# QUINCY WATER ASSOCIATION
## SPECIAL BOARD MEETING MINUTES
May 5, 2010

A special meeting of the board was called to order at 7:00 PM by board president Mike Roberts. Board members Kim Bunnell, Mike Seely and Jim Malisch were present, but Bernie Reinbold was absent. Notice of this meeting was published in the local newspaper and on the new Quincy Water Association website well in advance of the meeting.

This special board meeting was called for the purpose of explaining the details of the loan offer from the State Revolving Loan Fund (SRLF) to the shareholders. It also provided an opportunity for the shareholders to ask questions about the loan and the project.

It was explained that the board had previously voted to sign the loan documents in order to secure it as a "line of credit loan" but will not execute the loan without an additional vote.

The meeting was an informal discussion. The summary is not chronological, but the following format has been determined to be the best way to capture the minutes of the meeting.

### **The Facts**

The Project estimate is $850,000, the SRLF loan amount is $807,500, and the association is required to set aside $42,500. If Quincy Water Association signs the SRLF loan documents, we must put $30,000 into a project fund and maintain it at least at $30,000. Quincy Water will hold $42,500 in reserve in case the project cost does exceed $807,500.

Mike Seely is in contact with several other engineering firms and suppliers to explore other options and refine our estimated project cost. We are waiting for a reply from one supplier in particular.

The Secretary/Treasurer is exploring other financial institutions for other loan options.

The difficulty of refining the project cost estimate is because it is dependent on the success of the well, and the volume and quality of the water to be treated, and the condition of the storage tank.

The SRLF loan requirements are to complete the entire project scope listed in exhibit A of the loan documents. The scope includes drilling a new well, refurbishing the old well, installing a new filtration plant, refurbishing and upgrading the storage tank and upgrading the site security.

There are other loan requirements such as paying prevailing wage and utilizing minority contractors. Additional administrative expenses such as GAP Bookkeeping, and government required audits are not in the estimate of expenses.
The board has been granted a one-month extension on completing the loan paperwork.

The SRLF loan of $807,500 will add $55,701 to our annual expenses and more than double the current water rates.

The SRLF loan at $400,000 will add $27,000 to our annual expenses.

The association expenses for 2010 are projected to be $53,500.

The association income for 2010 is projected to be $84,000.

The board meeting was an information meeting, no motion is required to sign the loan papers; it is a board decision. The board already voted to sign loan, but agreed not to spend any loan money without another vote.

There will be another board meeting on June 8th, before the loan papers are signed.
The board has until June 21st to return the signed loan and contract documents.

**<u>Questions and Answers:</u>**

Q: How much of our own money do we need to tie up for the loan application?

A: We are required to maintain $30,000 in a project account, and hold $42,500 in a reserve account in the event the project exceeds $807,500. There is concern about contract language that prevents ability to commit to another loan once contract is signed.

Q: How and what does our engineer get paid?

A: The engineer is paid for his services but is not paid a fixed percentage of the total project cost. The current engineer that provided the project estimate of $850,000 has estimated his engineering services and project management to cost $100,000.

Q: What other sources of loans the board has explored? How about a private loan keeping the state government out of our business?

A: The Treasurer of the board has inquired at all of the lenders in town. Several options for a shared/secured loan were found, where we borrow against our own savings. The interest rate is low, but we can only borrow the amount we have in savings, which would only be $55,000. Those savings are tied up as long as the loan is in effect. John Moore of Sterling Savings Bank was present and explained that another option to borrow against our income stream might be available. The loan would depend on our income, the term and the amount borrowed, but the interest rate would be in the 7-9% range.

Q: How much of the scope list would we have to do if we did not use state money?

A: Items such as the security upgrades, seismic upgrade of the tank and refurbishing the existing well may be cut or deferred. Concern was expressed that if we did not plan to complete the majority of it right away that it may never get done.

Q: Is the location for the new well restricted?

A: The water rights transfer has restrictions regarding the exact location of the new well, requiring that we must drill within ten feet of a specific location. Other than that, we can drill any new well wherever we want on our property.

Q: There was a report that our aquifer had lost about 30 feet, is this true?

A: A board member remembered reading a report that said the level had dropped from 170 feet to 90 feet.

Q: Mike Roberts asked shareholders for their opinion on the SRLF loan and if anyone was truly opposed to the loan.

A: Several shareholders were opposed to the state loan and wanted to pursue private funding.

Q: Does our status as an association change if we borrow from the state?

A: The association does not change and we are not rate regulated, but the state has many legal requirements such as the accounting methods and audit functions required.

Q: How much will it cost to refurbish the existing well?

A: James Lee estimated it at $20,000 to $30,000.

**<u>Opinions</u>**

Mike Roberts expressed the opinion was that engineer's project estimate was high, and practically double what the final cost would be. The engineer allowed for the maximum amount in order to cover any unexpected problems and said the engineer told him that the final cost would likely be half of the estimated cost.

