



**SMITHFIELD TOWN COUNCIL  
SMITHFIELD FINANCIAL  
REVIEW COMMISSION  
JOINT MEETING  
SMITHFIELD TOWN HALL  
64 FARNUM PIKE  
MONDAY, MARCH 28, 2016  
6:00 P.M.**

**AGENDA**

- A. Meeting called to order
- B. Prayer
- C. Salute to the flag
- D. Emergency evacuation and health notification.
- E. New Business:
  - 1. Financial Review Commission Project Status Report.
  - 2. Review of Town of Smithfield Financial Results as of 12/31/15.
  - 3. Review of Smithfield School Building Capital Reserve Revolving Fund.
- F. Adjournment.

**AGENDA POSTED: MARCH 22, 2016**

**The public is welcome to any meeting of the Town Council or its sub-committees. If communication assistance (readers/interpreters/captions) or any other accommodation to ensure equal participation is needed, please contact the Smithfield Town Manager's office at 401-233-1010 at least forty-eight (48) hours prior to the meeting.**

Project Description	Date Requested	Assigned FRC Member(s)	Status	Current Status	Date Completed/ Presentation
School Facilities Renovation Analysis	1-Jul-14	Sousa	Completed	<ul style="list-style-type: none"> <li>Presented report memo to Town Council.</li> </ul>	3-Dec-14 16-Dec-15
Fire Department Facilities Analysis	1-Jul-14	Passaretti, Sousa	On Hold	<ul style="list-style-type: none"> <li>Per TC Meeting on 4/1; project is on hold pending external consulting study results.</li> <li>Awaiting further direction from TC.</li> </ul>	
Tax Freeze Ordinance Analysis	1-Jul-14	Warren, Kula	Completed	<ul style="list-style-type: none"> <li>Completed final report.</li> <li>Approved final report.</li> <li>Distribution to Town Council.</li> <li>Discuss @ FRC/Council Workshop</li> </ul>	4-Feb-15 17-Feb-15 <sup>1</sup>
Outside Facilities Consolidation Project	3-Sep-14	Van Luling, Iannotti, Kula	Completed	<ul style="list-style-type: none"> <li>Presentation and submission of report was completed with the Town Council on 11/4.</li> </ul>	14-Oct-15 4-Nov-15
Smithfield Traffic Tribunal Financial Analysis	23-Apr-15	Passaretti	Completed	<ul style="list-style-type: none"> <li>Presentation and submission of report was completed with the Town Council on 11/4.</li> </ul>	14-Oct-15 4-Nov-15
Tax Freeze Ordinance Analysis for Debt	2-Sep-15		Completed	<ul style="list-style-type: none"> <li>Discussion of legal opinion with Town Council on 11/4</li> <li>Ruling from Town Solicitor determined that no further work from the FRC is warranted.</li> </ul>	4-Nov-15 <sup>2</sup>
School Department Revolving Fund Analysis	2-Sep-15	Iannotti	In Process	<ul style="list-style-type: none"> <li>Report completed and approved by the FRC.</li> <li>Awaiting presentation at Council workshop meeting on 3/28.</li> </ul>	3-Feb-16 28-Mar-16

<sup>1</sup> No presentation delivered to Town Council; sent memorandum for later discussion.

<sup>2</sup> No report or presentation delivered to Town Council; discussion at 11/4 meeting.

<b>Project Description</b>	<b>Date Requested</b>	<b>Assigned FRC Member(s)</b>	<b>Status</b>	<b>Current Status</b>	<b>Date Completed/ Presentation</b>
Semi-Annual Financial Review	Ordinance	Van Luling	In Process	<ul style="list-style-type: none"> <li>• Report completed and approved by the FRC.</li> <li>• Awaiting presentation at Council workshop meeting on 3/28.</li> </ul>	2-Mar-16 28-Mar-16
Town Financial Audit Review	Ordinance	Passaretti	In Process	<ul style="list-style-type: none"> <li>• Awaiting draft for review and discussion</li> </ul>	

**To:** The Honorable Members of the Town of Smithfield Town Council  
**From:** Smithfield Financial Review Commission  
**Subject:** Review of Town of Smithfield Financial Results as of 12/31/15  
**Date:** March 2, 2016

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## **BACKGROUND**

The Smithfield Financial Review Commission (FRC) is charged with the responsibility of reviewing the Town of Smithfield financial results at six-month intervals and to report to the Smithfield Town Council its findings. This report includes the six-month period ended December 31, 2015.

