED BY TWDB RESOLUTION NO. 14-78
TO EXTEND THE LOAN COMMITMENT PERIOD FOR THE \$40,000,000
CITY OF MCALLEN, TEXAS WATERWORKS AND SEWER SYSTEM REVENUE
BONDS, PROPOSED SERIES 2015 TO BE ISSUED BY
THE CITY OF MCALLEN, WITH
LOAN FORGIVENESS IN THE AMOUNT OF \$202,322

(15-)

WHEREAS, at its January 23, 2014 meeting, the Texas Water Development Board (TWDB), by TWDB Resolution No. 14-07, made a commitment to provide financial assistance in the amount of \$30,202,322 to the City of McAllen located in Hidalgo County, Texas, (City) from the Clean Water State Revolving Fund to finance improvements to its wastewater system to be secured by the TWDB's purchase of \$30,000,000 City of McAllen, Texas Waterworks and Sewer System Revenue Bonds, Proposed Series 2015, and the execution of a Loan Forgiveness Agreement in the amount of \$202,322 for Project No. 73659; and

WHEREAS, at its September 4, 2014 meeting, the TWDB, by TWDB Resolution 14-78, amended its commitment to the City by increasing the \$30,000,000 in System Revenue Bonds to be purchased by the TWDB from \$30,000,000 to \$40,000,000; and

WHEREAS, pursuant to TWDB Resolution No. 14-07 as amended by TWDB Resolution No. 14-78, the commitment period will expire January 31, 2015; and

WHEREAS, the McAllen Public Utility Board, on behalf of the City, has submitted a request to extend the TWDB's commitment for an additional 6 months to July 31, 2015, all as is more specifically set forth in the recommendations of the TWDB's staff, to which documents express reference is made; and

WHEREAS, the TWDB hereby finds that granting an extension of 6 months is in the public interest.

NOW THEREFORE, based on these considerations and findings, the TWDB resolves as follows:

1. the commitment of the TWDB to provide financial assistance through the purchase of System Revenue Bonds in the amount of \$40,000,000 and loan forgiveness in the amount of \$202,322, as authorized in TWDB Resolution No. 14-07, as amended by TWDB Resolution No. 14-78, is amended to extend the commitment to July 31, 2015; and
2. all other terms and conditions of TWDB Resolutions No. 14-07 and 14-78 shall remain in full force and effect.

APPROVED and ordered of record this the 29th day of January, 2015.

TEXAS WATER DEVELOPMENT BOARD

Carlos Rubinstein, Chairman

DATE SIGNED: _____

ATTEST:

Kevin Patteson
Executive Administrator

**A RESOLUTION OF THE TEXAS WATER DEVELOPMENT BOARD
AMENDING TWDB RESOLUTION NO. 14-07
TO INCREASE THE COMMITMENT AMOUNT OF THE \$30,000,000 CITY OF MCALLEN,
TEXAS WATERWORKS AND SEWER SYSTEM REVENUE BONDS, PROPOSED SERIES
2014 TO BE ISSUED BY CITY OF MCALLEN, TEXAS**

(14-78)

WHEREAS, at its January 23, 2014 meeting, the Texas Water Development Board (TWDB), by TWDB Resolution No. 14-07, made a commitment to provide financial assistance to the City of McAllen, Texas, located in Hidalgo County, (City) for the purpose of financing improvements to the City's wastewater system in the amount of \$30,000,000, consisting of the TWDB's purchase of \$30,000,000 Waterworks and Sewer System Revenue Bonds, Proposed Series 2014, from the Clean Water State Revolving Fund program, all as is more specifically set forth in the TWDB's Resolution and accompanying documentation, to which documents express reference is made; and

WHEREAS, by letter dated July 30, 2014, the City has requested that the TWDB amend TWDB Resolution No. 14-07, to increase the commitment to \$40,000,000 based on increases in the project cost and the City's reallocation of project funding; and

