



Economic Development and Finance
Committee
Standing Committee Meeting Agenda
Monday, April 9, 2018
5:15 PM

Location:

Municipal Office Building
701 N 7th Street
Kansas City, Kansas 66101
5th Floor Conference Room (Suite 515)

Name

Absent

Commissioner Tom Burroughs, Chair

☐

Commissioner Brian McKiernan

☐

Commissioner Gayle E. Townsend

☐

Commissioner Ann Brandau-Murguia

☐

Commissioner James Walters

☐

Jeff Bryant, BPU Member

☐

I. Call to Order/Roll Call

II. Revisions to April 9, 2018 Agenda

III. Approval of standing committee minutes from February 5, 2018.

IV. Committee Agenda

Item No. 1 - RESOLUTION: AMEND MASTER EQUIPMENT LEASE PURCHASE AGREEMENT WITH BANC OF AMERICA

Synopsis: A resolution amending the Master Equipment Lease Purchase Agreement, dated October 17, 2013, with Banc of America Public Capital Corp., in connection with paying the costs of acquiring and installing certain equipment, submitted by Debbie Jonscher, Deputy Chief Financial Officer. The maximum amount is not to exceed \$12.5M.

Tracking #: 1892

V. Public Agenda

VI. Adjourn

**ECONOMIC DEVELOPMENT AND FINANCE
STANDING COMMITTEE MINUTES
Monday, February 5, 2018**

The meeting of the Economic Development and Finance Standing Committee was held on Monday, February 5, 2018, at 6:01 p.m., in the 5th Floor Conference Room of the Municipal Office Building. The following members were present: Commissioner Burroughs, Chairman; Commissioners McKiernan, Townsend, Walters, and Bynum (substituting for Murguia); and BPU Board Member Jeff Bryant. Commissioner Murguia was absent. The following officials were also in attendance: Joe Connor, Gordon Criswell and Melissa Sieben, Assistant County Administrators; Patrick Waters, Senior Attorney; Kathleen VonAchen, Chief Financial Officer; Debbie Jonscher, Deputy Chief Financial Officer; Lisa Nolan, Deputy Treasurer Property Tax/Cash Manager; Reginald Lindsey, Budget Manager; Jeff Fisher, Executive Director of Public Works; Logan Masenthin, Intern in Administrator's Office; and Jay Doleshal, Sergeant-At-Arms.

Chairman Burroughs called the meeting to order.

Roll call was taken and members were present as shown above.

Chairman Burroughs said we do have some revisions this evening. Additional information was provided for Items 2 and 3. Secondly, Item 4, which is an update for the Schlitterbahn STAR Bond Project has been removed from the agenda and will not be heard this evening.

Approval of standing committee minutes from December 4, 2017. **On motion of Commissioner McKiernan, seconded by BPU Member Bryant, the minutes were approved.** Motion carried unanimously.

Committee Agenda:

Item No. 1 – 1869...REPORT: 4TH QUARTER 2017 CASH AND INVESTMENT

Synopsis: The 4th Quarter Cash and Investment Report for the period of October through December 2017, submitted by Kathleen VonAchen, Chief Financial Officer.

Unified Government of WyCo/KCK
Quarterly Investment Report
Fourth Quarter 2017
Oct. 1 – Dec. 31, 2017

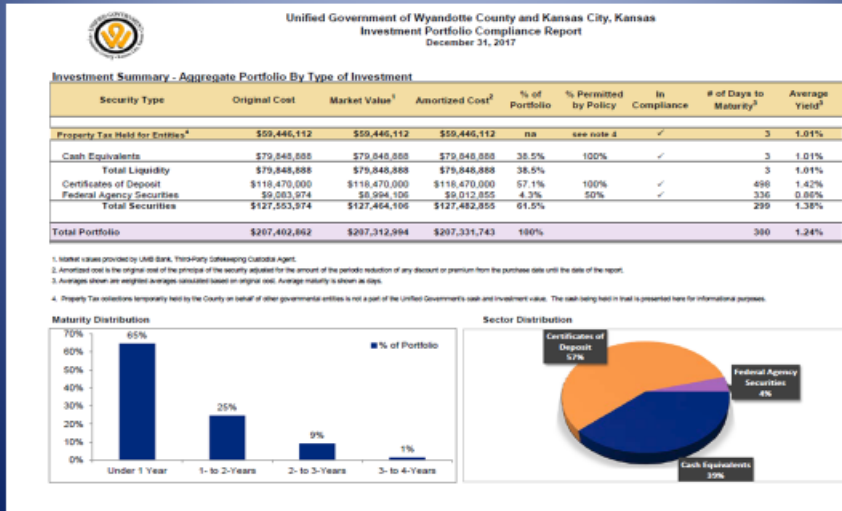
Presented by Kathleen VonAchen
and Lisa Nolan
Monday, Feb. 5, 2018

Kathleen VonAchen, Chief Financial Officer, said I'd like to introduce my Deputy Treasurer who oversees cash management to make this presentation on our 4th Quarter Investment and Cash Management Report. This is for the end of fiscal year 2017.

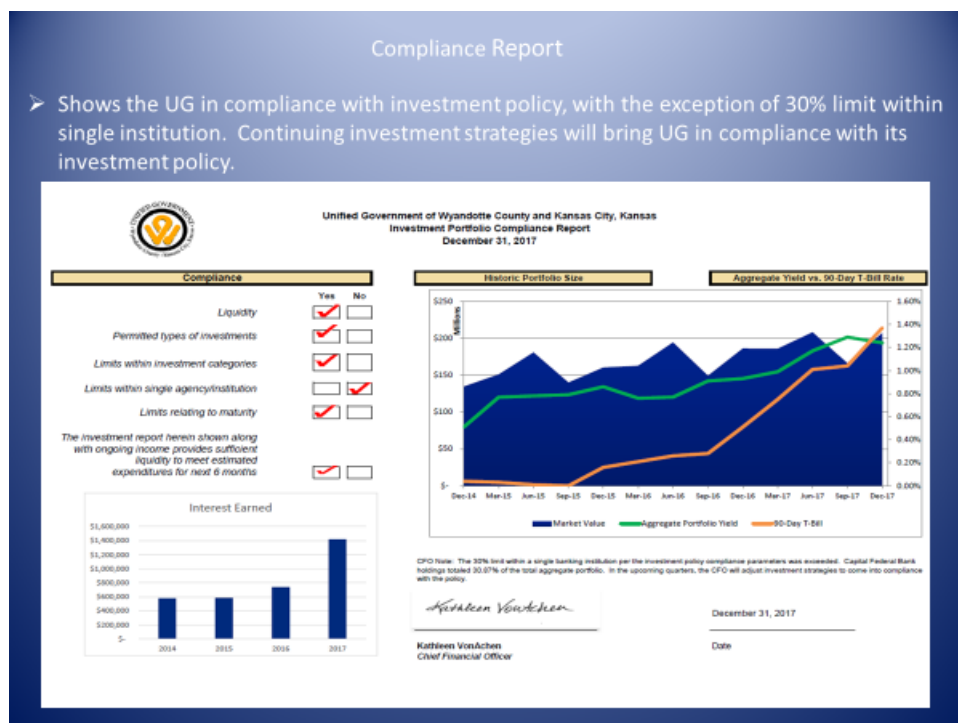
Lisa Nolan, Deputy Treasurer Property Tax/Cash Manager, said we'll be giving a presentation on the Quarterly Investment Report for 4th Quarter 2017.

Investment Summary Page

- Summary page shows total portfolio by type of investment
- Line one indicates portion of property tax collections to be distributed to other governmental entities
- The remaining lines reflect UG's portion of the portfolio



Our first slide is the investment summary page which shows the UG's total portfolio by investment type. The total portfolio for 4th Quarter is \$207,402,000, with an average yield of 1.24%. The average yield for 3rd Quarter was 1.29%. Of the total portfolio, 39% is in cash, 57% in CDs, and 4% in securities.



The next slide is our compliance report page which shows that the UG is in compliance with its investment policy, with the exception of the 30% limit within a single institution. This is because as of 4th Quarter, Capital Federal Bank's holdings totaled just under 31%. In the 3rd Quarter, they were at 40%. Continuing investment strategies will keep the UG in compliance with its investment policy, keeping in mind that percentages by single institution will fluctuate as investments mature and new investments are made.

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Issuer Detail

- Detail by issuer/banks or by Federal Government agencies that issue various securities

Unified Government of Wyandotte County and Kansas City, Kansas
Investment Portfolio Compliance Report
December 31, 2017

Issuer Detail - Aggregate Portfolio by Issuer

Issuer	Original Cost	Market Value ¹	% of Portfolio ²	% Permitted by Issuer	In Compliance ³	Weighted Maturity ²	Weighted Yield ²
Property Tax Held for Entities ³	59,446,112	59,446,112	na	See note 3	✓	3	1.01%
UMB, Wyandotte Operating	78,986,888	78,986,888	35%	30%	✓	3	1.01%
UMB, Wyandotte Health	862,000	862,000	0%	30%	✓	3	1.01%
Cash Equivalents	79,848,888	79,848,888	39%		✓	3	1.01%
Capital Federal Bank	64,000,000	64,000,000	31%	30%	✓	675	1.63%
Commerce Bank	46,000,000	46,000,000	22%	30%	✓	221	0.92%
Security Bank	5,235,000	5,235,000	3%	30%	✓	513	1.50%
Liberty Bank	3,000,000	3,000,000	1%	30%	✓	609	1.44%
Bank Midwest	235,000	235,000	0%	30%	✓	577	1.30%
Certificates of Deposit	118,470,000	118,470,000	57%		✓	498	1.42%
FHLB	8,085,008	8,004,700	4%	30%	✓	200	1.60%
FREDDIE MAC	998,966	989,406	0%	30%	✓	1325	0.95%
Federal Agency Securities	9,083,974	8,994,108	4%		✓	336	0.86%
Grand Total	207,402,862	207,312,994	100%			300	1.24%

¹ Market values provided by UMB Bank, Third Party Subservicing Custodial Agent.

² Averages shown are weighted averages calculated based on original cost. Average maturity is shown in days.

³ Property Tax collections temporarily held by the County on behalf of other governmental entities is not a part of the Unified Government's cash and investment value for financial reporting purposes. The cash being held in trust is presented here for informational purposes.

CERTIFICATES OF DEPOSIT - BANKS

Bank	Percentage
Capital Federal Bank	54%
Commerce Bank	39%
Security Bank	4%
Liberty Bank	1%
Bank Midwest	0%

FEDERAL AGENCY SECURITIES - ISSUERS

Issuer	Percentage
FHLB	89%
Freddie MAC	11%

The next slide is the issuer detail page. This page provides more details of the investment portfolio to show a breakdown of the types of investments, lists each institution and agency, and their investment amounts. It also shows the percentage of the portfolio that each institution or agency holds.

Transactions Detail

➤ List of Transactions during fourth quarter 2017



Unified Government of Wyandotte County and Kansas City, Kansas
Investment Portfolio Compliance Report
4th Quarter 2017 - Oct. 1, 2017 - Dec. 31, 2017

Quarterly Transactions Detail - Aggregate Portfolio						
Settlement Date	CUSIP	Issuer	Coupon	Maturity Date	Par	Original Cost
Thru Q4	NA	UMB, Wyandotte Operating	1.134%	1/2/2018	48,755,888	48,755,888
Thru Q4	NA	UMB, Wyandotte Health Reserve	1.134%	1/2/2018	(732,000)	(732,000)
Cash Equivalents					48,023,888	48,023,888
Purchases					-	-
12/11/2014	70122998	Capitol Federal	0.990%	10/23/2017	(3,000,000)	(3,000,000)
5/9/2014	343007030	Commerce	1.100%	11/1/2017	(4,000,000)	(4,000,000)
Calls/Maturities					(7,000,000)	(7,000,000)
Total					41,023,888	41,023,888

The final page is our transactions detail page showing transaction activity during the 4th Quarter. During this particular quarter, there were no new purchases or investments. We had two investments mature. Both were CDs. One was with Capital Federal for \$3M and the other was with Commerce Bank for \$4M.

Chairman Burroughs asked for questions/comments. Let the record show no one stepped forward with questions or comments.

Ms. VonAchen said my only final point is the third slide. In the coming year, interest rates are rising because the Fed is increasing the prime rate. Our interest in improving the performance of the portfolio would be to add or to shift our maturities. We have quite a bit on the frontend. What we want to do is shift it to two and three years. Two and three-year CDs earn more than one-year CDs. We hope to increase the weighted maturity dates, which is 300 right now, to around 350. Our weighted yield will be, hopefully, improving above the 1.24 we're currently at. That's my goal.

Chairman Burroughs said you presently stagger all of these accounts, all the CDs. Do you stagger those? **Ms. VonAchen** said we stagger them. We match them with our liability or what

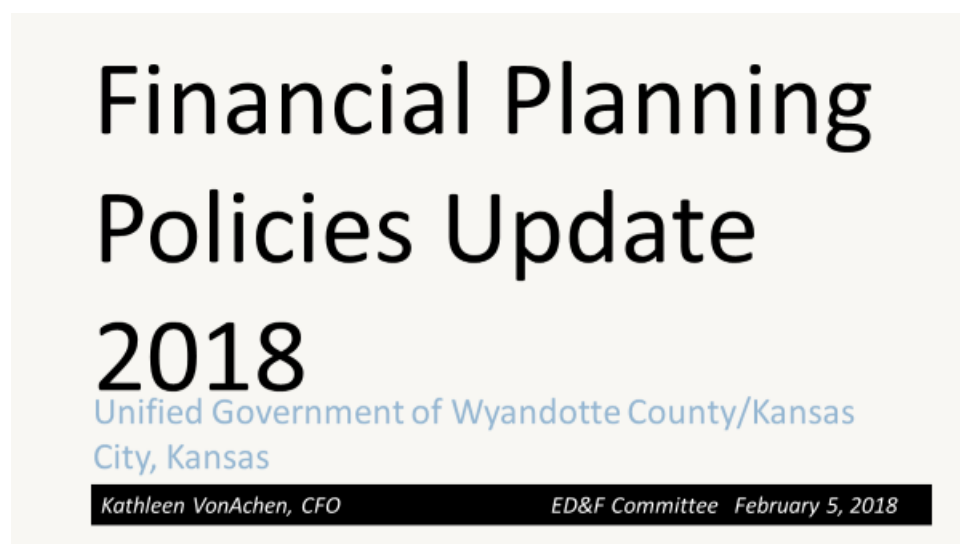
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we're expecting in terms of cash flow. As our cash flow needs change throughout the year, we make sure that we have those avail. So, yes, we do. We have a ladder approach.

Action: For information only.

Item No. 2 – 1867...PRESENTATION: PROPOSED REVISIONS TO FINANCIAL PLANNING POLICIES

Synopsis: Presentation of proposed revisions to the UG's financial planning policies, submitted by Kathleen VonAchen, Chief Financial Officer.



Kathleen VonAchen, Chief Financial Officer, said I'm looking forward to this presentation. The UG has about 10 to 13 policies. For the most part, they were written about five years ago, five or more years ago. Tonight, we're going to talk about financial planning policies. There are various categories I'll get into. We're going to be reviewing four different areas of policies, six different ones.

I want to introduce, for the presentation tonight, my Deputy CFO Debbie Jonscher and our Budget Director Reggie Lindsey. Also joining us for questions and any further comments is our Public Works Director Jeff Fisher.

Recommended Fiscal Policies



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As I mentioned, there are various categories of financial planning. We've kind of gone over these slides in the past, in the last month. There's financial planning policies, there's revenue policies, expense policies, and then other policies. The plan for tonight is, we're going to talk about financial planning. In March, we're going to talk about revenue policies. In April, we'll talk about expense policies.

Tonight, has the most policies of all these three chances to talk about policies. I really appreciate your interest in this. It has some important information and important decision-making. We're hoping to seek feedback from all of you.

Standing Committee Date	Policy	Presenter
FINANCIAL PLANNING POLICIES		
February 2018	Operating and Capital Budgeting	Budget Director
February 2018	Long Term Financial Planning	CFO
February 2018	Reserves (Fund Balances)	CFO & Deputy CFO
February 2018	Capital Asset Investment / CMIP	CFO & Public Works Director
REVENUE, FINANCIAL REPORTING, INTERNAL CONTROLS POLICIES		
March 2018	Revenue Diversification, User Fees and Charges, One-Time & Unpredictable Revenues, Limited Purpose Revenues	CFO & Deputy CFO
March 2018	Financial Reporting, Auditing and Internal Controls	CFO & Deputy CFO
March 2018	Budgetary Performance Reporting	CFO & Deputy CFO
EXPENSE POLICIES		
April 2018	Debt Financing	CFO & Deputy CFO
April 2018	Expenditure Policies	Budget Director
OTHER POLICIES FOR FUTURE REVIEW		
TBD	Procurement, Purchasing and Contracting	Procurement Manager
TBD	Economic Development Policies	Economic Development Director
TBD	Risk Management	Human Resources Director, Chief Legal Counsel & CFO
TBD	Red Flag Identity Theft	CFO, Chief Knowledge Officer & Treasury Manager

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Financial
Policies
Review:
ED&F
Committee
Schedule

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There's the schedule in more detail. In March, we'll be talking about revenue policies, financial reporting and auditing, and budgetary performance reporting. In April, we'll be talking about updating our debt financing and expenditure policies.

Recommended FINANCIAL PLANNING POLICIES

BUDGET POLICY
Such a policy commits to a balanced operating budget (and defines what that is) and requires that decision-makers be alerted when deviations are either planned or otherwise occur.

LONG-TERM financial PLANNING POLICY
Such a policy supports financial analysis and strategies to assess the long-term implications of current and proposed capital improvement needs, cost of services, operating budgets, budget policies, cash management and investment policies, program and assumptions.

CAPITAL ASSET INVESTMENT
Such a policy requires an up-to-date listing of all major capital assets including. The policy can also require an assessment of asset condition and a plan for replacing assets (sometimes referred to as a "capital plan"). The definition of what constitutes a "major" asset is established by local policy, as is the determination of how often the inventory is to be updated.

Local agencies have various levels of financial policies. Some policies relate to big picture, strategic topics; others are very specific and practical policies. Having a range of policies helps an agency to chart a wise course financially and avoid operational missteps.

% RESERVE & OTHER FUND BALANCE POLICY
Such a policy enables decision-makers to maintain a prudent level of resources to protect against a need to reduce service levels or increase revenues due to revenue shortfalls or unpredicted one-time expenses. Specific kinds of reserves can also enable an agency to set aside moneys to replace assets (for example, fleet replacement reserves). This includes employee benefits reflected in the internal service funds.

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Again, here's some more information roughly on the various policies that we have that govern our financial planning, along with some detailed information as to the rationale behind each. We're going to go into more detail in each of these. I'm going to skip over this slide. This is something you can refer back to.

Unified Govt Financial Planning Policies

STATUS REVIEW & PLANS

A review of our financial policies has been conducted. Below are the recommendations for review of the financial planning policies presented to the ED&F Committee February 5, 2018

RECOMMENDED POLICIES & UG STATUS

RECOMMENDED POLICIES	DOES UG HAVE THIS POLICY?	STATUS NOTES
Budget Policy	Yes	2018 Budget, Updated 2013, Page 92 of Approved Budget; Due for Review
Long Term Financial Planning	Yes	2018 Budget, Page 522 of Approved Budget, Updated 2013; Due for Review
Capital Asset Investment	No	CMIP Budget Policy in 2018 Approved Budget, Page 462 does not refer to an assessment of condition and funding plan for replacement of asset; Expenditure Policy in 2018 Approved Budget, page 524 (Updated 2013) states capital needs will be prioritized annually; Needs to be added/reviewed
LTFP-Pensions & OPEB	No	2018 Approved Budget, Page 524, Updated 2013, briefly discusses; These costs are annually budgeted and liability accounting complies with GASB; Policy language does not outline plan for funding expected Pension and OPEB future liabilities; Needs to be added
Reserves (Fund Balances)	Yes	2018 Approved Budget, Page 520, Updated 2012; Additional refinements and the addition of Sewer Fund recommended; Due for Review

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Now, I did an assessment of all of our policies and I matched them with the recommended attributes these policies ought to have. The previous CFO did a wonderful job developing the

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policies we currently have. They're very short and sweet. They're concise. In reading through them, I found there are some areas where we could augment and perhaps address some other areas that were overlooked. Also, the policies provided us an opportunity to document our current practices so that's what my approach is I'm recommending.

OPERATING & CAPITAL BUDGET POLICY

a comprehensive plan to deliver efficient services to UG residents that aligns resources with the policy, goals, mission, and vision of the Board of Commissioners

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We're going to start out with Reginald Lindsey, our Budget Director. He's going to talk about the Operating and Capital Budget Policy.

