

APPROVED 12/12/20

Quonochontaug Central Beach Fire District
Finance & Budget Committee
Minutes of October 17, 20 Meeting

1. **Call to Order**

A meeting of the QCBFD Finance and Budget Committee was held via ZOOM (as permitted by Executive Order 20-25 from the Rhode Island Governor's office) on October 17, 2020. The meeting was called to order at 8:00 A.M. by Chairman Albert J. Bartosic. In attendance were members Jim Blair, Jim Furnivall, Jeff Matthews, Tom McConnell, Barry Okun and Roberta Peet (ex-officio as Treasurer).

2. **Approval of Minutes**

Minutes from the 8/22/20 meeting were approved.

3. **Review of Approved 2021 Budget.**

The Chairman summarized his presentation to the voters at the Quonochontaug Annual Meeting last month, noting some housekeeping resolutions which will 1) authorize the Fire District to draw on the \$500,000 line of credit at Washington Trust until September, 2026 and 2) will permit year-end budget surpluses to be allocated to Contingency reserves.

Aside from congratulations to the Chairman for his presentation at the Annual Meeting, there were no further comments or questions on the 2021 budget.

4. **Presentation of Research on Financial Alternatives for Water Project and possible actions.**

Committee member Jim Furnivall presented a report on the results of his further research on options for financing the currently projected \$900,000 cost of upgrading the Fire District's water system. A copy of his presentation to the Committee is attached to these minutes.

- A. **Private Financing** – While there were questions about the management of the timing and potential lengthy drawdown period of our project, there did not appear to be any insurmountable difficulties with this alternative and it remains a quick and relatively painless avenue to finance the project. Investors would need to meet certain SEC standards to be eligible to purchase the debt. Weekapaug's experience was that issuance of tax-exempt bonds was too cumbersome to be feasible. Jim confirmed that, subject to investor qualification, there were no additional regulatory hoops that we would have to go through to do a private financing within the community. The Committee remains open to this alternative.
- B. **Bank Financing at Washington Trust** – Fairly extensive discussions have been held with Washington Trust and a general terms sheet is laid out in the attached presentation. The example in the presentation shows particulars for a \$750K loan. It is assumed that the \$150K balance expected to be required to complete the project would be handled through the Line of Credit or reserves. Overall, the bank continues to be interested in our business, but it appears to be fairly settled on its standard loan provisions. They were happy for us to shop their deal with other banks.

- C. State of RI Drinking Water State Revolving Fund (RI DWSRF) – Contact has been made with Rhode Island Infrastructure Bank which funds the State DWSRF. QCBFD's water project is currently listed at \$350K on the Project Priority List but is being increased to \$900K. Availability of funds is not considered to be a problem. The interest rate on such a loan would be 25 basis points below the prevailing rate for a 20-year loan. If approved, up to \$100K of the loan could be forgiven. As long as financing is in place to complete the entire project, DWSRF is fine with providing only part of the financing. There are several bureaucratic hurdles which need to be addressed in order to obtain the financing. The committee discussed various elements in going down this path, including concerns raised by Barry and Jeff about costs of qualification and longer-term costs of reporting and compliance and oversight, all of which could offset the benefit of the loan forgiveness feature of this alternative. Jeff will continue to investigate options with DWSRF and report back.
- D. Barry raised a possible multi-year Water Project assessment to residents based on the number of water hook-ups in the fire district as opposed to assessed value. The cost per home (based on approximately 187 water hookups in the district) works out to around \$5,000 per home (using a \$950K overall project cost) which, if spread out over 5 years would come out to an annual assessment of \$1,000 per water connection. The charge would accrue to future property buyers in case a house is sold. Cost/benefit of going down this path including generational fairness would need to be examined. Also, the treatment of houses which do not use fire district water but rely on private wells may need to be dealt with, although since all houses have access to the water system a case could be made for assessing all houses, regardless of hookup status.
- E. The committee also is open to combinations of some or all of the above.
- F. It was decided to keep our options open at Washington Trust while other options are explored more fully and to report this to the BOG. Jim Furnivall and Jeff Matthews will continue to investigate both bank financing and DWSRF details.

