

APPROVED 8/7/2021

Quonochontaug Central Beach Fire District (QCBFD)
Finance & Budget Committee
Minutes of July 17, 2021, Meeting

1. **Call to Order**

A meeting of the QCBFD Finance and Budget Committee (F&BC) was held via ZOOM (as permitted by Executive Order 21-01 from the Rhode Island Governor's office) on July 17, 2021. The meeting was called to order at 8:34 A.M. by Chairman Albert J. Bartosic. In attendance were F&BC members Jim Blair, Jim Furnivall, Jeff Matthews and Tom McConnell, as well as QCBFD Treasurer Roberta Peet (ex-officio). Member Barry Okun was absent.

2. **Approval of Minutes**

Minutes from the May 15, 2021, meeting were approved with one correction in item 6 that Julia Matthews, not Roberta Peet, met with Dunns Corner Fire Department. Since the chairman will be out of town for the next BOG meeting, he asked Roberta and Jim Furnivall to sit in for him at the meeting if it's going to be in person.

3. **Review of the 2nd Quarter Financial Statements**

The improved financials prepared by Elise, including a balance sheet and P&L, were reviewed by the F&BC and approved without comment. The chairman complimented Elise for the excellent job she is doing on the books. He also noted that we are through half the year and have not spent half of our projected funding.

4. **Update on Tax Collection for 2021 (Roberta)**

The Fire District's tax assessors have gotten the assessment information from the Town of Charlestown and have done the tax calculations, but because the tax data from the town is being migrated to a new system, this is delaying the availability of the data for use in our tax program. Roberta stated that there is a chance that we may have to draw on the bank line if we can't get the information timely to send out tax bills to our residents. As things stand now, we are running a little behind on cash because of higher water system expenses. Normally tax bills are dated 8/13 and are due 9/13. If tax bills are delayed by the Town's problems we may not see cash before the end of September or early October. Fortunately, the large Fire Protection bill is not due till December.

5. **Update on Agreed Upon Procedures for 2020 tax billing and collection (Jeff, Tom & Roberta)**

The chairman reported that the agreed upon procedures review was carried out in accordance with the procedures previously approved by the F&BC. There were no issues. Jeff and Tom looked at about 16% of the transactions and everything got traced through as required. A report has been prepared and is available if anyone wants to see it.

6. **Update on Water Project timing and financing and possible action on same. (Jim Furnivall)**

Based on an updated draft of Jim's report on Financing options for the water system upgrade, it appears that the cost now is estimated at about \$1.4 million including costs for chlorination and 3 pilot projects for iron remediation. Jim Furnivall has had further discussions with RI Department of Health (RIDOH) and the Drinking Water State Revolving loan Fund (DWSRF). Jim learned that we will need firm numbers to proceed with a formal application, but we can put in a preliminary application now which will smooth the process of a formal application down the road. He indicated that the pilot and chlorination projects would have to meet the bid requirements of the rest of the project application (U.S. sourcing of raw materials, conformance with wages standards, Disadvantaged Business Enterprise bid requirements for subcontractors and EEOC compliance). Jeff mentioned that all companies who are active in this field are familiar with these requirements and are prepared to comply with them. Jim stated that, given the fact that the costs of the chlorination and pilot projects are relatively low (\$200,000 estimated), we could self-fund those and avoid unnecessarily complicating the

application for the main project. DWSRF will also refinance project costs so long as application requirements described above have been met. Jim received assurance from the DWSRF that the federal/state funding risk for a project of our relatively small size was quite low.

The following compares DWSRF and Washington Trust financing options:

	<u>DWSRF</u>	<u>Washington Trust</u>
Loan Term	20 Years	10 Years
Interest Terms	Fixed Rate	Fixed for 5 Years then floating for 5 years
Interest Rate	2.06%	Margin over LIBOR with a 3.75% Floor
Payment Schedule	Semi Annual Interest Annual Principal (Sept.)	10 Year amortization payable monthly
Estimated Ann. P&I	\$87,000	Not Determined

Jim's preliminary conclusion is that the DWSRF is the better alternative to finance the project.

The committee discussed issues concerning the timing for submission of a preliminary application to DWSRF and who (PW or F&BC) should be responsible for submitting the required application. Jim Furnivall felt it should be a joint responsibility but with F&BC taking the lead. Jim Blair voiced concern about this approach and was in favor of PW managing the application process since they were much more knowledgeable of the technical and timing issues, and in the best position to deal with the state on application particulars. The Chairman stated that he believed the DWSRF application was short, relatively straight forward and tilted most heavily to financial and governance matters and not technical implementation issues. Jim Furnivall suggested that F&BC should run the application process and that once the project was underway, the lead should shift to PW. In conclusion, it was decided to recommend to the BOG that the preliminary application process be started as soon as possible and that F&BC is happy to be part of the process, but that PW needs to be involved to assure that down the road we would be able to comply with DWSRF application requirements and standards.