The Town of Smithfield Revenue and Expense Budget provides the guidance for the review, but as the Budget is not broken down on a monthly basis, the review by the FRC is limited to comparing actual financial results for the period under review to that of the previous fiscal years actual results for the same period. Therefore, this review includes the periods ended as of December 31, 2015 and December 31, 2014 (Exhibit A). Also, the formal Balance Sheet and Cash Flow Statements for the Town are only available at year-end, however, a copy of the Balance Sheet trial balance accounts was received and reviewed.

## **ACCOUNTING**

The Town and School Department use a modified accrual basis of accounting. This means that some accounts are recorded in the financial statements on an accrual basis and some on a cash basis. An example of this is that School staff may elect to be paid their 26 week bi-weekly pay period salaries evenly over the school year (1/26th each pay period) and in June, before the fiscal year is closed, a payment of the remaining 4 weeks due them is made. Thus, the June expenses will be much higher than the previous 11 months. No accrual is made over the previous 11 months to recognize the four-week cash payment due in June.

Capital Expenditure obligations also fall into this non-accrual category as approved projects may have payments that go on for 3 years after the initial year. Therefore, capital obligations for fiscal 2015 that are not completed may be continued and increase future payments and expenditures for fiscals 2016, 2017 and 2018. If capital projects are the same amount each year and payments made are the same each year, then the impact to the Town's expenditures will be the same. However, any significantly higher capital authorizations in any one year will impact future years, and will need to be reflected in the budgeting process.

## **REVENUE**

General Fund Revenues for the 6 months ended December 31, 2015 were \$37.2 million as compared to the same prior year period ending December 31, 2014 of \$37.7 million. The \$500K difference is primarily attributed by the Town's financial management to the timing of tax collections, with collections for the current year ahead by \$1.0 million, school state aid ahead by \$100K while collections on delinquent accounts were lower by \$1.6 million.

**The Honorable Members of the Town of Smithfield Town Council**  
**Review of Town of Smithfield Financial Results as of 12/31/15**  
**March 2, 2016**

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**EXPENDITURES**

General Fund expenditures included in Exhibit A are broken down into two categories: (1) Town directly controlled which includes the accounts that Town management has complete line by line control of, and (2) Town Indirectly Controlled which includes the School Department, Libraries and the East Smithfield Neighborhood Center with each managed by their own Boards/Committees. Each of the three units operate independently from the Town and cannot exceed their annual approved budgeted appropriations. Cash flow requirements for the three entities are managed by a cash drawdown from the Town on an as requested basis.

Referring to Exhibit A, the Town direct control expenditures totaled \$16.3 million as of December 31, 2015 and \$15.4 million as December 31, 2014, a \$900K increase, or 5.8%. There are many line items that are up and down, but the most significant are as follows:

- Municipal obligations are up by \$200K or 3.8% primarily for computer services, retirement contributions and reserves for specific potential obligations.
- The Fire Department is up \$100K or 4.1% due to salary increases, overtime and sick leave payments.
- Public Works is up \$600K or 43.9% as \$500K was spent on resurfacing roads and \$100K for hydrant and street lighting maintenance.
- Board of Canvassers saved \$40K or 97.3% as there were no elections in the fall of 2015.
- Capital spending between the current year and prior years was up \$60K or 11.1%. The Town does not accrue for capital projects authorized in prior years with cash outlays in subsequent years. These prior year capital spending programs can be spread over the following 3 years. Current year authorized projects may be reflected in future fiscal years as well.
- The School Department submits cash drawdowns to the Town to finance their operations and through the six months ended December 31, 2015 were up by \$900K, or 6%. This increase is due to the timing of payments for their obligations and although higher than the allowed 4%, the approved Budget is expected to be met by June 30, 2016.

**BALANCE SHEET**

Exhibit B is a summary copy of the General Fund Balance Sheet. Fiscal year-end audits include the Balance Sheet activity of the School Department, Fire Rescue and several other governmental funds. Future reviews will attempt to include these Funds as well. Comparing the General Fund Balance Sheet accounts as of December 31, 2015 to that of December 31, 2014, we note a decrease of \$1.9 million in cash balances. This is primarily due to net increased funding of operations for the six months ended December 31, 2015 over that of December 31, 2014 by \$2.3 million. Combined increased tax receivables and inter-department funding (primarily the School Department Improvement Bond) of \$5.7 million is offset by increased Deferred Revenues of \$5.6 million.

It is noted that the sizable increased dollars of tax receivables and deferred revenues at December 31, 2015 are a function of timing of collections on taxes, and by year-end should net to much smaller differences by fiscal year-end. Restricted and unrestricted fund balances totaling \$15.7 million remain essentially unchanged from June 30, 2015.