5. Discussion of Tier III vs. Tier II Fire District Reporting Status for R.I.

At present QCBFD expenditures are approximately \$360K and therefore below the \$500K threshold which would push us from Tier III to Tier II. Tier III entities have the lowest level of required reporting to the state with no external validation. The estimated \$90K annual debt service cost for the \$750K financing of the proposed water system upgrade will push us to about \$450K. Adding in the cost of Sales of Merchandise sold by Special Events as a fire district expenditure, (see below) along with normal annual budget increases could bring us over the \$500K Tier II threshold in the next couple of years. The Tier II reporting requirements, while still relatively modest, do entail retention of a CPA to perform some annual oversight of our financial reporting. Al and Roberta are continuing to research and learn more and will report back to the committee.

6. Discussion on Current and Potential Merchandise Sales Structures:

Al began the discussion on this topic by sharing that the question of whether Merchandise Sales are subject to sales tax has been resolved in the negative because Merchandise Sales are under the auspices of the Fire District and, since the Fire District is tax exempt, there is no sales tax liability for Merchandise Sales. Al stated that he then sought guidance from the RI Attorney General as to whether the

expenditures being made for Merchandise Sales (Cost of Goods Sold are about \$80K) under the auspices of the Fire District should be counted toward our Tier status determination. The answer from the Auditor General office in Rhode Island came back in the affirmative. The expenses from Merchandise Sales have been incorporated into our state reporting since 2018, albeit as a separate item. Over the past several years, Al and Roberta have conducted an inventory count to provide an informal internal control and also have access to the Merchandise Sales bank account as an oversight mechanism. After discussing the complexities of the accounting, tax and control issues with respect to Merchandise Sales and the overall success of its operations (which has grown to over \$130,000 in revenue), the Committee agreed that Merchandise Sales activities seem to be an integral part of the District and that an examination of the structure and operation of Merchandise Sales should be conducted by the Board of Governors. Al agreed to report the view of the Committee to the Board of Governors at its upcoming meeting and suggest that an ad hoc committee be formed at the District level to investigate and better define the relationship of Merchandise Sales and the Fire District, with the goal that a generally accepted path going forward needs to be articulated and agreed upon.

7. Report from other South County Fire Districts, regarding:

- a. **RI Filing status for Fire Districts** – Al and Roberta have spoken with the moderators and/or treasurers of several Fire Districts in South County. All of them (Weekapaug, Bonnet Shores, Shady Harbor, Shelter Harbor, Indian Lake) are Tier III Districts with the exception of Misquamicut which is a Tier II District.

- b. **Treatment of Merchandise Sales**

Al stated that from their conversations, no other fire district in our area has a merchandise sales operation as large as we do (typically \$3K -5K annually vs. QCBFD's \$130K) so in their view, the treatment of these sales is typically included in their reporting and is not a material issue.

- c. **Use of bookkeepers and other professional help.**

During their discussions with the other local Fire Districts it was reported that three fire districts have paid bookkeepers (Weekapaug, Bonnet Shores and Misquamicut). In addition, Misquamicut uses an external CPA firm for its Tier II agreed upon procedures reporting.

8. Discussion of Bookkeeper/Treasurer/Assistant Treasurer to assist with tax collections

Al and Roberta contacted the bookkeeper used by Bonnet Shores and she said she would be happy to engage with us. Her rate is \$50 /hour. Al and Roberta are still reaching out to CPA firms in the area to see if any would be interested in taking on our work and at what cost. We hope to have a list of 3 or 4 candidates from which to choose. We have not yet decided whether to give the selectee check-writing authority or put other internal controls in place. Roberta felt that we should give the person check-writing authority. The committee is in favor of using an outside person to do the bookkeeping for the fire district rather than a member of the community. Al stated that we can design the controls for the bookkeeper in a way that makes the Committee comfortable. The Committee is hoping that Barry will use his expertise to help design sensible controls. In sum Al and Roberta are handling this and will report back as their final list of candidates emerges.

9. Adjournment

There being no further business to come before the Committee, the meeting was adjourned at 10 AM.

Respectfully submitted,

James Blair
Secretary
10/17/2020