WHEREAS, the TWDB hereby finds that the amendment(s) to the term of this loan is reasonable and that the request is in the public interest and will serve a public purpose; and

WHEREAS, in accordance with the Texas Water Code, the TWDB has carefully considered all matters required by law;

NOW, THEREFORE, based on these considerations and findings, the TWDB resolves as follows:

1. The commitment made by the TWDB to the City of McAllen, Texas through TWDB Resolution No. 14-07 for financial assistance in the amount of \$30,202,322 from the Clean Water State Revolving Fund through the TWDB's proposed purchase of \$30,000,000 City of McAllen, Texas Waterworks and Sewer System Revenue Bonds, Proposed Series 2014 and the execution of a Loan Forgiveness Agreement in the amount of \$202,322 is amended by increasing the \$30,000,000 in System Revenue Bonds to \$40,000,000.
2. All other terms and conditions of TWDB Resolution No. 14-07 shall remain in full force and effect.

APPROVED and ordered of record this the 4th day of September, 2014.

TEXAS WATER DEVELOPMENT BOARD



A handwritten signature in blue ink, appearing to read "C. Rubinstein", is written over a horizontal line.

Carlos Rubinstein, Chairman

DATE SIGNED: _____

9-4-14

ATTEST:

A handwritten signature in blue ink, appearing to read "Kevin Patteson", is written over a horizontal line.

Kevin Patteson
Executive Administrator

A RESOLUTION OF THE TEXAS WATER DEVELOPMENT BOARD
APPROVING AN APPLICATION FOR FINANCIAL ASSISTANCE IN THE AMOUNT OF
\$30,202,322 TO THE CITY OF McALLEN, TEXAS
FROM THE CLEAN WATER STATE REVOLVING FUND
THROUGH THE PROPOSED PURCHASE OF
\$30,000,000 CITY OF McALLEN, TEXAS WATERWORKS AND SEWER SYSTEM
REVENUE BONDS,
PROPOSED SERIES 2014
AND
\$202,322 IN LOAN FORGIVENESS

(14-07)

WHEREAS, the City of McAllen, located in Hidalgo County, Texas (City) has filed an application for financial assistance in the amount of \$30,202,322 from the Clean Water State Revolving Fund (CWSRF) to finance the construction of certain wastewater system improvements identified as Project No. 73659; and

WHEREAS, the City seeks financial assistance from the Texas Water Development Board (TWDB) through the TWDB's proposed purchase of \$30,000,000 City of McAllen, Texas Waterworks and Sewer System Revenue Bonds, Proposed Series 2014 (together with all authorizing documents, (Obligations)), and the execution of a Loan Forgiveness Agreement in an amount of \$202,322, all as is more specifically set forth in the application and in recommendations of the TWDB's staff; and

WHEREAS, the City has offered a pledge of net revenues of the City's waterworks and sewer system as sufficient security for the repayment of the Obligations; and

WHEREAS, the TWDB hereby finds:

1. that the revenue and/or taxes pledged by the City will be sufficient to meet all the Obligations assumed by the City, in accordance with Texas Water Code § 15.607;
2. that the application and assistance applied for meet the requirements of the Federal Water Pollution Control Act, 33 U.S.C. §§ 1251 *et seq.*, as well as state law, in accordance with Texas Water Code § 15.607;
3. that the City has adopted and implemented a water conservation program for the more efficient use of water that will meet reasonably anticipated local needs and conditions and that incorporates practices, techniques or technology prescribed by the Texas Water Code and TWDB's rules;
4. that the City has considered cost-effective, innovative, and nonconventional methods of treatment, in accordance with Texas Water Code § 15.007;
5. that the TWDB has made a timely and concerted effort to solicit projects that address green infrastructure, water, or energy efficiency improvements and other environmentally

innovative activities and has determined that the entire Project, or a portion of the Project, satisfies the EPA's criteria for Green Projects; and

6. that the Executive Administrator issued a Categorical Exclusion on October 17, 2013, such findings being subject to the standard emergency discovery conditions for threatened and endangered species and cultural resources in the Project contract documents. The TWDB concurs with the environmental finding issued by the Executive Administrator.

