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QUONSET DEVELOPMENT CORPORATION
MEETING OF THE AUDIT-FINANCE COMMITTEE

OCTOBER 14, 2016

PUBLIC SESSION MINUTES

A meeting of the Audit- Finance Committee of the Quonset Development Corporation (the "Corporation") was held at 9:00 a.m. on Friday, October 14, 2016 at the offices of the Corporation located at 95 Cripe Street, North Kingstown, Rhode Island, pursuant to notice to all members of the Audit-Finance Committee and a public notice of the meeting as required by the Bylaws of the Corporation and applicable Rhode Island Law.

The following directors constituting a quorum were present and participated throughout the meeting as indicated: Guy Asadorian, Jr., Scot A. Jones and John Justo. Also present were: Steven J. King, P.E., Managing Director and Kevin M. Barry, Finance Director.

1. CALL TO ORDER:

The meeting was called to order at 9:00 a.m. by Mr. Asadorian.

2. APPROVAL OF MINUTES:

Upon motion duly made by Mr. Justo and seconded by Mr. Jones, the Committee:

VOTED: To approve the public session minutes of September 19, 2016 as presented.

Voting in favor were: Mr. Asadorian, Mr. Jones and Mr. Justo.

Voting Against were: None.

Unanimously Approved.

3. REVIEW FOR RECOMMENDATION TO THE FULL BOARD OF DIRECTORS FOR ADOPTION OF THE FY2016 OPERATING BUDGET:

Mr. Barry, Finance Director, reviewed the FY2018 Budget (Exhibit A) with the Committee. Mr. Barry noted the Corporation takes a conservative approach to projecting revenues and never includes rental income from a lease that is not in existence but rental increase for existing leases are budgeted. That being noted, Mr. Barry stated there was a decrease in rental incomes for FY2018 budgeted, due to the anticipated termination of the lease with New Boston Quonset LLC for the vacant Lowes building. New rental income is a probability but not included.

Mr. Asadorian asked about other assumptions in the budget and Mr. King noted that most new projects have a free rental period of about a year during construction so new lease agreements this year may not be evidenced in the FY2018 budget.

Mr. Justo inquired about the FY2018 budget creation timing, stating it was early given the budget would not be in effect until July 2017. Mr. King answered that the Corporation must provide a budget to the State Budget Office no later than November 4th, so that the Governor can include it in her budget presentation to the General Assembly at least 6 months in advance. Mr. Barry added, the Corporation actually got a reprieve and was allowed to submit the budget later this year than prior years which allowed the Corporation to use actual FY2016 numbers where in the past FY2015 actuals would have been used.

The Committee continued reviewing revenue; Mr. Barry pointed out FY2016 was an exceptional year for the Port and although, FY2017 has not been as busy as FY2016 to date, it is expected the Port will have another record year. Water and Waste Water sales are dependent on water usage, but a 2.5% annual increases are built into the rates and reflected in the budget. The "Airport Fund Allocation" is based on the Corporation's management of airport property and income from airport property rentals is not included as rental income but is a separate income category. Mr. Barry pointed out the Airport

Fund also pays a specific portion of all the Corporation's expenses and a management fee from this income. The Corporation receives revenue from the "Town of NK Municipal Services Agreement" for the maintenance of the town roads and property in the park. The amount of property the town is responsible for can change as property rights are transferred under lease agreements so the dollar amount does vary. Finally, the committee reviewed "Other" income including plan review costs and minor interest on accounts.

The Committee discussed risks related to the rental incomes and Mr. Barry noted that over 45% of rents come from 2 major customers with strong businesses and long term leases. Mr. Barry confirmed there were no major weaknesses in the lease assumptions.

The Committee reviewed personnel expenses for FY2018 observing the Corporation will have 45 FTE's, an increase of 1 from FY2017. Salaries are budgeted at a 3% increase which acts as a place holder and is not a predetermined increase. The Corporation looks at both CPI changes and the Corporation's productivity before determining actual increases. The 3% increase includes an annual salary increase and a performance bonus per employee. Mr. Barry also pointed out that a third of overtime costs are related to unplanned snow removal overtime costs. Fringe benefits costs increased dramatically due to a recent change in mortality table rates and GASB rule changes. The Corporation projects an increase from $85,000 to $300,000 in the defined benefits due to these changes. The Committee discussed the

demographics of the employees in the defined benefits plan. Finally, Mr. Barry stated the Corporation budgeted a 7% increase in medical and dental.

The Board reviewed the operating expenses noting, in general, there is projected to be a 2.5% annual increase across expenses. Mr. Barry pointed out one new expense, "Airport Allocation" had previously been lumped under "Other Operating Expense" and because of the change in how the FY2018 funds are allocated, some of the numbers may not reflect the 2.5% annual increase.

The Committee discussed an increase in commissions from the FY2016 actual of $0.00 to the projected FY2018 of $93,270. Mr. Barry stated commissions are dependent on the number of new projects. Previously, commissions were allocated over the life of the lease associated with the commission but recent changes in the law no longer allow this occurrence and the commission must be taken in the year it is paid.

Mr. King noted the increase in the "Advertising/Marketing" expense stating the Corporation recently lost its Port Director and to compensate, the Corporation, along with Norad Inc, will be hiring a specialist in port marketing.

The Committee reviewed the remaining expenses noting that snow removal, utilities, gas and electric are all dependent on the usage and

weather. The Corporation does expect some relief from electric costs in the next year with the new roof top solar panels but the fixed rate will not be available until then. Also noted were the reduced consultant costs for FY2018 attributed to the high consultant expenses in FY2016 related to the Pier 1 evaluations. Mr. Barry stated the excess $4.3 million in revenue, after all operating expenses are paid, is mandated under state law to pay back any debt service including $700,000 dredging bond, $900,000 capital lease obligation related to Gateway buildings and building on Callahan Rd, $69,000 related to vehicles, and $345,00 interests debts. The balance of the revenue $2,621,000 will go toward Capital Projects.

Lastly, the Committee reviewed the FY2018 Capital Projects noting, however, that funding and expenditures related to the large capital project on Pier 2 were not included because the project is tied to a ballot initiative which will be decided during the general election held on November 8, 2016.

The Committee discussed the need for an emergency fund and the intricacies of keeping such a low cash balance. Mr. King explained the Corporation must have legislative approval to acquire debt service and is currently working to get such legislation passed.

Upon motion duly made by Mr. Jones and seconded by Mr. Justo, the Committee:

VOTED: To recommend for approval by the Full Board the FY2018 Operating Budget.

Voting in favor were: Mr. Asadorian, Mr. Jones and Mr. Justo.

Voting Against were: None.

Unanimously Approved.

There being no further business to come before the Committee, upon motion duly made by Mr. Jones and seconded by Mr. Justo, the meeting was adjourned at 9:56 a.m.

Respectfully submitted:

By:________________________________

Kevin M. Barry,

Finance Director