Proposed Revisions to Budget Policy

DOCUMENTS CURRENT PROCEDURES AND PRACTICES		
PURPOSE Provide guidelines in formulation and consideration of broader implications of financial discussions and decisions, which ultimately assist in completing financial planning cycles that deliver the best value to residents.	DEFINITIONS Clearly defines governmental budgeting and financial terminologies often referred to during the operating and capital budgeting process.	POLICY Specifically communicates the UG's current budgeting procedures and practices. The proposed policy does not change the status quo; more comprehensive.
BALANCED BUDGET Having revenues = expenditures without the use of fund balance is the goal, especially for operating funds. However, there are instances when use of fund balance is appropriate.	BUDGET AMENDMENTS Specifically communicates the UG's current budget amendment practices. The proposed policy does not change the status quo; more comprehensive.	OPERATING SURPLUSES Use of operating surpluses: 1) increase reserves, 2) paying down liabilities of internal service funds, 3) examine opportunities for accelerated payoff of debt, and 4) increase funds for capital.

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Reginald Lindsey, Budget Manager, said our Operating and Budget Policy commence to a balanced operating budget and defines what is and what needs to be done as far as the decision-makers, be alerted when deviations are taken from the budget and otherwise occur.

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The purpose of the Budget Policy is it touches on when the budget is prepared and how the budget is used throughout the year. There's a definition section within the Budget Policy that defines governmental and financial terminologies is often referred to during budget conversations.

The policy specifically communicates UG budget procedures. Some of those policies within the procedures that we would like to look at maybe changing are: having revenues equal expenditures where we don't dip into fund balance.

Also, another part of the policy is budget amendments which is how we look at the current amendments and practices to our budget. Then operating surpluses to do things like increase reserves, pay down liabilities, and also examine opportunities to accelerate debt payoffs.

One of the other things we'd like to look at is using the surpluses to increase funds for capital.



The Long-Term Financial Planning Policy supports financial analysis and strategies to assess the long-term implications of current and proposed capital improvement needs, costs of services, operating budgets, budget policies, cash management, and investment policies.

 PROPOSED REVISIONS TO LTFP POLICY DOCUMENTS CURRENT PROCEDURES AND PRACTICES		
PURPOSE To describe particular elements or aspects of UG's long-term planning analysis and to memorialize the financial practice into a formal policy.	DEFINITIONS Clearly defines governmental budgeting terminology often referred to during the long term financial planning process.	scope Communicates the UG's commitment to LTFP, time horizon of at least five years, includes comprehensive analysis, and be solutions-oriented seeking continuous improvement.
Strategic planning Annual budget incorporates goals of the UG. Strategic planning begins with determining the UG's fiscal capacity based upon long-term financial forecasts of available resources.	Structural balance Structural balance is the goal. A multi-year financial plan exists where future issues are identified, and possible solutions are proposed.	Non-current liabilities Supports efforts to ensure that critical non-current liabilities, such as debt service, deferred maintenance, pensions and retiree health benefits costs, remain affordable and sustainable.

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The purpose of it is to ensure the Unified Government has ongoing financial sustainability beyond a single fiscal year's budget cycle.

Within the definition section of the policy, it defines governmental and financial terminology that is often referred to during long-term financial planning conversations. Part of the Budget Policy is a scope which looks at the horizon to forecast revenues and expenditures and financial position for at least five years into the future. Also, we'd like to provide a comprehensive analysis of key trends and conditions, and look at solutions where we would identify challenges that may hinder the financial health of the Unified Government.

The strategic planning piece, we'd like to look at the annual budget and how it incorporates goals of the Unified Government and strategic planning as it relates to the physical capacity based upon the long-term financial forecast of our available resources.

Structural balance wise, we would like long-term structural balance to be a goal of long-term financial planning at the Unified Government. A multiyear financial plan exists where future issues are identified and possible solutions are proposed.

We'd also like to look at non-current liabilities such as deferred maintenance, pensions, retirement health benefit costs. We'd like to make sure they remain affordable and also sustainable.

Commissioner Walters said you said something and I didn't quite catch it. You said one of the things you wanted to look at was using surpluses for something. For what? **Mr. Lindsey** said those surpluses, we'd like to use to pay down liabilities, also increase reserves, also examine

opportunities to accelerate debt payoff, and also to increase funds to spend on capital. **Commissioner Walters** said that's about everything it sounds like.

I would like to suggest that we not increase reserves and that we do look at surpluses to spend down our debt. A big picture—my priorities are reducing debt and reducing taxes. Increasing reserves is kind of counter to the things that I think are important. I was glad that last year our auditor congratulated us on reaching our reserve levels. I think we should try to figure out a policy whereby we don't increase our reserves. If you could factor that into your recommendation somehow, I would be interested in hearing that. **Ms. VonAchen** said actually, the next section is on reserves.

Commissioner McKiernan said one question. These are very high-level summaries of the proposed revisions. Before next month's meeting, will we get redline and strikeout copies of the policy or is that important? **Ms. VonAchen** said so redline/strikeout were provided to the committee. **Commissioner McKiernan** asked where is that in my electronic version. I'm looking at financial planning policies and there is no—alright, I'll look for it. **Mr. VonAchen** said I'll be happy to forward it to you.

Ms. VonAchen said I failed to mention that tonight, we're just reviewing the recommended policies and discussing the rationale behind them, and to give you a little bit of chance to kind of ask questions and then you can have further discussions amongst yourselves or think it over over the next month. The actual resolutions adopting proposed policy won't be brought forward until next month.

Chairman Burroughs said I will state these are quite extensive changes. It is a tremendous revision of the policy. I don't know about other commissioners, but I can speak for myself, to break this down and digest it, it's a challenge. It can be done. What warranted the tremendous amount of effort that went into this? **Ms. VonAchen** said the current policies didn't have all the information that's recommended by the Government Finance Officers' Association. They were overly concise. In reality, it's not so much a change. We're going to highlight the changes that we're recommending, but in reality, this is documenting current practice. It's really not a wholesale change like it looks like. That's why providing this in redline as was requested, it's

misleading because it's actually augmenting our existing policies to include the actual practices that we have in place.

Commissioner McKiernan said just to clarify, I did find my redline and strikeout copy, and I appreciate that inclusion.



Ms. VonAchen said as you know, we have various categories. Tonight, we're going to also talk about reserve policies. We have three different policies: one for the General Fund, one for Special Revenue Fund, and another for Enterprise and Internal Service Funds. All of which are—each have kind of slight details that require that they have separate policies. They're all in place to maintain a prudent level of financial resources to guard stakeholders against service disruption. I think you all had some service disruption during the most recent economic crisis. You're going to see some graphically how that impacted the organization.

Reasons for reserve policies

#1. Plan for contingencies

Matching planned revenues and actual expenditures is challenging

- Volatile revenues
- Closure of major employer
- Extreme weather events increasing operating and capital costs
- KPERS payments for “silver tsunami” employee retirements



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Why do we have reserve policies? The number one reason is to plan for contingencies. Naturally, in our own individual checking accounts, we like to set aside or save money in case we have encounter our tooth broke, our car broke, so we don't have to dip into our credit card to pay for those things. We have those things available. Just like that, a city or a municipality has those same sorts of concerns.

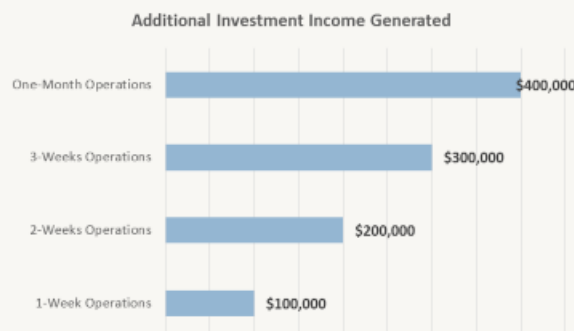
It's difficult to match revenues and actual expenditures. That's challenging because you can't—in the UG, we're predicting revenues a good 18 months before the end of the next fiscal year. Knowing that sort of information and be able to calibrate all that is challenging.

Revenues are volatile. They're constantly—the global economy is changing constantly. There are numerous things that can impact our revenues. The potential of a closure of a major employer who maybe a major taxpayer would impact not only the economy and our employment levels, but also our tax revenue collection. Extreme weather events can increase operating and capital costs. It could also cost the city revenue if they're devastating a major retail area. Also, there are these KPERS payments that I have discussed in previous, long-term financial plan, that we expect to have to pay in the next five to ten years, as our retirees, as our silver tsunami hits and the retirees leave our organization. Having contingencies is very important.

Reasons for reserve policies

#2. Generate investment income

- increased reserves generate added investment income
- provides liquidity certainty
 - 3 or 4 year investments earn higher rates of return
- added income could be used for more:
 - street maintenance
 - public safety equipment
 - economic development support



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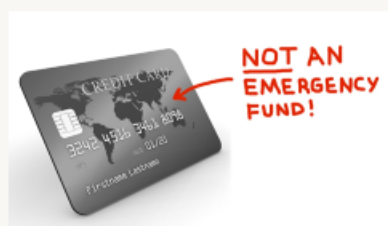
The second reason is that it generates investment incomes. Right now, if you, for example, had one month of operations, and the General Fund equates to around \$16M, if that's invested, it earns \$400,000 a year in interest. That \$400,000, if you had three weeks, it's \$300,000, etc. If you have that money in place then that \$400,000 can generate or pay for additional street maintenance, public safety equipment, economic development. It has its own kind of revenue source because of the interest income.

Reasons for reserve policies

#3. Avoid interest expense

You can avoid debt interest expenses in three ways:

- Cover unexpected costs (such a legal settlements) with cash instead of debt
- Use reserves to pay cash for portion of major capital projects instead of debt
- Higher reserves are required for credit rating upgrade that would, in turn, reduce borrowing interest rates



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The third reason is that we avoid interest expense. I've learned there is—in the past, the UG has found itself having to pay various legal expenses. How we paid for those was through issuing bonds. That's an operating expense. Really, we don't want to use bonds for operating expenses. The credit card is not our emergency fund. Right? Let's avoid paying interest expenses. Use

reserves to pay—to collect cash so that we can pay for a greater portion of our capital projects with cash instead of debt.

Our higher reserves also require—are required for credit rating upgrades. With that upgrade, would reduce our interest costs. We're going to talk about that on the next slide.

Reasons for reserve policies

#4. Maintain good standing with rating agencies

- Higher reserves a factor in measuring creditworthiness
 - ability to pay on time and in full
- Moody's credit rating upgrade would reduce cost of borrowing or interest rate
 - A1 to Aa2 difference = 50+ basis points (0.5%)
 - Example: from current rate 3.35% to 2.85%
 - Savings = \$1.25 million for a \$20M bond over 20 years
 - With no Moody's upgrade over the next five years, opportunity cost totals \$6.25 million over 25 years, or an annual average of \$312,000 *
- Interest savings could be used for more:
 - street maintenance
 - public safety equipment
 - other capital infrastructure investment

February 8, 2018 * Refer to next slide for assumptions

Rating Systems	
Standard and Poor's	Moody's
AAA	Aaa
AA+	Aa1
AA	Aa2
AA-	Aa3
A+	A1
A	A2
A-	A3
BBB+	Baa1
BBB	Baa2
BBB-	Baa3
Non investment grade	Non investment grade
Outlooks: Positive, <u>Stable</u> , or Negative	

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No. 4, having sufficient reserves maintains a good standing with our rating agencies. Again, higher reserves, a factor in measuring our credit worthiness whether we have the ability to pay on time and in full.

Back in 2017, the beginning of 2017, Moody's downgraded the Unified Government. I'm going to show you a chart here and you're going to see that it seems like a pretty good rationale for why they did that.

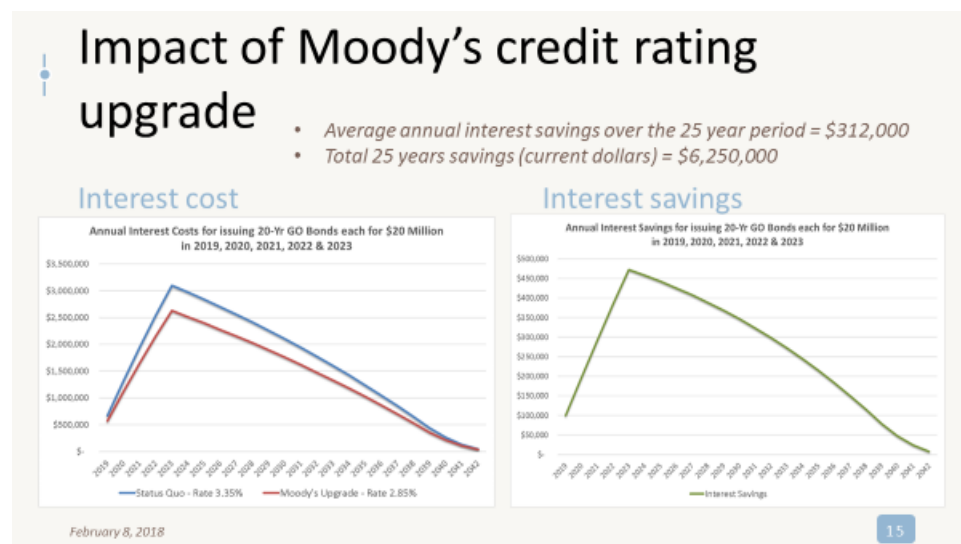
We were up in the A2 level. We were at the A3 level for Moody's. Here's Standards & Poor's. We're AA and we still are. Moody's is A. We were A3 and now we're A1. That's where we've been since February 2015.

If we were to get upgraded back up to the A2 so that we're level with the level that S&P has us now, our GO bonds, which we're about to sell on Thursday, we're expecting those to cost 3.35%. If we were Aa2, they would cost 2.85%.

What does that mean? If we issue bonds—usually we issue about \$20M in bonds per year—that's the new money piece, we'd add \$20M roughly that's why I'm using the \$20M figure. Over 20 years, the difference in that interest rate would save us \$1.25M. With no Moody's upgrade over the next five years, let's say if we do \$20M, each of the five years at that lower rate, we would

save \$6.25M over the 25-year period. That averages out to about \$300,000, \$312,000 less in interest cost that we would be paying. That's one thing that we want to keep in mind when we're talking about reserves.

What can we use that interest savings for? We could use it for additional street maintenance, public safety equipment, other capital infrastructure investments. Certainly, all of these are high things. They ranked high in our community survey.



Here's just a depiction, a graph that shows the difference. Right now, the blue is what we're paying, that higher rate; and the red is the lower rate, so that's a spread. This is how it looks, that savings over the \$6M over the 25-year period. Just like your mortgage, you pay kind of more interest at the beginning because you're paying down the principle.



Other UG financial risks and liabilities that we want to make sure all of you are aware. The storm events could damage revenue generating properties. I'm talking about, for example, unknown costs to the UG. It's hard to know or predict, but if a tornado went through the Legends, what would happen? How could we regenerate that money? All of those bonds, certainly, they're backed by the Unified Government so we'd have to make those payments right out of the General Fund.

Pension payouts for the silver tsunami retirees. As we quantified in the forecast last year, \$25M over the next ten years are going to be paid out in pension payments, which we call kind of the penalty payments. This is not pension. These are accrued vacation and sick leave amounts that we'll have to pay.

We have an increasing reliance on sales tax revenue, which is a volatile revenue. As online sales grow, our share is impacted by that. In addition, if there's any kind of other economic downturn that occurs, it really has a much quicker and greater impact on sales tax revenue.

This one I have a graph to show you, but given the political environment in the federal government, the loss of federal and state grants is a possibility; it's a risk. We do get roughly about \$15M a year in federal and state grants. Many of them we think we get them from the state, but they're actually passed through from the feds. I'll show you that in a minute.

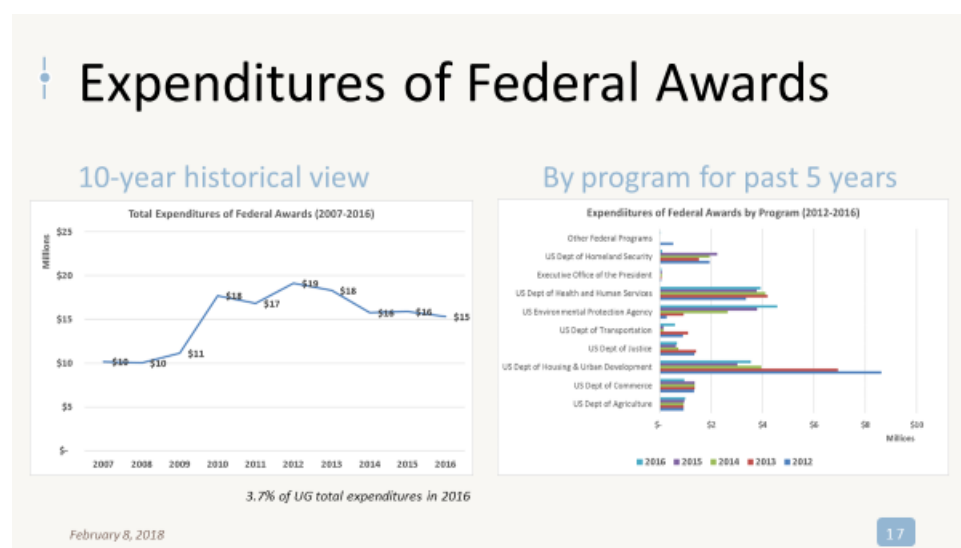
In a couple of years, we're going to ask the voters to renew our dedicated sales tax measure which generates \$11M a year. The revenue from that sales tax measure is split one-third, one-third, and one-third to neighborhood, public infrastructure improvements, police and fire. It can

be used for not only operating, but equipment and capital. That would be a significant hit if we were not successful at achieving that renewal.

There is also always an increasing pressure to reinvest in our aging infrastructure which, at a minimum, is over \$500M outstanding. We are going to come back to the Commission with more information on the amount of deferred maintenance outstanding.

We, currently, in our General Fund, we budget for roughly \$10M as a hedge in case there aren't sufficient revenues generated by the STAR bond districts in order to pay those debts. Right now, if that happened, that's something that we're legally obligated to—then also, there's all the—lastly, there's the long-term liabilities we have with our pension of \$180M and \$114M.

So, a few risks, but we're doing very well. You'll see later on some more information on how well we're doing. I don't want to scare you. From an operations standpoint, we are doing very well.



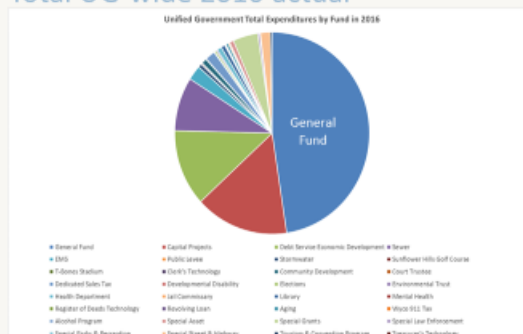
On the expenditures for federal grants, this is just one example of the risk. You can see consistently over the years; this number has been growing from \$10M to now its roughly plateauing around \$15M. These are actual expenditures from federal awards. They come from these federal departments: Homeland Security, the US Health and Human Services Department, the EPA, the Department of Transportation, Housing and Urban Development, the Department of Commerce, and the US Department of Agriculture.

Why focus on General Fund Reserves?

General Fund is primary fund

- General Fund is UG's primary operating fund.
- 2016 total expenditures of \$403 million:
 - 48% in the General Fund (blue)
 - 16% in the Capital Projects Fund (red)
 - 12% in the Debt Service for Economic Development Fund (green)
 - 9% in the Sewer Fund (purple)
- If funding pressures arise in other funds, General Fund will be looked upon to continue service delivery demands

Total UG-wide 2016 actual



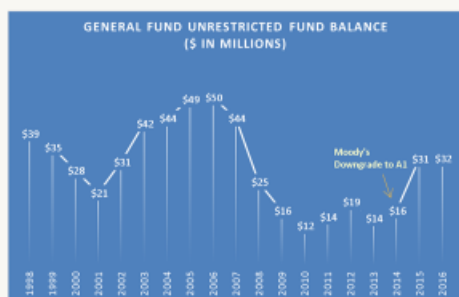
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When we think about reserves, we often focus on the General Fund. Why is that? The General Fund is the primary fund of the UG; in all governments. For governmental accounting, basically, any resources that are not required to be recorded and in separate other funds are recorded in the General Fund. For the UG, if you look at all the UG-wide expenditures for 2017, which amounted to \$403M, the General Fund comprised of 48% of them. If there was any kind of funding pressures on all these other funds here, there may be some likelihood that those programs and service delivery demands would look to the General Fund in order to continue those services.