NOW THEREFORE, based on these findings, the TWDB resolves as follows:

A commitment is made by the TWDB to the City of McAllen, Texas for financial assistance in the amount of \$30,202,322 from the Clean Water State Revolving Fund through the TWDB's proposed purchase of \$30,000,000 City of McAllen, Texas Waterworks and Sewer System Revenue Bonds, Proposed Series 2014 and the execution of a Loan Forgiveness Agreement in the amount of \$202,322. This commitment will expire on January 31, 2015.

Such commitment is conditioned as follows:

Standard Conditions

1. this commitment is contingent on a future sale of bonds by the TWDB or on the availability of funds on hand;
2. this commitment is contingent upon the issuance of a written approving opinion of the Attorney General of the State of Texas stating that all of the requirements of the laws under which said Obligations were issued have been complied with; that said Obligations were issued in conformity with the Constitution and laws of the State of Texas; and that said Obligations are valid and binding obligations of the City;
3. this commitment is contingent upon the City's compliance with all applicable requirements contained in 31 TAC Chapter 375;
4. the Obligations must provide that the Obligations can be called for early redemption only in inverse order of maturity, and on any date beginning on or after the first interest payment date which is 10 years from the dated date of the Obligations, at a redemption price of par, together with accrued interest to the date fixed for redemption;
5. the City, or an obligated person for whom financial or operating data is presented to the TWDB in the application for financial assistance either individually or in combination with other issuers of the City's Obligations or obligated persons, will, at a minimum, regardless of the amount of the Obligations, covenant to comply with requirements for continuing disclosure on an ongoing basis substantially in the manner required by Securities and Exchange Commission (SEC) in 17 CFR § 240.15c2-12 (Rule 15c2-12) and determined as if the TWDB were a Participating Underwriter within the meaning of such rule, such continuing disclosure undertaking being for the benefit of the TWDB and the beneficial owners of the City's Obligations, if the TWDB sells or otherwise transfers

such Obligations, and the beneficial owners of the TWDB's bonds if the City is an obligated person with respect to such bonds under SEC Rule 15c2-12;

6. the Obligations must contain a provision requiring the City to levy a tax and/or maintain and collect sufficient rates and charges to produce system revenues in an amount necessary to meet the debt service requirements of all outstanding obligations and to maintain the funds established and required by the Obligations;
7. the Obligations must include a provision requiring the City to use any loan proceeds from the Obligations that are determined to be surplus funds remaining after completion of the project for the following purposes as approved by the Executive Administrator: (1) to redeem, in inverse annual order, the Obligations owned by the TWDB; (2) deposit into the Interest and Sinking Fund or other debt service account for the payment of interest or principal on the Obligations owned by the TWDB; or (3) eligible project costs as authorized by the Executive Administrator;
8. the Obligations must contain a provision that the TWDB may exercise all remedies available to it in law or equity, and any provision of the Obligations that restricts or limits the TWDB's full exercise of these remedies shall be of no force and effect;
9. loan proceeds are public funds and, as such, the Obligations must include a provision requiring that these proceeds shall be held at a designated state depository institution or other properly chartered and authorized institution in accordance with the Public Funds Investment Act, Government Code, Chapter 2256, and the Public Funds Collateral Act, Government Code, Chapter 2257;
10. loan proceeds shall not be used by the City when sampling, testing, removing or disposing of contaminated soils and/or media at the project site. The Obligations shall include an environmental indemnification provision wherein the City agrees to indemnify, hold harmless and protect the TWDB from any and all claims, causes of action or damages to the person or property of third parties arising from the sampling, analysis, transport, storage, treatment and disposition of any contaminated sewage sludge, contaminated sediments and/or contaminated media that may be generated by the City, its contractors, consultants, agents, officials and employees as a result of activities relating to the project to the extent permitted by law;
11. prior to closing, the City shall submit documentation evidencing the adoption and implementation of sufficient system rates and charges or, if applicable, the levy of an interest and sinking tax rate sufficient for the repayment of all system debt service requirements;
12. prior to closing, and if not previously provided with the application, the City shall submit executed contracts for engineering, and, if applicable, financial advisor and bond counsel contracts, for the project that are satisfactory to the Executive Administrator. Fees to be reimbursed under the contracts must be reasonable in relation to the services performed, reflected in the contract, and acceptable to the Executive Administrator;

