MINUTES OF THE REGULAR MEETING OF THE
KINGSBURY GENERAL IMPROVEMENT DISTRICT BOARD OF TRUSTEES
TUESDAY, AUGUST 5, 2014

CALL TO ORDER – The meeting was called to order at the Kingsbury General Improvement District office located at 255 Kingsbury Grade, Stateline, Nevada at 6:00 p.m.by Natalie Yanish.

ROLL CALL – Present were Chairman Yanish, Trustees, Vogt, McDowell, and Norman. Nelson was absent. Also present was General Manager Cameron McKay, Counsel Chuck Zumpft, Operations Supervisor Eric Johnson, Business & Contract Manager Michelle Runtzel, Dave Backman- KG Walters, Walt Johnson- KG Walters, Garrett Kooyers – KG Walters, Dave Bristol – KG Walters, Jeff Bean - Q&D, Derek Johnson - CH2M Hill, Wayne Pearson - CH2M Hill, Craig Schorr – US Bank

PLEDGE OF ALLEGIANCE – Yanish led the pledge to the flag.

PUBLIC COMMENT - None.

APPROVAL OF AGENDA

Counsel noted that public comment needs to be added prior to adjournment. Item 6a will be this additional item

M-8/5/14-1

Motion by McDowell, seconded by Vogt, and unanimously passed to approve the agenda.

NEW BUSINESS

Discussion on CMAR contract with K.G. Walters/Q&D Joint Venture - McKay explained that the final maximum guarantee was submitted for $13,830, 600; $3,240,966 over engineers' estimated construction price. Subcontractor prices were $1.2 million higher than anticipated. $330,000 in overtime was estimated due to the project delays and the urgency to make progress under a compressed construction schedule. A Buy American amendment to the SRF loan added $150,000 in extra costs. The crane work was added to the KG Walters price as the jobsite is small and other work will be occurring concurrently.

KG Walters allocated nearly $1.5 million for contingency as they assume the risk in the project; KGID creates its own contingencies for non-CMAR projects. Contingency funds are only utilized if needed on a time and materials contract and returned to KGID if not spent.

The demolition price for the existing plant is not included in the KG Walters proposal. Flipper Manchester quoted McKay $75,000 to $80,000 for demolition. By separating the demolition from the main contract, prevailing wages would not have to be paid.

McKay's primary concern is funding the total maximum guarantee amount. McKay had initially thought KGID could use its reserves to pay for excess costs, but since the project is much more over the original estimate, the reserves couldn't cover the full amount. Approximately $4 million exists in reserves, but only $2 million could be utilized to pay for the project. McKay must now go back to the state revolving fund to access more money to fund the project.

A onetime two-year extension for the project can be obtained from NDEP if progress is made this year. The possibility exists to meet the LT2 requirements by utilizing the existing ozone plant with increased chlorination; however, additional steps would need to be taken to neutralize the chlorine taste. Norman noted that he wasn't aware that this other option existed. McKay responded that chlorination isn't a feasible option as it would not provide customers with the best tasting water.

Norman commented that it is not acceptable for an experienced engineering company to propose an estimated project budget that is 23% lower than the guaranteed maximum price. Norman believed that the arborist fees were overestimated, which led him to believe that the other parts of the projected were overestimated as well. He noted concern for KGID's customers whose rates will increase even more due to the higher project cost.

Backman responded that the maximum guaranteed price proposal may seem high, but it considers all worst case scenarios for the project. Only the amount spent on the project will be billed. No permitting has been obtained for the project yet, which leaves many variables in the pricing. Backman hoped not to spend the estimated amount on an arborist, but must outline the worst case scenario in the proposal so that extra costs are not added on to the project later. Prevailing wages must be paid on public works projects, adding additional costs throughout.

Norman commented that the four BMPs associated with the project seem redundant; Backman responded that the BMPs cover different project areas, each of which must be addressed. Norman expressed concerned with $130,000 being allocated to BMPs and restoration; Backman explained that there is not a way around TRPA guidelines.

McKay noted that the prevailing wages filter down from the federal to state to county level.

Norman commented that two contingencies are listed; Backman explained that $500,000 is allocated for the unforeseen. Bean explained that the joint venture cannot spend contingencies without approval from KGID.