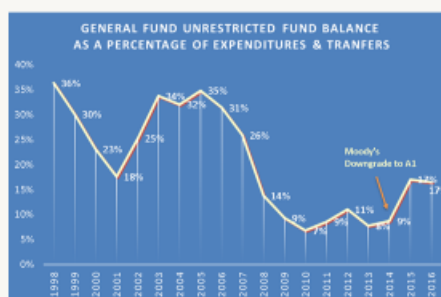
UG Historical Unrestricted Fund Balances

FUND BALANCE IMPROVING



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Currently at 2-months of EXPENDITURES



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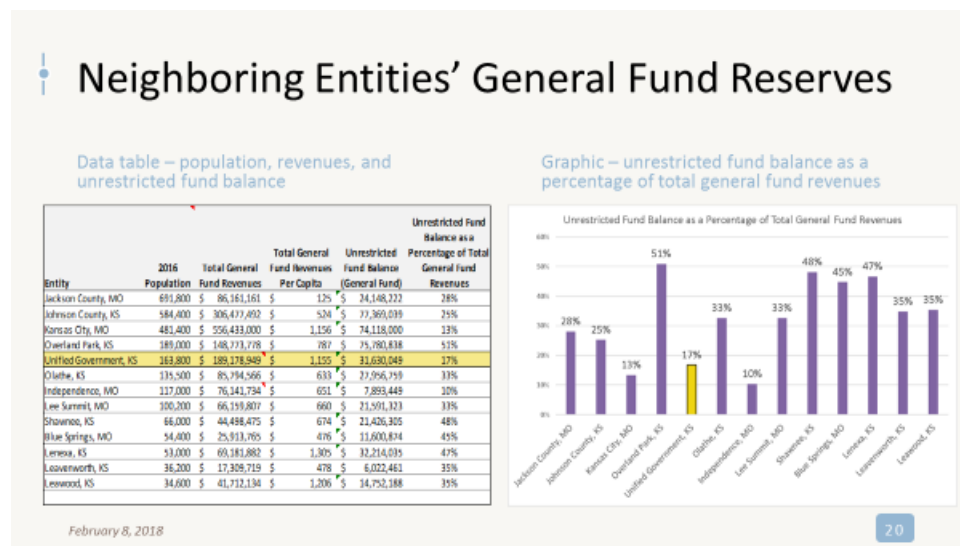
I was going to talk to you a little bit about how we're doing historically. You can see the General Fund Unrestricted Fund balance, since 1998 when we incorporated, it starts out at \$39M, dropped down a bit during the 2001, there was a little bit of an economic crisis during that time due to 9-

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11. Right? Then the fund balance built up, back up to around in 2006, and then it started dipping significantly due to that economic crisis. It lost \$40M during that economic crisis. Certainly, there were significant budget cuts during that period in order to survive through it. For the most part, the operational impact was minimized because we had that reserve level in place.

From a percentage basis, you can see 36% started here. It dropped down to 18, again, during that same period. Got back up to 35. Then during the economy, it dropped down to 7. That was the lowest point, at 7. All through this period right here, S&P has kept us at the AA rating. The only rating reduction occurred with Moody's. Moody's, at this point, dropped our status down to negative and then several years later when things were not improving, they downgraded us here. Unfortunately, they downgraded us just at a time when we were about to improve the situation. We are now at 17%;17% of operating expenditures and transfers.

What does that equate to? It equates to two months of operating expenditures and transfers. If you divide 2 into 12, you get roughly 16.66%. I rounded it up to 17.



Our neighbors, what kind of fund balance levels do they have? I got online and I looked up all the CAFRs for all of our larger neighbors. I have included their population here so you can kind of see. I've got them sorted by population; the amount of their General Fund revenues. You can do this math either with the revenues or the expenditures.

Jackson County, Johnson County, Kansas City, MO, Overland Park and then us here, 163,000 population. Right? I provided this column just as information. You can see over in the far right-hand side in this column is the percentage of Unrestricted Fund balances, a percentage of

the total General Fund revenues. Graphically, it shows like this. You can see the Unified Government is one of the few. There's only Kansas City, MO, and Independence, MO, that have fund balances at this low level. All of these others are quite a bit higher. I image Kansas City, MO's is at 13 because their revenue base is significantly more robust than ours. Their revenue base is \$556M. That's a little bit more money to hedge with. Right?

Chairman Burroughs asked can we pause here. Are there any questions from the committee before we continue to move on so we won't lose sight of where we are in the presentation?

I have one question. What percentage would put us in line to be upgraded by Moody's? Are we looking at a 30%, 25%? On your previous slide, you showed it in millions and percentage. **Ms. VonAchen** said right. **Chairman Burroughs** said it looked like anything above \$20M was going to be an acceptable fund balance. **Ms. VonAchen** said Moody's would be—we asked them that very question two weeks ago. What they told us was if we came up above the 25% level, that would be a great improvement.

There are a number of factors. The other factor that hurts us with our Moody's credit rating is our economic indexes. If the value of our land, the assessed value of our property improved, then that would also really help.

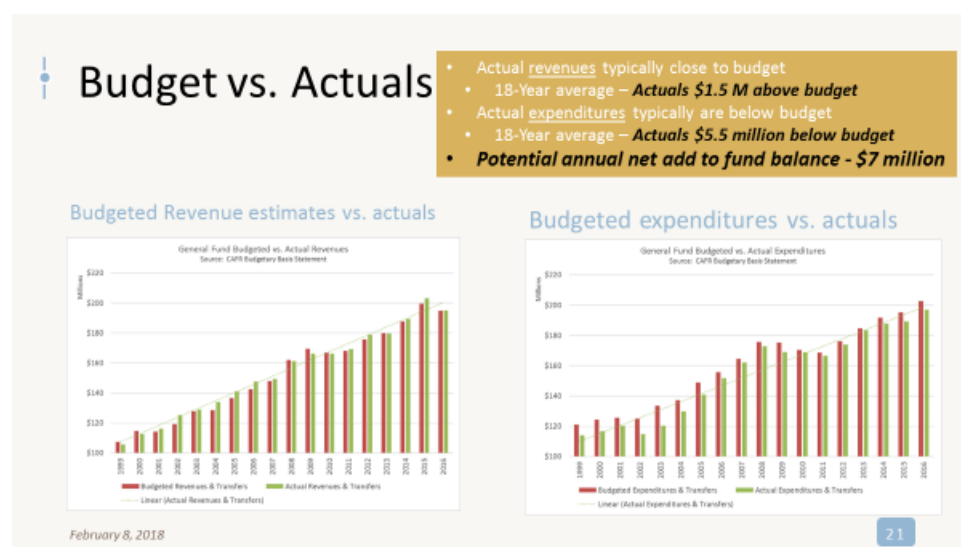
Chairman Burroughs said so you said 30%. **Ms. VonAchen** said 25%. **Chairman Burroughs** asked what does that equate into dollars? **Ms. VonAchen** said I'm going to get there too.

BPU Board Member Bryant said when you were talking about raising the balance and changing Moody's, was that just to change it to a positive outlook or to an A3. **Ms. VonAchen** said no, to upgrade. **BPU Board Member Bryant** said to A3 probably. **Ms. VonAchen** said will, I don't know about that. Not that quickly. We might—what I was talking about is I was thinking maybe they'd bring us up to Aa3, not Aa2. That would be hard. **BPU Board Member Bryant** said no, because I noticed that usually S&P has a more positive outlook, generally, and always rates higher than Moody's on pretty much everybody. I don't see you getting to a AA at Standard and being an A2 at the same time because Standard would actually probably go—S&P would probably go up at least one category if you made the move and moved you up in Moody's. **Ms. VonAchen**

said this percentage, interest rate that I was—2.85, that's if we're a AA without any kind of designation in the municipal market index.

BPU Board Member Bryant asked have they talked of anything about when you were talking to them about—is your outlook still negative. **Ms. VonAchen** said no. Our outlook is stable. **BPU Board Member Bryant** asked have they talked about changing the outlook to positive. **Ms. VonAchen** said my goal is, and we have had communications with them this past couple of weeks is, what's it going to take for us to get first, change our status from stable to positive; and then after that, from positive to upgrade.

Ms. VonAchen said so the next thing is that I image you're probably thinking is well, gee, what's the most painless way for us to grow our reserve. As you know, we estimate our revenues and actuals come in. They never come in exactly as we estimate, the same with the expenditures. There's always a variance.



What I did was I took a look at the last 18 years and I went to our CAFR which has budgetary statements. We looked—how much is that variance over that time period. You can see it here. For example, on the revenue side, the red is the budgeted number and the green is the actual. Over the course of that period, you can see that the greens are just a little bit higher than the reds most of the time. Right? But not a whole lot. They're pretty close. Over that 18-year period, actual revenues were \$1.5M on average above budget. On the expenditure side, you'll see the same. The red is the budget and the green is the actuals. On this side, not the revenues, but on the expenditure

side, we want the green to be lower than the budget. You'll see that, that, in fact, is the case for most of these years. Right? So that amount, the average over the 18 years, 5.5. If you net those two figures, you come up with potentially adding \$7M to fund balance each year if you just kind of let things ride—if you pass a balanced budget and then you don't use fund balance from the prior year. That's the next thing.

How to Fund a General Fund Reserve?

Action steps to achieve an emergency reserve in 5 years:

- 1) Adopt a balanced budget
- 2) Keep operating expenditure increases conservatively low
- 3) Let prior year budget variances stay in fund balance don't budget fund balance, REFER TO step 1



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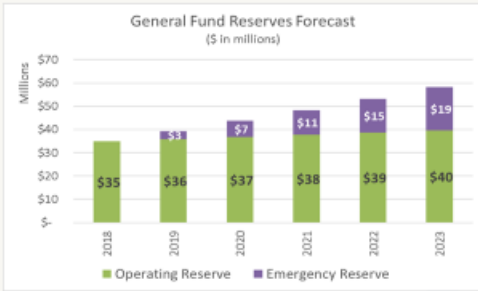
This is the action step, real simple on how to grow the General Fund Reserve. You adopt a balanced budget and then you keep all operating expenditures and expenditure increases conservatively low, and then whatever revenue above budget or actual expenditures below budget, you just let that money stay in fund balance. Don't budget fund balance which, again, then you refer back to Step 1 which is adopt a balanced budget.

General Fund Reserve 5-Year Forecast

Forecast Results by following the 3 Actions Steps:
Adds \$5 million to reserves for each of the next 5 years. Remember, net budget variance was \$7 million for the past 18 years.

Assumptions

- Assumes 2017 & 2018 General Fund Unrestricted Fund Balance remain at 17% of ongoing expenditures and transfers
- For 2019 to 2023, General Fund on-going actual expenditures conservatively increased by 2.5% annually
- Additions to Emergency Reserve (one-month operations or 8% of actual expenditures) evenly distributed over the 5 year period



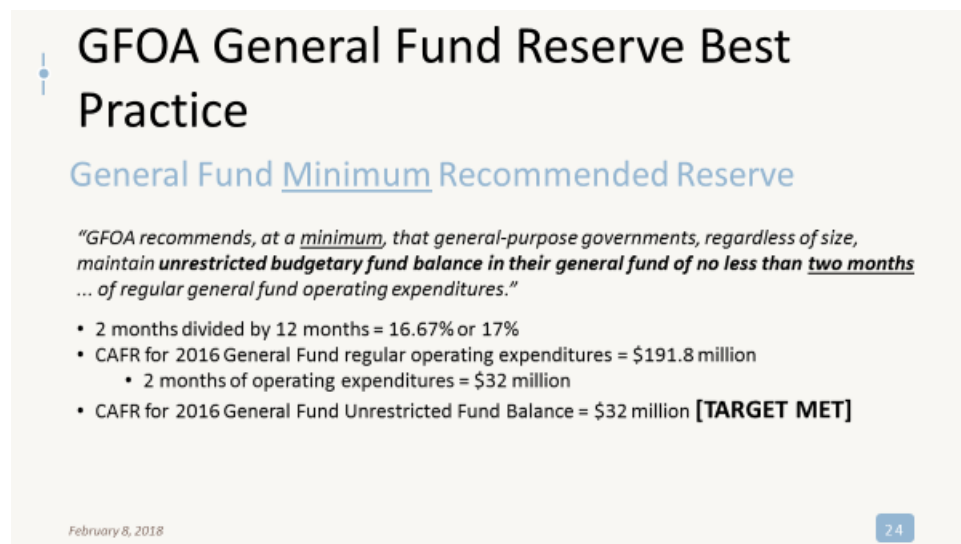
Year	Operating Reserve (\$M)	Emergency Reserve (\$M)	Total Reserve (\$M)
2018	\$35	\$0	\$35
2019	\$36	\$3	\$39
2020	\$37	\$7	\$44
2021	\$38	\$11	\$49
2022	\$39	\$15	\$54
2023	\$40	\$19	\$59

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How does that look? If we were to adopt that approach over the next five years, given these assumptions which I have here, and we very modestly increase our operating expenditures by 2.5% annually and we let any kind of—and then we kind of evenly spread—because remember I told you that our current fund balance is at 17% of expenditures. Right? If we wanted to add on one more month of operating expenditures from two months to three, we'd need to come up with roughly \$16M. We're not going to do that in one year. We're going to do that over time, over five years. This is what this looks like over five years if we gradually added to our fund balance by splitting up that \$16M over a five-year period. Roughly what it looks like is that we need to add \$5M every year to the fund balance in order to get to that level in 2023.

Right now, the one month of expenditures cost \$16M. That's based on our current total expenditure level, as you know, which is roughly around \$200M. I think it's \$204M. Every year that number grows because we're paying additional salary increases in our union contracts and inflation basically. If you factor that in, by the time we get to year five, the increase is more than just the \$16M. Little by little, if you dedicate \$5M to the reserves, you're going to get to that three-month operating expenditure level. Remember, earlier I showed you here that just allowing on average the difference of the budget variance to go to fund balance would equate to \$7M. I'm only suggesting we forecast \$5M a year.



GFOA General Fund Reserve Best Practice

General Fund Minimum Recommended Reserve

*"GFOA recommends, at a minimum, that general-purpose governments, regardless of size, maintain **unrestricted budgetary fund balance in their general fund of no less than two months** ... of regular general fund operating expenditures."*

- 2 months divided by 12 months = 16.67% or 17%
- CAFR for 2016 General Fund regular operating expenditures = \$191.8 million
 - 2 months of operating expenditures = \$32 million
- CAFR for 2016 General Fund Unrestricted Fund Balance = \$32 million **[TARGET MET]**

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What I am proposing in this General Fund operating reserve is that we increase the current limit, which at the moment is 10%, increase it to two months of operating, at a minimum, which we're calling the operating reserve. GFOA recommends this. At a minimum, this is what I would like

to see changed in our policy, is to increase it from 10% to 17%, which is the target we're currently in place. We're there now already.

GFOA General Fund Reserve Best Practice

General Fund Recommended Emergency Reserve

*"Furthermore, a government's particular situation often may require a level of unrestricted fund balance in the general fund significantly **in excess of this recommended minimum level**...within the context of long-term forecasting."*

- CAFR for 2016 General Fund regular operating expenditures = \$191.8 million
 - For example: 1 additional month of operating expenditures = \$16 million



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Also, what I am—in addition recommending, is—and GFOA does as well—is to have an emergency reserve.

GFOA Reserve Risk Assessment Tool Results

GFOA Risk Assessment Tool: Guiding Your Selection of a Fund Balance Target

Step 1. Determine your total score from the risk factors

31 Your total score from the risk factors (calculated if you entered a score in other sheets)

Step 2. Preliminary Analysis
Compare your score from Step 1 to the guidelines below:

Your Score	Analytical Guidance
8 - 16	You face minimal risk to retain through reserves. Consider a target equal to the GFOA minimum recommended reserve of 16.6% of revenues/expenditures.
17-24	You face a low to moderate level of risk to retain through reserves. Consider adopting a reserve target somewhat higher than the GFOA minimum (e.g., 17-25% of revenues/expenditures). Since risk is low, do not invest excessive analytical effort in determining an exact target amount. Consider a short, informal benchmarking study with peer agencies to provide guidance.
25-31	You face a moderate to high level of risk to retain through reserves. Consider adopting a target amount of reserves significantly higher than the GFOA recommended minimum (e.g., 26 - 35%). Consider a short, informal benchmarking survey as a starting point, but then analyze your most significant risk factors to make sure they are adequately covered by what the survey suggests is reasonable.
32 - 40	You face a high level of risk to retain through reserves. Consider adopting a much higher target than the GFOA minimum (e.g., greater than 35%). Consider performing a more in-depth analysis of the risks you face to arrive at target level of reserve that provides sufficient coverage.

c-UG

GENERAL Risks and drivers

Risks

- Vulnerability to extreme events and public safety concerns
- Revenue source stability
- Expenditure volatility
- Outstanding liabilities
- Other funds' dependency
- Capital infrastructure needs

Drivers

- Commitments & assignments
- Budget practices
- Government size
- Borrowing capacity
- Political support

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You remember all those liabilities and risks I talked about at the beginning. I have done, I've used a GFOA assessment tool to figure out how much, given our liabilities, how much emergency reserves should we have. In this example here, I said one month. Here's some information of our risk assessment tool. What they asked me were questions related to these risks and these drivers. This is basically a spreadsheet tool. It had about ten different tabs. I entered a bunch of information

in there related to the liabilities and risks I talked about earlier. What it spit out is that we have a score of around 31. Thirty-one is right in this category here. Based on the GFOA tool, GFOA is saying that we should have a 26-35% fund balance. I'm recommending 25.

Proposed UG General Fund Reserves Policy

PTAFF RECOMMENDATION

General Fund Reserve Recommendation (VI. A.)

Operating Reserve:	2-months of on-going operating expenditures, or 17%
<u>Economic Uncertainty / Emergency Reserve:</u>	<u>1-month of on-going expenditures, or 8%</u>
Total Fund Balance Reserves:	3-months of on-going expenditures, or 25%

Compliance (VI. B.)

- Measurement at December 31st as part of annual financial audit
- If target level of reserves are not being met **or likely to not be met at some point within a five-year time horizon**, then during the annual budget process, fund balance levels will be provided to the Mayor and Board of Commissioners
- Should the projected year-end fund balance **be below the reserve amounts**, a **plan to replenish the reserves would be established** to achieve reserve levels **over a five year period**

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The recommendation is and, of course, it is aspirational because this is your policy. This is the Commission policy. It is to reach the three months. We're already at the two month—to add on another month over the next five years, and for staff to report back to you at the end of the year how we're doing and how close we are and to incorporate those kinds of policies and goals into our long-term financial planning documents so that you can factor that in as you make long-term plans.

The policy also talks about ways in which the fund reserve, which goes back to what I recommended before, excess revenues over expenditures or any kind of one-time revenues, and that the Reserve Policy is that we would fund the operating reserve, the two-month one, before we fund the third month.

Proposed UG General Fund Reserves

Policy continued

TAFB RECOMMENDATION

Funding the Reserves (VI. D.)

- Funding of General Fund reserve targets will come from excess revenues over expenditures or one-time revenues
- The reserve will be funded in the following priority order: Operating Reserve followed by the Economic Uncertainty/Emergency Reserve

Conditions for Use of Reserves (VI. E.)

- **Operating Reserve: 2-months of ongoing expenditures**
 - Limit use to address unanticipated, non-recurring needs, not recurring operating costs
 - Used to allow time for UG to restructure operations in a deliberate manner with a LTFFP
- **Economic Uncertainty/Emergency Reserve: 1-month (at the discretion of the Commission)**
 - Provide resources to make up for temporary decreased revenues resulting from economic uncertainties or loss of major revenue sources
 - Provide resources to meet emergency expenditures in the case of flood, fire, tornado or other natural disaster or emergencies

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These are some conditions for the use of the reserves. That was one of the areas I wanted to add to our current fund balance policy. Right now, there's no detail as to when can we use the reserve; and once you use the reserve, how do you replenish it. The operating policy really is one where we're providing our organization with sufficient liquidity. What does that mean? We don't want to bounce checks, let's just put it that way.

There's seasonality in our cash collection so we want to make sure we have enough cash to meet our demands. If our demands are greater, let's say, at the beginning of the year but our cash doesn't come in until later in the year, then there's a disconnect there. That two-month reserve policy allows for that. It also provides us with sufficient resources for non-re-incurring needs. If there is a terrible winter storm during the early part of the—let's say in the fall, then at least we've got that money in place to be able to cover those expenses.

Chairman Burroughs asked why would we not want to fund the General Fund versus creating all these additional reserves. Why would we not want to just increase the General Fund ending balance as a reserve? **Ms. VonAchen** said we are talking about the General Fund ending balance. That is what we're talking about.

Chairman Burroughs said maybe I'm misunderstanding here, but you created all of these other reserves. **Ms. VonAchen** said within the General Fund. **Chairman Burroughs** said in the General Fund budget. When I look at my bottom sheet—when I look at my budget sheet, is it going to say General Fund reserves of \$47M or is it going to say \$16M plus \$25M plus \$13M plus \$7M? **Ms. VonAchen** said just think about—we don't budget fund balance. It's basically what's

left over. Right? It's your checking account. Think of it that way. It's part of the General Fund. We're not creating funds; we're creating categories in order to set aside cash and resources.

Chairman Burroughs said so, I specifically—this gets to my next question. If we have an economic downturn and we don't have enough reserve in the economic uncertainty emergency reserve fund, I can then go into the General Fund and pull additional dollars out and supplant those dollars, or can I only spend those economic uncertainty dollars on economic uncertainty? Are we tightening it up? Are we putting a lockbox in place for the purpose of keeping those reserves there specifically not to be touched only for those reasons and we can't use them if we need a General Fund assistance?

Ms. VonAchen said these reserves are not separate funds. They're all part of the General Fund. At fiscal yearend, we would basically have, for example, at the end of the year if we had \$32M in the fund balance; let's say we had \$32M in the fund balance and we decided a certain portion of that is going to be dedicated to emergency and the rest to operating. The emergency would be assigned to that category called emergency, which is basically just a journal entry that shows it so that it's separately recorded, but it's still in the General Fund. It's like a category, a category of fund balance.

