

**QUONSET DEVELOPMENT CORPORATION
AUDIT FINANCE COMMITTEE MEETING**

AUGUST 15, 2005

A meeting of the Audit Finance Committee of the Quonset Development Corporation (the "Corporation") was held at 3:55 p.m. on Monday, August 15, 2005, at the offices of the Corporation located at 30 Enterprise Drive, North Kingstown, Rhode Island, pursuant to notice to all members of the Audit Finance Committee as required by the Bylaws of the Corporation.

The following directors constituting a quorum were present and participated throughout the meeting as indicated: Robert Crowley, Barbara Jackson, and John Simpson. The following Quonset Development Corporation staff members were also in attendance: Mary C. Lake, CFO, and Kevin M. Barry, Controller. No members of the committee were absent.

1. CALL TO ORDER

The meeting was called to order at 3:55 p.m. by Robert Crowley as all members were present.

2. ELECTION OF CHAIRPERSON

It was recommended that Robert Crowley be the Chairperson of the Audit Finance Committee. Upon motion duly made by Barbara Jackson and seconded by John Simpson, the Audit Finance Committee:

VOTED: Vote for Chairperson of the Committee. Mr. Crowley was nominated and elected chairperson.

Voting in favor were: Mr. Crowley, Ms. Jackson and Mr. Simpson.

Voting against were: none.

Unanimously Approved.

3. 2007 CAPITAL BUDGET

A discussion ensued regarding the 2007 Capital Budget. The 2007 Capital Budget package presented to the Audit Finance Committee is hereby incorporated into these minutes as Attachment 1 (revised as requested below).

It was noted that the last time this budget was reviewed, the bottom line numbers were not changed but dollars were shifted around from area to area based on better estimates and information received by Steve King, Chief Operating Officer.

It was noted that there is an approximate \$18M shortfall between the total estimated projects to be completed and the bond funding received by the State referendum. Projected capital projects totaling approximately \$66M have been identified with only \$48M in bond funding.

Mr. Crowley questioned what "matching funds" meant. Mr. Barry indicated that matching funds meant the Corporation dollars. Mr. Crowley noted that one of the projects, construction of internal roads, indicates a 42% matching contribution by the Corporation. Mr. Barry noted that these matching contributions were intended to come from land sales and other capital funding. The reason why these matching funds are labeled as other is because the Corporation does not want to specifically identify where the funds are to come from to avoid committing the Corporation to that particular source.

Ms. Jackson then stated that as a member of the Strategic Planning Committee as well, there is now some discussion on whether or not land sales will be authorized going forward.

Ms. Jackson also noted that the logistics selection process would likely take away things that the Corporation has to pay for and could perhaps contribute to solving the financial shortfall. The bulkhead replacement was specifically identified as a potential cost savings area that could be part of a logistics contract, freeing up capital for other identified projects.

Mr. Barry explained how the 2007 Capital Budget format was organized with the first page being the description of the project and the next two pages in each section being a breakdown of the costs and the proposed funding sources for the project.

Mr. Simpson asked where the estimates came from for the 2007 Capital Budget. Mr. Barry indicated that the majority of the estimates had come from the Corporation's Chief Operating Officer, Steve King, and his staff. Mr. Barry noted that Mr. King would get estimates and updates on the project before the project started. Because the timeframe for some of these projects is several years out, the current estimates have not been verified since costs can change dramatically over the span of a year or more.

Mr. Crowley asked about third party inspections and whether or not we have them on the projects. Mr. Barry stated that Maguire Group does all of our inspections for the Corporation projects. Mr. Barry also noted that the decrease in demolition costs is based on how the past few demolition jobs have gone. Mr. King has been able to get a slightly better handle on those costs and is confident that the price will come in lower than originally estimated. Mr. Barry also indicated that everything is done by the RFP process.

Mr. Simpson concluded that there could be a swing factor of +/- 10%. Mr. Barry stated that if Mr. King has to do a work order and it is over a certain amount he needs to come back, but within a certain amount he is covered. Mr. Barry also noted that Mr. King is the one who will make the decision at the time if the project is more expensive than estimated. Mr.

Barry also noted that Mr. King knows he needs to figure out a way to get what needs to be done based on his budgeted dollars -- not only total project, but the budget for each year.

Mr. Crowley asked how often this Capital Project report was updated and Mr. Barry stated that the major update to the State is once per year but that Mr. King, Ms. Lake and he watch the expenses as they are incurred or contracted. Mr. Crowley requested an update of how these projects are progressing financially at least quarterly in some sort of summary format. Ms. Lake indicated that these projects are tracked and that a summary could easily be provided at any time. The Committee concern is that with an already apparent shortfall, increasing construction costs make these projects even more important to track and shift dollars in a timely manner.

A discussion ensued regarding how the Bond money is funded on a yearly basis. Ms. Jackson noted that in Rhode Island when money is borrowed, it is not borrowed line item by line item. For example, the Corporation bonded out \$X million dollars for Quonset. Ms. Jackson then asked, when the Corporation goes to bond counsel, do we borrow ahead of the project or at the end of the project? Ms. Jackson noted that in New York City, for example, the project would need to be completed before bond funding was requested. She further stated that NYC would do bond anticipation notes ahead of time, and would then go out at the end of the project and do the bond for the whole amount.....so you don't end up with this gaping hole and have to go back to the voters and ask for more appropriation or authority.