13. prior to closing, when any portion of the financial assistance is to be held in escrow or in trust, the City shall execute an escrow or trust agreement, approved as to form and substance by the Executive Administrator, and shall submit that executed agreement to the TWDB;
14. the Executive Administrator may require that the City execute a separate financing agreement in form and substance acceptable to the Executive Administrator;

Conditions Related To Tax-Exempt Status

15. the City's bond counsel must prepare a written opinion that states that the interest on the Obligations is excludable from gross income or is exempt from federal income taxation. Bond counsel may rely on covenants and representations of the City when rendering this opinion;
16. the City's bond counsel opinion must also state that the Obligations are not "private activity bonds." Bond counsel may rely on covenants and representations of the City when rendering this opinion;
17. the Obligations must include a provision prohibiting the City from using the proceeds of this loan in a manner that would cause the Obligations to become "private activity bonds" within the meaning of § 141 of the Internal Revenue Code of 1986, as amended (Code) and the Treasury Regulations promulgated thereunder (Regulations);
18. the Obligations must provide that no portion of the proceeds of the loan will be used, directly or indirectly, in a manner that would cause the Obligations to be "arbitrage bonds" within the meaning of § 148(a) of the Code and Regulations, including to acquire or to replace funds which were used, directly or indirectly, to acquire Nonpurpose Investments (as defined in the Code and Regulations) which produce a yield materially higher than the yield on the TWDB's bonds that are issued to provide financing for the loan (Source Series Bonds), other than Nonpurpose Investments acquired with:
 - a. proceeds of the TWDB's Source Series Bonds invested for a reasonable temporary period of up to three (3) years after the issue date of the Source Series Bonds until such proceeds are needed for the facilities to be financed;
 - b. amounts invested in a bona fide debt service fund, within the meaning of § 1.148-1(b) of the Regulations; and
 - c. amounts deposited in any reasonably required reserve or replacement fund to the extent such amounts do not exceed the least of maximum annual debt service on the Obligations, 125% of average annual debt service on the Obligations, or 10 percent of the stated principal amount (or, in the case of a discount, the issue price) of the Obligations;

19. the Obligations must include a provision requiring the City take all necessary steps to comply with the requirement that certain amounts earned on the investment of gross proceeds of the Obligations be rebated to the federal government in order to satisfy the requirements of § 148 of the Code. The Obligations must provide that the City will:
 - a. account for all Gross Proceeds, as defined in the Code and Regulations, (including all receipts, expenditures and investments thereof) on its books of account separately and apart from all other funds (and receipts, expenditures and investments thereof) and retain all records of such accounting for at least six years after the final Computation Date. The City may, however, to the extent permitted by law, commingle Gross Proceeds of its loan with other money of the City, provided that the City separately accounts for each receipt and expenditure of such Gross Proceeds and the obligations acquired therewith;
 - b. calculate the Rebate Amount, as defined in the Code and Regulations, with respect to its loan, not less frequently than each Computation Date, in accordance with rules set forth in § 148(f) of the Code, § 1.148-3 of the Regulations, and the rulings thereunder. The City shall maintain a copy of such calculations for at least six years after the final Computation Date;
 - c. as additional consideration for the making of the loan, and in order to induce the making of the loan by measures designed to ensure the excludability of the interest on the TWDB's Source Series Bonds from the gross income of the owners thereof for federal income tax purposes, pay to the United States the amount described in paragraph (b) above within 30 days after each Computation Date;
 - d. exercise reasonable diligence to assure that no errors are made in the calculations required by paragraph (b) and, if such error is made, to discover and promptly to correct such error within a reasonable amount of time thereafter, including payment to the United States of any interest and any penalty required by the Regulations;
20. the Obligations must include a provision prohibiting the City from taking any action that would cause the interest on the Obligations to be includable in gross income for federal income tax purposes;
21. the Obligations must provide that the City will not cause or permit the Obligations to be treated as "federally guaranteed" obligations within the meaning of § 149(b) of the Code;
22. the transcript must include a No Arbitrage Certificate or similar Federal Tax Certificate setting forth the City's reasonable expectations regarding the use, expenditure and investment of the proceeds of the Obligations;
23. the transcript must include evidence that the information reporting requirements of § 149(e) of the Code will be satisfied. This requirement may be satisfied by filing an IRS