**The Honorable Members of the Town of Smithfield Town Council**  
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**CONCLUSION**

The FRC has reviewed the financial results of the Town of Smithfield for the six month period ended December 31, 2015 as compared to December 31, 2014. Town financial management is responsible for the preparation and fair presentation of the financial statements included in Exhibit A and B.

Our review was limited to variance analysis and discussions with the Town's financial management team. We have not audited the results and make no representations as to internal control deficiencies that might exist. We rely on the annual independent audit to point out any control deficiencies, which as of the last audit, there were none.

The FRC concludes that the financial report as presented in Exhibits A and B present fairly the financial results of the Town of Smithfield for the 6 months ended December 31, 2015. We point out that the three indirectly controlled units, the School Department, Libraries and East Smithfield Neighborhood Center may have line items that may have significant variances, however Town financial management is not directly responsible for their variance analysis, instead relying on the fact that they must operate within their annual approved budgeted appropriations. As of December 31, 2015, their cash draws do not appear unreasonable as compared to that of the same prior year period.

This report is intended solely for the information and use of Smithfield Town Council and is not intended to be and should not be used by anyone other than the Town Council Members.

Respectively,

Smithfield Financial Review Commission

Kenneth J. Sousa, PhD, Chairperson  
Joseph Passaretti, CPA, Vice Chairperson  
Mirek Kula, Secretary  
Michael P. Iannotti  
John Van Luling



**Smithfield Financial Review Commission**

**Review of Town of Smithfield Financial Results  
as of 12/31/15**

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**EXHIBIT A – GENERAL FUND REVENUE AND EXPENDITURES**

*Summary by Department – Six Months ending December 31, 2015 and December 31, 2014*

	<b>Department</b>	<b>12/31/2015 Actual</b>	<b>12/31/2014 Actual</b>	<b>Six Months Change</b>	<b>% Change</b>
001, 002	Legislative and Policy	277,909	241,681	36,228	15.0%
004	Town Manager	154,092	159,972	(5,880)	-3.7%
006	Town Clerk	113,461	110,660	2,801	2.5%
007	Planning and Economic Development	61,046	64,100	(3,053)	-4.8%
008	Treasurer-Tax Collector	213,067	225,348	(12,281)	-5.4%
009	Tax Assessor	88,413	92,989	(4,576)	-4.9%
010	Building Official	120,764	125,224	(4,461)	-3.6%
011	Town Engineer	95,670	108,204	(12,534)	-11.6%
016	Welfare Dept./Gen. Public Assistance	3,981	1,739	2,242	129.0%
020	Town Hall	79,778	75,514	4,264	5.6%
021	Other Municipal Obligations	5,906,565	5,690,578	215,987	3.8%
031	Fire Department	2,665,779	2,559,829	105,949	4.1%
032	Police Department	2,419,964	2,458,919	(38,955)	-1.6%
033	Animal Control	44,725	60,839	(16,115)	-26.5%
034	Emergency Management Agency	6,216	3,694	2,522	68.3%
041-044	Public Works	2,087,234	1,450,373	636,861	43.9%
048	Parks and Recreation	237,358	232,645	4,713	2.0%
049	Land Trust Commission	1,130	1,638	(508)	-31.0%
051	Planning Board	1,200	1,229	(29)	-2.4%
052	Zoning Board	3,220	4,867	(1,647)	-33.8%
053	Board of Canvassers	1,118	40,688	(39,570)	-97.3%
054	Conservation Commission	7,700	8,253	(554)	-6.7%
055	Economic Development Commission	875	625	250	40.0%

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	<b>Department</b>	<b>12/31/2015 Actual</b>	<b>12/31/2014 Actual</b>	<b>Six Months Change</b>	<b>% Change</b>
057	Soil Erosion Committee	-	125	(125)	-100.0%
059	Board of Affordable Housing	500	-	500	
060	Board of Assessment Review	-	-	-	
074	Senior Center Department	135,622	137,495	(1,873)	-1.4%
081	Town-Aided Programs	32,577	39,006	(6,429)	-16.5%
090	Municipal Debt Service	945,549	978,365	(32,816)	-3.4%
091	RUBs	994	3,371	(2,378)	-70.5%
092	Prior Years Capital	180,352	39,490	140,862	356.7%
	Current Year Capital	449,271	527,442	(78,171)	-14.8%
	Town Direct Control	16,336,126	15,444,902	891,224	5.8%
070	School Department*	15,259,514	14,393,632	865,882	6.0%
071, 072	Libraries*	641,540	627,132	14,407	2.3%
073	East Smithfield Neighborhood Center*	19,979	19,979	-	0.0%
	Town Indirect Control *	15,921,032	15,040,744	880,289	5.9%
	<b>Total General Fund Expenditures</b>	<b>32,257,158</b>	<b>30,485,645</b>	<b>1,771,513</b>	<b>5.8%</b>
	<b>Total General Fund Revenues</b>	<b>37,166,773</b>	<b>37,716,603</b>	<b>(549,830)</b>	<b>-1.5%</b>
	<b>Net Income</b>	<b>4,909,615</b>	<b>7,230,958</b>	<b>(2,321,343)</b>	<b>-32.1%</b>

