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.

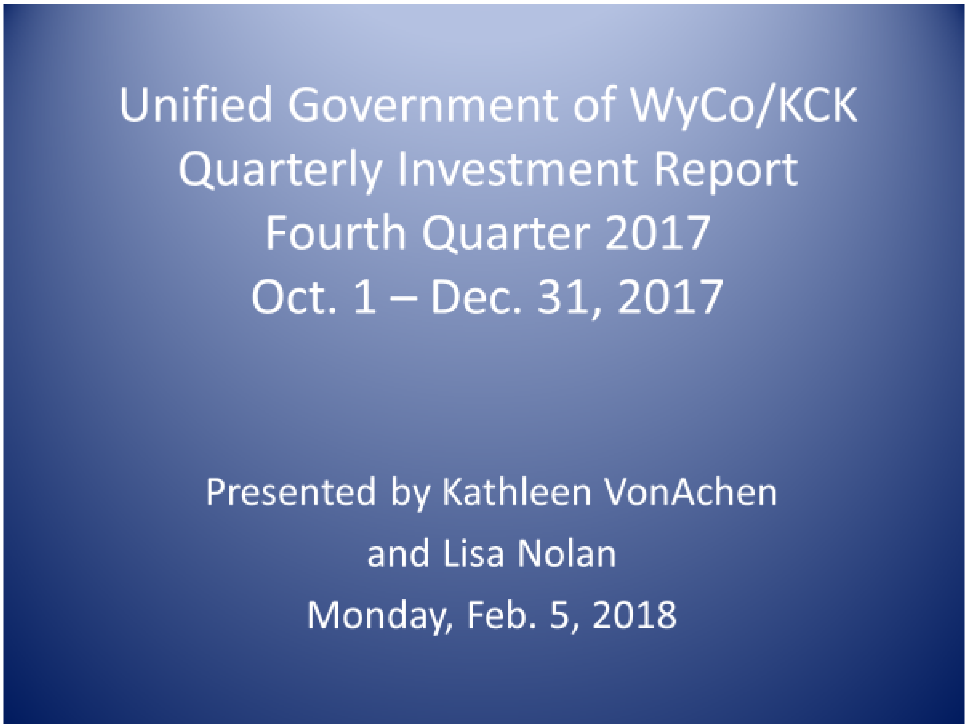
Chairman Burroughs said we do have some revisions this evening. Additional information was provided for Items 2 and 3. Secondly, Item 4, which is an update for the Schlitterbahn STAR Bond Project has been removed from the agenda and will not be heard this evening.

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.



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

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

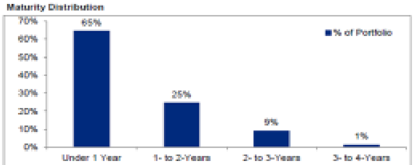
Investment Summary - Aggregate Portfolio By Type of Investment

Security Type	Original Cost	Market Value[1]	Amortized Cost[2]	% of Portfolio	% Permitted by Policy	In Compliance	# of Days to Maturity[3]	Average Yield[3]
Property Tax Held for Entities[4]	$59,446,112	$59,446,112	$59,446,112	na	see note 4	✓	3	1.01%
Cash Equivalents	$79,848,888	$79,848,888	$79,848,888	38.5%	100%	✓	3	1.01%
Total Liquidity	$79,848,888	$79,848,888	$79,848,888	38.5%			3	1.01%
Certificates of Deposit	$118,470,000	$118,470,000	$118,470,000	57.1%	100%	✓	498	1.42%
Federal Agency Securities	$9,083,974	$8,994,106	$9,012,855	4.3%	50%	✓	336	0.86%
Total Securities	$127,553,974	$127,464,106	$127,482,855	61.5%			299	1.38%
Total Portfolio	$207,402,862	$207,312,994	$207,331,743	100%			380	1.24%

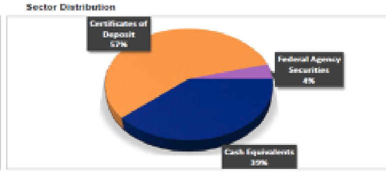
1. Market values provided by UMB Bank, Third-Party Safekeeping Custodial Agent.
2. Amortized cost is the original cost of the principal of the security adjusted for the amount of the periodic reduction of any discount or premium from the purchase date until the date of the report.
3. Averages shown are weighted averages calculated based on original cost. Average maturity is shown as days.

4. 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. The cash being held in trust is presented here for informational purposes.

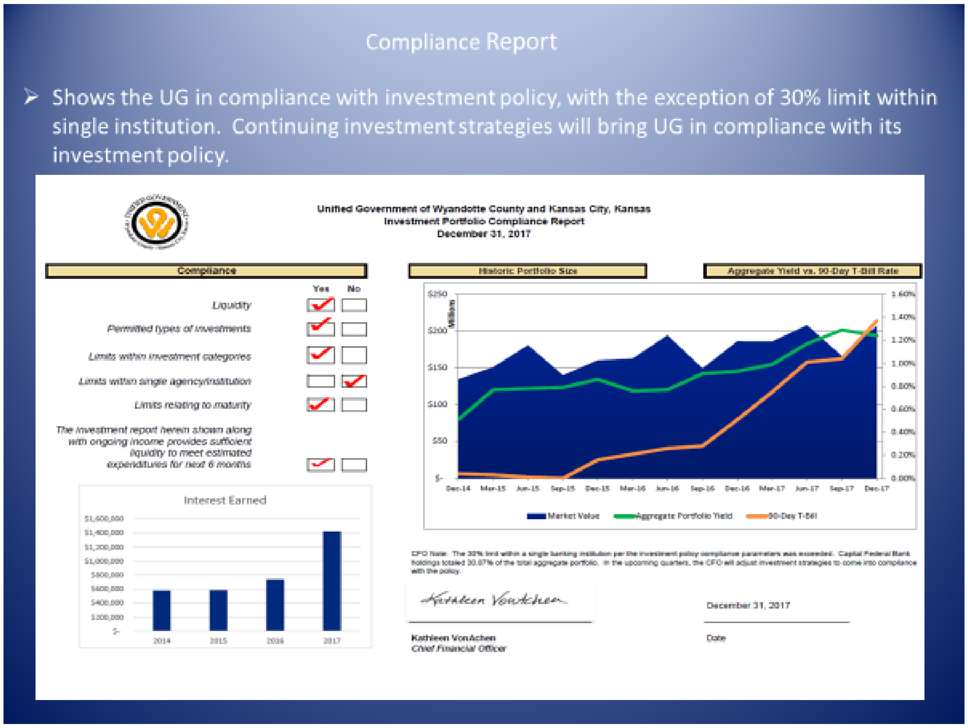
Maturity Distribution



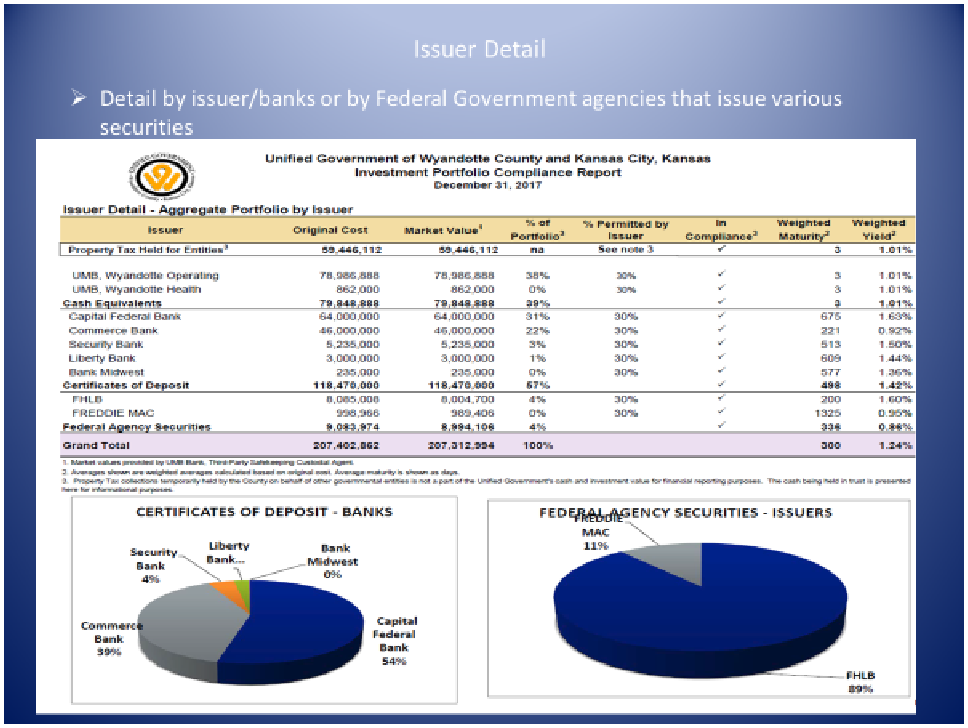
Sector Distribution



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.