Form 8038 with the Internal Revenue Service. In addition, the applicable completed IRS Form 8038 or other evidence that the information reporting requirements of § 149(e) have been satisfied must be provided to the Executive Administrator within fourteen (14) days of closing. The Executive Administrator may withhold the release of funds for failure to comply;

24. the Obligations must provide that neither the City nor a related party thereto will acquire any of the TWDB's Source Series Bonds in an amount related to the amount of the Obligations to be acquired from the City by the TWDB;

State Revolving Fund Conditions

25. the City shall submit outlay reports with sufficient documentation on costs on a quarterly or monthly basis in accordance with TWDB outlay report guidelines;
26. the Obligations must include a provision stating that all laborers and mechanics employed by contractors and subcontractors for projects shall be paid wages at rates not less than those prevailing on projects of a similar character in the locality in accordance with the Davis-Bacon Act, and the U.S. Department of Labor's implementing regulations. The City, all contractors, and all sub-contractors shall ensure that all project contracts mandate compliance with Davis-Bacon. All contracts and subcontracts for the construction of the project carried out in whole or in part with financial assistance made available as provided herein shall insert in full in any contract in excess of \$2,000 the contracts clauses as provided by the TWDB;
27. the Obligations must include a provision stating that the City shall provide the TWDB with all information required to be reported in accordance with the Federal Funding Accountability and Transparency Act of 2006, Pub. L. 109-282, as amended by Pub. L. 110-252. The City shall obtain a Data Universal Numbering System (DUNS) Number and shall register with System for Award Management (SAM), and maintain current registration at all times during which the Obligations are outstanding;
28. the Obligations shall provide that all loan proceeds will be timely and expeditiously used, as required by 40 CFR § 35.3135(d), and also shall provide that the City will adhere to the approved project schedule;

Clean Water State Revolving Fund Conditions

29. prior to or at closing, the City shall pay a 1.85% origination fee to the TWDB calculated pursuant 31 TAC Chapter 375;
30. at the TWDB's option, the TWDB may fund the financial assistance under this Resolution with either available cash-on-hand or from bond proceeds. If the financial assistance is funded with available cash-on-hand, the TWDB reserves the right to change the designated source of funds to bond proceeds issued for the purpose of reimbursing funds used to provide the financial assistance approved in this Resolution;

31. prior to release of funds for professional consultants including, but not limited to, the engineer, financial advisor, and bond counsel, as appropriate, the City must provide documentation that it has met all applicable state procurement requirements as well as all federal procurement requirements under the Disadvantaged Business Enterprises program;

Pledge Conditions for The Loan

32. the Obligations must require the accumulation of a reserve fund of no less than average annual debt service requirements, to be accumulated in equal monthly installments over the initial sixty (60) months following the issuance of the Obligations;
33. if the City has existing revenue obligations with the same pledge of security as the proposed Obligations that will remain outstanding after any loan(s) made by the TWDB pursuant to this commitment, the lien or liens securing the Obligations issued to the TWDB shall be at least on a parity with lien or liens securing such outstanding obligations; and
34. the Obligations must contain a provision stating that the City will issue no additional revenue bonds unless the net system revenues for the last completed fiscal year or a 12 consecutive calendar month period out of the 18-month period immediately preceding the month in which the ordinance or resolution authorizing the issuance of the proposed additional bonds is passed, were at least 1.25x an amount equal to the average annual principal and interest requirements and 1.10x the maximum annual principal and interest requirements of all bonds and any additional bonds where are scheduled to be outstanding after the delivery of the proposed additional bonds.