**Notes**

- \* School Department, Libraries and East Smithfield Neighborhood Center have own Boards/Committee and cannot exceed their appropriations.
- Data Prepared by Randy Rossi with reformatted report by FRC.

Smithfield Financial Review Commission  
 Review of Town of Smithfield Financial Results as of 12/31/15  
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**EXHIBIT B – GENERAL FUND BALANCE SHEET**

<b>Account Description</b>	<b>12/31/2015 Balance</b>	<b>12/31/2014 Balance</b>	<b>Increase/ (Decrease)</b>
Cash	17,364,588	19,310,432	(1,945,844)
Taxes Receivable	36,165,718	32,330,465	3,835,252
Inter-Department Funding	2,794,392	972,138	1,822,254
Other Assets	1,619	(5,510)	7,129
<b>TOTAL – ASSETS</b>	<b>56,326,318</b>	<b>52,607,526</b>	<b>3,718,791</b>
Accounts Payable	160,327	148,093	12,234
Accrued Liabilities/Inter-Department	437,275	71,203	366,072
Deferred Revenues/Cash Flow	35,082,731	29,493,304	5,589,427
<b>TOTAL -- LIABILITIES</b>	<b>35,680,333</b>	<b>29,712,600</b>	<b>5,967,733</b>
Non-spendable	1,237,689	1,231,692	5,998
Committed	7,942,884	8,012,129	(69,245)
Assigned	3,180,000	3,165,000	15,000
Unassigned	3,375,797	3,255,148	120,649
Net Income/Expense YTD	4,909,615	7,230,958	(2,321,343)
<b>FUND BALANCES</b>	<b>20,645,985</b>	<b>22,894,926</b>	<b>(2,248,942)</b>
<b>TOTAL – LIABILITIES AND FUND BALANCES</b>	<b>56,326,318</b>	<b>52,607,526</b>	<b>3,718,791</b>

Data provided by Randy Rossi with Summary Accounts by FRC.

**To:** The Honorable Members of the Town of Smithfield Town Council  
**From:** Smithfield Financial Review Commission  
**Subject:** Smithfield School Building Capital Reserve Revolving Fund  
**Date:** February 3, 2016

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## **BACKGROUND**

The Town Council has requested that the Financial Review Commission (FRC) provide advice on the feasibility and utility of the establishment of a school building capital reserve fund, as recommended by the Rhode Island Department of Education (RIDE), to finance repairs, asset protection, and improvements to school buildings in the Town of Smithfield.

## **ANALYSIS**

Currently, Smithfield issues municipal bonds for major repairs and upgrades to its school buildings as illustrated by the \$5.9 million bond approved by voters in 2014 for roof replacements, HVAC upgrades, and other repairs and improvements to several school buildings. The Town is currently reimbursed for 35% of the expenditures by RIDE's school housing assistance program.

RIDE recommends the establishment of a capital reserve fund to finance capital improvements such as building repairs. (See RIDE's Public Schoolhouse Assessment, Exhibit A). Such a fund is created and maintained through an annual budget allocation (and a possible one-time startup allocation) from the non-School Department portion of the budget and the reinvestment of the aforementioned RIDE school housing assistance program funds. The reinvestment of the housing assistance results in a revolving fund. The establishment of such a fund has the following advantages over bonding:

1. Capital reserve-funded projects are approved by RIDE more quickly than bonds, which require the passage of an enabling act by the Rhode Island General Assembly.
2. The time for RIDE reimbursement of capital reserve-funded projects depends upon the cost but is never more than ten years. Capital reserve-funded projects that are less than \$200,000 receive RIDE reimbursement in one year. Bond-funded projects are reimbursed over the life of the bond, which, in most cases, is a twenty-year period.
3. Bonds require the payment of interest and fees. With capital reserve-funded projects, one hundred percent of the funds are used for actual repairs.
4. According to the Smithfield School Department's Capital Improvements Program for Fiscal Years 2017-2022, capital expenditures will total \$54,938,575 with \$47,808,820 financed from general obligation bonds and the remaining \$7,129,755 obtained from the general fund. By reducing the need for bonding, the existence of a capital reserve fund will have a positive impact on Smithfield's bond rating.