Chairman Burroughs said we just hope that we weren't tying our hands with building these reserves and not hitting the criteria to utilize those reserves and needing additional money. I don't want to have to go out and see us have to go out and bond or borrow.

Ms. VonAchen said these are completely within your discretion. That's the thing I got here. The economic uncertainty and emergency fund is set aside, I'm recommending one month, and it's completely at the discretion of the Commission. Your goal—this is your policy document. You can set it however you want to going forward. The recommendation would be that this reserve would provide resources to make up for temporary decreased revenues resulting from economic uncertainty or loss of major revenue sources. It's a very kind of general description. I'm not saying if the economy—if we have unemployment at a certain percent then you can use it. It's entirely based on your own discretion.

Secondly, it's to provide for emergency expenditures due to floods or other emergencies. There's no legal restriction on it.

Happy to have any questions you have or further questions because next, we're going to talk about the special revenue funds, which are a lot easier.

Commissioner Walters said I have a comment. I wouldn't—this is a little bit too cautious for my taste. We recognized this pattern of conservatively predicting revenue and always exceeding that prediction and then coming in on the low side of expenditures, which is good, and then we always just put that toward increasing our reserves. The problem with that is, at the end of the day, we're telling our citizens that we cannot give them tax relief because we really need their money in our bank account in case something happens. That's the exact discussion we had last time we went through the budget and I proposed an additional mill levy reduction instead of continuing to add money to our reserves. I think when we have had presentations from our auditors, they've been more—I have heard them say that they're more concerned about our debt than our reserve levels.

I don't like the idea of increasing our reserve levels to make interest on that money so we can pay off debt. I would rather not have the debt in the first place. That's why my priority is more toward reducing our debt and reducing taxes than increasing our reserves.

Ms. VonAchen said, Commissioner Walters, I think that we should do all three, absolutely. The credit rating agencies also have a concern about our debt load, absolutely. **Commissioner Walters** said the problem is, since I've been on the Commission, we haven't reduced debt, we have increased our reserves, and we haven't significantly cut taxes. I think it might just be appropriate for us to back off such an aggressive financial policy and keep our options open.

Commissioner Townsend said I'm going to need more time to evaluate it at the level that Commissioner Walters just spoke to, which really goes to my current comment. Is there any way in the future, if we have these discussions again, that we can maybe take smaller bites of this or must this be presented—I mean this is a lot to consider. Is it possible, I'm just asking, to have a discussion just on the reserves or just on policy A, I'm just asking because this is a lot to comprehend at one setting. **Ms. VonAchen** said yes, we can. That's part of our budget retreat which we're going to have, we're scheduling it but we think we've got it on the calendar for March 7th.

There isn't pressure to renew these policies at this very—next month per se. This is an opportunity for us to look at them at this time. They're about five years old. You've got a month to review this information along with this PowerPoint. I'm not asking for any action today. Next month when we take it back up again and talk further about this—at this point, what I am looking

for is maybe some more direction from you as to maybe some additional information that I can provide.

Commissioner Townsend asked will this committee take this up again before the retreat or after the retreat. **Ms. VonAchen** said our next committee meeting is March 5th and the retreat is March 7th. You don't have to vote on it March 5th. You can wait until April if you'd like. These are your policies. We're just providing you with the recommended best practices and the rationale for those. **Commissioner Townsend** said I guess that's it. I would like to see this committee reconsider it after we have had the retreat and that would give the body another opportunity to look long-term at what we want to do. That's just my view of it.

Commissioner Townsend asked was that presentation included when this went out two weeks ago. **Ms. VonAchen** said no.

Special Revenue Funds Reserve Policy

Highlights of proposal

- Documents current policies and practices
- Purpose and Definitions similar to proposed General Fund reserve policy
- Reserve target ranges same as existing reserve policy
- **Revisions for some funds that have been added or renamed since 2012**
- Compliance, use of reserves and funding the reserve targets similar to proposed General Fund reserve policy
- Use of reserve follow laws and regulations governing the use of these special revenue funds' resources

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Debbie Jonscher, Deputy Chief Financial Officer, said I'm just going to give a brief overview of the Special Revenue Funds and the Enterprise Funds changes to the policies. For the Special Revenue Funds, we just got a list of the highlights of all the proposals that are noted in the policy. We've, obviously, added—the document contains the current policies and practices and the definitions similar to the General Fund Policy.

The reserve targets/ranges are the same as they were in the existing policy. We haven't changed those; however, we had made revisions. If there had been any new funds added or funds have been renamed since the original policy in 2012, those have been noted in the policy. Reserve

target change—I skipped over that, are the same as existing reserve policy and most of those funds range anywhere from 5 - 15% reserve. Each of those funds are listed in your policy.

Compliance, use of reserves and funding. Reserve targets are similar to that proposed within the General Fund Reserve Policy. The use of the reserves follow the laws and regulations governed for each of these special revenue fund resources.

Enterprise / ISF Funds Reserve Policy

Highlights of proposal

- New policy
- Documents current general practices
- Compliance, use of reserves, funding the reserves same as proposed in other reserve policies
- Sewer and Stormwater funds working capital reserve **target ranges set at 40% to 50% of operating expenses; GFOA recommends**
- Other funds dependent on General Fund subsidy have 5-8% working capital target ranges
- Self-insurance internal service funds seek to attain asset levels (cash) to meet “marginally acceptable” funding status for claims reserves per actuarial report
 - This approach is recommended by GFOA and Insurance Industry.
- Potential creation of Equipment/Vehicle Replacement Fund to evenly spread cost of replacement over the life of the assets

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The next fund is the Enterprise Internal Services Fund Policy. This is a new policy. We did not have an Enterprise Internal Service Fund Policy back in 2012. It contains a lot of the same information that you’ve seen in the other policies.

The Sewer and Stormwater Fund working capital reserve target range is at 40 - 50% of operating expenses. This is a recommendation from GFOA. We’ve also worked with our Public Works Director who’s also in agreement to this reserve.

Other funds that are dependent on General Fund subsidies have a typical working capital target of about 5 - 8%.

The self-insurance Internal Service Funds seek to obtain cash levels that meet marginally acceptable funding status for claims reserves per the actuarial report. This is an approach that’s also recommended by GFOA and the insurance industry.

We’re also looking at the potential creation of an Equipment and Vehicle Replacement Fund that would spread out the replacement of costs over the life of the asset. That’s currently—we’ve included language in the policy for that fund; however, we have not created that yet.

GFOA Recommendation For Utility Reserves

Minimum + other risk mitigation

- Minimum “working capital” for a utility is recommended to be **25% of operating expenses**
 - Working capital = current assets minus current liabilities
- Additional reserves recommended due to:
 - Cash cycles / seasonality (*i.e., treating affluent must continue, even if cash runs out*)
 - Assets age / condition; Older assets have more unexpected maintenance costs
 - Utility incurs higher operating costs due to harsh conditions during weather seasons
 - Management is saving for future cash-funded capital projects (EPA mandates)
 - Current and anticipated future debt load level

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These are just GFOA recommendations for utility reserves. The minimum working capital for utility is recommended to be at 25% of operating; however, we stated that we’re looking at 40 - 50%.

Additional reserves would be recommended due to changes in cash cycles. You may have revenue that’s seasonal which could change depending on what happens during the year with the weather or other things that come up. The age of the asset or the condition. Obviously, older assets require more maintenance costs. Utilities incur higher operating costs during harsh weather conditions. Management is also saving for future cash-funded projects as opposed to using debt. You also would have EPA mandates. Current and anticipated future debt levels could also be used with those additional reserves.

UG Sewer Enterprise Fund Working Capital

Staff Recommendation

- Staff recommends working capital reserve target range of 40% to 50% of operating expenses
- **TARGET MET**
- Benefits for UG Sewer Utility Fund:
 - Meet service level demands
 - Smoother operations
 - Increase pay-as-you-go capital project funding to avoid future borrowing (interest) costs
- Generate more investment income

Working Capital Since 2002



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This is just a recap. As we said, the staff recommendation is to target a reserve of 40 - 50% of operating expenses. This graph just shows our operating expenses over the previous 15 years. The line shows the target where we're at.

Ms. VonAchen said actually this is the working capital as a percentage of our operating expenditures. This graph shows how if you were running a business, you probably wouldn't have that level of change in your working capital. One of the objectives is to keep it kind of consistent over the course of time in order to manage your resources more effectively. So, you can see how it dipped significantly during the economic downturn. We're already at the 40 - 50% level as you can see in 2016 here.

Ms. Jonscher said so the benefits of having that target allows us to meet service level demands and maintain smoother operations. It also allows us to increase pay-as-you-go capital funding to avoid future borrowings, and it generates more investment income.



Ms. VonAchen said the last policy that we have here for your review has to do with capital asset and equipment inventory which is a vital part of the services we provide to our citizens. This is a new policy. It's basically documenting and strengthening our current procedures and practices. This is a great number of people throughout the staff and all the departments work in this area of the CMIP.

What we have found is that we need a clear, clear definition of what an asset is, the categories, how to submit your project, how the project is evaluated, what criteria is used, all of

those were things that I found or observed as we went through the last couple of budget cycles with the Commission; lots of discussion about that.

I have brought Jeff Fisher here for him to comment as well. Generally, I've provided the policy here for you to review, but I'm just going to give you a little recap here.

Proposed Revisions to Capital Asset Policy

DOCUMENTS and strengthens CURRENT PROCEDURES AND PRACTICES

PURPOSE	DEFINITIONS	Roles & process
Provide guidelines to complete a comprehensive process that allocates limited resources for capital investment and guides management decision making process.	Clearly defines capital asset and equipment budgeting terminologies. Defines capital projects and equipment to valued at \$50K or more and a useful life of at least 5 years. (Currently only \$5K)	Specifically communicates the UG's stakeholders' roles, process for review of project proposals, and goal to link projects to master plans and needs assessment analysis.
Selection criteria	Financing strategies	Condition assessment
An objective set of criteria used to assess and evaluate project proposals. Policy communicates the core principles for development of project selection criteria.	Communicates UG's existing capital financing strategies and practices. Expresses intent to partially shift from vehicle/equipment lease financing to a pay-as-you-go approach.	Expresses commitment to conducting comprehensive asset inventory, including assessment of condition, replacement and maintenance needs with lifecycle cost approach.

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The purpose of this Capital Asset Policy is to provide guidance to complete a comprehensive process that allocates all the limited resources we have for capital investments and guides our management decision-making process. Here, we've clearly defined what capital assets are, what equipment is, and other budget terminology.

One change that we are recommending in this policy is that currently the Capital Maintenance Improvement Plan (CMIP) says that if your item costs more than \$5,000, then you get listed on the CMIP. Five thousand dollars is too low. You don't focus on what is the strategic and major and more important items. We are proposing to increase it to \$50,000. The useful life is still at five years. That's because we do acquire various things, especially in the technology area that have very short useful lives.

Roles and process. We are specifically communicating that the UG stakeholders, the process for review of the project proposals, how the goal is to link the projects to master plans or specific needs assessment analysis.

The next is the selection criteria. We'd like to set up an objective set of criteria, but in this policy, we're not really talking about criteria for project selection. We're talking about providing some core principles. I'll talk more about that later in the next slide.

Financing strategies. Right now, we have several—there are two strategies. You can fund it with cash or you fund it with debt. Right? Of course, there's also the lease financing which we're hoping to kind of shift some of our lease financing of our equipment to pay-as-you-go cash, but not entirely. That's communicated in our policy. Those are the existing strategies. We're not changing anything here, it just isn't documented anywhere.

Asset Inventory & Condition Assessment



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Comprehensive analysis for decision-making

- Conduct a comprehensive asset inventory that estimates replacement and maintenance needs for 6 years.
- Asset inventory will describe:
 - current condition of UG assets,
 - establish standards for asset condition,
 - account for complete cost to maintain assets up to standard over their lifecycle, and
 - accounts for risks associated with assets below condition standards.
- Each department responsible for inventorying and assessing assets under their purview.

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Finally, conducting a condition assessment, expressing the Unified Government's commitment to conducting that comprehensive asset inventory, assessing the condition of our assets, the replacement and maintenance needs. What are those costs over the lifecycle of the asset?

A little bit more on the assessment condition. We're going to conduct that assessment over—we're going to provide that over a six-year period. I might have Jeff comment on this section.

Jeff Fisher, Executive Director of Public Works, said you might recall in the last year, Public Works creating a new asset management group. It's in the Engineering Division. We restructured that, staffed it up, and added some resources to help them do their work. They've been working with the other divisions: Sewer Maintenance, Streets. You might recall, we have a vehicle driving around the city, I think it's back next week, assessing all the pavement conditions.

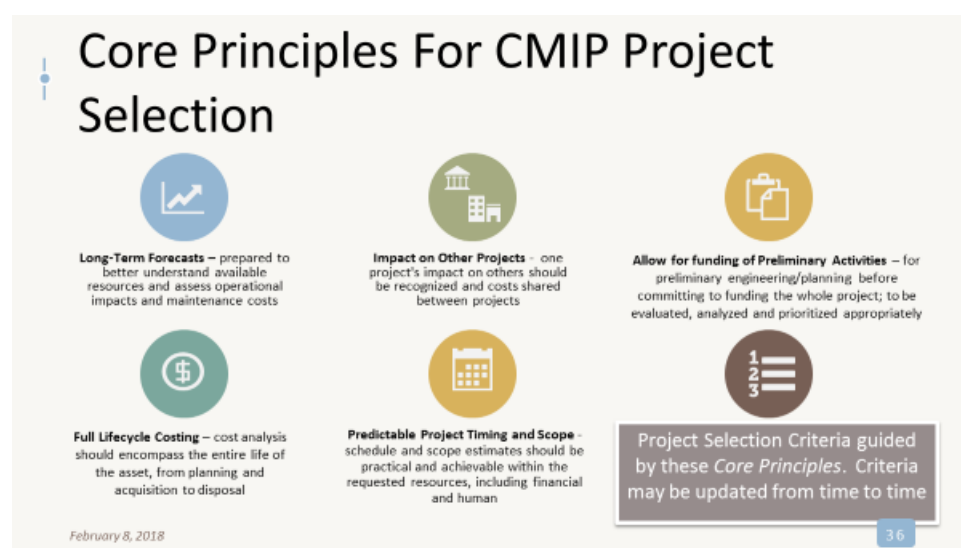
Now we've got Wastewater Division trying to figure out how best to assess the condition of things that are underground like stormwater and wastewater. Right? We've got a decent feel for condition assessment with that system, but it's a big system. It's combined; it's separated.

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Assessing each is different so they're going through that process to determine how best to do that and be effective with it.

It's really important to this asset management program: what our conditions are, how we're going to assess it, what our conditions are, the value of that, and then like that scoring criteria that's been mentioned, objectively identifying the highest value projects and considering gas, water, electric to kind of simply overlay all of those needs, that deferred maintenance, that work that needs to be done, you overlay all those needs on top of each other and you have this scoring criteria and you determine what projects are going to happen when. You're going to know how much they cost. You're going to know five years in advance that they need to take place. All of those parties can then plan for that and be really coordinated and effective with that.

Commissioner Burroughs asked, you have the personnel for that. **Mr. Fisher** said yes.

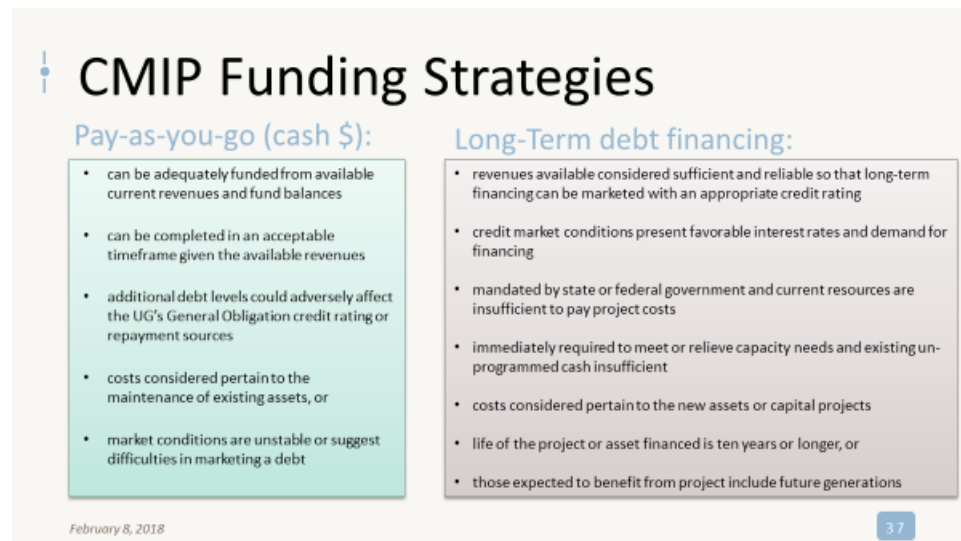


Ms. VonAchen said as I mentioned, the policy doesn't really talk about criteria for project selection. It just provides some core principles. The core principles are that those decisions be made within a long-term forecast so that we better understand what available resources are there and assess the operational impact of the project. If you're building a recreation center, let's make sure that we have the staff to run it, for example.

How does this project impact other projects? Can we change the scheduling so that we're hitting one, say neighborhood, during the same time period or other issues which, I'm sure, Jeff can talk about in more detail.

Allow for funding of preliminary activities. Often times we want to go ahead and proceed with looking at the design and preliminary engineering before we commit to funding the entire project so it provides more analysis.

Full lifecycle costing of the entire asset from the beginning of the planning stage, acquisition, to disposal. Then, also, predictable project timing and scope. Those are the core principles.



CMIP Funding Strategies

Pay-as-you-go (cash \$):

- can be adequately funded from available current revenues and fund balances
- can be completed in an acceptable timeframe given the available revenues
- additional debt levels could adversely affect the UG's General Obligation credit rating or repayment sources
- costs considered pertain to the maintenance of existing assets, or
- market conditions are unstable or suggest difficulties in marketing a debt

Long-Term debt financing:

- revenues available considered sufficient and reliable so that long-term financing can be marketed with an appropriate credit rating
- credit market conditions present favorable interest rates and demand for financing
- mandated by state or federal government and current resources are insufficient to pay project costs
- immediately required to meet or relieve capacity needs and existing un-programmed cash insufficient
- costs considered pertain to the new assets or capital projects
- life of the project or asset financed is ten years or longer, or
- those expected to benefit from project include future generations

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These are the funding strategies for pay-as-you-go and long-term debt financing. I'm not really going to go over these because these are no different than what we consider and use currently. At least the policy documents that decision-making process and criteria.

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That's it. That's all I got. There's no action requested today. We're just providing this information for you to go back and review and think about. I highly encourage you to contact me or email Jeff or Debbie or Reggie and I and we'll be happy to answer any questions you have.

Chairman Burroughs said I want to thank you for your presentation. It is truly in-depth. I might encourage the committee members that this is a big apple to eat in one bite. We may want to, moving forward, take a chunk of this policy once a month or every quarter and look at it and update it and get more familiarized with it so that we have ownership and fingerprints on this instead of just trying to eat the whole apple in one bite. By working on it quarterly, it allows us a chance to work through it and digest it a little easier and come forward with questions. I might suggest that to the members and encourage them to bring forth any concerns in reference to the reserves and debt reduction instead of doing it all at one time.

Commissioner Townsend said I think, Mr. Chairman, you were agreeing with the recommendation I made earlier. This is a lot to digest at one time and very important. If it's possible in the future to dissect some of these things so we really grasp the importance of what it is you're telling us with regard to the particular subject matter. For example, the CMIP portion at the end might have been easily separable for another time or put it with that. Just an example. I like CMIP.

The other thing is, I, again, would like to see this committee take this up again after we've had the retreat so that the body as a whole, the full board, gets a chance in our strategic planning

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to consider what's out here and then come back. They may have input that they want to share too before this committee takes it up again; just my recommendation.

Ms. VonAchen said I would like to point out that it's always difficult to find time to write policies. I want to remind you that any policy—this is all, for the most part, except for the emergency reserve portion, pretty much documenting current practice. Secondly, any policies that we do adopt or move forward with can always be reviewed every year and revised and tweaked. Just something to consider.

Chairman Burroughs said I appreciate that statement; however, we're responsible for those policies and we want to ensure, I'd like to make sure that the policies that we're supporting are policies that we understand and know the ramifications and what it's going to cost us as far as financial risk assessment too. I don't want to implement a policy that ties our hands because we're trying to rush something through to meet policy revision.

Some of us will read it. I think it's a prudent thing to do is look over the policies and ensure that they really will do what we hope they'll do. We heard a policy tonight that we've had on the books, an ordinance that wasn't being utilized. If we implement policies that we're not—to implement and we don't use them or they don't allow us to achieve a goal, then we're restricting our opportunities.

I like to be able to review them on a quarterly basis possibly instead of doing them all at one time, the beginning of the year, so we can do maybe a 30-minute presentation versus the entire apple in one bite. You're very thorough, Kathy. Thank you.