Mr. Barry discussed how the process works for the State. He stated that the Corporation told the State that QDC would need \$6M for the first year of these projects. The State then went and sold bonds for that amount. The State holds onto the money and as bills come in the Corporation pays them, and then goes to the State for reimbursement.

Mr. Crowley expressed his concern about what happens if we are dramatically short on our estimates of bond funding needed in a particular year. Mr. Barry indicated that we at the Corporation are responsible for ensuring that does not happen. He noted that he worked closely with Mr. King and asked for the following year's projects so the State would get a good idea of how much was needed in bond funding. If we told the State we need \$14M in bond financing for a particular year, Mr. King is aware that he cannot spend more than \$14M, within reason. If we are over \$1M or so, then we can just front the money for future reimbursement for another bond issuance year. Mr. Barry also indicated that we do not want to go far under the \$14M as that doesn't look good to the State either.

Mr. Barry indicated that the bottom line is that there is bond financing of \$48M, with a \$17M gap to close, and that's what the Corporation has to work on, to figure out how much will get done, with finance committee approval and board approval.

Ms. Jackson asked what happened with any costs savings from a project. Mr. Barry indicated that anything within the bond issuance can only be used for these projects. Money can be shifted from one project to another, year to year, but can only be used for these projects.

Mr. Crowley asked, for educational purposes, about the process that generates having an item on this capital project list. He wanted to know what created the projects on the list.

Mr. Barry indicated that this list goes back to 1996 when the Corporation put out for a \$22M bond issuance. At the time the Corporation wanted a \$75M bond issuance and all of these projects were then part of the Master Plan.

Mr. Crowley asked Ms. Lake if the Corporation needed to have a prioritization in case we really need to come up with \$14M or more in cuts. Ms. Lake stated that the Corporation is definitely going to look at that. That's something that Geoff Grout, Mr. King, Mr. Barry and Ms. Lake will be looking at, but what's on here now, at least for these phases, are what's considered a priority right now. Ms. Lake also indicated that a potential logistics facility is a big deal that could help reduce the shortfall dramatically. Ms. Lake indicated that Mr. King knows what the \$18M shortfall applies to, give or take, in terms of priority. That is where the Corporation has to fit in the most important project that can be funded with \$X amount of dollars.

Ms. Jackson wanted to make sure that the Corporation has the \$800K for 2007 indicated on the worksheets. Mr. Barry stated that, yes, the money is in a capital account that has come from land sales.

Mr. Crowley asked when the Committee would be talking about the 2007 Operating Budget. Ms. Lake indicated that we would be discussing that at next month's meeting. Ms. Lake indicated that we would be shooting for Audit Finance Committee approval on September 19th, Board approval on the same night and a final package sent to the State by September 30th.

Ms. Lake stated that right now we are going to need Committee approval on this 2007 Capital Budget to be presented to the Board for approval this evening.

Ms. Lake also discussed the 2006 Operating Budget info that was distributed to the Committee. Ms. Lake indicated that the numbers are already approved but this was an update for the Committee on what was approved a year or so ago.

Mr. Crowley noted that if we do not have anymore questions on the 2007 Capital Budget, was the Committee prepared to approve the package to the Board. Mr. Crowley indicated that going forward when a motion to approve an item is needed, that Ms. Lake and Mr. Barry would come to the meeting with the proposed wording of the motion.

Ms. Jackson indicated that she was concerned with approving the 2007 Capital budget with the \$18M hole. It was noted by Ms. Simpson that it is common knowledge that there is a big gap.

Ms. Lake clarified that what the Corporation was asking for was Committee approval to present to the Board for their approval to submit the package as is to the State.

Ms. Jackson noted that she would like to see all references to "land sales" removed from the 2007 Capital Budget document before it was sent to the State as a final version as previously discussed. Ms. Lake indicated that the Corporation would take the words "land sales" out of that package completely.

Mr. Crowley noted that the motion would be that the Finance Committee is recommending to the full Board the approval of the 2007 Capital Budget for approval and presentation to the State.

VOTED: Upon motion duly made by Mr. Simpson and seconded by Ms. Jackson, it was voted that the 2007 Capital Budget be presented to the Board and recommended for sending to the State after the words "land sales" are removed from the document. Mr. Crowley concurred and the motion was unanimously passed.

Voting in favor were Mr. Crowley, Ms. Jackson and Mr. Simpson.

Voting against were: none.

Unanimously Approved.

4. OTHER BUSINESS:

The Committee then briefly discussed the operating budget submittal process and timeline. The Committee also discussed the 2005 audit, which is scheduled to begin the week of August 15. A brief discussion followed regarding the auditor, LGC&D and the RFP process that would need to take place as LGC&D is in their final year of a three year contract. Ms. Lake indicated that the auditors would present an audit package for management discussion only before the audit was finalized. This is expected to happen for the November Audit Finance Committee meeting. Mr. Crowley indicated that we needed to start the RFP process sooner rather than later because it takes some time to go through the entire process.

There being no further business to come before the Committee, upon motion duly made by Mr. Crowley and seconded by Mr. Simpson, the Committee voted to adjourn the meeting at 4:28 p.m.

Respectively submitted:

By: Mary C. Lake, CFO
Mary C. Lake, CFO 9/20/05