Issuer Detail

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

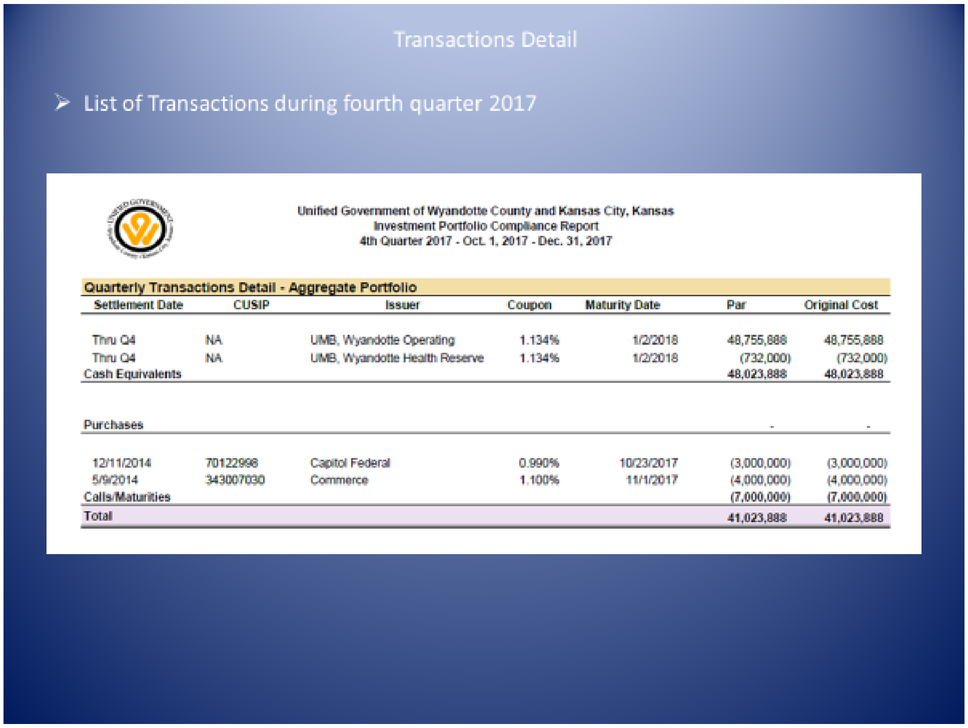
Unified Government of Wyandotte County and Kansas City, Kansas
Investment Portfolio Compliance Report
December 31, 2017

Issuer Detail - Aggregate Portfolio by Issuer

Issuer	Original Cost	Market Value[1]	% of Portfolio[3]	% 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	38%	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	1.36%
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**	**8,994,106**	**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 Safekeeping Custodial Agent.
2. Averages shown are weighted averages calculated based on original cost. Average maturity is shown as 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.

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 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.

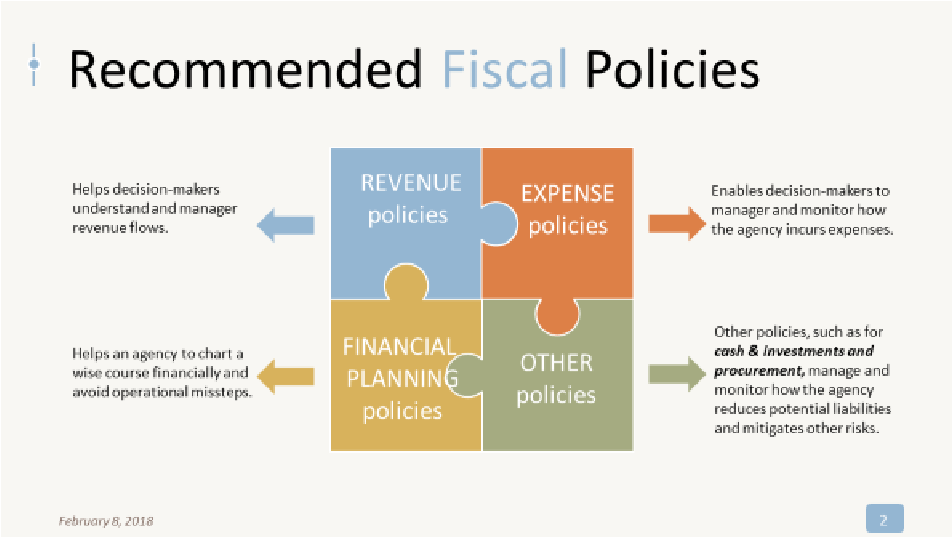
Financial Planning Policies Update 2018

Unified Government of Wyandotte County/Kansas City, Kansas

Kathleen VonAchen, CFO *ED&F Committee February 5, 2018*

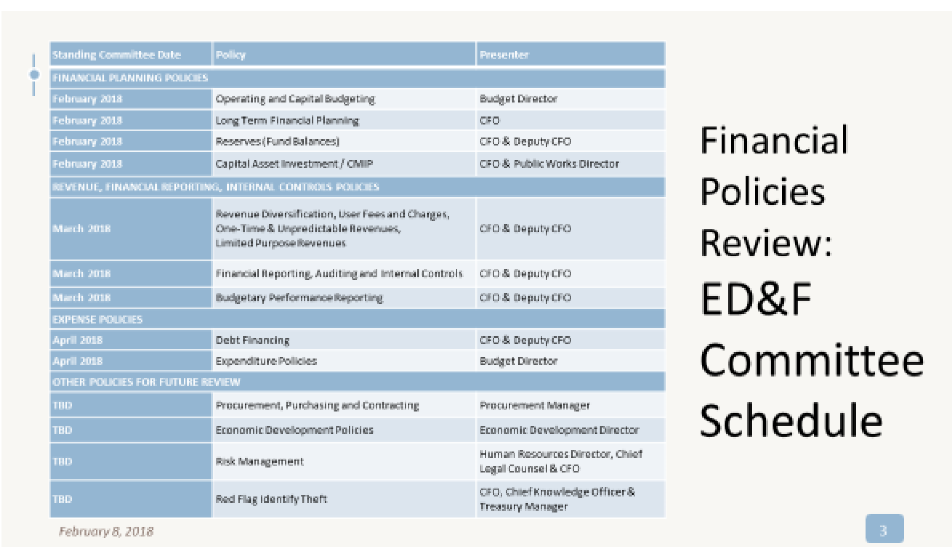
Kathleen VonAchen, Chief Financial Officer, said I'm looking forward to this presentation. The UG has about 10 to13 policies. For the most part, they were written about five years ago, five or more years ago. Tonight, we're going to talk about financial planning policies. There are various categories 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.



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.

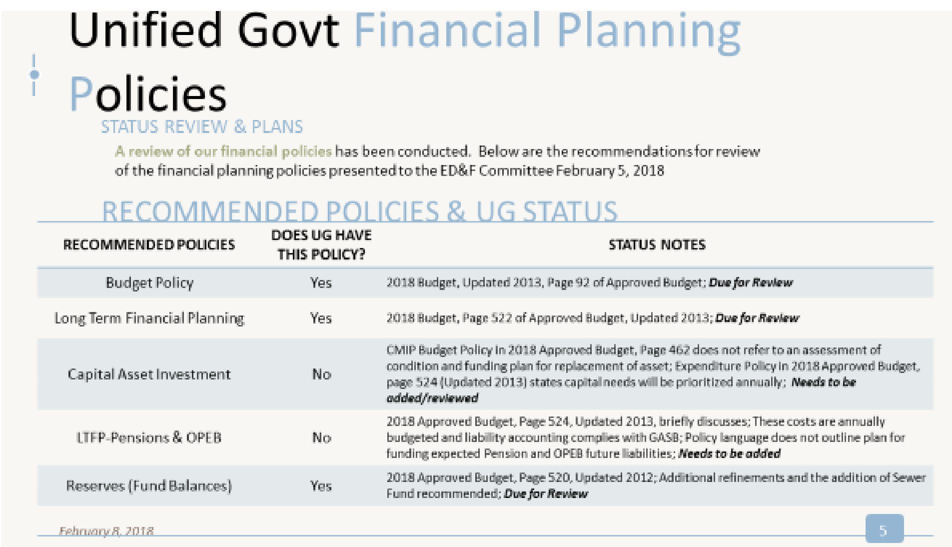
Tonight, has the most policies of all these three chances to talk about policies. I really appreciate your interest in this. It has some important information and important decision-making. We're hoping to seek feedback from all of you.



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 Identify Theft	CFO, Chief Knowledge Officer & Treasury Manager

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.