Commissioner Bynum said just a couple of quick comments. I really appreciate the—I'm impressed with the level of work and analysis that you've done. It's my guess that come retreat time and then budget time what we're going to end up with is probably a couple of hybrids of what you proposed.

Given the goals of the various commissioners, I think we all want continued mill levy reduction. I think you're going to be hard pressed to sway us away from continuing to pursue mill levy reduction, again, as opposed to reserve building.

I did want to say—**Ms. VonAchen** said those two things are not mutually—**Commissioner Bynum** said they don't have to be mutually exclusive. I think you know that already anyway. I did want to say, I think with regard to Mr. Fisher's CMIP and Public Works' comments, I think we saw at Public Works and Safety, I think we saw some presentations about the ways that you are handling the asset management. That's probably information that came through a different committee, but I think other commissioners have seen a lot more of that presentation is my point. I thank all of you—I look forward to the budget retreat, but not more pages of policy.

Action: For information only.

Item No. 3 – 1870...UPDATE: URBAN DEVELOPMENT GAP FUND POLICY

Synopsis: Update on the Urban Development Gap Fund Policy, submitted by Jon Stephens, Economic Development Director.



Jon Stephens, Economic Development Director, said the issue back before you tonight from the direction of this committee previously was to come back with some follow-up related to a W of questions that were brought up at the last session. We've gone back and reviewed that and distilled that.

What We Are Here For Tonight

- Review the Revised Urban Development Gap Fund Policy Framework
- Review key program component options
 - Loan versus Grant
 - Source of Program Funding
 - Total Program Cap Amount
- Provide feedback on structure
- Approve policy to guide staff

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Tonight, I think the best approach is to do a brief review of the framework of the policy as it was proposed. Then, I think from a staff's perspective, we quill it down to three core items or issues that we really need more of a policy direction on versus programmatic direction. We would seek some feedback on the structure at least tonight. If there's clear consensus, potentially approving some consensus on a policy direction that we can then refine and move forward with.

In short, and I believe when I first brought this Gap Fund Policy before ED&F, I didn't even have a beard so I will not go through it in detail, but I would very much request that at any point if I'm not being clear, if there's confusion as to what the structure of the program is, please, please jump right in and ask the question.

Overview

The Unified Government Urban Development Gap Fund was established by the UG Commission to assist with the financing and facilitation of renovations, revitalization and attraction of new business ventures in the City of KCK.

This funding is intended as supporting revenue to leverage more investment into the community.

By utilizing the Gap Fund program, the UG seeks to bring needed projects to the community that meet citizen needs, improve quality of life, and make Wyandotte County more desirable place to live and work.

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The Gap Fund Program was established by this Commission to assist with financing and facilitation of renovations and revitalization and attraction of new business to KCK, specifically in the urban core. It was designed to leverage more investment into the community. In essence, truly be a gap fund. By utilizing the Gap Fund Program, we seek to meet the needs of the community, to improve the quality of life, and make Wyandotte County a more desirable place, which is in meeting with the Commission goals.

In short, the structure of the design is that it would provide up to a 10% of the total project cost as a gap because we were hearing from many different developers of all types that in the urban core, there were just other costs, lack of financing, lack of the ability to assemble capital, and in reference, a small 10% or less of the full project costs could be the difference between the project being built and the project not being built.

Program Item 1: Grant versus Loan

Financial Implications to UG:

A grant program would generally require ongoing annual debt service of the principal and interest. Would likely be set at a 20 year term.

A loan program would be assumed to have some variable cause return based upon projects. Therefore, the outstanding debt service would be assumed to be less than a grant program.

Program could be a grant based program for some types of developments and a loan based program for others.

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The first policy issue at hand is grant versus loan. That was never clearly defined previously. When myself and staff came back to you the first time with a structure on policy, we proposed it as a loan program. In further questioning, we sort of laid out that the loan program could be a cause return based on two factors. One, it could actually be structured and it would probably be primarily in commercial projects. This would be a zero interest or low interest loan that then is paid back in many instances like a traditional payback of other loans, but it would most likely because if they cannot get other bank financing or other private financing, it would probably be setup to be at a lower interest rate or even a zero-interest rate loan in order to assemble their capital stack.

Or, we then explored the idea that this formula could be what we termed an indirect loan program, which means we track it based upon increased property values, tax payments, all of the other benefits of that development that are coming back to the UG and then we're able to—we would work to track what the additional revenue coming into the UG was generated by that project and then basically track that and equate it to this loan. We would not directly be seeking repayment by the developer, but we would utilize tracking of the revenue generated from that project to consider repayment.

Then the grant program was proposed. That is exactly as its outlined. There would be no repayment. This would be a grant that would be given to this project or to a project, and it would be still followed, the requirements of being beneficial to the community in all the ways, meet all

the other standards that we would place upon this development, but the capital outlay would be a grant to that project and that would be the end of the allocation.

BPU Board Member Bryant asked so if I'm understanding, the indirect would almost be like a grant. **Mr. Stephens** said it would. **BPU Board Member Bryant** said except that there would be an increased expense to track it. You're just looking to see the benefits that you would be seeing anyway if you had done a grant. It would be a grant plus. **Mr. Stephens** said correct. It would be a grant plus. It would basically add, someone said to add a layer of staff time or a layer of staff cost, but it could also add a layer of due diligence to ensuring that those projects are performing.

Mr. Stephens said the financial implications are generally—we don't need to belabor it, but the financial locations would generally be the same. They would be reduced with the direct loan program. Direct loan program repayments, those could be anywhere from when the project is completed and sold—in some instances up to a 20-year term of repayment, so obviously the debt burden to the Unified Government of that loan would be lessened based on whatever the terms were negotiated within that development program or development agreement.

That's the first issue, grant versus loan.

Program Item 2: Source of Funding

Option 1:

Gap Fund is bonded through GO Bond issuance:

- Allows for immediate implementation of program
- Allows for flexibility by Commission on program cap amount
- All Gap Fund outlay must be debt serviced (interest only or corpus and interest)

Option 2:

Gap Fund is allocated by Commission in budget process:

- Program would have to wait until budget allocation occurs
- Limited flexibility on allocation. Once cap is set it is fixed.
- Gap Fund outlay is allocated and therefore would incur no debt costs

Option 3:

Gap Fund is a hybrid of GO Bond & budget allocation:

- Program could be implemented immediately
- Budget allocation could lessen debt service or retire bonds as designated
- Indeterminate blend of allocated and bonded amounts

The second issue, which ties very closely to what Kathleen just presented previously, is where do we acquire the source of funding for this program. If we were to implement this program, we have three real distinct options. Option one is the Gap Fund. Whatever the amount, whatever the utilization of it is would be bonded through a GO bond issuance. We would be, in essence, taking on more debt in order to fund up and use this program. Obviously, the benefits are it allows for immediate implementation. We can move forward immediately with projects that meet need in moving forward. It allows for flexibility from the Commission as far as cap amount. When I say cap amount, I mean total outlay among all of the projects in total.

Third, however, it must be debt serviced. In many instances, that would be the corpus as well as interest on that. For instance, on a million-dollar total outlay, we're looking at about a \$1.4M repayment or \$70,000 a year in servicing of a million-dollar gap fund program.

Option 2 would be to allocate the Gap Fund Program within the budgeting process. Obviously, the limitation there is it would have to wait for the next cycle of budget allocations to occur. It would have limited flexibility on the allocation because of all the other needs in the budgeting process. Once that cap and allocation are set, in many instances, generally speaking, it would be fixed. It would be applied to the budget. It would be a line in the budget. It would be difficult to allocate additional dollars for needed programs or needed projects without a next budgeting cycle. However, the big benefit, of course, is there is no debt service or debt cost or GO bonding impact in that.

The third option, I think is pretty obvious, which would be to look at a hybridized model of some sort. We didn't explore that in great detail, but obviously a scenario there would be a lower level of allocation cap that could be GO bonded in order to launch the program. Then moving forward in the next budget cycle or the next budget cycle, there could be an actual budget allocation made to fund a larger portion of the program and/or fund all of the program going forward. That would allow the program to start immediately or very soon, and could be funded without debt service later. However, that original amount designated and utilized for this program would have to be debt funded still.

Program Item 3: Program Cap Amount

Current program framework allows Gap Program grants/loans to a development in variable amounts ranging from \$100,000 to \$1,000,000.
That means the total development project cost must be from \$1,000,000 to \$10,000,000+.
Based on current program parameters project private investment (non-UG contribution) must range from \$500,000 to \$5,000,000+

The current proposed program cap amount is set at \$3,000,000 without Commission action. Depending upon how cause return or debt service is structured, this could limit total program reach to just a few projects.

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The third one, and this is the final one, is the program cap amount. The original recommendation to this program was to cap the total outlay at \$3M and to cap and to allow for each individual gap fund allocation. For each individual project to be between \$100,000 and \$1M. That would be a \$1M project to a \$10M plus project. A project could be \$50M, but the cap would be \$1M as long as it met 10% or less of their total cost.

Fund Requirements

- Qualifying Loan Amounts:
 - **\$100,000 - \$1,000,000**
 - **Must not exceed 10% of total project cost**
 - **Total public incentive not to exceed 50% of total project cost**
- Unless otherwise noted, payback to UG:
 - Cause return in 5, 10, 15 or 20-year term
 - Payback is at a 0% interest rate
 - *Analysis shows that gap between current market rate interest and UG bond interest was not great enough to provide a viable Gap Fund.*
- Total Gap Fund Issuances are to be capped at \$3,000,000
(unless Commission waives cap)
- As payback is made, new issuances may be made.
- This caps total annual interest at approx. \$96,000.

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We have proposed, because of the concern about the debt servicing and the debt load and the financial impact on the UG budget, we had set the proposed cap amount at \$3M total outlay for this program without further Commission action.

That, obviously, very clearly the two issues related to the cap amount. There's really two cap amount questions before this committee. One is, is the \$100,000 to \$1M per project cap appropriate. I will tell you we had that discussion, I believe, in the previous ED&F Committee. We do believe that if a project is less than \$1M total construction cost, we believe we do have other tools available in many instances to assist that. The \$1M amount we did not feel was too excessive because \$10M cost, you start to get into that realm where more than that \$10M, \$20, \$30, \$40, \$50M projects we also have other tools. Usually those are much larger development entities that are able to assemble different capital stacks to make those projects a reality in our community.

Those are the three issues at hand.

BPU Board Member Bryant said actually, one on the Gap Fund when you were talking about your options for source of funding, if it was allocated by the Commission in the budget process and there was interest applied to treat it like loans, would the interest return, go back into the General Fund. **Ms. Stephens** said yes. **BPU Board Member Bryant** asked it would not return back into this program. It would have to be re-allotted? **Mr. Stephens** said we can determine that, but no, it would generally return back to the General Fund. If there was an interest applied to something that was allocated as a budgeted allocation and not financed.

Kathleen VonAchen, Chief Financial Officer, said if interest is being paid by the loan holder, then we could apply it back to this program, yes.

Mr. Stephens said but, to answer your question, there would also be no requirement that that be applied back to this program. **BPU Board Member Bryant** said I was just thinking about the comment about it being a limited number of funds per annual. If there was interest coming back in from previous years, would that increase the cap that you could have for that year? I guess that would be a determination later. **Ms. VonAchen** assuming the payback, yes. **Mr. Stephens** said the initial thought was if the cap is set, when that is paid back, the total outlay drops then there would be room within the allocation to then grant more without seeking more approval because that would be our maximum debt loan.

BPU Board Member Bryant said my other one is on this program cap amount. How many projects would you expect could be funded annually with \$3M. **Mr. Stephens** said that's really

hard to say because we don't have a program out there. Looking back historically over the last several months, I would say within the two eligible categories, which are residential and commercial, I would say that we would have at least five and maybe eight to ten that I think at some varying level they believe, and their projects obviously are not moving forward right now, so I do believe that they would seek a program like this should it move forward with the policy direction. I think they would probably, from what I see, at least three to four of them would certainly fit all of the criteria which is in the following pages.

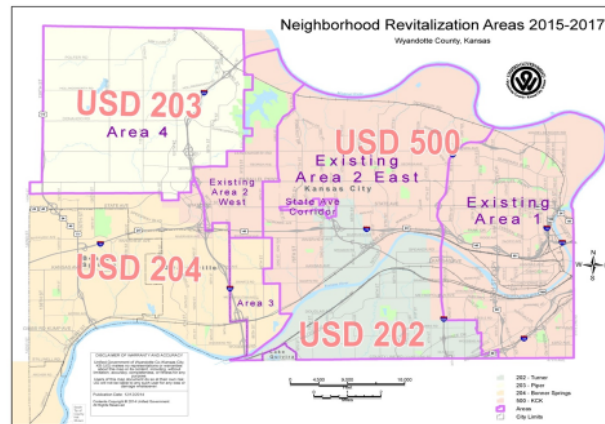
BPU Board Member Bryant asked just roughly, out of those three to four that would, how much of the \$3M would you have expected that to have used, the 10% level. **Mr. Stephens** said of those projects, I would say we're looking right now, and this is very rough, I would say \$650,000 - \$750,000 with maybe a few other larger projects that may at some point if they get further along in their planning, there are some that may seek \$500,000 to maybe even up to the \$1M cap based on their very large project proposal. Those are not far enough along to really assess that at this point, sir.

BPU Board Member asked so you feel that a \$3M cap annually is a sufficient amount for a program like this to make a big enough difference. **Mr. Stephens** said I think it would certainly move projects forward. I do think that there would be projects that could demonstrate need that could show where they have a gap in needed areas, meet the criteria, and could be allocated. I think it would be too soon to really say how large of a communitywide impact those projects would make. We would certainly work diligently to hold them to make sure that they do benefit the community as a whole. I could not provide you with an assurance that they're going to be incredibly impactful across a large part of the urban core. I simply do not know. I do think that the projects that I'm thinking of at hand would have an impact in their closer area, certainly within their neighborhoods.

BPU Board Member Bryant said you said earlier that this is an urban. What would be the defining line?

Fund Requirements: Project Areas

- The target areas for Gap Funding use correspond with the Neighborhood Revitalization Areas.
- Qualifying areas include:
 - NRA Area 1
 - NRA Area 2 East
 - NRA Area 2 East - Turner



Mr. Stephens said we modeled the program based on our neighborhood revitalization areas because those were already established areas within the Neighborhood Revitalization Act Program, which has certain perimeters of qualification which show a definite economic need within the areas. We would propose within this policy of mimicking the NRA allocation areas for this program because we think that the assessment of need is probably comparable within those areas. You can see those qualifying areas would be Area 1, Area 2E, and Area 2E - Turner.

BPU Board Member Bryant said this is going out on a limb probably, but Area 2—the Amazon project, would it have qualified? **Mr. Stephens** said no. We clearly outlined that staff believes that industrial projects: distribution, industrial, manufacturing, warehouse, none of those—**BPU Board Member Bryant** said would qualify—**Mr. Stephens** said because of the type of way that they work and the way that those deals come, we do not believe that it would be necessary to offer this program to anything other than residential or commercial. **BPU Board Member Bryant** said I’m on board with that.

Commissioner Bynum said, Mr. Stephens, on the fund requirement slide, it kind of speaks to Mr. Bryant's question too, you have a bullet point that says, must be determined that the project is not viable without gap funding. What would you use to make that determination? What are some examples that you and your staff would use to say it's clear to us that this is not a viable project unless we provide funding out of this Gap Fund? **Mr. Stephens** said that's a great question,

Commissioner. I think the general standard with which we would judge that by would be based on if the developer shows us that due to the geography or the challenging nature of the project, be it land clearance or other things, but particularly the geography; the ability to achieve private financing, bank financing, bank loans or even their own capital investment just is not enough to make that program work, that would be—I would say a prime example would be a commercial store in an area where they have high degree of confidence that it will work, yet private sector lenders just do not share that same level of confidence for various reasons. There are certainly examples of that. I think in relatively clear order, we can look at that.

Chairman Burroughs said, Jon, I have a question. What do you mean by majority private? Is there a percentage that you're looking at; financing must be majority private? Is there a percentage that you're looking at? **Mr. Stephens** said obviously, we certainly want—in an ideal world, it would be 90% plus within a small gap. However, in reality, when we look at the capital stack, these could potentially qualify. We do see this. In multiple ways, projects could qualify for an IRB, an industrial revenue bond, or an NRA even, which would provide some ability of support so we would discount that and count that as public investment. Then any public commitment, so public incentives or anything that are being provided to this developer would count against that majority private.

The 50 plus 1, for instance, would have to be truly private equity, private capital coming into the project. We would obviously hope for much greater than the 50%, but we felt that these projects, in many instances, we believe would be the most challenging of challenging of projects to have happen. We also believe that in many instances they would be some of the most needed projects in their areas of the community. We wanted to establish a threshold here to make sure that there is some level of assurance of viability and not an over commitment of taxpayer dollars. We wanted to give it enough flexibility there that staff could still make an educated, due diligent decision without turning away projects that may actually be viable.

Commissioner McKiernan said a long time ago when we first talked about this, when my hair was still red, it was suggested that we just pick a direction and go and just test this bad boy out and see how well it works.

In terms of the project cap amount, I think the \$3M is fine. That was the initial level that came up during a budget discussion over a year ago now. I think that's fine as a starter knowing that we can always amend that in future years.

In terms of the source of funding, I prefer that we had the cash. My original concept for this was a pool of cash that we just spend down until its gone, but Commissioner Walters expressed some concern that he didn't—as he's already expressed tonight in terms of having money that's just sitting, he had suggested that he thought it would be perfectly acceptable to bond this small amount to get the capital, again, recognizing it. I know Ms. VonAchen just did a sharp intake of air as I said bond this amount because, frankly, it's not consistent with what you have talked about earlier in terms of increasing our cash reserves.

I think my question to you would be, in terms of the source of that funding, knowing that I don't play in this economic development sandbox every day, what would be your considered recommendations for the sources of this funding? **Mr. Stephens** said I hate to defer the question back, but really the source of funding for this program is really a policy decision based on overall debt load and willingness.

To your point, Commissioner, of pick a direction and go, I certainly agree with that. I do believe that programs like this many times show benefit and show clear direction as they start moving and you see real projects coming into the pipeline. That being said, the direction of moving to establish a policy of how these are done and how we move these through the process, I think was necessary. As we went through that establishment of all of these standards for utilizing this program, it became very apparent then that we sort of did have a couple of key policy issues that I would say generally Economic Development staff cannot really address. Developing a gap fund program for economic development use, I can give you clear utilization tracking matrix on how we would do that, how it would respond, but where that money and source of funding comes from is a bit of a challenge.

Commissioner McKiernan said I guess my real question here would be, if we choose to make it a part of the budget, which is your option to—its allocated by Commission in the budget process, I guess my question would be, what's the chances its going to be allocated in the budget process? Is this a mood point? Are we just sitting here talking about something that's ultimately not going to get funded in the budget? When County Administrator Bach brought this to us in our last budget

cycle, he proposed bonding it at that time. I'm just looking for some direction. I, right now, I will tell you, I'm perfectly willing to, as a test run, borrow that money to use it for the Gap Fund to see what kind of return we get on it, and to determine whether or not we do that again. It will all depend on my fellow commissioners here.

Ms. VonAchen said just keep in mind that we only can really borrow a certain amount every year. If you want to dedicate \$3M for this project for debt, it just means that other projects will fall either...**Commissioner McKiernan** said here we go. It is kind of a mood point that we've been talking about this from the very beginning as Option 1 is really...**Ms. VonAchen** said its prioritization...**Commissioner McKiernan** said no, Option 1 is off the table. Option 3 is off the table. Our only real option is Option 2 and that is put it in the annual budget. **Ms. VonAchen** said no, it's not off the table. It's a matter of prioritizing what's important.

Commissioner McKiernan said I guess the other—the grant versus loan aspect of it. Originally, we started talking about this as a grant, as an infusion of money with no return. It swiveled around to it's going to be a zero-interest loan but there will be a return. The last time we met, we swiveled back because we can change direction really well, and we swiveled back to it's going to be grant for residential and zero-interest loan for commercial. Then we swiveled one more time and the argument was made it should just be a grant for any project in the desired area that can't make it that we believe is going to meet all of our other criteria and is going to provide benefit, it should simply be a grant. I'm curious what your recommendations are in that option.

Mr. Stephens said I'll tell you from my experience and my staff recommendation from Economic Development, I think it should be a variation of a loan program versus a grant program that is because of the pressures year over year over year being placed on all the various needs of the Unified Government budget. While a loan program, at some level, may, even at a 0% loan, may not be able to be utilized in all of the possible scenarios of gap need, I think the ability to have that, particularly for projects such as multifamily or commercial where we certainly could work with these developers when they are just not receiving the interest loan—the interest rate on their private capital that they need—we can lower that significantly and still get a repayment from that project over a course of time. I do see that as something that sort of balances this issue of bonding or of granting of all of the costs, but it does give us some repayment. There's no—I would say

this is a policy direction so there would be no prohibition in a year or two years or whatever of coming back to this body and saying we have too many of these worthwhile projects just are still not going because we made this a loan program versus a grant program.