Of course, the benefits of a capital reserve revolving fund increase with a higher reimbursement rate. Providence and Bristol-Warren school districts have successfully implemented school

**The Honorable Members of the Town of Smithfield Town Council  
Smithfield School Building Capital Reserve Revolving Fund  
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building capital reserve revolving funds. Even though these districts have substantially higher reimbursement rates, Smithfield should also realize a substantial benefit as is illustrated by the models below.

To insure the viability of a school capital reserve fund, the FRC recommends that funds be used exclusively for capital improvements (i.e. building repairs) with a 10 to 20-year useful life and a \$25,000 minimum expenditure.

**MODELS**

To illustrate the benefits of the implementation of a school building capital reserve revolving fund, the FRC did a comparison of the costs of financing the current \$5.9 million school repair project with a capital reserve fund verses bonding.

As is indicated in Exhibit B, the actual cost of the \$5.9 million bond over a twenty-year period with an interest rate of 3.22% plus fees is \$8,456,856. This causes the annual debt service on the bond to be between \$312,000 and \$514,000 per year. Subtracting the 35% annual school housing reimbursement results in a net cost of between \$203,000 and \$334,000 per year.

Instead of bonding, for the Town to save the \$5.9 million in a capital reserve fund, assuming a 1.5% interest rate, an annual \$280,000 deposit from 1997 to 2016 would have been required (See Exhibit C). Assuming that the \$5.9 million was paid for school building improvements in the twenty-first year, and RIDE reimbursement was received thereafter, a balance of \$2,068,523 would remain in the account for use on future projects.

Exhibit D illustrates the net cost to the Town of obtaining the \$5.9 million by saving the money in a capital reserve fund as opposed to borrowing the money through bonding. By factoring in the state aid payments and interest, the net cost of utilizing the capital reserve fund is \$3,231,477 while the cost of bonding is \$5,527,151. The present value of money is not included in this model so an extended period of high inflation or interest rates could affect the results.

**OPTIONS**

**A: Continue to borrow the money for school building repairs.**

This option results in higher overall costs due to the fees and interest expenses inherent in bonding. Also, this moves the Town closer to the amount of borrowing that will trigger a reduction in its credit rating.

**B: Establish and fund a school building capital reserve revolving fund.**

This option results in the saving of bond interest and fees, the earning of interest on annual deposits and state reimbursements, faster RIDE reimbursements, and faster RIDE approval of building projects.

**RECOMMENDATION**

The Financial Review Commission recommends that Smithfield establish and fund a school building capital reserve revolving fund to be used for capital improvements such as building

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**February 3, 2016**

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repairs and enhancements that have a 10 to 20-year useful life and a \$25,000 minimum expenditure. The fund should include an annual budgeted amount plus all RIDE reimbursements. As illustrated above, this will result in substantial long-term savings to the Town and have a positive effect on the Smithfield's bond rating.

This analysis and recommendation is limited to the concept of the establishment of a school building capital reserve revolving fund. No representations are being made regarding the amount of money that will be required to be budgeted to fund either the projects described in the Smithfield School Department's Capital Improvements Program or any other proposals.

Respectively,

Smithfield Financial Review Commission

Kenneth J. Sousa, PhD, Chairperson  
Joseph Passaretti, CPA, Vice Chairperson  
Michael P. Iannotti  
Mirek Kula  
John Van Luling



**Smithfield Financial Review Commission**

**School Building Capital Reserve Revolving Fund**

**February 3, 2016**

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**EXHIBIT A – EXCERPT FROM RIDE PUBLIC SCHOOLHOUSE ASSESSMENT**

RECOMMENDATIONS

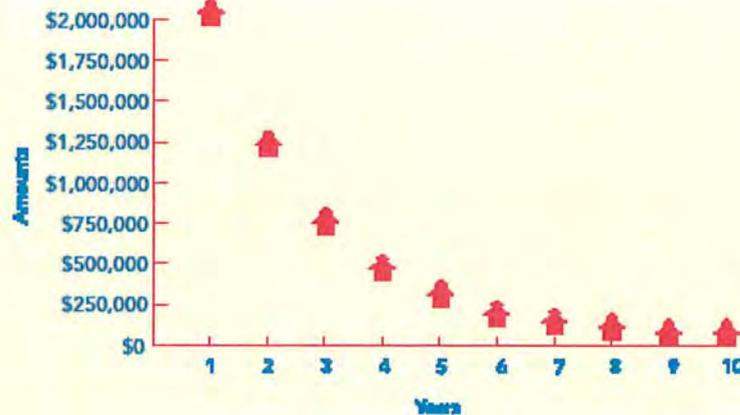


Figure 17a. Capital Reserve Fund Supply: 60 Percent Share Ratio

The annual expenditures a district could make over 10 years with an initial \$2 million reserve fund total \$4.97 million.