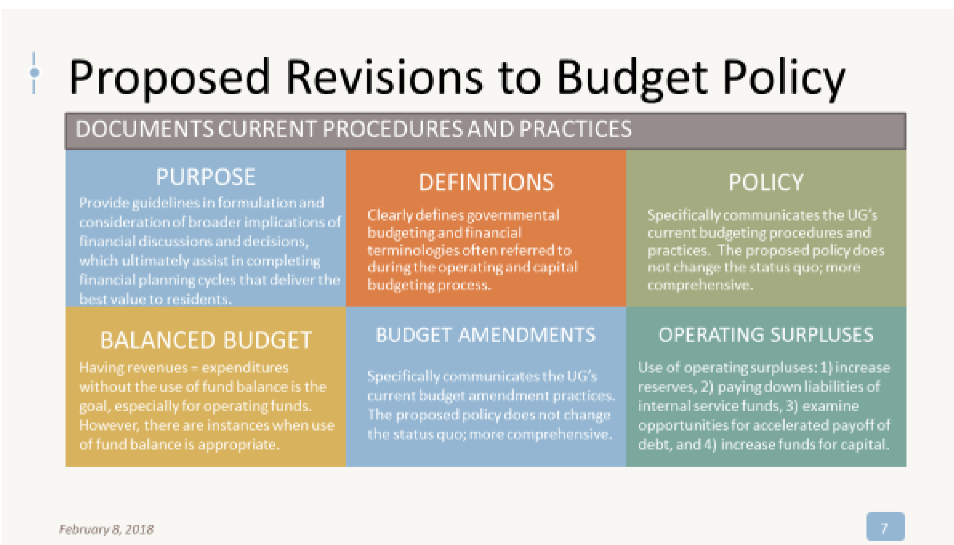
Again, here's some more information roughly on the various policies that we have that govern our financial planning, along with some detailed information as to the rationale behind each. We're going to go into more detail in each of these. I'm going to skip over this slide. This is something you can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



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***

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 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.

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



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.

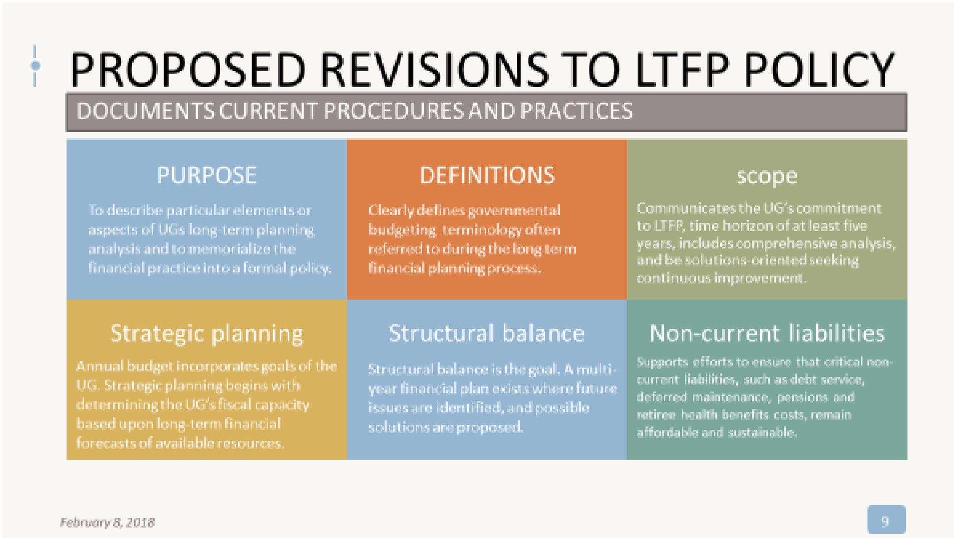
The purpose of the Budget Policy is it touches on when the budget is prepared and how the budget is used throughout the year. There's a definition section within the Budget Policy that defines governmental and financial terminologies is often referred to during budget conversations.

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.



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.

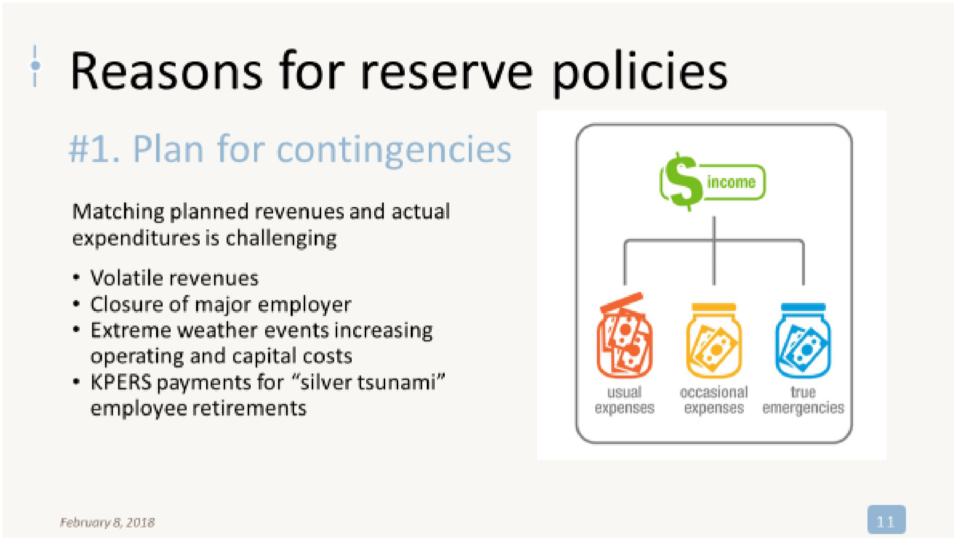
Commissioner McKiernan said one question. These are very high-level summaries of the proposed revisions. Before next month's meeting, will we get redline and strikeout copies of the policy or is that important? **Ms. VonAchen** said so redline/strikeout were provided to the committee. **Commissioner McKiernan** asked where is that in my electronic version. I'm looking at financial planning polices 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.

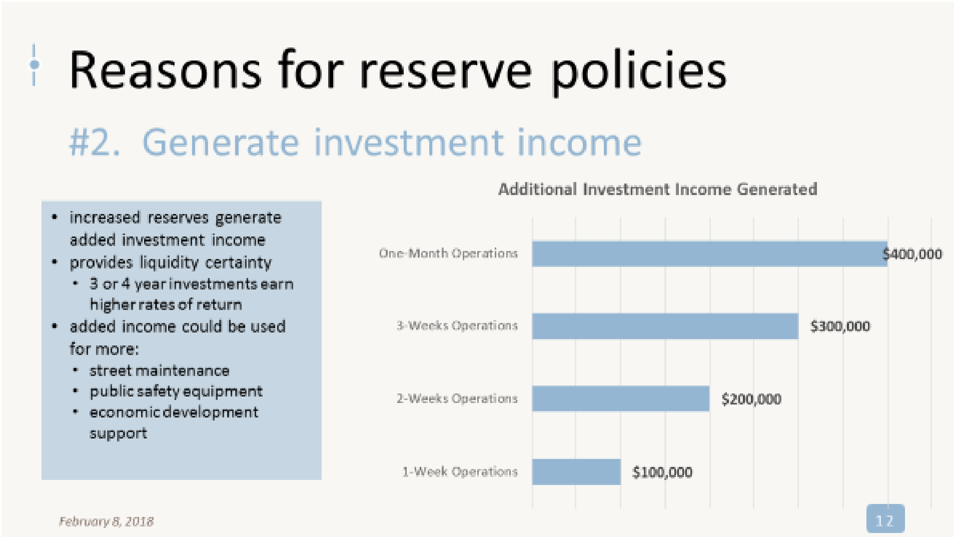
Ms. VonAchen said as you know, we have various categories. Tonight, we're going to also talk about reserve policies. We have three different policies: one for the General Fund, one for Special Revenue Fund, and another for Enterprise and Internal Service Funds. All of which are—each have kind of slight 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.



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.

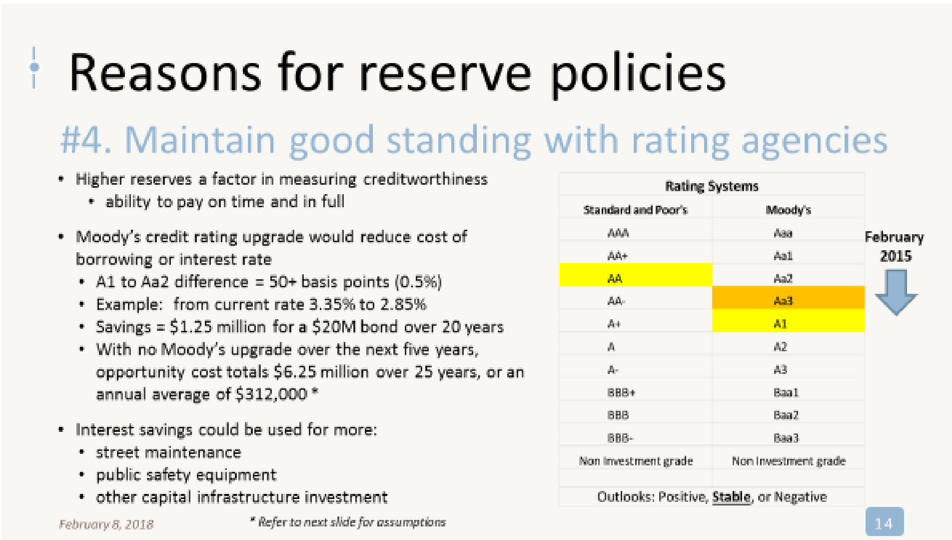
Revenues are volatile. They're constantly—the global economy is changing constantly. There are numerous things that can impact our revenues. The potential of a closure of a major employer who maybe a major taxpayer would impact not only the economy and our employment levels, but also our tax revenue 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.