Yanish inquired as to what percentage other projects have utilized from their contingency funds. Bean explained that the Round Hill bike path utilized between $8,000-$9,000 of the budgeted $100,000 contingency. A project in Carlin has used $370,000 of its $625,000 contingency due to major issues arising.

Norman asked about the repercussions of a protected bird species being found on the site. Bean explained that construction could stop around the bird nest dependent upon the type of bird; however, different contingencies exist. The bird survey in the proposal is for an easement that KGID does not yet possess. McKay noted that a protected bird species found on the site would delay the project. Runtzel reported that time must be extended on the contract if unexpected delays occur, including bird surveys.

Vogt inquired about the remaining mobile home park resident. McKay reported that the trailer remains, but that Backman believes work can be done around the trailer. Construction will start on August 18th. Runtzel noted that the contract time would need to be extended if the project cannot commence due to the remaining trailer.

Vogt inquired about the liquidated damages; McKay reported that dates were met for submitting plans and that no liquidated damages were incurred.

Norman inquired about the impact of the project cost to rate payers. McKay responded that rate payers would see a minimum of 10% increase in rates depending upon when the principle must begin repayment. He noted that he will have a rough figure by the next meeting. Runtzel estimated a 10-15% increase in water rates. McKay reported that some reserves can still be used towards the project. In addition, he is meeting with vendors to reduce costs, which will shave at least a half million off the project. For example, changing the material on the water line will save a few hundred thousand dollars immediately. With the utilization of reserves and vendor cost reductions, the project cost to ratepayers would be back down to the original estimates.

Vogt commented that another public meeting should be held to explain the rate increase; Runtzel reported that a public meeting is required.

Yanish inquired as to the repercussions if the project is not approved. McKay responded that without construction, no extension would be granted, resulting in KGID being fined $5,000 per day. McKay does not believe chlorination is a sustainable option. Chlorination wouldn't be able to meet the same flows as Johnson could only use one lake pump per day.

Zumpft asked McKay to provide the cost savings by the next meeting; McKay responded that he could. McKay continued that August 18 is the first day that construction could start. KGID's contract obligation is for some work to be completed in the 2014 season, not necessarily the foundation.

Runtzel reported that KGID risks losing the winner if not approved today.

Norman asked the board if a difference of $1 or $2 million would change their opinion on the project; the board responded that it would not.

Backman noted that the project overall is very difficult.

Zumpft hoped that no swallows are found on the property, as they cause the biggest delays.

Runtzel noted that in fairness to KG Walter/Q&D Joint Venture, they should have been heavily involved since the beginning, but were only brought into the process in May. This meant that the traditional CMAR cost-cutting couldn't be realized. KG Walters/Q&D requires a buffer to protect themselves, but KGID will only pay for what is necessary.

Norman reported he now has a better understanding of the proposal that he appreciates the explanation. Vogt commented that the board must explain their decisions to their constituents, which is why the board must question such a large discrepancy in the estimate and guaranteed maximum price proposal.

McKay reported that the entire CMAR process is open book. Zumpft reported that there is a clearly defined 15% override on all actual costs.

McKay reported that when the project is completed, KGID will essentially have an entirely new system.

Backman reported that the guaranteed maximum price ensures that KG Walters/Q&D does not come back to KGID for additional monetary requests. He also noted that CH2M Hill is one of the best engineers available for this type of project.

McDowell reported that he felt sticker shock when he first saw the guaranteed maximum price as it was a few million dollars over the expected amount. Despite this, he supports moving forward with the project.

Norman commented that the board's predecessors hasn't been forward thinking in the past, but believes a healthy discussion has surrounded this project and it must move forward.

McDowell felt confident that staff will look after the District and its customers, although it will be difficult to announce the rate hike to customers. His concerns over handing a blank check over to the contractors were put to rest.

Public Comment:
Schorr asked Backman about the high cost of fast-tracking the project. Backman responded that the fast-tracking results in working on top of each other all winter long, adding 10% across the board. He noted that the subcontractor prices came in $1.2 million over the anticipated amount. He noted that when you do away with unknown contingencies, the proposal is close to original estimate. Some costs can be revisited during the second season.