funding mechanism are twofold. First, capital reserve-funded projects can be approved more quickly than bonds, notes, and other forms of indebtedness issued in support of school housing projects, which require passage of an enabling act by the general assembly. Second, reimbursement is paid to a district much sooner than through a bond. Many bonds have repayment periods of 20 years, which result in districts having to wait the bond's entire life to obtain full reimbursement. Projects supported by capital reserve funds are reimbursed over a one- to 10-year period based on the cost of the project in accordance with the schedule listed in Figure 16.

participation, and as part of a district-wide facility master plan, districts can free up space to dedicate to art, music, special education, and small group spaces.

**Financial Opportunities**

RIDE recommends that all districts establish a capital reserve fund to finance asset protection plans. A capital reserve fund is an account exclusively used for capital improvements (i.e., building repairs). Of Rhode Island's 36 school districts, eight did not have an established capital reserve fund over the last five years and three other districts only had a reserve fund for one year. In addition, six other districts established capital reserve funds only one or two of the five year period between FY 09 and FY 13. Just over half of the districts had an established capital reserve fund for at least four of the last five years, with 15 districts having plans all five years.

The SCRs require LEAs to submit asset protection plans and to spend at least 50 percent of their asset protection budget. The benefits of this

RECOMMENDATIONS

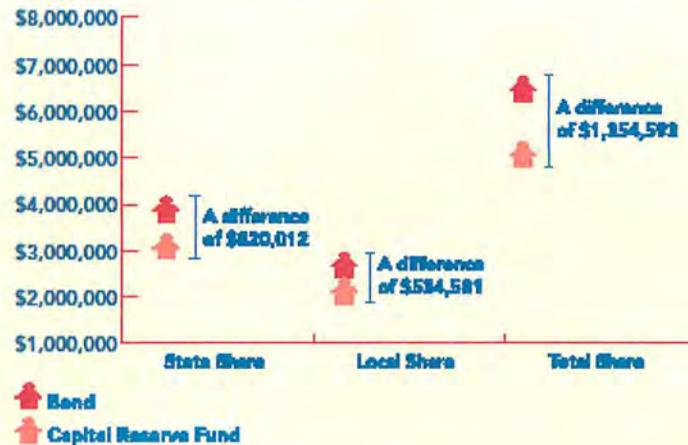


Figure 17b. Capital Reserve Fund Supply: 60 Percent Share Ratio

Using a 10-year GO bond to pay for \$4.97 million of asset protection would cost the district and state an additional \$1.35 million.

The savings are even more significant for the state. If a district funded its asset protection plan with capital reserve funds from the example above, it would cost the state \$2,981,860. With capital reserve funds, there is no interest, and the state only repays the principal. Therefore, 100 percent of state dollars goes toward repaying a district for actual repairs and not toward interest to repay a lender. A 10-year general obligation bond of \$4,969,767 would cost the state \$3,801,872, an increase of 28 percent. In this example, using a general obligation bond to pay for asset protection would cost the district and state an additional \$1,354,593.

More importantly, from a financial perspective, both the district and the state benefit from a capital reserve fund. If a district with a 60 percent share ratio established a \$2,000,000 capital reserve fund, it could fund up to \$4,969,766 in repairs over a course of 10 years. The district could spend the entire \$2,000,000 in year 1 on its schools and apply for reimbursement. It would then receive a payment of \$1,200,000, depending on how the project was packaged. The district could spend \$200,000 per project on 10 schools and receive its entire reimbursement the following year. That district could then reinvest the \$1,200,000 reimbursement on district-wide improvements in year 2 and again apply for housing aid. In year 3, the district would again receive 60 percent of the amount from year 2. See Figure 17a and 17b.

Once this cycle reaches year 10, the district will have made \$4,969,766 worth of improvements with its original capital reserve fund investment of \$2,000,000. If this same district were to spend the same amount in repairs (\$4,969,766) but opted for a general obligation bond, it would cost the district \$2,534,581, or 26 percent more, because of accrued interest. The district would also have to repay the bond for a period of 10 to 20 years.