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.

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.



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.

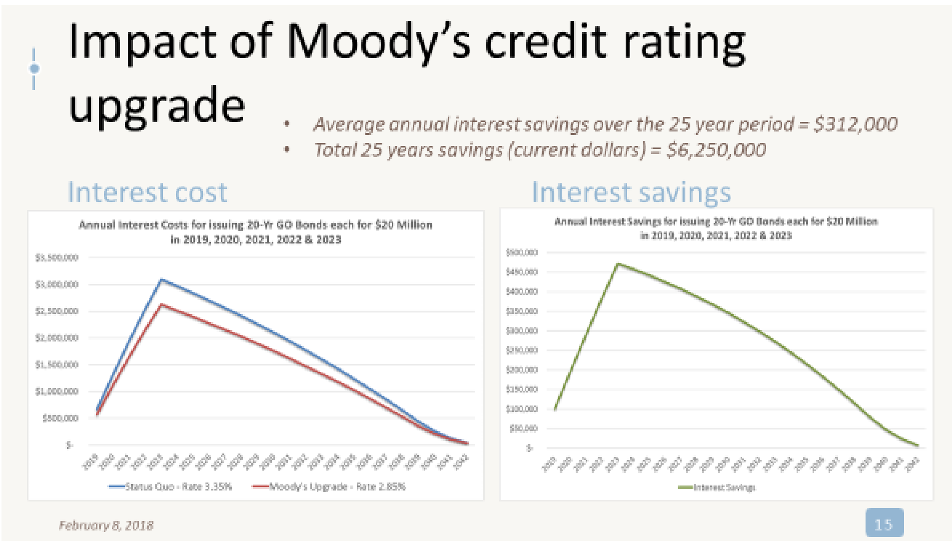
Back in 2017, the beginning of 2017, Moody's downgraded the Unified Government. I'm going to show you a chart here and you're going to see that it seems like a pretty good rationale for why they did that.

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.

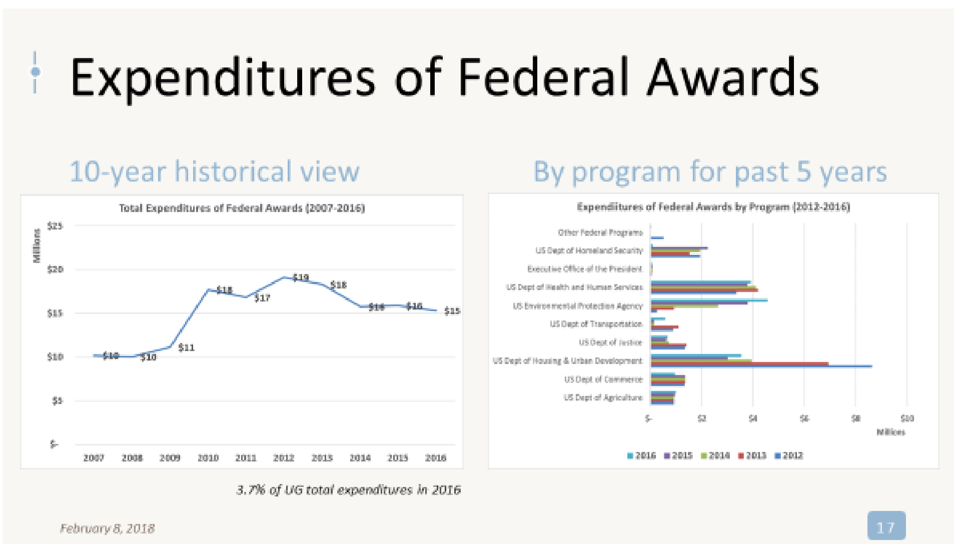
This one I have a graph to show you, but given the political environment in the federal government, the loss of federal and state grants is a possibility; it's a risk. We do get roughly about $15M a year in federal and state grants. Many of them we think we get them from the state, but they're actually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

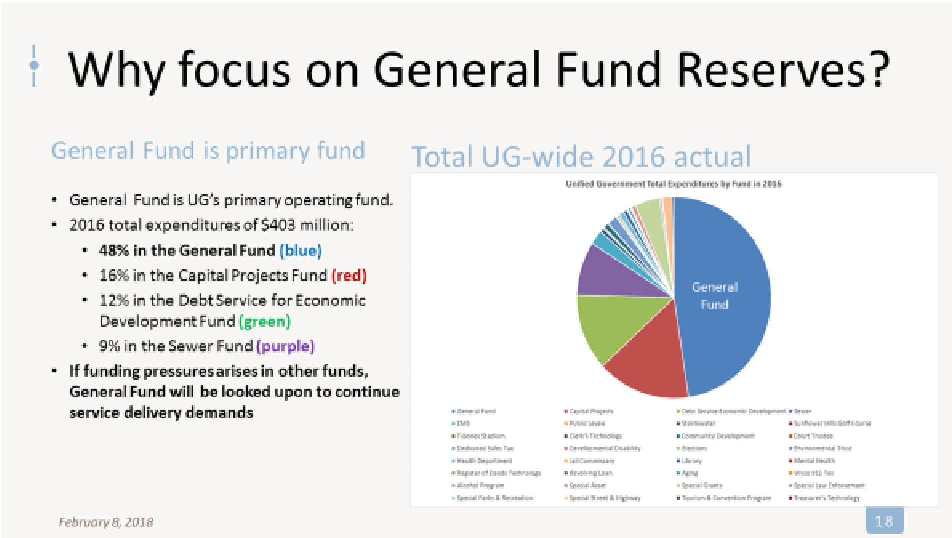
There is also always an increasing pressure to reinvest in our aging infrastructure which, at a minimum, is over $500M outstanding. We are going to come back to the Commission with more information on the amount of deferred maintenance outstanding.

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.

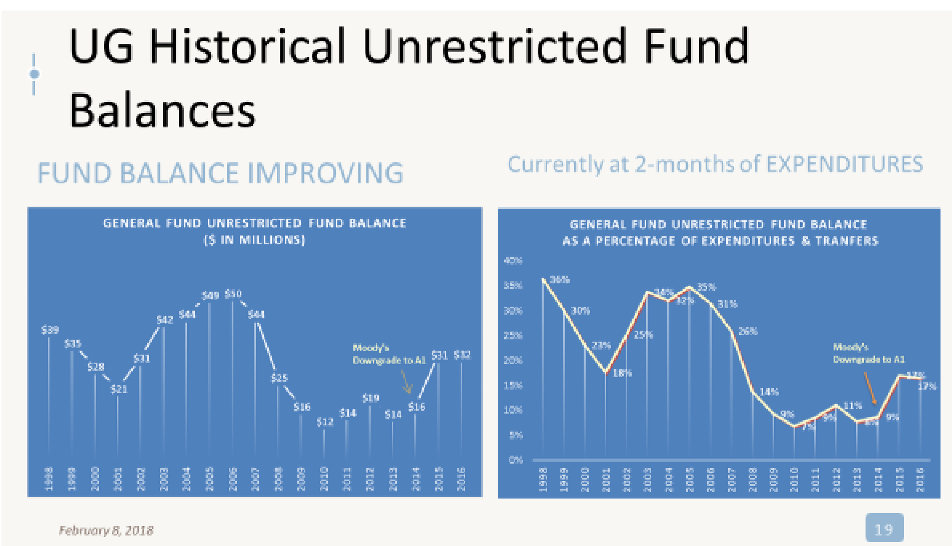
So, a few risks, but we're doing very well. You'll see later on some more information on how well we're doing. I don't want to scare you. From an operations standpoint, we are doing very well.



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.



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.



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-

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.

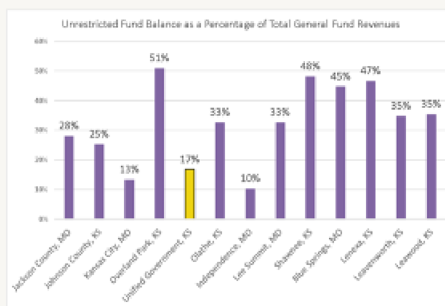
What does that equate to? It equates to two months of operating expenditures and transfers. If you divide 2 into 12, you get roughly 16.66%. I rounded it up to 17.