Schorr asked if it was possible to apply for the two year project extension from NDEP and begin construction in 2015 to reduce costs. McKay reported that this option had been discussed. Since the plant must be online by October 1, 2016, starting construction in 2015 would only allow for a year and a half of construction, which would not allow for unexpected problems to be resolved. This option will be looked at again during the value engineering process. Norman noted that the Tahoe Shores agreement requires that construction begin in 2014 to fulfill TRPA requirements. He felt that it would be more responsible to begin construction now so that the project could be finished on time rather than risking paying the late fees of $5,000 per day for not having the project finished.

Schorr inquired about CH2M Hill; McKay responded that CH2M Hill was the original consulting engineer.

Schorr inquired as to who was responsible for the project being over the original estimate; McKay noted that they are looking more at how to move forward rather than pointing fingers. Backman commented his company must analyze risk in order to stay in business. He reiterated that the contract only requires KGID to pay for the work completed. In the case of a bad winter, discussions can be held regarding how hard to push forward.

Schorr inquired about the Buy America clause in the SRF loan; McKay reported that the original $5 million SRF loan didn't include a Buy America clause. In order to receive a better interest rate, the additional $6 million loan was added to the $5 million loan with the addition of the Buy America clause being added to both loans.

Schorr inquired about the possibility of outsourcing more parts of the project so that prevailing wages do not have to be paid. McKay responded that this is not an option. The only reason the demolition is not a part of the proposal is because it is separate from the new water plant project.

Bean noted that more research needs to be made into the demolition cost to get a more accurate figure.

Schorr inquired about the bond financing; McKay responded that all bonds would have 20 year terms and the interest rates will not be known until they are finalized.

Schorr commented that a pro forma should be completed for the bonds in order to make an educated decision. McKay reported that Sherman Howard will analyze the debt service to show how rates must be increased to cover bonds. Schorr asked if this would be done prior to contract approval; McKay reported that it would not. The bonds will go back to the board for final approval. The bond sale will close in January.

Yanish noted that they had thought construction would be done this summer when the project was initiated.

Vogt commented that the smell and taste of water is the biggest complaint she hears, making chlorination not a feasible option.

Norman asked what the response would be if the public showed outrage at the rate hike. McKay responded that they would have to go to an inter-fund loan to cover water fund excess costs. This would result in a different kind of rate increase.

Schorr apologized for his lack of historical knowledge on the project. His suggestion is to move forward with KG Walters/Q&D, apply for an extension, begin construction in 2015, perform a pro forma to better understand costs to customers, and have KG Walters/Q&D make a compromise with the engineers.

Zumpft reminded Schorr that Tahoe Shores sued to start construction this year. Schorr suggested starting this year, but then allocate more expenses for next year. Zumpft commented that allocation will be discussed at a later date. McDowell would like to commence construction as soon as possible. He inquired as to how much work must be completed to satisfy TRPA's requirements for Tahoe Shores. McKay responded that TRPA will judge whether due diligence was made to complete as much work as possible by the end of the construction season.

Pre-procured equipment is set to be delivered in May and the infrastructure needs to be in place by then. The utilities inside the plant are extensive and lie atop one another due to the small footprint.

Vogt commented that the project has been a long process, but due diligence and negotiations have taken place.

Norman does not want to go back to Feldman to say they aren't doing the project.

Runtzel noted that construction must start this season in order to receive a project extension.

McDowell inquired about the existing Northern Hawk inventory as it is the major bird of concern; Gary Midkiff has not expressed concern with bird issues.

McKay reported that a Yellow Cress survey would need to be conducted.

Vogt expressed her appreciation in being presented with all information upfront; Backman responded that they tried to portray all possibilities in the proposal.

Norman commented that a bird wouldn't shut down the whole project, the project would just have to work around the nest area.

Schorr thanked everyone for their insights on the project; McDowell thanked Schorr for his thoughtful comments.

M-8/5/14-2
Motion by McDowell, seconded by Vogt and unanimously passed approve the CMAR contract with KG Walters /Q&D Joint Venture with a Guaranteed Maximum Price of $13,830,600.

6a. Public Comment
None.

ADJOURNMENT

M-8/5/14-3
Motion by Vogt seconded by McDowell and unanimously passed to adjourn the meeting at 7:11 P.M.

Respectfully submitted,

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Natalie Yanish – Chairman

Attest:

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Robert McDowell, Secretary