RECOMMENDATIONS

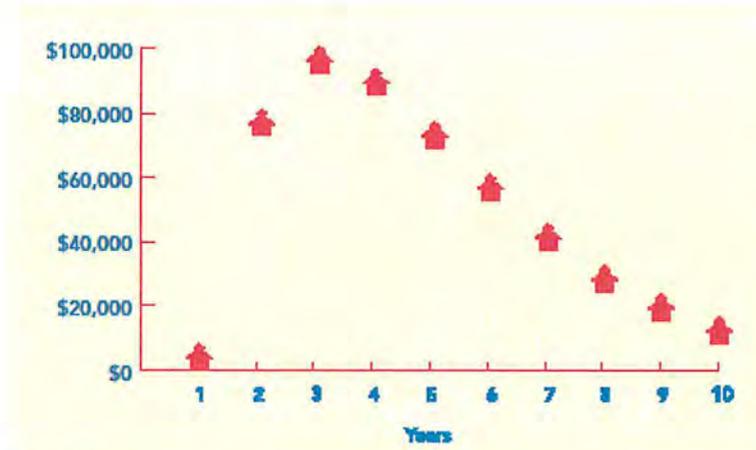


Figure 17c.  
 Housing Aid Bonuses: 60 percent Share Ratio on \$2 million Reserve Fund

With a four percent bonus on the \$2 million example, a district could increase its capital spending by \$521,738 over 10 years.

for additional reimbursement projects that demonstrate energy and water efficiency cost reduction beyond the minimum school construction threshold requirements, as defined in the NECHPS.

Districts would get more use out of their \$2,000,000 investment if they qualified for any of these bonuses. Over the same 10-year period from the example above, the district would receive an additional \$521,738 in reimbursement. The Bristol Warren Regional School District has continuously maintained a capital reserve fund and perhaps most importantly, reinvested State reimbursement back into school facilities. While the state spends more on housing aid in this scenario, the bonuses attained by the district are of value to the state, as shown in Figure 17c.

The benefits of using a capital reserve fund increase with the share ratio. Many districts do not have an established capital reserve fund, and creating such a fund would be a tremendous benefit to the districts, the state, and students.

By using capital reserve funds, districts also have more incentive to obtain housing aid bonuses. Currently, four types of bonuses are available as follows:

1. Energy conservation/handicapped access/asbestos abatement;
2. Career/technical center renovation;
3. Regional district renovation; and
4. Water and energy reduction.

More than one bonus can apply to a project. For the first bonus to apply, districts must be able to document that 75 percent of the cost of the project is for a combination of energy conservation, handicapped access, and/or asbestos abatement activities. The second bonus applies only upon transfer of state-owned, locally operated career and technical centers from state to local control and will apply only to repairs and renovations deemed necessary to bring the building to a state of good repair. The third bonus is available to regional school districts only and applies to all but new construction projects. Under the fourth bonus, the SCRs allow

RECOMMENDATIONS



In addition, Rhode Island should consider establishing a state capital reserve fund. Several states, including Massachusetts, fund a portion of school construction on a grant basis from a dedicated revenue stream. This funding mechanism would allow more districts to use capital reserves to finance school construction projects, which in turn would lower the state's share of housing aid by reducing the number of projects incurring interest.

**Operations and Maintenance Opportunities**

There are substantial opportunities for efficiencies in the maintenance and operations of school facilities in Rhode Island. Because operations and maintenance represents one of the greatest life cycle expenses of owning a facility, it is critical to assist LEAs in identifying problems and opportunities. In particular, properly executed operations and maintenance programs that target energy efficiency have been shown to bring significant savings without substantial capital investments. The design, construction, operation, and maintenance of our school facilities to conserve energy and water helps provide operational savings. The projects that have followed the NECHPS protocol are already reaping the benefits of compliance. The Nathan Bishop Middle School was designed to be 40 percent more energy efficient than the ASHRAE Standard 90.1-2001. This level of efficiency was designed to provide approximately 40 percent energy cost savings, which amounted to a \$91,205 annual savings. Similarly, the Providence Career and Technical Academy was designed to achieve a 41.8 percent yearly energy savings, which will result in approximately \$88,840 annual savings. Both these facilities achieved significant water savings as well: the PCTA reported a 30 percent reduction in water consumption, while Nathan Bishop boasted a 65 percent reduction that was assisted by on-site rainwater collection.

The SCRs and the NECHPS provide in-depth guidance for districts undertaking construction, renovations, and repairs. They also provide a limited amount of guidance for the operation and maintenance of school facilities. For example, SCR RIDE 1.11, Asset Protection and Maintenance of Facilities, requires districts to "develop, implement, and maintain a comprehensive asset protection plan for every school building." The plan must address preventative maintenance and any work required to ensure that facilities are code compliant, safe, sound, and energy efficient. Districts are required to submit this plan to RIDE annually and must spend at least 50 percent of their asset protection budget in each of the three years prior to a necessity of school construction application.