Neighboring Entities' General Fund Reserves

Data table – population, revenues, and unrestricted fund balance

Entity	2016 Population	Total General Fund Revenues	Total General Fund Revenues Per Capita	Unrestricted Fund Balance (General Fund)	Unrestricted Fund Balance as a Percentage of Total General Fund Revenues
Jackson County, MO	691,800	$ 86,161,161	$ 125	$ 24,148,222	28%
Johnson County, KS	584,400	$ 306,477,492	$ 524	$ 77,369,039	25%
Kansas City, MO	481,400	$ 556,433,000	$ 1,156	$ 74,118,000	13%
Overland Park, KS	189,000	$ 148,773,778	$ 787	$ 75,780,838	51%
Unified Government, KS	163,800	$ 189,178,949	$ 1,155	$ 31,630,049	17%
Olathe, KS	135,500	$ 85,794,566	$ 633	$ 27,956,759	33%
Independence, MO	117,000	$ 76,141,734	$ 651	$ 7,893,449	10%
Lee Summit, MO	100,200	$ 66,159,807	$ 660	$ 21,591,323	33%
Shawnee, KS	66,000	$ 44,498,475	$ 674	$ 21,426,305	48%
Blue Springs, MO	54,400	$ 25,913,765	$ 476	$ 11,600,874	45%
Lenexa, KS	53,000	$ 69,181,882	$ 1,305	$ 32,214,035	47%
Leavenworth, KS	36,200	$ 17,308,719	$ 478	$ 6,022,461	35%
Leawood, KS	34,600	$ 41,712,134	$ 1,206	$ 14,752,188	35%

Graphic – unrestricted fund balance as a percentage of total general fund revenues



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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.

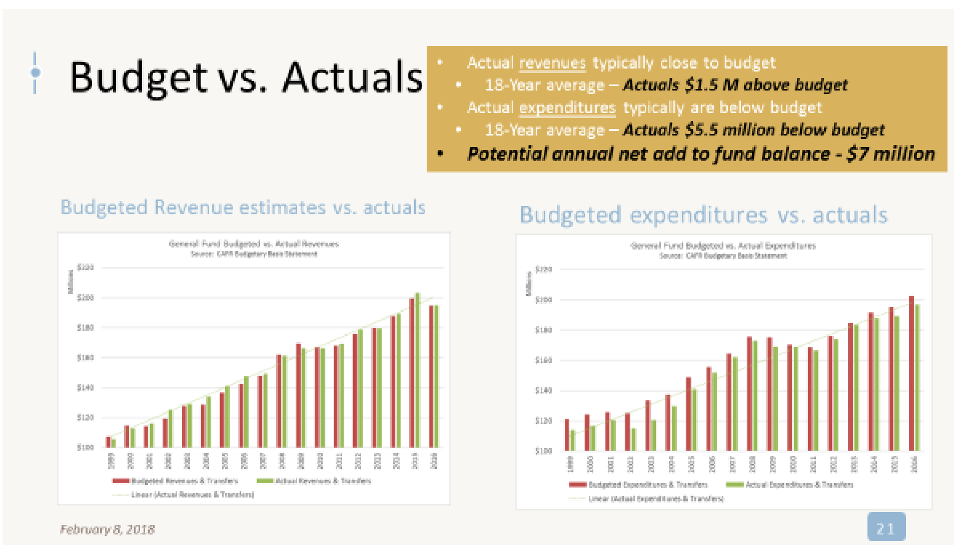
Chairman Burroughs said so you said 30%. **Ms. VonAchen** said 25%. **Chairman Burroughs** asked what does that equate into dollars? **Ms. VonAchen** said I'm going to get there too.

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**

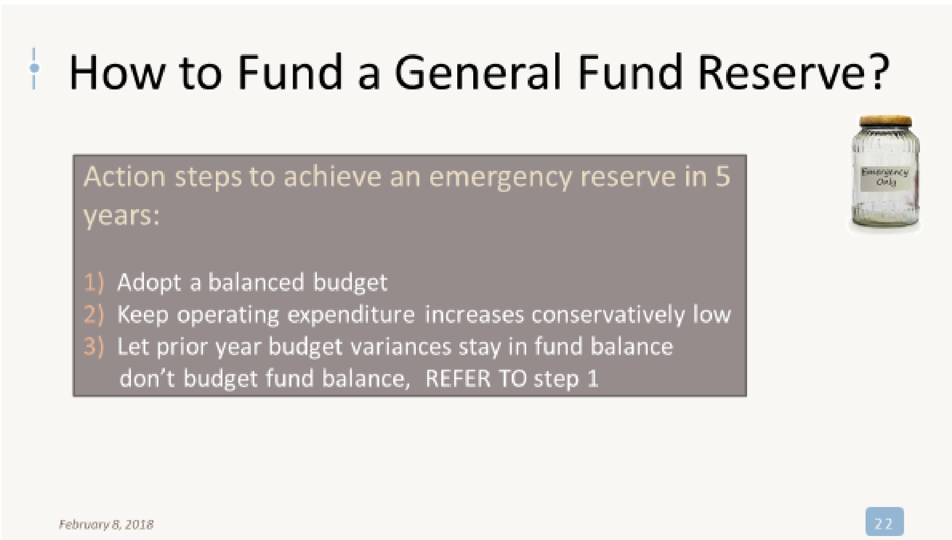
said this percentage, interest rate that I was—2.85, that's if we're a AA without any kind of designation in the municipal market index.

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.

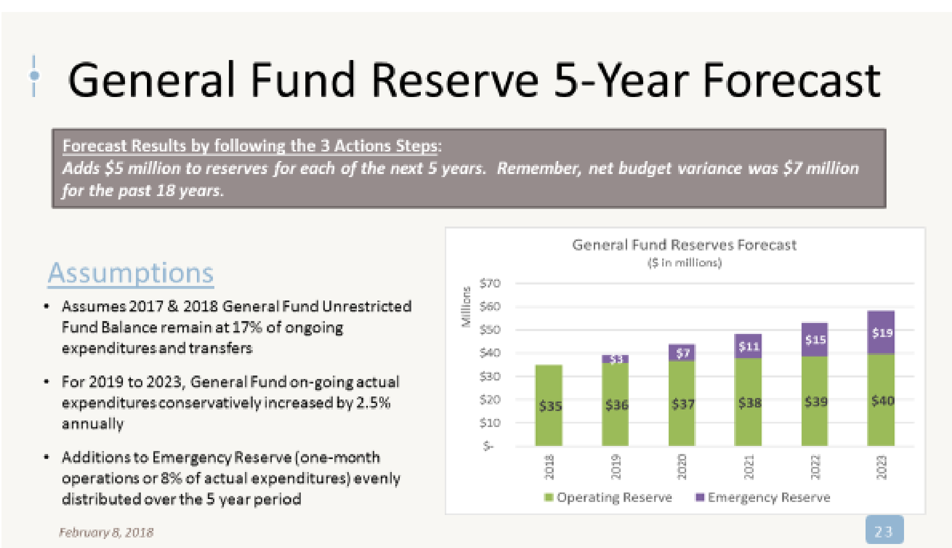
Ms. VonAchen said so the next thing is that I image you're probably thinking is well, gee, what's the most painless way for us to grow our reserve. As you know, we estimate our revenues and actuals come in. They never come in exactly as we estimate, the same with the expenditures. There's always a variance.



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.

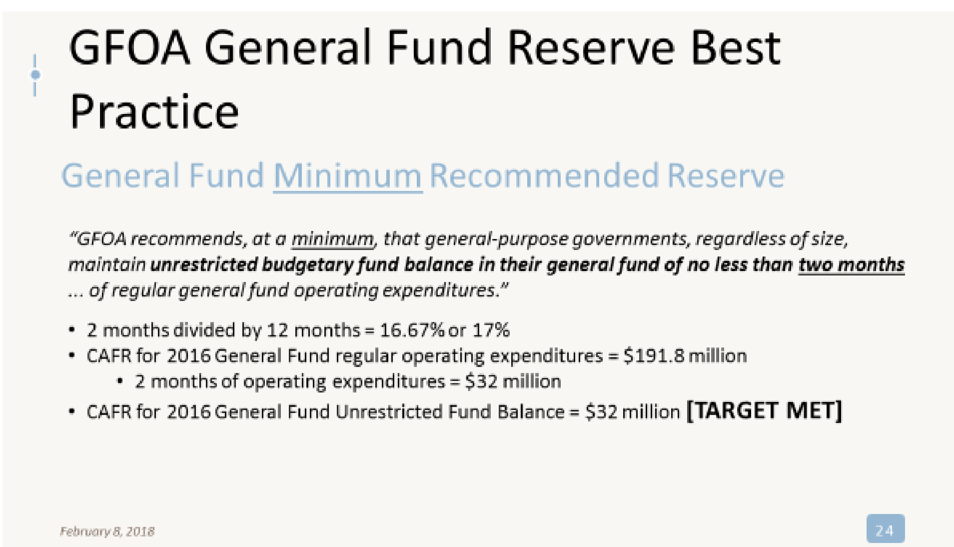


This is the action step, real simple on how to grow the General Fund Reserve. You adopt a balanced budget and then you keep all operating expenditures and expenditure increases conservatively low, and then whatever revenue above budget or actual expenditures below budget, you just let that money stay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

