



Memo to: Board of Directors

From: Les Sterman

Subject: Program Status Report for December, 2012

Date: December 17, 2012

December 17 is a major milestone for the project as we submit over 6000 pages of plans, specifications, data, analysis and narrative to the Corps of Engineers documenting our proposal for shallow and deep cutoff walls. Because the Corps has dubbed cutoff walls an “other than minor” alteration to the levee system, this marks the beginning of an extensive six month Section 408 review process, including reviews by the St. Louis District, the Mississippi Valley Division, and Headquarters offices, supplemented by internal peer reviews and an independent external peer review. Some might call this excessive, and I certainly wouldn’t challenge that view.

Since AMEC submitted a revision to the cost estimate and schedule corresponding to their proposed design, I have developed a revised project cost estimate and schedule that will be presented at December meeting. The estimate is an “all-in” estimate that not only includes the cost of the AMEC design, but also cost-share for Corps expenditures for reconstruction projects in the Wood River and Prairie DuPont levee systems, and other professional services (real estate, legal, etc.) that will be required to finish the project. This is the most complete cost estimate for the project developed to-date. The total cost estimate for the project has increased by about 2.5% since the first estimate produced in July 2011, the increase due entirely to the incorporation of already expended amounts for cost-share on Corps projects that were not included in earlier estimates. The cost of construction and professional services for the FPD project actually decreased from the earlier estimate by about 8%. Adoption of an updated project cost estimate and schedule is a yearly event that reflects the maturing of the project design and financing plan as we move toward construction and allows us to be clear about our expectations for the project and to communicate those expectations to the public.

A draft of a revision to the Financial Plan has been developed for us by ButcherMark Financial Advisors. The Plan describes some new financing strategies, and reflects changes in the interest rate environment, project schedule, and cash flow expectations. Briefly, the Plan outlines an approach that uses short- and long-term financing, together with current “surplus” amounts in the county FPD funds to generate as much as \$220 million in net proceeds that can be used for the project. Representatives from ButcherMark will present the draft Financial Plan at the December meeting.

In sum, the message remains the same -- we can produce an affordable project that will meet FEMA standards while keeping our commitment to finish the project by 2015. That is not to diminish the significant challenges ahead, which have been discussed almost constantly over the last year but bear repeating. The Corps Sec. 408 review process continues to generate more costs, measured both in dollars and time. While the Corps has committed to a schedule of initial reviews, the resolution of comments in those reviews continues in an ambiguous and onerous fashion that has no schedule. Similarly, the uncertain course of the review of the cutoff wall proposal defies rational explanation.

On a more positive note, there is more clarity with respect to the Sec. 401 water quality certification from the Illinois Environmental Protection Agency. The agency has now issued the public notice of its tentative finding that water quality impacts of the project are negligible and more than offset by substantial public benefits. The public comment period has now been initiated and a public hearing is scheduled for January 3 in our office. Public comment will play a role in the final determination on the certification by the IEPA. We worked closely with the IEPA to provide them with all of the data and analysis necessary to support their tentative conclusion and to address questions and comments that are likely to arise during the comment period. IEPA has worked diligently to expedite the review of the project in recent months in recognition of its importance to the community.

The Council issued a Request for Proposal for Real Estate Services on November 8. The purpose of the services that we are seeking is to secure appraisals for the property interests (mainly easements for construction access) that we will require and to negotiate for acquisition of those interests. We received five proposals on December 7. As is our custom, a committee will meet on December 18 to review the proposals and develop a recommendation that will go to the Board at the December meeting.

The minority business/workforce utilization plan developed by Marks and Associates has now been edited and reviewed by stakeholders to assess whether the goals and methods of the Plan are realistic. I anticipate recommending the adoption of the Plan at the December Board meeting.

We continue to work with the Corps of Engineers to identify design elements that are common to our project to achieve FEMA standards and to the Corps' ongoing project to meet the authorized level of flood protection. While we have reached no formal conclusion yet, discussions have been sufficiently positive that I will recommend that we provide some limited cost-share funds to pay for the Corps to advance some design for promising levee segments. The goal would be for the Corps to undertake parts of our project and partially pay for construction using Federal funds, thereby producing a cost saving to our project. The challenges for the Corps are to meet our schedule requirements and to secure sufficient Federal appropriations to provide certainty of funding.