Commissioner McKiernan asked what about the argument—the argument that was made last time was I’ve got no problem getting loans; I have a gap just in my total project. **Mr. Stephens** said I still think that is definitely a question and it may certainly hinder certain projects. I will say there aren’t a lot of institutions offering 0% loans; 3.8%, 4.2% interest rates sometimes can be significant when you’re financing something on a 20-year note.

Commissioner McKiernan said way back when this was first brought up, I was the one who said I really think we need a policy around this to guide us on this. I don’t really feel like we are any closer to policy or consensus. (inaudible) You think we are? Alright. I’d love to hear it.

Commissioner Bynum said I would like to say for the purpose of moving this forward to a place where we can implement it, I would agree with directing our Administrator Bach to include the \$3M in the upcoming budget as a cash item, not a borrowing item. I, personally, am more interested in a 0% loan. I agree with using it in areas 1 and 2 as you showed on the map. I agree with the bullet points you brought forward of not exceeding 10% of the total project budget. I agree with the bullet point that no more than 50% of the projects considered for this program be from public sources.

I would ask the group what we consider are public sources. I think at one point I was seeing, i.e., UG dollars. I would ask you all to consider—there’s lots of different ways to bring public sources of money into a project. That is one question I have.

I would say I imagine staff already has maybe a conceived application process in mind. My final point would be is at that point, is staff going to have the discretion to allocate the funds or are those projects going to come to this committee and then to the full Commission every time you have an application. That’s where I am.

Commissioner McKiernan said certainly, I would recommend that those projects go through the regular development process. **Commissioner Bynum** said right. **Commissioner McKiernan**

said then those projects come to this committee and then to the full Commission. It just so happens that some of their funding comes through this fund, but they follow the same...**Mr. Stephens** said they would follow, as outlined in this policy direction that we brought before you, these projects would go through all of the same standards and public processes as any others.

Commissioner Bynum said just for clarification, my only other comment is, I'm also good with commercial and residential.

Commissioner McKiernan said I will just say I'm fine with the \$3M. I'm fine with making it a line in the budget. I think that has some repercussions because it's always tight every year and we understand that this fund may or may not get funded. This fund may or may not get funded in our budget process, so we understand that going in. I'm fine with making it a cash. It was my original thought to do it that way. I still think, though, that there is going to be some discussion about whether it's a 0% loan or whether it is a grant and the relative pros and cons of that.

Clearly, and I don't want to talk for her, but the last time we met, Commissioner Murguia had suggested that even for commercial projects, a zero interest, a grant type program would be very beneficial for urban development for the projects that would otherwise not go.

Commissioner Bynum said the reason why I suggest the loan program is for one, I know that in the past we had a revolving loan fund. It's depleted, but it existed and actually was used for projects. I like the notion of a loan fund that can be repaid into so that other projects can be funded later.

Commissioner Townsend said I think I'm going to pick up where Commissioner McKiernan left off. We've seen so many variations and had so many discussions on this. I'm not quite sure that I'm seeing something different than what we considered the last time. Just for the record, I'll go through the list as other commissioners have done.

I want to clarify for my understanding that the last time we discussed this subject, one of the issues was whether or not to include residential projects and commercial development projects. Now we're proposing to include those as eligible projects. **Mr. Stephens** said that was discussed, from my notes, from the previous ED&F hearing a review that there was a discussion of type of

residential projects. As Commissioner McKiernan mentioned, there was a discussion of perhaps a grant for certain types of residential construction versus a loan for other types of commercial/residential.

I do not remember there being a question as to coming back on excluding residential or commercial or any hybrid of such. I thought that there was pretty well this body had a consensus that residential and commercial were the only two types of projects that should be considered in this program. Was that the question you were... **Commissioner Townsend** said were the only two. My recollection was whether or not they should be included or considered. I could be wrong. I thought we were talking about other types of development anyway and not residential.

Commissioner McKiernan said I think we had talked about residential and commercial from the git-go. The suggestion was that for specific types of residential, that we consider a grant versus a loan. **Mr. Stephens** said right, correct. **Commissioner McKiernan** said single family for sale, residential was a suggestion that we then consider that as the recipient of the grant. **Commissioner Townsend** said okay. I would concur with that then.

I would also concur that we have to start somewhere. I think the \$3M we talked about before, I think that's reasonable. I think this policy, once we get it out there, we're going to have to continue to review and tweak.

At this point, I would just like to see us move forward with some of these. I hope that there will be a commitment, or else its going to make this whole project moot, in the budget in some form or fashion whether it's the cash or maybe one year we decide to issue the bonds because we think there's some other circumstances that may warrant the cash outlay but still we remain committed to this program or else this is for not.

Commissioner Townsend said the only other thing I'm not sure that I had a concern about that addresses, and maybe it does, is first come, first serve. I was concerned that one project come forward not deplete the total allocated for the year, whatever that total turns out to be. On page 9 where it says fund requirement, are theses the things that would address that? I thought I saw those before. I'm not sure that that concern has been addressed. Is that what 9 is about, slide 9?

Mr. Stephens said currently, Commissioner, the program, if we do not adjust the individual project cap allocation of \$100,000 to \$1M, then thereby we would be able to, at worst

case scenario, if there were three \$10M plus projects that came along at a \$3M budget allocation, there would be three projects before we reached our cap. I find that relatively unlikely that we would bring three \$1M gap fund projects to bear. I think that would be very rare. Obviously, there would be a variance on that. If it's a \$100,000 project, there would be many that could be brought into the program under the \$3M cap.

Assumption, as I believe Commissioner McKiernan asked, is how many or total do you think there would be possibly. I think, realistically, in a first year of this program, we're looking at \$600,000 to \$750,000 or so of some projects that are working. I think that would be three to five probably projects, maybe more that would probably benefit from this program and be able to utilize this program and show the need, demonstrate need. It would not cap out the program. That would just be where we stand.

Commissioner Townsend said then on page 8 of this handout, I think is the slide that will precede that one, the fund requirements. I, too, was looking at the bullet point that says financing must be majority private. I was wondering, as the chairman had already inquired, did you have a percentage in mind? I was thinking majority would be anything over 50%.

Mr. Stephens said correct. The policy, as written, tried to put as many, and I believe it was discussed last time, there was a question among this body as to are these restrictions perhaps too ownerus in order for these projects to qualify. We went back and looked at that. I think particularly as it goes to, as we reference majority private financing, which is, as I mentioned, non-UG equity.

We, as an economic development body, as a staff do not look at federal funding or even other state funding or other outside sources that are non-Unified Government funding. We don't necessarily review those as public equity in this set because we don't control the allocation of those. Those are coming in and those have to be proved up by the developing entity. They are solely responsible for proving up that level of financing. We view that as their equity coming in because it's a but for process that we don't control that equity. We would view that as that.

Realistically, anything less than 50% private equity, we would have a lot of concern as to the viability of the project based on that level of commitment. We set a minimum, and I would say I would want to be very clear from staff's perspective, that is a minimum floor of private equity

to be considered for this program. There are still other, I think, other perimeters that they have to meet in order to receive a gap fund allocation.

BPU Board Member Bryant said so if in the first year you're believing that it would be \$600,000 - \$700,000 possibly expenditures on that, would it work to scale this up and say fund \$1M the first year, \$2M the second year, \$3M the third year, so after three years, you're fully funded and you actually start seeing the potential of some repayment back into the fund? Would it work? Do you believe it would work well enough to keep interest up and keep projects rolling?

Mr. Stephens said certainly. I think given some of the projects that have been quietly discussed as far as not necessarily in relation to a gap policy, but in relation to how do these projects enter the community—I think if it's a \$1M allocation as a cap, I think that certainly gives staff and gives these projects, especially once this program is approved and moves forward in a more we now have a policy—as Commissioner Bynum mentioned, we now have a formalized application process and direction from Commission. I think to be at \$1M, \$2M, whatever, I think that does give us a tool that we can certainly test. We can certainly move forward and hopefully realize some successful projects without maybe overshooting. In a cap allocation, that maybe, I think, very difficult to work into a budgeting process; not to speak for my counterpart here. I think that \$3M would be very difficult to work into a budgeting process.

Brennan Crawford, 1108 N. 19th St., said I'm the CEO of Community Housing Wyandotte County. We've invested about \$40M in single family for sale, new construction here in the county over the last 15 years. What I'm about to say may now be unnecessary. We have about \$3.4M of residential, single family for sale investment waiting in Meadowlark Valley, a subdivision that we bought out of bankruptcy in 2014 on the decision of this body. I don't say that to be imprudent, but I do say it to bring everyone up to speed that we've been talking about this since last July.

The carveout for residential for sale, you know the relevant question is not residential versus commercial. The relevant question is for sale versus for rent because commercial and residential rental projects both have the opportunity to earn income over a long period of time. For sale projects have to earn income over nine months, which is the period that it takes me to develop and sell a piece of residential real estate. By investing a nominal amount in a residential for sale

project, you improve appraisal values in a given community and you create new housing stock for sale to market rate and low to moderate income buyers.

We don't have an income restriction in Meadowlark Valley, for example. The State has already figured this out with the moderate-income housing program that is offered as either a grant or a soft debt to residential for sale projects. I would strongly recommend, as many of you have already gotten like long earfuls about this, but I would strongly recommend that you adopt that residential for sale carveout.

The point is, there's an application on the table for \$250,000 for 17 units. That constitutes about \$3.4M worth of investment in Meadowlark Valley. That can be broken into \$90,000 trenches. I am waiting to underwrite. I don't mean to put undue pressure, but in the interim, I've gone out and raised half a million dollars of private, philanthropic money to support this development. I would humbly encourage you to move this forward to Commission as soon as possible.

Chairman Burroughs asked if anybody else, member of the public want to speak to the body. Let the record show no one else approached.

Commissioner McKiernan said, Mr. Stephens, with the intent of putting this in a resolution or ordinance or whatever it is we need to do to actually approve this and get it going, do you have sufficient direction from us or are there still unanswered questions. I think, certainly, it would be great if at our next committee meeting we had something that we could vote on and say yes or no we're moving this forward to full Commission. Do you have sufficient direction from us? Do you need further direction from us, not that we'll necessarily give it to you tonight?

Mr. Stephens said I would say that as long as there was a very near motion from Commissioner Bynum related to framing up the opinion of the conversation. To say unless there is distinct disagreement from this body related to that, I think that I would be comfortable coming back with that. The one unanswered question still is remaining to, particularly to the public testimony from Mr. Crawford and CHWC, and that was in, you noticed with the exception of residential that was noted in the last presentation of the single family for sale would still not be addressed on two factors. One, if it's a 0% loan, that project, I believe from my discussions and

my work and making that great project go, would not—they do not believe that it is capable of flowing with a 0% loan versus a grant.

Two, with projects that are looking within the next weeks to months to possibly a year, based on the cash budgeting only process, even if it is \$1M which I think we would work into that as a phase-up, I would definitely be believing in the direction of this body—the policy direction I would bring back before you next would include that scenario in conjunction with working with our CFO and with staff to look at what a reasonable phase-up would be. That would still not address Mr. Crawford’s testimony tonight as to a shovel-ready project that we are unable to fund a gap for because we would be waiting for the next budget cycle for that piece.

Sorry to give you a very lengthy answer, but the answer—so would be 90% of it yes, but I do think we still have a hole here from a policy direction from this committee that I would seek some clarification on.

Commissioner McKiernan said I have always been in favor of grant for single family residential for sale with the idea that that builds the population base that then attracts the amenities. That’s always been my—**Commissioner Townsend** said I agree with that. **Mr. Stephens** said okay.

Commissioner Bynum said I was going to ask, Mr. Chairman, if we could carve that out. I’m in support of that. I thought I heard Commissioner Townsend support that. I just want to say, I don’t know how to handle the fact that we would be putting forward a policy and our commissioners would vote on it, but no money would be available until January 1. I don’t know how to address that.

I did want to say, not terribly interested in lowering the amount any lower than \$2M. That would be the lowest I would be willing to go because if you’ve already got projects that tally up to more than half of the proposed \$1M starting point, that seems to limit what could come for those folks that might bring a project between now and January 1. Two million dollars would be as low as I’d be willing to go. If we don’t spend it, we don’t spend it. If that helps to close in on a policy.

Commissioner Townsend said with that point, I’m not sure I understand. Are we talking about decreasing the proposed total from \$3M? **Commissioner Bynum** said it has been suggested. We’d just start smaller (inaudible 2:09:23). **Commissioner Townsend** said I would like to see it

remain at \$3M because this will be the first time. I think we just heard testimony about something that would easily eat up some of the lower amounts already. We can always adjust it downward. Again, this would be the first time that we tried to really implement this. We need to, I think, give it enough money to give it a good start, a good chance for success. We can always lower it. That would be my recommendation to remain with the \$3M.

Chairman Burroughs said I don't have a motion. I've heard plenty of recommendations and suggestions. The will of the body is what at this particular point? **Commissioner McKiernan** said I thought our purpose here tonight was to give direction to staff for the actual, official policy for them to bring back to our next meeting for us to actually vote on. **Chairman Burroughs** said so we're asking to wait another 30 days. **Mr. Stephens** said unfortunately, I would have loved to have had an actual action item to advance tonight, but these were very significant questions that I did not believe that we had policy direction on that we really needed to seek tonight.

Chairman Burroughs said I look forward to our visit Friday in reference to this issue. I just wanted to bring to the committee's attention that 30 days is a long time. We could lose a project if we don't have the monies and resources available for staff to make a decision. If you have to wait on the budget process, we're going to lose some projects. That's why I brought up the 30-day timeframe.

Mr. Stephens said I think the only thing I would say is along those lines to your point, Commissioner, the 30-day window is a long one, but the longer one will be the budgeting process. If this is a cash only allocation process, I would be cautious of saying the program cannot move forward unless a full \$3M is allocated in a line item because that may be very difficult. I'm not trying to speak on behalf of the policymakers, but from a staffing perspective, I would hate to have to come back to you and delay something even further should a lower amount be what is available from a policy setting standpoint and then we're unable to allocate out of that.

Chairman Burroughs said I find it very difficult for you to spend \$3M in the first-year allocation. **Commissioner Townsend** said the language said allowed up to. I think we should give it enough funding and support to be as successful as it can be until we really see how it's going to work. I think we're going to be revisiting this, but we need something to get going.

Commissioner Townsend said my understanding is that the next time we see Mr. Stephens, we will have wording for an ordinance that we up or down or tweak, right? **Mr. Stephens** said yes, Commissioner. **Chairman Burroughs** said that will be our charge for next time. **Mr. Stephens** said we'll have that before you.

Chairman Burroughs said I'm hearing \$1M to \$3M and I'm hearing the 10% investment. There are those that hope that we can use the gap funding and get these projects moving, and there are some that, I believe, wish we didn't have to have the gap funding. I understand the need. I also understand that opportunities arise if they know the money is there. I'm not wanting to take on any additional debt. I think the prudent thing to do is to have them be self-sustaining and that's, I believe, what our public charge should be is that they should be self-sustaining and we shouldn't have to borrow the money to do it. If it's that important of a project, then we need to look at that. If \$1M is the trigger, \$2M, I believe the Commission will make that decision next month once we see your policy.

Action: For information only.

Item No. 4 – 1871...SCHLITTERBAHN VACATION VILLAGE STAR BOND PROJECT

Synopsis: Update from the developer on the Schlitterbahn Vacation Village (SVV) STAR Bond District, primarily to Project Area 3 retail development, submitted by Jon Stephens, Economic Development Director.

Action: This item was previously removed from the agenda.

Adjourn

Chairman Burroughs adjourned the meeting at 8:15 p.m.

cg



Staff Request for Commission Action

Tracking No. 1892

Full Commission Meeting Date: 4/26/18

Committee: Economic Development & Finance

Date of Standing Committee Action: 4/9/18

(If none, please explain):

Publication Required: No

<u>Date:</u>	<u>Contact Name:</u>	<u>Contact Phone:</u>	<u>Contact Email:</u>	<u>Department/Division:</u>
03/06/2018	Debbie Jonscher	x5847	djonscher@wycokck.org	Finance

Item Description:

A resolution authorizing the Unified Government of Wyandotte County/ Kansas City, Kansas to amend its Master Equipment Lease Purchase Agreement dated October 17th, 2013, with Banc of America Public Capital Corp. in connection with paying the costs of acquiring and installing certain equipment and to approve execution of certain documents in connection therewith.

The maximum amount is not to exceed \$12,500,000.

Submitted by Debbie Jonscher, Deputy CFO

Action Requested:

Please Approve

Budget Impact: (if applicable)

Amount:

Source:

Included In Budget:

Other (explain):

Attachments List:

Resolution 2018 Master Lease Amendment 5, 2018 Lease Finance Detail, Wyandotte County Amendment Clean, Approved Master Lease Agreement 2013

RESOLUTION NO. R-__-18

**RESOLUTION AUTHORIZING THE UNIFIED GOVERNMENT OF
WYANDOTTE COUNTY/KANSAS CITY, KANSAS, TO AMEND ITS MASTER
EQUIPMENT LEASE PURCHASE AGREEMENT WITH BANC OF AMERICA
PUBLIC CAPITAL CORP, THE PROCEEDS OF WHICH WILL BE USED TO
PAY THE COSTS OF ACQUIRING AND INSTALLING CERTAIN
EQUIPMENT.**

WHEREAS, the Unified Government of Wyandotte County/Kansas City, Kansas (the “Unified Government”) desires to obtain funds to pay the costs of acquiring and installing some or all of the equipment identified on *Annex I* attached hereto (the “Equipment”); and

WHEREAS, in order to facilitate the foregoing and to pay the cost thereof, it is necessary and desirable for the Unified Government, to amend its annually renewable Master Equipment Lease Purchase Agreement (the “Lease”) with Banc of America Public Capital Corp (the “Lessor”), dated as of October 17, 2013, to extend the Origination Period (as defined in the Lease);

WHEREAS, the amended further amends the tax-exempt pricing formula table as set forth in Section 3.04 of the Lease.

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF COMMISSIONERS OF THE UNIFIED GOVERNMENT OF WYANDOTTE COUNTY/KANSAS CITY KANSAS, AS FOLLOWS:

Section 1. Authorization of Lease Amendment. The Chief Financial Officer of the Unified Government of Wyandotte County/Kansas City, Kansas is hereby authorized to execute Amendment Number 5 to the Lease (the “Amendment”), attached hereto as *Exhibit A*, and take all other necessary action to amend the Lease.

Section 2. Authorization of Lease Transaction. The Unified Government states its intent to lease pursuant to the Lease and pursuant to separate Schedules of Equipment (the “Schedules”) some or all of the Equipment in a maximum principal amount of \$12,500,000. The Equipment to be leased and the related Schedule will be approved by subsequent resolution(s) of the Board of Commissioners.

Section 3. Authorization and Approval of Unified Government Documents. The Amendment is hereby approved in substantially the form submitted to and reviewed by the Board of Commissioners on the date hereof, with such changes therein as are approved by the County Administrator, the County Administrator’s execution of the Amendment being conclusive evidence of such approval.

The obligation of the Unified Government to pay Rental Payments (as defined in the Lease) under the Lease and any Schedules is subject to annual appropriation and will constitute a current expense of the Unified Government and will not in any way be construed to be an indebtedness or liability of the Unified Government in contravention of any applicable constitutional, charter or statutory limitation or requirement concerning the creation of indebtedness or liability by the Unified Government, nor will anything contained in the Lease or any Schedule constitute a pledge of the general tax revenues, funds or moneys of the Unified Government, and all provisions of the Lease and any Schedule will be construed so as to give effect to such intent.

The County Administrator is hereby authorized and directed to execute and deliver any Schedules on behalf of and as the act and deed of the Unified Government.

Section 4. Further Authority. The Unified Government will, and the officials and agents of the Unified Government are hereby authorized and directed to, take such actions, expend such funds and execute such other documents, certificates and instruments as may be necessary or desirable to carry out and comply with the intent of this Resolution and to carry out, comply with and perform the duties of the Unified Government with respect to the Lease, any Schedules and the Equipment.

Section 5. Effective Date. This Resolution will take effect and be in full force from and after its passage by the Board of Commissioners.

ADOPTED by the Board of Commissioners of the Unified Government of Wyandotte County, Kansas City, Kansas, this April 26, 2018.