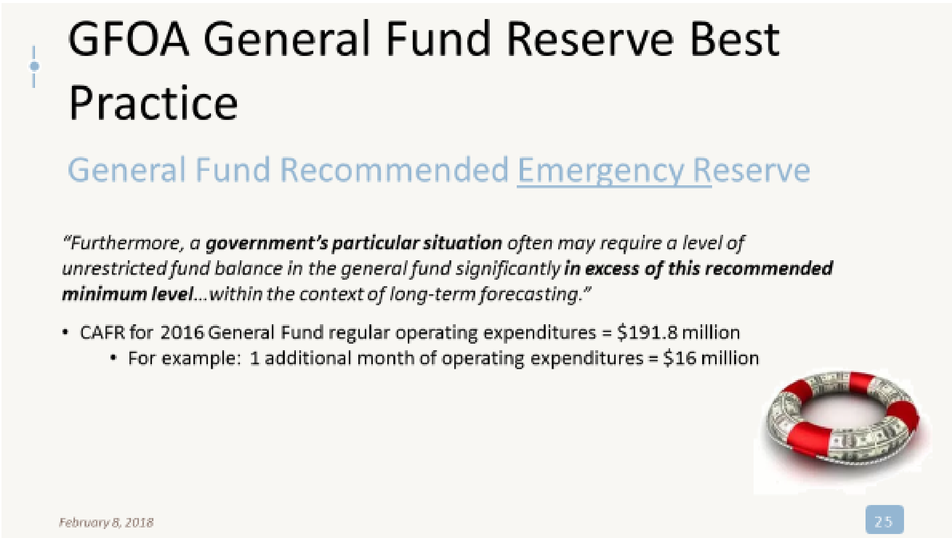


How does that look? If we were to adopt that approach over the next five years, given these assumptions which I have here, and we very modestly increase our operating expenditures by 2.5% annually and we let any kind of—and then we kind of evenly spread—because remember I told you that our current fund 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.

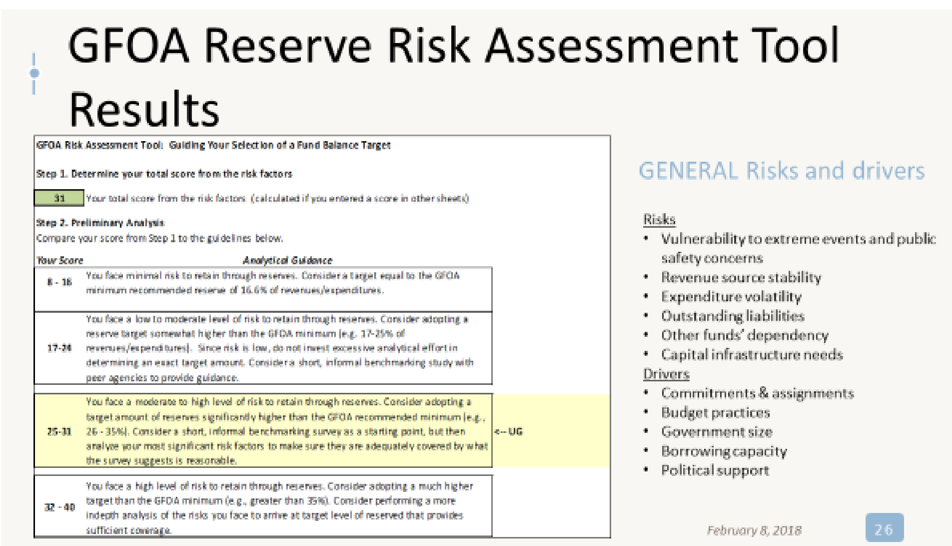
Right now, the one month of expenditures cost $16M. That's based on our current total expenditure level, as you know, which is roughly around $200M. I think it's $204M. Every year that number grows because we're paying additional salary increases in our union contracts and inflation basically. If you 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.



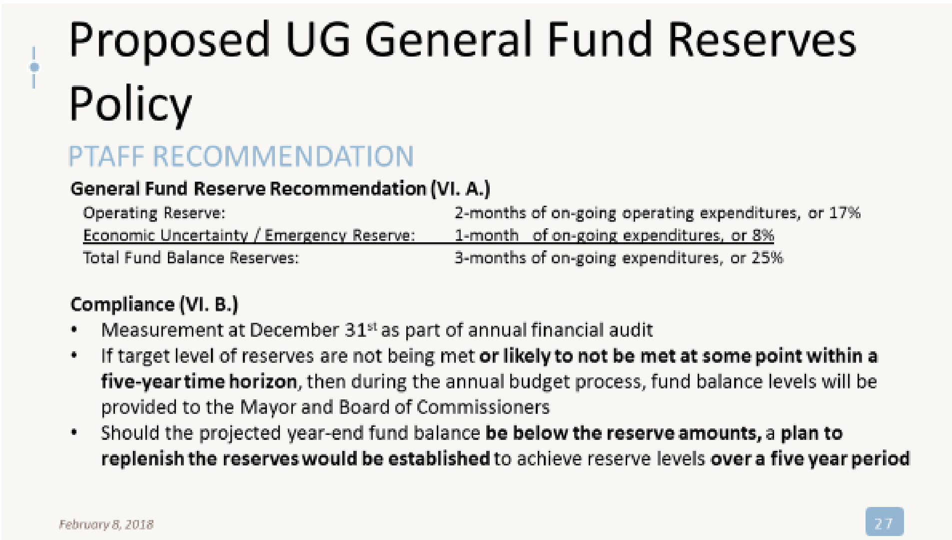
What I am proposing in this General Fund operating reserve is that we increase the current limit, which at the moment is 10%, increase it to two months of operating, at a minimum, which we're calling the operating reserve. GFOA recommends this. At a minimum, this is what I would like to see changed in our policy, is to increase it from 10% to 17%, which is the target we're currently in place. We're there now already.



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

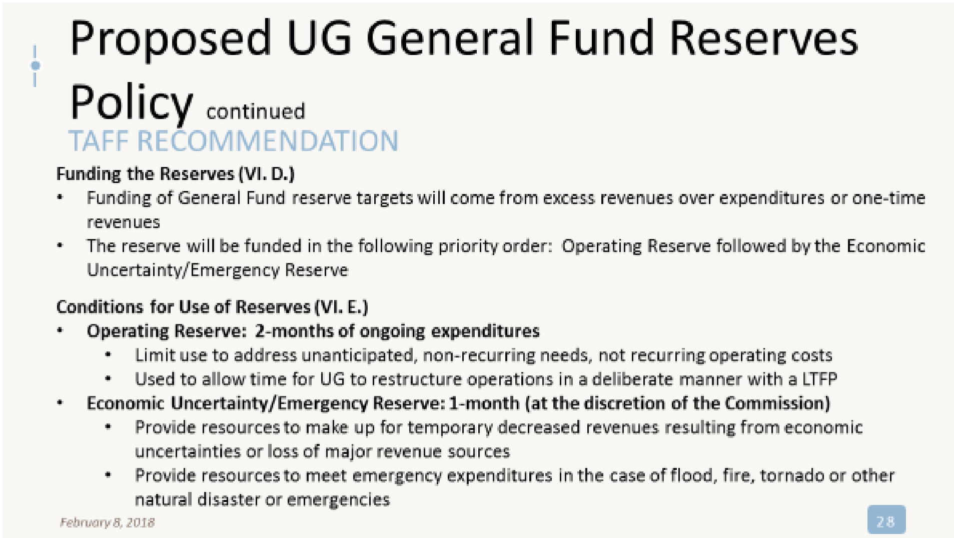


You remember all those liabilities and risks I talked about at the beginning. I have done, I've used a GFOA assessment tool to figure out how much, given our liabilities, how much emergency reserves should we have. In this example here, I said one month. Here's some information of our risk assessment 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.



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.



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.

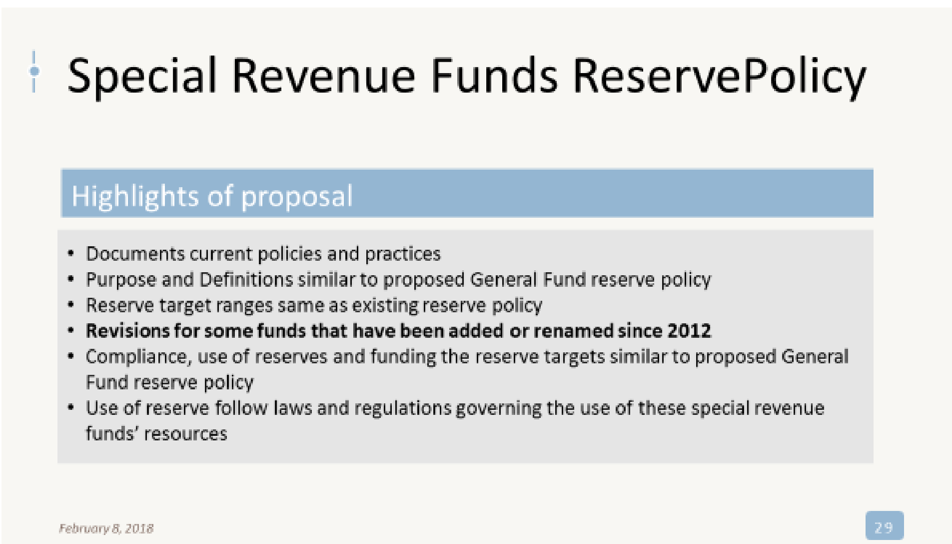
Ms. VonAchen said, Commissioner Walters, I think that we should do all three, absolutely. The credit rating agencies also have a concern about our debt load, absolutely. **Commissioner Walters** said the problem is, since I've been on the Commission, we haven't reduced debt, we have increased our reserves, 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 7^{th}.