Les Pugh expressed concern about a pay-as-you-go method, stating that this issue has been dragging on for the past 15 years and felt that executing this loan to get it all done now was the best thing to do. The incremental cost of the loan payments would be worth the price for having water and the impact upon everyone's property value of not having water. He also mentioned the impact on fire insurance rates without water. Les felt that the loan was only a line of credit, and we should go for it.

A shareholder felt that it could be risky to use our own money and hope that no problems occurred. We would have no other money to fall back on

There was concern from a shareholder about borrowing money when we do not know the final project cost.

Mike Roberts said that the board is trying to refine the estimate with several engineering firms and suppliers, and further, the SRLF loan does not start until the project is completed and the final amount is known. He said it is only a line of credit.

John Moore pointed out that if we were able to complete the project for less money using private funds without the state loan requirements driving up the cost, the difference in the interest rate would be certainly be less of an issue.

Mike Roberts said that our attorney felt that as all state contracts go, this contract was a one-sided contract in their favor.

A shareholder felt that the board should institute a loan assessment fee of $10 per share, adding an extra $18,000 of income, and building reserves.

Mike Seely said we could not get a treatment plant for $18,000 but an additional $18,000 in our income stream over fifteen years might allow us to borrow $100,000. Further, we have some margin in our present income stream and an additional assessment could help us qualify for a $150,000 to $250,000 loan.

A shareholder expressed doubt about the new well lasting even ten years, but it was pointed out the current well has lasted for over thirty years. Mike Seely said that he felt relatively sure we that will get water at proposed new well site.

John Moore said that although a shared/secured loan could be attractive at a rate of 1.5 – 2 %, the caution is that, if well is dry then our reserve is gone. We could borrow private money at 7 to 8 % against our income stream and still have our reserve. A private loan would enable us to control the scope and the contractors for the project. If the board was asking to sign state loan for 500,000 it would be a different thing than asking to sign up for 807,500 where the worst case scenario is that we will double our water bills.

Debbie Greeley asked to hear the opinions of the other board members regarding the SRLF loan.

Jim Malisch said he would feel a lot better about the SRLF loan if we absolutely knew the project would cost in the $400,000-$500,000 range rather than saying it will end up where it ends up. He is concerned that the project using SRLF funds will cost us two dollars for every one dollar of value received. He also is concerned that with a credit line of $800,000, we will not be able to control the final cost of the project. The association cannot afford an $800,000 loan, as water rates would double.

Kim Bunnell said she is cautious about borrowing any money and is concerned about some of the stuff that is in the contract that we would sign. She is still not convinced that we need to do everything listed in the scope.

Mike Seely stated that he did not like the contract. He agreed that we needed to get stuff done. Mike said that if we could get a private loan with Sterling for $200,000 and maybe if we can hold off on a couple of the items on the list, it might be more prudent. He said what concerns him is we are stuck with having the engineer requesting bids, accepting the lowest bidder, even if he is not qualified unless we can prove it.

Mike expressed the feeling that if we were to go with private funding we would have more choice as to the selection of the well driller or supplier of the chemical treatment plant, rather than have to go with low bidder.

Mike Seely is concerned about drilling a new well in the same aquifer and its ability to sustain us for another thirty years. Is it really prudent to worry about refurbishing the existing well when is does supply us with enough water? Are we better off to get the new well with the water treatment system installed? And refurbish the tank, and some additional fencing in and not worry about the other items.

Mike Seely said that there is potential for spending a whole lot of money with the SRLF loan. We need to start looking for an additional location for a new well. He also felt that there is danger of not striking water at the proposed drilling site and without this SRLF money, we could really be short of money.

Mike is concerned about the government dictating everything along with the engineer that is involved. The GAP accounting method and audits could be very expensive. There are many things adding cost to this project.

David Willey said that the pilot well was required by the water resources board, but Mike Seely explained that his contacts with them indicate that this was not required by them.

Debbie Greeley felt that we would have to not only complete all the scope, but would have to pay top dollar for everything if the state is involved.

Mike Roberts said that the Davis-Bacon act did not mean that we would have to pay high prices because the lowest bidder would be selected.

Mike Seely said the lowest bidder may not be a good choice and it would be our responsibility to challenge the low bidder qualifications. He felt that we would have no say over what driller or contractor we ended up with. He felt that we can choose our own driller and contractors and limit the scope with private finance.

Jim Malisch said that because of restrictions in the contract with the state, we would have to cancel the contract with the state in order to be able to proceed with other loan options.

Cheryll Malisch said that we need to be cautious about how large of loan we can afford, and that we need to tighten up our collections. We cannot afford an $800,000 loan and even $400,000 is risky.

**<u>Other business</u>**

John Moore presented a dirty water filter and complained about dirty water. He said that he is considering drilling his own well. Mike Roberts committed to requesting Calvin of Water SOS to investigate the problem.

Several shareholders requested that the meter reader be required to contact a shareholder if they discover the water meter to be spinning when they take the reading.

The meeting was adjourned at 8:30 PM.

Respectfully submitted, May 30, 2010

Jim Malisch, Secretary/Treasurer of the board.