David Alvey, Mayor/ CEO

ATTEST:

Unified Government Clerk

APPROVED AS TO FORM:

Chief Counsel

Annex 1 - 2017-2018 Unified Government Lease Financed Equipment Projects

CMIP Project #	Item/Project	Term (yrs)	Rate*	Principal**	Interest***	Annual Pmt****	Service, Maintenance
2016 equipment (not financed)							
Fire	Air/Lights/Rehab vehicle	10		550,000	15,901	70,901	0
	Pumpers	10		660,000	19,081	85,081	0
NRC	Computer Database upgrade	3		264,000	-	88,000	0
2017 equipment (not financed)							
Public Works	Generator	5		125,000	3,351	28,351	0
Aging	Vehicles	5		100,000	2,681	22,681	0
Public Works	Dump Trucks	7		1,015,000	28,288	173,288	0
Fire	Pumper	10		660,000	19,081	85,081	0
	Fire Truck Aerial	10		950,000	27,465	122,465	0
	Fire Truck Quint	10		900,000	26,019	116,019	0
	Fire Truck Pumper	10		700,000	20,237	90,237	0
2018 Equipment							
Police	Patrol Vehicles (30) 2018 (LF 2018-2020)	3		1,200,000	30,228	430,228	0
Transit	Medium Duty Cutaway Buses - 2 (2018 - 2022 LF)	5		250,000	6,703	56,703	0
	Light Duty Cutaway Buses - 1 (2018 - 2022 LF)	5		92,000	2,467	20,867	0
Public Works	Dump Trucks (10) (2018-2024 LF)	7		1,050,000	29,264	179,264	0
	Sweepers (2) (2018-2022LF)	5		450,000	12,065	102,065	0
	Pothole Patcher (1) (LF 2018-2024)	7		245,000	6,828	41,828	0
	Street Striper (LF 2018-2027)	10		400,000	11,564	51,564	0
Fire	X-Series Monitor Upgrade Repl Program (2018-2021 LF)	5		400,000	10,076	90,076	0
	2013 Pumpers-Quints 2 LF (2018-2027)	10		1,520,000	43,943	195,943	0
Contingency	Other			969,000			
TOTAL				\$ 12,500,000			

* Interest is estimated, based on a formula in the master lease. Estimated rates as of February 8, 2018:

3 year: 2.519 %

5 year: 2.681 %

7 year: 2.787 %

10 year: 2.891 %

** Principal column is the estimated total purchase price without interest if paid for by cash.

*** Interest column is the annual interest amount using estimated rates.

**** Estimated

Bank of America

Amendment Number 5
to Master Equipment Lease Purchase Agreement
dated as of October 17, 2013

This Amendment Number 5 is made this 26th day of April, 2018 to the Master Equipment Lease Purchase Agreement dated as of October 17, 2013 ("Agreement") between Banc of America Public Capital Corp ("Lessor") and the Unified Government of Wyandotte County/Kansas City, Kansas ("Lessee")

WITNESSETH:

WHEREAS, Lessor and Lessee are parties to the Agreement; and

WHEREAS, Lessor and Lessee desire to amend certain provisions of the Agreement;

NOW, THEREFORE, in consideration of the premises and the mutual obligations hereinafter contained, and for other good and valuable consideration, the receipt whereof is hereby acknowledged, the parties hereto agree as follows:

1. Section 1.01 "Origination Period": is amended by deleting the reference to December 31, 2017, and replacing it with December 31, 2018.
2. In Section 3.04, the tax-exempt pricing formula table is deleted in its entirety and shall be replaced with the following table:

Term of Schedule	Index for Tax-Exempt Rate
3	2-year SWAP Rate x 79% + 99 basis points
4	2-year SWAP Rate x 79% + 106 basis points
5	3-year SWAP Rate x 79% + 106 basis points
6	3-year SWAP Rate x 79% + 120 basis points
7	4-year SWAP Rate x 79% + 120 basis points
8	4-year SWAP Rate x 79% + 139 basis points
9	5-year SWAP Rate x 79% + 136 basis points
10	5-year SWAP Rate x 79% + 154 basis points

3. Except as amended hereby, the Agreement shall remain in full force and effect and is in all respects hereby ratified and affirmed. Capitalized terms not otherwise defined herein shall have the meanings ascribed them in the Agreement.

IN WITNESS WHEREOF, the parties hereunto have caused this instrument to be executed by their duly authorized officers as of the day and year first above written.

Banc of America Public Capital Corp (Lessor)

Unified Government of Wyandotte County/Kansas City, Kansas (Lessee)

By: _____

By: _____

Printed Name: _____

Printed Name: _____

Title: _____

Title: _____

MASTER EQUIPMENT LEASE PURCHASE AGREEMENT

MASTER EQUIPMENT LEASE PURCHASE AGREEMENT (this Master Equipment Lease Purchase Agreement, including all exhibits and schedules hereto whether currently in existence or hereafter executed, being hereinafter referred to as the "Agreement") dated as of October 17, 2013 and entered into between **BANC OF AMERICA PUBLIC CAPITAL CORP**, a Kansas corporation ("Lessor"), and the **UNIFIED GOVERNMENT OF WYANDOTTE COUNTY/KANSAS CITY, KANSAS**, a municipal corporation existing under the laws of the State of Kansas ("Lessee").

RECITALS:

1. Lessee desires to lease certain equipment from the Lessor described in the schedules to this Agreement, substantially in the form of **Exhibit A** hereto, that currently exist or are hereafter executed from time to time by the parties hereto (such schedules, whether now or hereafter executed, are hereinafter collectively referred to as the "Schedules", and the items of equipment leased to Lessee hereunder, together with all substitutions, proceeds, replacement parts, repairs, additions, attachments, accessories and replacements thereto, thereof or therefor, are hereinafter collectively referred to as the "Equipment") subject to the terms and conditions of and for the purposes set forth in this Agreement.

2. The relationship between the parties shall be a continuing one and items of equipment may be added to the Equipment from time to time by execution of additional Schedules by the parties hereto and as otherwise provided herein.

3. Lessee is authorized under the constitution and laws of the State to enter into this Agreement for the purposes set forth herein.

NOW, THEREFORE, for and in consideration of the premises hereinafter contained, the parties hereby agree as follows:

ARTICLE I

Section 1.01. Definitions. The following terms will have the meanings indicated below unless the context clearly requires otherwise:

"Acquisition Costs" means, with respect to any Schedule, the amount paid or to be paid to the Vendor(s) for any portion of the Equipment upon Lessee's acceptance thereof, including reasonable administrative, engineering, legal, financial and other costs incurred by Lessor, Lessee and Vendor(s) in connection with the acquisition, installation and financing of such Equipment, all of which shall have been approved by Lessor in its sole discretion.

"Agent" means any agent for the Registered Owners, if any, to which all or a portion of Lessor's right, title and interest in, to and under the Agreement and any Schedule or any Equipment may be assigned for the benefit of the Registered Owners.

"Agreement" means this Master Equipment Lease Purchase Agreement, including any exhibit or escrow agreement made a part hereof by the parties hereto, whether currently in existence or hereafter executed, together with any amendments to this Agreement pursuant to **Section 13.05**.

"Code" means the Internal Revenue Code of 1986, as amended.

"Commencement Date" means, with respect to any Schedule, the date when the term of this Agreement with respect to that Schedule and Lessee's obligation to pay rent under that Schedule commence, which date will be the date on which proceeds of a Schedule are first disbursed pursuant to **Section 3.01**.

"Equipment" means the property listed in the Schedules and all replacements, repairs, restorations, modifications and improvements thereof or thereto made pursuant to **Section 8.01** or **Section 5.04**. Whenever reference is made in this Agreement to Equipment listed in a Schedule, that reference shall be deemed to include all replacements, repairs, restorations, modifications and improvements of or to that Equipment.

"Event of Default" means, with respect to any Lease, an Event of Default described in **Section 12.01**.

"Event of Nonappropriation" means, with respect to any Lease, a nonappropriation by Lessee pursuant to **Section 3.03**.

"Certificates of Participation" means certificates evidencing a right to receive a pro rata share of Rental Payments and Purchase Price Payments.

"Lease" means, at any time, any Schedule together with the terms and provisions of this Agreement as it relates to such Schedule and the Equipment listed therein, which shall constitute a separate single lease relating to that Equipment.

"Lease Term" means, with respect to any Lease, the Original Term and all Renewal Terms of that Lease.

"Lessee" means the entity described as such in the first paragraph of this Agreement, its successors and its assigns.

"Lessor" means, with respect to each Schedule and the Lease of which that Schedule is a part, (i) if Lessor's interest in, to and under that Schedule has not been assigned pursuant to **Section 11.01**, the entity described as such in the first paragraph of this Agreement or its successor, or (ii) if Lessor's interest in, to and under that Schedule has been assigned pursuant to **Section 11.01**, the assignee thereof or its successor.

"Maximum Lease Term" means, with respect to any Lease, the Original Term and all Renewal Terms through the Renewal Term including the last Rental Payment date set forth on any Schedule that is a part of that Lease.

"Net Proceeds" means the amount remaining from the gross proceeds of any insurance claim or condemnation award after deducting all expenses (including attorneys' fees) incurred in the collection of such claim or award.

"Original Term" means, with respect to any Lease, the period from the first Commencement Date for any Schedule under that Lease until the end of the budget year of Lessee in effect at that Commencement Date.

"Origination Period" means a period beginning on the date this Agreement is executed and delivered and ending on _____ December 31, 2014.

"Purchase Price" means, with respect to the Equipment listed on any Schedule, the amount that Lessee may, in its discretion, pay to Lessor to purchase that Equipment.

"Registered Owners" means the registered owners of Certificate of Participation.

"Renewal Terms" means, with respect to any Lease, the renewal terms of that Lease, each having a duration of one year and a term coextensive with Lessee's fiscal year.

"Rental Payments" means the basic rental payments payable by Lessee pursuant to Section 4.01.

"Rental Payment Date" means the monthly or quarterly payment dates as shown on the payment schedule attached to each Lease during the duration of the Lease Term.

"Schedule" means any schedule to this Agreement, substantially in the form of Exhibit A hereto, executed from time to time by the parties hereto.

"State" means the state of Kansas.

"Vendor" means a manufacturer of Equipment as well as the agents or dealers of the manufacturer from whom Lessor purchased or is purchasing Equipment.

ARTICLE II

Section 2.01. Representations and Covenants of Lessee. Lessee represents, covenants and warrants for the benefit of Lessor and any Registered Owners (as hereinafter defined) as follows:

- (a) Lessee is a municipal corporation duly organized and existing under the constitution and laws of the State with full power and authority to enter into this Agreement and the transactions contemplated hereby and to perform all of its obligations hereunder.
- (b) Lessee has duly authorized the execution and delivery of this Agreement by proper action by its governing body at a meeting duly called, regularly convened and attended throughout by the requisite majority of the members thereof or by other appropriate official approval, and all requirements have been met and procedures have occurred in order to ensure the validity and enforceability of this Agreement.
- (c) This Agreement constitutes the legal, valid and binding obligation of Lessee enforceable in accordance with its terms, except to the extent limited by applicable bankruptcy, insolvency, reorganization or other laws affecting creditors' rights generally.

- (d) No event or condition that constitutes, or with the giving of notice or the lapse of time or both would constitute, an Event of Default exists at the date hereof.
- (e) Lessee has, in accordance with the requirements of law, fully budgeted and appropriated sufficient funds for the current fiscal year to make the Rental Payments scheduled to come due during the current fiscal year and to meet its other obligations under this Agreement for the current fiscal year, and such funds have not been expended for other purposes.
- (f) Lessee will do or cause to be done all things necessary to preserve and keep in full force and effect its existence as a municipal corporation under the laws of the State.
- (g) Lessee has complied with such public bidding requirements as may be applicable to this Agreement and the acquisition by Lessee of the Equipment listed on the Schedules that currently exist.
- (h) There is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, public board or body, pending or threatened against or affecting Lessee, nor to the best knowledge of Lessee is there any basis therefor, wherein an unfavorable decision, ruling or finding would materially adversely affect the transactions contemplated by this Agreement or any other document, agreement or certificate which is used or contemplated for use in the consummation of the transactions contemplated by this Agreement.
- (i) All authorizations, consents and approvals of governmental bodies or agencies required in connection with the execution and delivery by Lessee of this Agreement or in connection with the carrying out by Lessee of its obligations hereunder have been obtained.
- (j) The entering into and performance of this Agreement or any other document or agreement contemplated hereby to which Lessee is or is to be a party will not violate any judgment, order, law or regulation applicable to Lessee or result in any breach of, or constitute a default under, or result in the creation of any lien, charge, security interest or other encumbrance on any assets of Lessee or the Equipment pursuant to any indenture, mortgage, deed of trust, bank loan or credit agreement or other instrument to which Lessee is a party or by which it or its assets may be bound, except as herein provided.
- (k) The Equipment described in this Agreement is essential to the function of Lessee or to the service Lessee provides to its citizens. Lessee has an immediate need for the Equipment listed on the Schedules that currently exist and expects to make immediate use of the Equipment listed on the Schedules that currently exist. Lessee's need for the Equipment is not temporary and Lessee does not expect the need for any item of the Equipment to diminish in the foreseeable future including the Maximum Lease Term applicable to such item. The Equipment will be used by Lessee only for the purpose of performing one or more of Lessee's governmental or proprietary functions consistent with the permissible scope of Lessee's authority.

ARTICLE III

Section 3.01. Lease of Equipment. Lessor hereby demises, leases and lets to Lessee, and Lessee rents, leases and hires from Lessor, the Equipment listed in each Schedule in accordance with this Agreement and that Schedule for the Lease Term for the Lease of which that Schedule is a part. Upon fulfillment of the conditions set forth in **Section 3.04**, all the proceeds of a Schedule shall be disbursed by means of an electronic transfer to Lessee or the payees designated by the Lessee. Lessee's obligations under each Schedule shall commence and interest shall begin to accrue on the date the proceeds of that Schedule disbursed by Lessor in accordance with the Lessee's instructions.

Section 3.02. Continuation of Lease Term. The Lease Term for each Lease may be continued, solely at the option of Lessee, at the end of the Original Term or any Renewal Term for an additional Renewal Term up to the Maximum Lease Term for that Lease. At the end of the Original Term and at the end of each Renewal Term until the Maximum Lease Term has been completed for a Lease, Lessee shall be deemed to have exercised its option to continue that Lease for the next Renewal Term unless Lessee shall have terminated that Lease pursuant to **Section 3.03** or **Section 10.01**. The terms and conditions during any Renewal Term shall be the same as the terms and conditions during the Original Term, except that the Rental Payments shall be as provided in the Schedules. Lessee currently intends, subject to **Section 3.03** and **Section 4.02**, to continue the Lease Term for each Lease through the Original Term and all Renewal Terms and to pay the Rental Payments hereunder. Lessee reasonably believes that legally available funds in an amount sufficient to make all Rental Payments during the entire Lease Term for each Lease can be obtained. The responsible financial officer of the Lessee will do all things lawfully within his or her power to obtain and maintain funds from which the Rental Payments may be made, including making provision for such payments to the extent necessary in each budget or appropriation request submitted and adopted in accordance with applicable procedures of the Lessee, to have such portion of the budget or appropriation request approved and to exhaust all available reviews and appeals in the event such portion of the budget or appropriation request is not approved. Notwithstanding the foregoing, the decision whether or not to budget or appropriate funds or to extend this Agreement for any Renewal Term is solely within the discretion of the then current governing body of Lessee.

Section 3.03. Nonappropriation. Lessee is obligated only to pay such Rental Payments under this Agreement as may lawfully be made from funds budgeted and appropriated for that purpose during Lessee's then current fiscal year. Should Lessee fail to budget, appropriate or otherwise make available funds to pay Rental Payments under a Lease following the then current Original Term or Renewal Term, that Lease shall be deemed terminated at the end of the then current Original Term or Renewal Term. Lessee agrees to deliver notice to Lessor of such termination at least 90 days prior to the end of the then current Original Term or Renewal Term, but failure to give such notice shall not extend the term beyond such Original Term or Renewal Term. If a Lease is terminated in accordance with this Section, Lessee agrees, at Lessee's cost and expense, to peaceably deliver the Equipment then subject to that Lease to Lessor at the location or locations to be specified by Lessor.

Section 3.04. Conditions to Lessor's Performance Under Schedules. As a prerequisite to the performance by Lessor of any of its obligations pursuant to the execution and delivery of any Schedule, Lessee shall deliver to Lessor the following:

- (a) The fully completed and executed Schedule.
- (b) An opinion of counsel to Lessee in substantially the form attached hereto as **Exhibit B** respecting such Schedule and otherwise satisfactory to Lessor.

- (c) A Municipal Certificate executed by the Clerk or Secretary or other comparable officer of Lessee, in substantially the form attached hereto as **Exhibit C**, completed to the satisfaction of Lessor.
- (d) All documents, including financing statements, affidavits, notices and similar instruments, in form satisfactory to Lessor, which Lessor deems necessary or appropriate at that time pursuant to **Section 6.02**.
- (e) Such other items, if any, as are set forth in such Schedule or are reasonably required by Lessor.

Proceeds of a Schedule shall be disbursed to Lessee upon presentation to Lessor of the properly executed payment request, a form of which is attached as **Exhibit D**, executed by Lessee and approved by Lessor, together with an invoice for the Costs of Acquisition of the Equipment referred to in such Schedule. If the amounts available under a Schedule are insufficient to pay for all of the Costs of Acquisition of said Equipment, Lessee shall provide any balance of the funds needed to complete the acquisition of the Equipment. The principal component of each Schedule shall be at least \$50,000, and Schedules shall not be entered into more frequently than monthly.

The Lessor hereby agrees to enter into any Schedule during the Origination Period requested by the Lessee at the Lessee's option and not currently in existence. Lessor shall not be obligated to enter into any schedule if there has been any "Event of Default" that has occurred and is continuing under any Lease or if there has been an "Event of Nonappropriation" that has occurred and is continuing under any Lease.

The interest rate component of each Schedule will be determined and fixed five business days prior to funding. The tax-exempt interest rate component shall be determined using the most currently available Federal Reserve Statistical Release H.15 and will be in accordance with the following pricing formula:

<u>Term of Schedule</u>	<u>Index for Tax-Exempt Rate</u>
3	2-year Treasury Swap x 65% + 80 basis points
4	2-year Treasury Swap x 65% + 87 basis points
5	3-year Treasury Swap x 65% + 88 basis points
6	3-year Treasury Swap x 65% + 99 basis points
7	4-year Treasury Swap x 65% + 100 basis points
8	4-year Treasury Swap x 65% + 115 basis points
9	5-year Treasury Swap x 65% + 112 basis points
10	5-year Treasury Swap x 65% + 126 basis points

The taxable interest rate component shall be determined using the most currently available Federal Reserve Statistical Release H.15 and will be in accordance with the following pricing formula:

<u>Term of Schedule</u>	<u>Index for Taxable Rate</u>
3	2-year Treasury Swap + (80 basis points/64.1%)
4	2-year Treasury Swap + (87 basis points/64.1%)
5	3-year Treasury Swap + (88 basis points/64.1%)
6	3-year Treasury Swap + (99 basis points/64.1%)
7	4-year Treasury Swap + (100 basis points/64.1%)
8	4-year Treasury Swap + (115 basis points/64.1%)
9	5-year Treasury Swap + (112 basis points/64.1%)
10	5-year Treasury Swap + (126 basis points/64.1%)

Lessee will cooperate with Lessor in Lessor's review of any proposed Schedule. Without limiting the foregoing, Lessee will provide Lessor with any documentation or information Lessor may request in connection with Lessor's review of any proposed Schedule. Such documentation may include, without limitation, documentation concerning the Equipment and its contemplated use and location and documentation or information concerning the financial status of Lessee and other matters related to Lessee.

ARTICLE IV

Section 4.01. Rental Payments. Lessee shall promptly pay Rental Payments, exclusively from legally available funds, in lawful money of the United States of America to Lessor on each Rental Payment Date, in such amounts and on such dates as set forth in the Schedules. Lessee shall pay Lessor a charge on any Rental Payment not paid on the date such payment is due at the rate of 10% per annum or the maximum amount permitted by law, whichever is less, from such date. As set forth in each Schedule, a portion of each Rental Payment is paid as, and represents payment of, interest.

Section 4.02. Rental Payments to Constitute a Current Expense of Lessee. Lessor and Lessee understand and intend that the obligation of Lessee to pay Rental Payments hereunder shall constitute a current expense of Lessee and shall not in any way be construed to be a debt of Lessee in

contravention of any applicable constitutional or statutory limitation or requirement concerning the creation of indebtedness by Lessee, nor shall anything contained herein constitute a pledge of the general tax revenues, funds or moneys of Lessee.

Section 4.03. RENTAL PAYMENTS TO BE UNCONDITIONAL. EXCEPT AS PROVIDED IN SECTION 3.03, THE OBLIGATIONS OF LESSEE TO MAKE RENTAL PAYMENTS AND TO PERFORM AND OBSERVE THE OTHER COVENANTS AND AGREEMENTS CONTAINED IN THIS AGREEMENT SHALL BE ABSOLUTE AND UNCONDITIONAL IN ALL EVENTS WITHOUT ABATEMENT, DIMINUTION, DEDUCTION, SET-OFF OR DEFENSE, FOR ANY REASON, INCLUDING WITHOUT LIMITATION ANY FAILURE OF THE EQUIPMENT TO BE DELIVERED OR INSTALLED, ANY DEFECTS, MALFUNCTIONS, BREAKDOWNS OR INFIRMITIES IN THE EQUIPMENT OR ANY ACCIDENT, CONDEMNATION OR UNFORESEEN CIRCUMSTANCES.

ARTICLE V

Section 5.01. Delivery, Installation and Acceptance of Equipment. Lessee shall order the Equipment, cause the Equipment to be delivered and installed at the locations specified in the Schedules and pay any and all delivery and installation costs in connection therewith. When the Equipment listed in any Schedule has been delivered and installed, Lessee shall immediately accept such Equipment and evidence said acceptance by executing and delivering to Lessor a final acceptance certificate in the form attached hereto as a part of **Exhibit D**.