PROVIDED, however, the commitment is subject to the following special conditions:

Special Conditions:

35. prior to closing, the City shall execute a Loan Forgiveness Agreement in a form and substance acceptable to the Executive Administrator;
36. the Loan Forgiveness Agreement must include a provision stating that the City shall return any loan forgiveness funds that are determined to be surplus funds in a manner determined by the Executive Administrator;
37. the City must comply with the standard emergency discovery conditions for threatened and endangered species and cultural resources, as more fully specified in the final environmental finding of the Executive Administrator; and
38. prior to the release of funds, the City shall provide a schedule of the useful life of the project components prepared by an engineer as well as a certification by the applicant that the average weighted maturity of the obligations purchased by the TWDB does not

exceed 120% of the average estimated useful life of the project, as determined by the schedule.

APPROVED and ordered of record this 23rd day of January, 2014.

TEXAS WATER DEVELOPMENT BOARD



Carlos Rubinstein, Chairman

ATTEST:



Kevin Patteson
Executive Administrator





CHARLES E. AMOS, Chairman
 ERNEST R. WILLIAMS, Vice-Chairman
 TONY AGUIRRE, JR., Trustee
 ALBERT CARDENAS, Trustee
 VERONICA V. WHITACRE, Ex-Officio/
 Commissioner

MARCO A. VEGA, P.E., General Manager

December 16, 2014

Mireya Loewe
 Team Manager - South Region
 Texas Water Development Board
 P.O. Box 13231
 Austin, Texas 78711-3231

Re: Request for Extension to Loan Closing Deadline
 South WWTP Upgrade - CWSRF Project No. 73659

Dear Ms. Loewe:

I would like to request a 6-month extension to the loan-closing date for the South WWTP Upgrade project. McAllen Public Utility is grateful for the \$40 million low interest loan for this project; however, the low bid price was nearly 25% over estimate and our budget because of a rapidly changing bid environment in South Texas.

Staff has been negotiating with the low-bid contractor for a couple of months now to reduce price and our Board is nearing a decision whether to accept the negotiated price or re-bid the project. Even if accepted, it is unlikely we will have sufficient time to complete pre-closing review and paperwork by the current January 31st deadline, and we would need a six-week extension.

If a decision is made to re-bid, a six-month extension will give us enough time to incorporate cost-reduction measures into a revised set of plans and specifications and to re-bid and award contract. It is our belief that delaying the re-bid date a few months with a revised scope is more likely to encourage a re-bid by the original two bidders, attract new bidders who may have been unwilling to bid our first advertisement because of workload, and realize improved pricing because of the effects that falling oil prices may have on our bid environment.

The projected schedule for these two scenarios are as follows:

| Milestone | Accept Negotiated Bid | Re-bid |
|----------------------------------|-----------------------|-----------------|
| Decision to accept bid or re-bid | December 2014 | December 2014 |
| Revise Plans and Specifications | February 11, 2015 | March 11, 2015 |
| Loan Closing | February 20, 2015 | July 31, 2015 |
| Advertise for re-bid | - | May 6, 2015 |
| Open bids | - | June 24, 2015 |
| Award Contract | - | July 28, 2015 |
| Pre-bid and Notice to Proceed | February 25, 2015 | August 12, 2015 |
| Completion of Construction | August 2017 | January 2018 |

If you have any questions regarding this request, please call me at (956) 681-1630.

Sincerely,



Marco A. Vega, P.E.
General Manager

xc: Tim Skoglund, P.E., Utility Engineer
Melba Carvajal, Director of Finance for Utilities