The Chairman then discussed the financing of the chlorination project (\$40-60,000 to be spent in calendar 2021) and the pilot projects (\$60,000 – \$130,000) in connection with the \$1.3 million iron remediation project. He suggested that we recommend to the BOG that we should internally fund these two projects through a combination of a grant from Merchandise Sales (\$30-40K?) and/or borrowing under our \$500,000 bank line of credit, with the understanding that the required cleanup of any projected borrowing under the line of credit be baked into the 2022 or 2023 budgets.

Finally, the Chairman reported that Barry Okun had asked him to suggest to the F&BC that the entire cost of the water system project of approximately \$1.4 million be financed through a combination of DWSRF and Washington Trust financing, Merchandise Sales contributions and special assessments on top of the regular taxes from the Community. Jim Furnivall inquired about the distinction between a special assessment and just raising taxes. The Chairman stated that the difference could lie in the optics associated with raising the money or the desire to keep taxes low and fund the project more as a one-off expenditure. An added benefit might be that by keeping taxes low we delay the day when we would be deemed to be a Tier 3 community because tax revenues exceeded the \$500K threshold which triggers more onerous and expensive financial reporting requirements (\$15 - \$25K more than we are currently paying).

The Chairman also mentioned that there also exists the possibility that DWSRF might turn us down, in which case we would be left with the higher cost bank option.

The chairman suggested that in order to cover all known eventualities, that we get authority at the annual meeting to borrow up to \$1.4 million on the system.

7. Preliminary discussion of 2022 budget (the Chairman)

Moving on to the proposed 2022 budget, the Chairman started off the discussion reviewing a test budget with a 2.5% year over year revenue increase from \$384.7K in 2021 to \$392.2K in 2022. That included a small increase in Fire Protection operating expenses and more significant increases in Water System operations(\$8K). Interest expense was marginally increased by \$2.5K. Overall expenses were increased from \$328K in 2021 to \$339.4K (3.4%) and the resulting annual operating profit was reduced from \$56.5K to \$52.8K. Proposed reserve funding was reduced from \$30.6K in 2021 to \$15.75K in 2022 with Contingency, Water Systems and Long Range Planning Reserves being cut from \$12.4K to \$0.

Jim Furnivall was concerned that we not find ourselves scrambling for funds to manage the \$200K near term water system requirements when the bills come due in 2021-2022. The Chairman stated that we would be authorized to incur the expenses and we had capacity to pay the bills using our line of credit. The matter of the bank cleanup could be dealt with in the 2023 budget proposal. On the other hand, he suggested that the committee might prefer to have money in the bank when the cleanup was upon us next year. This could be achieved by increasing revenues in the current budget to assure that outcome. A possible downside was that a tax increase would bring us closer to the Tier 2 threshold as discussed above.

A discussion ensued about the level of reserve funding (\$15K vs. \$30K last year). The Chairman raised the fact that as of 6/30 the fire district had reserves of \$66K. He also speculated that operating results this year could well come in favorable to budget, to the tune of about \$15K. He stated that his preferred approach was to be conservative on any proposed tax increase, taking comfort in the fact that we had facilities in place to handle known contingencies. Jim Blair expressed the opinion that because of the number of operating and financial uncertainties facing the fire district, this was the time to budget more generously, understanding that in the future when uncertainties recede appropriate actions can be taken. Jim Furnivall suggested that because we know expenses will be going up in the next few years due to these large projects, it is better to get ahead of them now with several more modest increases vs. a very high increase in a couple of years. Jeff suggested a 7% increase, given the projected needs. The Chairman suggested that we report that the committee felt an increase of 7-10% was warranted and we wanted to recommend 10% at this time. The Chairman emphasized that we should make it clear to the BOG that these funds should be going into reserves and not treated as an excuse for managers to increase their proposed budgets. Jim Furnivall counselled that we tie the increase to water system funding. The Chairman suggested that the \$28K increase be placed in the line item "Water Reserves."

8. Adjournment

The meeting was adjourned at 10.00 A.M. The next meeting is scheduled for August 7, 2021.

Respectfully Submitted,

James Blair
Secretary