Section 5.02. Enjoyment of Equipment. Lessor shall not interfere with Lessee's quiet use and enjoyment of the Equipment during the Lease Term, except as otherwise expressly set forth in this Agreement.

Section 5.03. Location; Inspection. Once installed, no item of the Equipment will be moved from the location specified for it in the Schedule on which that item is listed without Lessor's consent, which consent shall not be unreasonably withheld. Lessor shall have the right at all reasonable times during regular business hours to enter into and upon the property of Lessee for the purpose of inspecting the Equipment.

Section 5.04. Use and Maintenance of the Equipment. Lessee will not install, use, operate or maintain the Equipment improperly, carelessly, in violation of any applicable law or in a manner contrary to that contemplated by this Agreement. Lessee shall provide all permits and licenses, if any, necessary for the installation and operation of the Equipment. In addition, Lessee agrees to comply in all respects (including, without limitation, with respect to the use, maintenance and operation of each item of the Equipment) with all applicable laws, regulations and rulings of any legislative, executive, administrative or judicial body; provided that Lessee may contest in good faith the validity or application of any such law, regulation or ruling in any reasonable manner that does not, in the opinion of Lessor, adversely affect the interest of Lessor in and to the Equipment or its interest or rights under this Agreement.

Lessee agrees that it will, at Lessee's own cost and expense, maintain, preserve and keep the Equipment in good repair, working order and condition. Lessor shall have no responsibility to maintain, repair or make improvements or additions to the Equipment.

ARTICLE VI

Section 6.01. Title to the Equipment. Upon acceptance of the Equipment by Lessee, title to the Equipment shall vest in Lessee subject to Lessor's rights under this Agreement; provided that title to the Equipment that is subject to any Lease shall thereafter immediately and without any action by Lessee vest in Lessor, and Lessee shall immediately surrender possession of that Equipment to Lessor, upon (a) any termination of that Lease other than termination pursuant to **Section 10.01** or (b) the occurrence of an Event of Default with respect to that Lease. It is the intent of the parties hereto that any transfer of title to Lessor pursuant to this Section shall occur automatically without the necessity of any bill of sale, certificate of title or other instrument of conveyance. Lessee shall, nevertheless, execute and deliver any such instruments as Lessor may request to evidence such transfer.

Section 6.02. Security Interest. To secure the payment of all of Lessee's obligations under this Agreement, Lessee hereby grants to Lessor a security interest constituting a first lien on the Equipment and on all additions, attachments, accessions thereto, substitutions therefor and proceeds therefrom. Lessee agrees to execute such additional documents, in form satisfactory to Lessor, which Lessor deems necessary or appropriate to establish and maintain its security interest and the security interest of any assignee of Lessor in the Equipment.

Section 6.03. Personal Property. Lessor and Lessee agree that the Equipment is and will remain personal property and will not be deemed to be affixed to or a part of the real estate on which it may be situated, notwithstanding that the Equipment or any part thereof may be or hereafter become in any manner physically affixed or attached to real estate or any building thereon. Upon the request of Lessor, Lessee will, at Lessee's expense, furnish a waiver of any interest in the Equipment from any party having an interest in any such real estate or building.

ARTICLE VII

Section 7.01. Liens, Taxes, Other Governmental Charges and Utility Charges. Lessee shall keep the Equipment free of all liens, charges and encumbrances except those created by this Agreement. The parties to this Agreement contemplate that the Equipment will be used for a governmental or proprietary purpose of Lessee and, therefore, that the Equipment will be exempt from all property taxes. If the use, possession or acquisition of the Equipment is nevertheless determined to be subject to taxation, Lessee shall pay when due all taxes and governmental charges lawfully assessed or levied against or with respect to the Equipment. Lessee shall pay all utility and other charges incurred in the use and maintenance of the Equipment. Lessee shall pay such taxes or charges as the same may become due; provided that, with respect to any such taxes or charges that may lawfully be paid in installments over a period of years, Lessee shall be obligated to pay only such instalments as accrue during the Lease Term.

Section 7.02. Insurance. Lessor acknowledges that the Lessee is currently self-insured as to both liability and casualty losses or damages, and Lessor agrees that Lessee's current self-insurance program is satisfactory. Lessee will annually provide information about its self-insurance program if requested by Lessor. Lessee agrees that it will either remain self-insured during the Lease Term or will, solely at its option and at its expense, maintain (a) casualty insurance insuring the Equipment against loss or damage by fire and all other risks covered by the standard extended coverage endorsement then in use in the State, and any other risks reasonably required by Lessor, in an amount at least equal to the then

applicable Purchase Price of the Equipment, (b) liability insurance that protects Lessor and Lessee from liability in all events in form and amount satisfactory to Lessor and (c) workers' compensation coverage as required by the laws of the State; provided that, with Lessor's prior written consent, Lessee resume at any time a program of self-insurance. Any insurance proceeds from casualty losses shall be payable as hereinafter provided. If Lessee chooses to obtain insurance, Lessee shall furnish to Lessor certificates evidencing such coverage during the Lease Term.

Any such casualty and liability insurance shall be with insurers that are acceptable to Lessor, shall name Lessee and Lessor as insureds and shall contain a provision to the effect that such insurance shall not be canceled or modified materially without first giving written notice thereof to Lessor at least 10 days in advance of such cancellation or modification. Any such casualty insurance shall contain a provision making any losses payable to Lessee and Lessor as their respective interests may appear.

Section 7.03. Financial Information. Lessee will annually provide Lessor with current financial statements as they become available, but in no event later than 270 days after the end of the Lessee's fiscal year, budgets as they become finally approved (which will serve as proof of appropriation for the ensuing budget year) and such other financial information relating to the ability of Lessee to continue this Agreement as may be requested by Lessor.

ARTICLE VIII

Section 8.01. Damage, Destruction and Condemnation. If (a) the Equipment listed on any Schedule or any portion thereof is destroyed, in whole or in part, or is damaged by fire or other casualty or (b) title to, or the temporary use of, the Equipment or any part thereof shall be taken under the exercise of the power of eminent domain by any governmental body or by any person, firm or corporation acting pursuant to governmental authority, Lessee and Lessor will cause the Net Proceeds of any insurance claim or condemnation award to be applied to the prompt replacement, repair, restoration, modification or improvement of that Equipment, unless Lessee shall have exercised its option to purchase that Equipment pursuant to **Section 10.01**. Any balance of the Net Proceeds remaining after such work has been completed shall be paid to Lessee.

Section 8.02. Insufficiency of Net Proceeds. If the Net Proceeds are insufficient to pay in full the cost of any repair, restoration, modification or improvement referred to in **Section 8.01**, Lessee shall either complete such replacement, repair, restoration, modification or improvement and pay any costs thereof in excess of the amount of the Net Proceeds, unless Lessee, pursuant to **Section 10.01**, purchases Lessor's interest in the Equipment destroyed, damaged or taken and any other Equipment listed in the same Schedule. The amount of the Net Proceeds, if any, remaining after completing such repair, restoration, modification or improvement or after purchasing Lessor's interest in the Equipment shall be retained by Lessee. If Lessee shall make any payments pursuant to this Section, Lessee shall not be entitled to any reimbursement therefor from Lessor nor shall Lessee be entitled to any diminution of the amounts payable under **Article IV**.

ARTICLE IX

Section 9.01. DISCLAIMER OF WARRANTIES. LESSEE HAS SELECTED THE EQUIPMENT AND THE VENDORS. LESSOR MAKES NO WARRANTY OR REPRESENTATION, EITHER EXPRESS OR IMPLIED, AS TO THE VALUE, DESIGN, CONDITION,

MERCHANTABILITY OR FITNESS FOR PARTICULAR PURPOSE OR FITNESS FOR USE OF THE EQUIPMENT, OR WARRANTY OR REPRESENTATION WITH RESPECT THERETO. IN NO EVENT SHALL LESSOR BE LIABLE FOR ANY ACTUAL, INCIDENTAL, INDIRECT, SPECIAL OR CONSEQUENTIAL DAMAGE IN CONNECTION WITH OR ARISING OUT OF THIS AGREEMENT OR THE EXISTENCE, FURNISHING, FUNCTIONING OR LESSEE'S USE OR MAINTENANCE OF ANY EQUIPMENT OR SERVICE PROVIDED FOR IN THIS AGREEMENT.

Section 9.02. Vendor's Warranties. Lessee may have rights under the contract evidencing the purchase of the Equipment; Lessee is advised to contact the Vendor for a description of any such rights. Lessor hereby assigns to Lessee during the Lease Term all warranties running from Vendor to Lessor. Lessor hereby irrevocably appoints Lessee its agent and attorney-in-fact during the Lease Term, so long as Lessee shall not be in default hereunder, to assert from time to time whatever claims and rights (including without limitation warranties) related to the Equipment that Lessor may have against the Vendor. Lessee's sole remedy for the breach of such warranty, indemnification or representation shall be against the Vendor of the Equipment, and not against Lessor. Any such matter shall not have any effect whatsoever on the rights and obligations of Lessor with respect to this Agreement, including the right to receive full and timely payments hereunder. Lessee expressly acknowledges that Lessor makes, and has made, no representations or warranties whatsoever as to the existence or the availability of such warranties by the Vendor of the Equipment.

ARTICLE X

Section 10.01. Purchase Option. Lessee shall have the option to purchase Lessor's interest in all of the Equipment listed in any Schedule, upon giving written notice to Lessor at least 60 days before the date of purchase, at the following times and upon the following terms:

- (a) On the last Rental Payment Date set forth in that Schedule (assuming this Agreement is renewed at the end of the Original Term and each Renewal Term), if the Agreement is still in effect on such day, upon payment in full of Rental Payments due on such Schedule and the payment of One Dollar to Lessor;
- (b) On the Rental Payment Date during the Original Term or any Renewal Term then in effect, upon payment in full to Lessor of the Rental Payments then due on that Schedule plus the then applicable Purchase Price set forth on that Schedule; or
- (c) In the event of substantial damage to or destruction or condemnation of substantially all of the Equipment listed in that Schedule, on the day specified in Lessee's notice to Lessor of its exercise of the purchase option upon payment in full to Lessor of the Rental Payments then due under that Schedule plus the then applicable Purchase Price set forth in such Schedule.

ARTICLE XI

Section 11.01. Assignment by Lessor. Lessor's interest in, to and under this Agreement and the Equipment may be assigned and reassigned in whole or in part to one or more assignees by Lessor and, to the extent of its interest, by any Registered Owner, but only with the prior written consent of Lessee; provided that (a) any assignment shall not be effective until Lessee has received written notice, signed by

the assignor, of the name, address and tax identification number of the assignee, and (b) any assignment to or by a Registered Owner shall not be effective until it is registered on the registration books kept by the Agent as agent for Lessee. Lessee shall retain all such notices as a register of all assignees (other than Registered Owners) and shall make all payments to the assignee or assignees designated in such register or, in the case of Registered Owners, to the Agent. Certificates of participation in this Lease may be executed and delivered by the Agent to Registered Owners, if any, provided such certificates of participation are sold only on a private placement basis (and not pursuant to any "public offering") to a purchaser(s) who represents that (i) such purchaser has sufficient knowledge and experience in financial and business matters to be able to evaluate the risks and merits of the investment (ii) such purchaser understands neither the Lease nor the certificates will be registered under the Securities Act of 1933, (iii) such purchaser is either an "accredited investor" within the meaning of Regulation D under the Securities Act of 1933, or a qualified institutional buyer within the meaning of Rule 144A, and (iv) that it is the intention of such purchaser to acquire such certificates (A) for investment for its own account or (B) for resale in a transaction exempt from registration under the Securities Act of 1933. Lessee agrees to execute all documents, including notices of assignment and chattel mortgages or financing statements that may be reasonably requested by Lessor or any assignee to protect its interests in the Equipment and in this Agreement. Lessee shall not have the right to and shall not assert against any assignee or Registered Owner any claim, counterclaim or other right Lessee may have against Lessor. Assignments in part may include without limitation assignment of all or a portion of Lessor's right, title and interest in, to and under the Equipment listed in a particular Schedule and all rights in, to and under the Agreement related to that Equipment.

Section 11.02. Assignment and Subleasing by Lessee. None of Lessee's right, title and interest in, to and under this Agreement and in the Equipment may be assigned or encumbered by Lessee for any reason; except that Lessee may sublease all or part of the Equipment if Lessee obtains the prior written consent of Lessor and an opinion of nationally recognized counsel in the area of tax exempt municipal obligations satisfactory to Lessor that such subleasing will not adversely affect the exclusion of the interest components of the Rental Payments from gross income for federal income tax purposes. Any such sublease of all or part of the Equipment shall be subject to this Agreement and the rights of the Lessor in, to and under this Agreement and the Equipment.

ARTICLE XII

Section 12.01. Events of Default Defined. Subject to the provisions of Section 3.03, any of the following events shall constitute an "Event of Default" under any Lease:

- (a) Failure by Lessee to pay any Rental Payment or other payment required to be paid under that Lease at the time specified in that Lease;
- (b) Failure by Lessee to observe and perform any covenant, condition or agreement on its part to be observed or performed under that Lease, other than as referred to in subparagraph (a) above, for a period of 30 days after written notice specifying such failure and requesting that it be remedied is given to Lessee by Lessor, unless Lessor shall agree in writing to an extension of such time prior to its expiration; provided that, if the failure stated in the notice cannot be corrected within the applicable period, Lessor will not unreasonably withhold its consent to an extension of such time if corrective action is instituted by Lessee within the applicable period and diligently pursued until the default is corrected;

- (c) Any statement, representation or warranty made by Lessee in or pursuant to that Lease or its execution, delivery or performance shall prove to have been false, incorrect, misleading or breached in any material respect on the date when made;
- (d) Any provision of that Lease shall at any time for any reason cease to be valid and binding on Lessee, or shall be declared to be null and void, or the validity or enforceability thereof shall be contested by Lessee or any governmental agency or authority if the loss of such provision would materially adversely affect the rights or security of Lessor, or Lessee shall deny that it has any further liability or obligation under that Lease.
- (e) Lessee shall (i) apply for or consent to the appointment of a receiver, trustee, custodian or liquidator of Lessee, or of all or a substantial part of the assets of Lessee, (ii) be unable, fail or admit in writing its inability generally to pay its debts as they become due, (iii) make a general assignment for the benefit of creditors, (iv) have an order for relief entered against it under applicable federal bankruptcy law, or (v) file a voluntary petition in bankruptcy or a petition or an answer seeking reorganization or an arrangement with creditors or taking advantage of any insolvency law or any answer admitting the material allegations of a petition filed against Lessee in any bankruptcy, reorganization or insolvency proceeding; or
- (f) An order, judgment or decree shall be entered by any court of competent jurisdiction, approving a petition or appointing a receiver, trustee, custodian or liquidator of Lessee or of all or a substantial part of the assets of Lessee, in each case without its application, approval or consent, and such order, judgment or decree shall continue unstayed and in effect for any period of 30 consecutive days.

Section 12.02. Remedies on Default. Whenever any Event of Default under any Lease exists, Lessor shall have the right, at its sole option without any further demand or notice, to take one or any combination of the following remedial steps:

- (a) By written notice to Lessee, declare all Rental Payments and other amounts payable by Lessee under that Lease to the end of the then current Original Term or Renewal Term to be due;
- (b) With or without terminating that Lease, Lessor may enter the premises where any Equipment that is subject to that Lease is located and retake possession of that Equipment or require Lessee at Lessee's expense to promptly return any or all of the Equipment to the possession of Lessor at such place within the United States as Lessor shall specify, and sell or lease the Equipment or, for the account of Lessee, sublease the Equipment, continuing to hold Lessee liable for the difference between (i) the Rental Payments and other amounts payable by Lessee under that Lease to the end of the then current Original Term or Renewal Term and (ii) the net proceeds of any such sale, leasing or subleasing (after deducting all expenses of Lessor in exercising its remedies under this Agreement, including without limitation all expenses of taking possession, storing, reconditioning and selling or leasing the Equipment and all brokerage, auctioneers' and attorneys' fees); and

- (c) Lessor may take whatever action at law or in equity may appear necessary or desirable to enforce its rights under that Lease or as the owner of any or all of the Equipment that is subject to that Lease.

Section 12.03. No Remedy Exclusive. No remedy herein conferred upon or reserved to Lessor is intended to be exclusive and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Agreement now or hereafter existing at law or in equity. No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver thereof, but any such right or power may be exercised from time to time and as often as may be deemed expedient. In order to entitle Lessor to exercise any remedy reserved to it in this Article it shall not be necessary to give any notice other than such notice as may be required in this Article.

Section 12.04. Application of Moneys. Any net proceeds from the exercise of any remedy hereunder with respect to any Event of Default under any Lease (after deducting all expenses of Lessor in exercising such remedies including without limitation all expenses of taking possession, storing, reconditioning and selling or leasing Equipment and all brokerage, auctioneer's or attorney's fees) shall be applied to amounts due pursuant to that Lease and other amounts related to that Lease and the Equipment listed in the Schedule with respect to that Lease.

ARTICLE XIII

Section 13.01. Notices. All notices, certificates or other communications hereunder shall be sufficiently given and shall be deemed given when delivered or mailed by registered mail, postage prepaid, to the parties hereto at the addresses immediately after the signatures to this Agreement (or at such other address as either party hereto shall designate in writing to the other for notices to such party), to any assignee at its address as it appears on the registration books maintained by Lessee or by the Agent and to any Registered Owner at its address as it appears on the registration books maintained by the Agent.

Section 13.02. Release and Indemnification. To the extent permitted by law, Lessee shall indemnify, protect, hold harmless, save and keep harmless Lessor from and against any and all liabilities, obligations, losses, claims and damages whatsoever, regardless of cause thereof, and all expenses in connection therewith (including, without limitation, counsel fees and expenses, penalties connected therewith imposed on interest received) arising out of or as (a) result of the entering into of this Agreement, (b) the ownership of any item of the Equipment, (c) the ordering, acquisition, use, operation, condition, purchase, delivery, rejection, storage or return of any item of the Equipment, (d) or any accident in connection with the operation, use, condition, possession, storage or return of any item of the Equipment resulting in damage to property or injury to or death to any person, and/or (e) the breach of any covenant herein or any material misrepresentation contained herein. The indemnification arising under this paragraph shall continue in full force and effect notwithstanding the full payment of all obligations under this Agreement or the termination of the Lease Term for any reason.

Section 13.03. Binding Effect. This Agreement shall inure to the benefit of and shall be binding upon Lessor and Lessee and their respective successors and assigns.

Section 13.04. Severability. In the event any provision of this Agreement shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision hereof.

Section 13.05. Amendments, Changes and Modifications. This Agreement may be amended by Lessor and Lessee; provided that no amendment that affects the rights of the Registered Owners shall be effective unless it shall have been consented to by the Registered Owners of a majority, in principal amount, of the Certificates of Participation, if any, then outstanding.

Section 13.06. Execution in Counterparts; Chattel Paper. This Agreement, including each Schedule, may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument; except (1) to the extent that various Schedules and this Agreement as it relates thereto constitutes separate Leases as provided in this Agreement and (2) that Lessor's interest in, to and under any Schedule and the Agreement as it relates to that Schedule and the Equipment listed in that Schedule may be sold or pledged only by delivering possession of the original counterpart of that Schedule marked "Counterpart No. __," which Counterpart shall constitute chattel paper for purposes of the Uniform Commercial Code.

Section 13.07. Applicable Law. This Agreement shall be governed by and construed in accordance with the laws of the State.

Section 13.08. Captions. The captions or headings in this Agreement are for convenience only and in no way define, limit or describe the scope or intent of any provisions or sections of this Agreement.

Section 13.09. Electronic Transaction. Copies, telecopies, facsimiles, electronic files and other reproductions of original executed documents will be deemed to be authentic and valid counterparts of such original documents for all purposes, including the filing of any claim, action or suit in the appropriate court of law. The parties agree that the transaction described herein may be conducted and related documents may be stored by electronic means.

IN WITNESS WHEREOF, Lessor and Lessee have caused this Agreement to be executed in their names by their duly authorized representatives as of the date first above written.

(LESSOR)

BANC OF AMERICA PUBLIC CAPITAL CORP

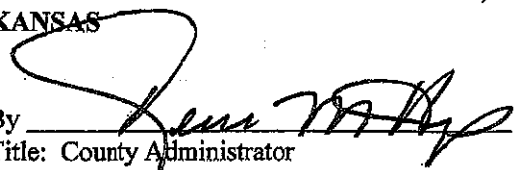
By *Yileen Harwell*
Title: Authorized Agent

ADDRESS FOR NOTICES

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San Francisco, CA 94104
Telephone: (415) 765-7371
Telecopy: (415) 343-0533
E-mail: yvette.m.montalvo_baron@baml.com**

(LESSEE)

**UNIFIED GOVERNMENT OF
WYANDOTTE COUNTY/KANSAS CITY,
KANSAS**

By 
Title: County Administrator

ADDRESS FOR NOTICES

**Unified Government of Wyandotte County/
Kansas City, Kansas
Finance Department, Room 330
701 North 7th Street
Kansas City, Kansas 66101
Attention: Lew Levin
Telephone: (913) 573-5186
Facsimile: (913) 573-5003**