There isn't pressure to renew these polices 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.

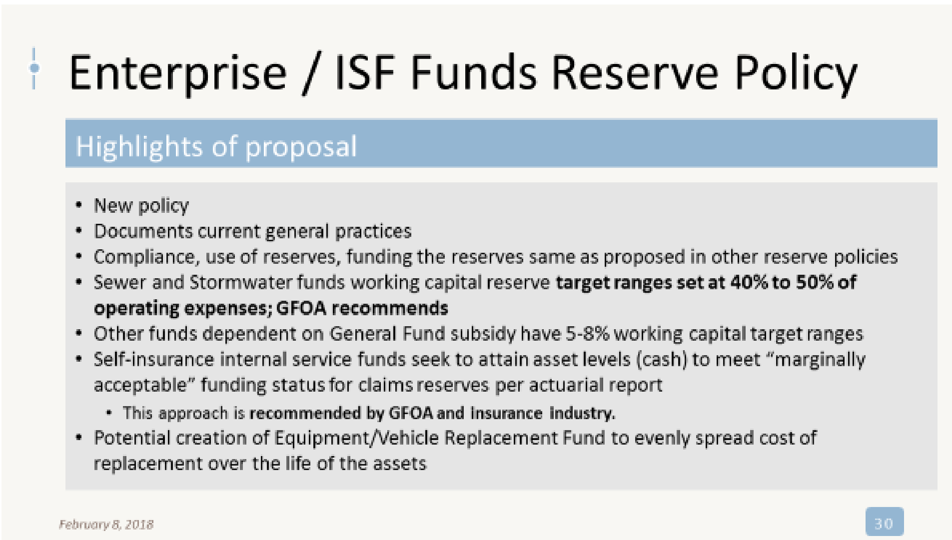
Commissioner Townsend asked was that presentation included when this went out two weeks ago. **Ms. VonAchen** said no.



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.



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.

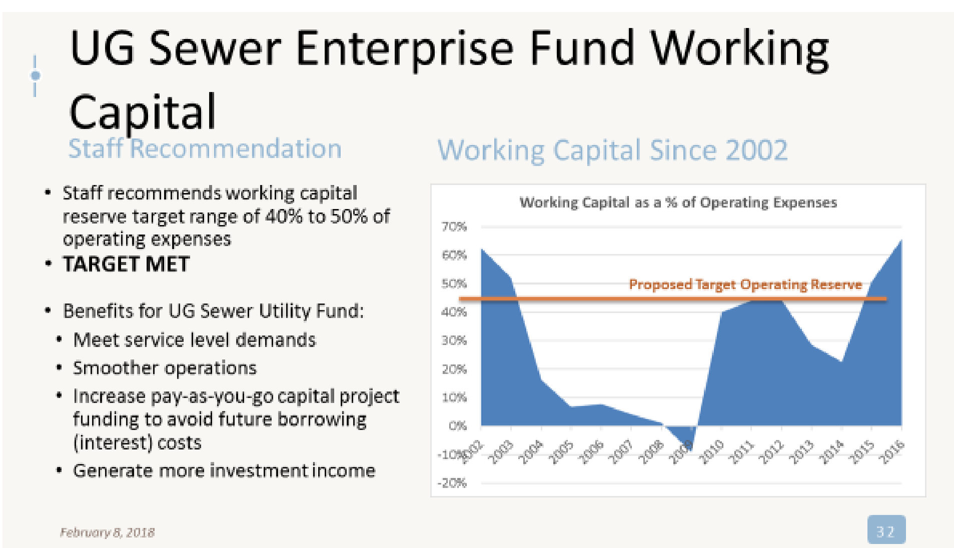
Other funds that are dependent on General Fund subsidies have a typical working capital target of about 5 - 8%.

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.

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.



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.

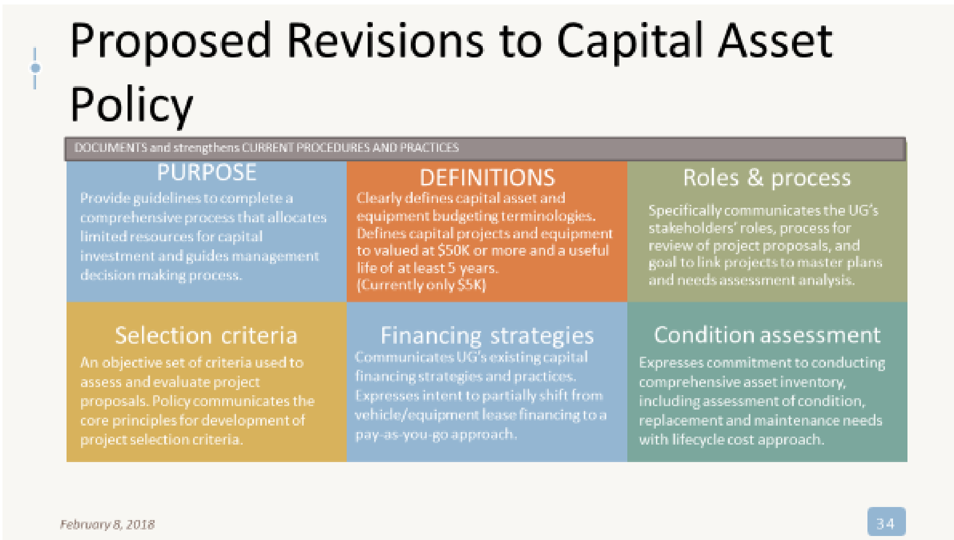
Ms. VonAchen said actually this is the working capital as a percentage of our operating expenditures. This graph shows how if you were running a business, you probably wouldn't have that level of change in your working capital. One of the objectives is to keep it kind of consistent over the course of 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.



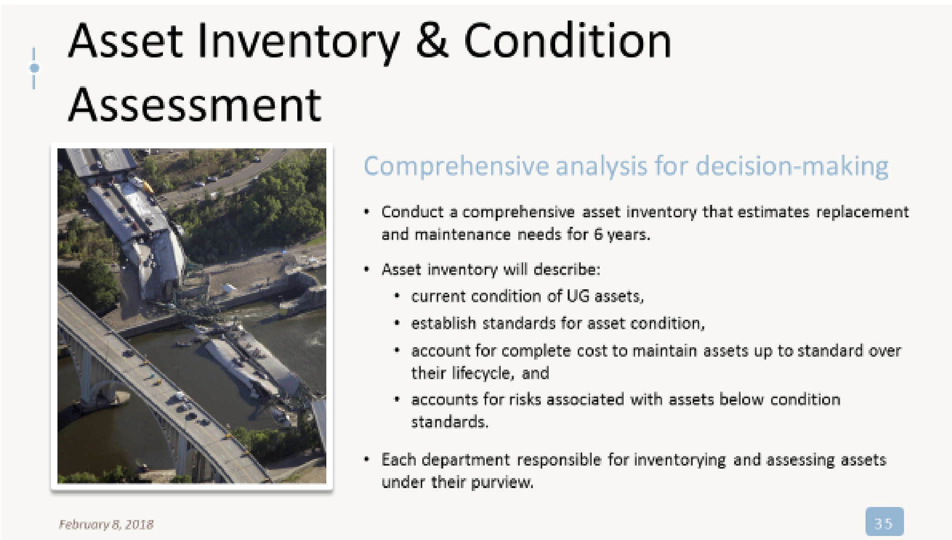
The purpose of this Capital Asset Policy is to provide guidance to complete a comprehensive process that allocates all the limited resources we have for capital investments and guides our management decision-making process. Here, we've clearly defined what capital assets are, what equipment is, and other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



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.

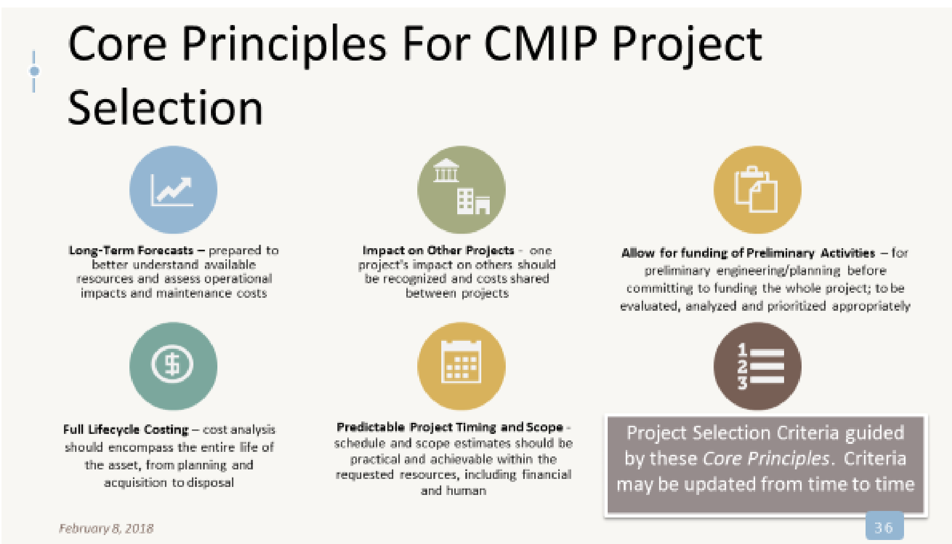
Jeff Fisher, **Executive Director of Public Works,** said you might recall in the last year, Public Works creating a new asset management group. It's in the Engineering Division. We restructured that, staffed it up, and added some resources to help them do their work. They've been working with the other 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.