Whereas the SCRs' guidance regarding operations and maintenance is geared toward asset protection expenditures, the NECHPS protocol requires districts to adopt several policy measures relating to maintenance and operations. The eight prerequisites in NECHPS version 2 include implementing the Environmental Protection Agency's Tools for Schools or an equivalent indoor health and safety program, creating a master plan for equipment maintenance, adopting a policy requiring that all newly purchased equipment and appliances be Energy Star compliant, and adopting a no-idling policy. These are important first steps in ensuring that facilities that are built and/or renovated are operated in a manner consistent with the high-performance features installed. These prerequisites are triggered by the necessity of school

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**EXHIBIT B – BOND DEBT SERVICE MODEL**

<b>Fiscal Year</b>	<b>Annual Debt Service</b>	<b>Principal</b>	<b>Interest</b>	<b>State Aid Payment</b>
2016	86,273			
2017	417,192	200,000	217,192	
2018	514,492	300,000	214,492	146,017
2019	508,672	300,000	208,672	180,072
2020	501,575	300,000	201,575	178,035
2021	493,465	300,000	193,465	175,551
2022	484,560	300,000	184,560	172,713
2023	475,125	300,000	175,125	169,596
2024	460,125	300,000	160,125	166,294
2025	445,125	300,000	145,125	161,044
2026	430,125	300,000	130,125	155,794
2027	415,125	300,000	115,125	150,544
2028	400,125	300,000	100,125	145,294
2029	391,125	300,000	91,125	140,044
2030	381,750	300,000	81,750	136,894
2031	372,000	300,000	72,000	133,613
2032	360,000	300,000	60,000	130,200
2033	348,000	300,000	48,000	126,000
2034	336,000	300,000	36,000	121,800
2035	324,000	300,000	24,000	117,600
2036	312,000	300,000	12,000	113,400
2037				109,200
<b>Totals:</b>	<b>8,456,854</b>	<b>5,900,000</b>	<b>2,470,581</b>	<b>2,929,703</b>

*Payment of State Housing Aid calculated on previous year P&I payment.*

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**EXHIBIT C – REVOLVING FUND MODEL**

Fiscal Year	Beginning Balance	Fund Investment	Fund Interest	State Aid Payment	Withdrawal	Ending Balance
1997	0	280,000	0	0	0	280,000
1998	280,000	280,000	1,400	0	0	561,400
1999	561,400	280,000	2,807	0	0	844,207
2000	844,207	280,000	4,221	0	0	1,128,428
2001	1,128,428	280,000	5,642	0	0	1,414,070
2002	1,414,070	280,000	7,070	0	0	1,701,141
2003	1,701,141	280,000	8,506	0	0	1,989,646
2004	1,989,646	280,000	9,948	0	0	2,279,594
2005	2,279,594	280,000	11,398	0	0	2,570,992
2006	2,570,992	280,000	12,855	0	0	2,863,847
2007	2,863,847	280,000	14,319	0	0	3,158,167
2008	3,158,167	280,000	15,791	0	0	3,453,957
2009	3,453,957	280,000	17,270	0	0	3,751,227
2010	3,751,227	280,000	18,756	0	0	4,049,983
2011	4,049,983	280,000	20,250	0	0	4,350,233
2012	4,350,233	280,000	21,751	0	0	4,651,984
2013	4,651,984	280,000	23,260	0	0	4,955,244
2014	4,955,244	280,000	24,776	0	0	5,260,021
2015	5,260,021	280,000	26,300	0	0	5,566,321
2016	5,566,321	280,000	27,832	0	0	5,874,152
2017	5,874,152		29,371		(5,900,000)	3,523
2018	3,523			2,065,000		2,068,523
<b>Totals:</b>		<b>5,600,000</b>	<b>303,523</b>	<b>2,065,000</b>	<b>(5,900,000)</b>	

*Year #21 assumes construction and payment of construction*

*Year #22 assumes receipt of state housing aid payment*

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**EXHIBIT D – SUMMARY OF TWO MODELS**

<b>Item</b>	<b>Revolving</b>	<b>Bonding</b>
Fund Investments	5,600,000	8,456,854
State Aid Payments	(2,065,000)	(2,929,703)
Interest Income	(303,523)	
<i>Net Cost</i>	<i>3,231,477</i>	<i>5,527,151</i>