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.

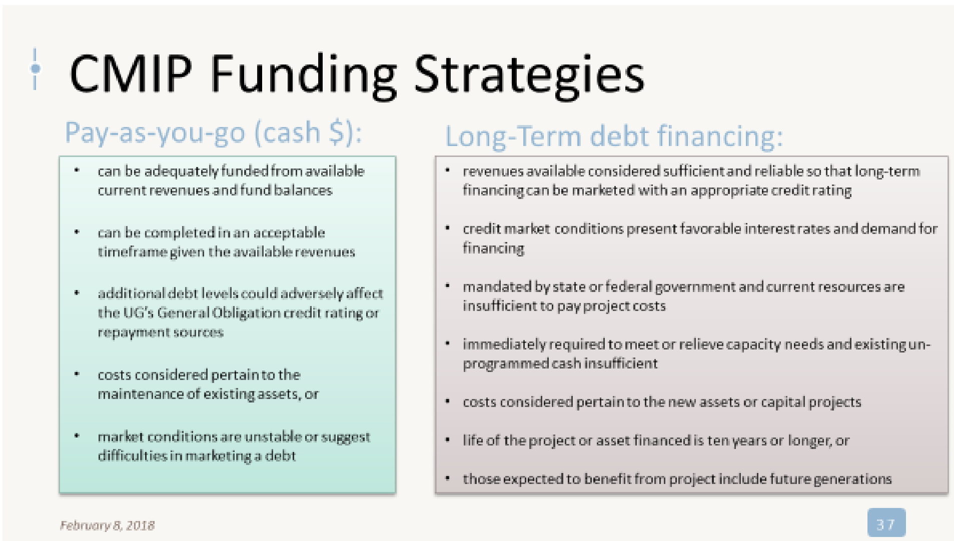


Ms. VonAchen said as I mentioned, the policy doesn't really talk about criteria for project selection. It just provides some core principles. The core principles are that those decisions be made within a long-term forecast so that we better understand what available resources are there and assess the 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.



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.

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 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.

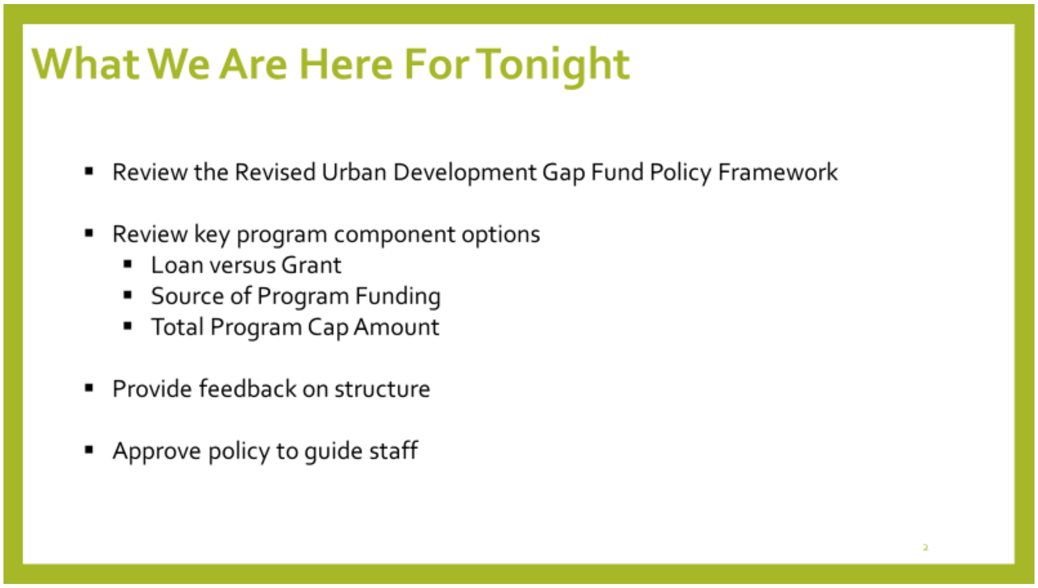
I did want to say—**Ms. VonAchen** said those two things are not mutually—**Commissioner Bynum** said they don't have to be mutually exclusive. I think you know that already anyway. I did want to say, I think with regard to Mr. Fisher's CMIP and Public Works' comments, I think we saw at Public Works 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

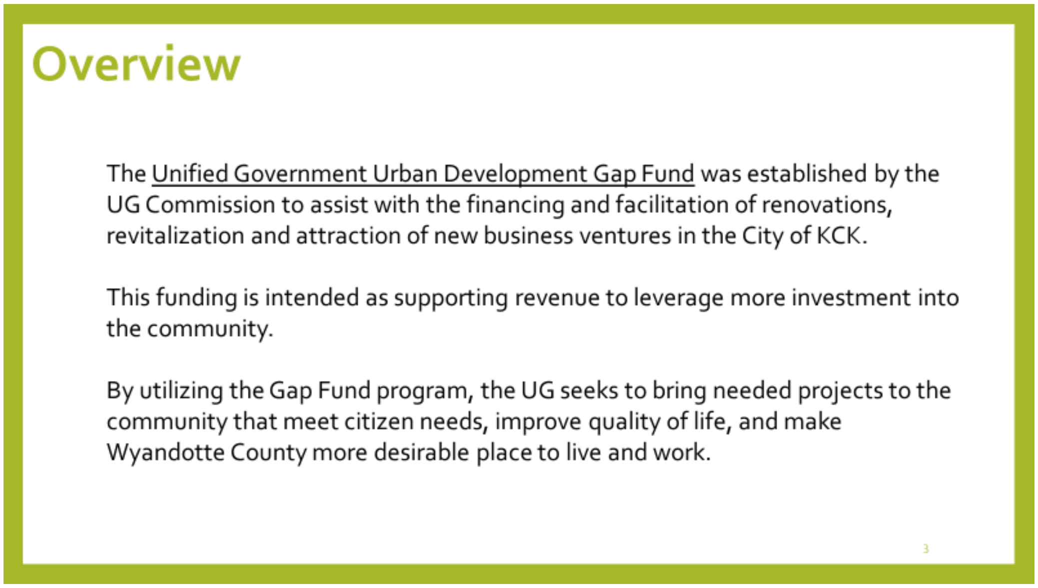
Synopsis: Update on the Urban Development Gap Fund Policy, submitted by Jon Stephens, Economic Development Director.

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.



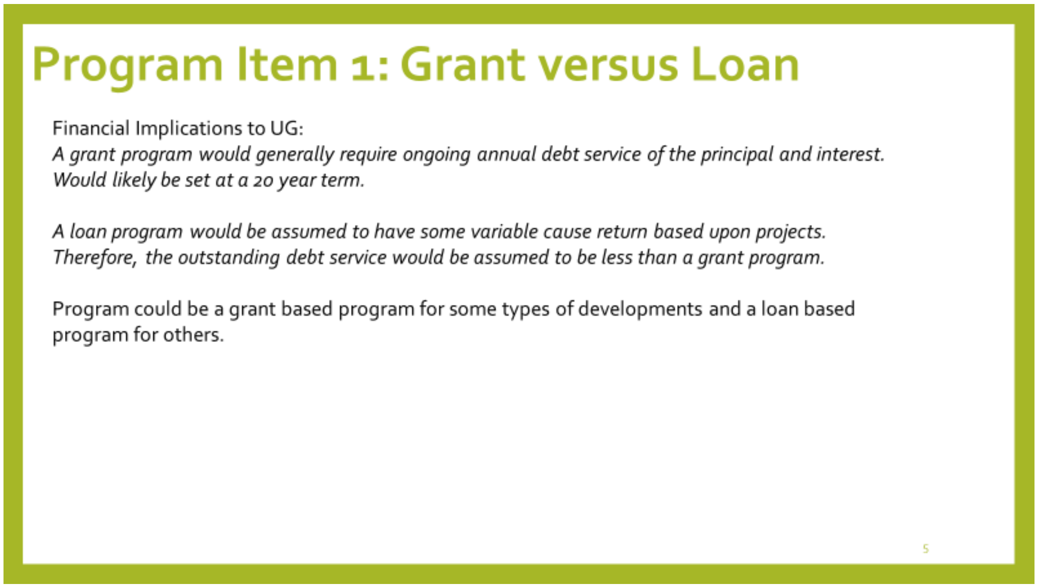
Tonight, I think the best approach is to do a brief review of the framework of the policy as it was proposed. Then, I think from a staff's perspective, we quill it down to three core items or issues that we really need more of a policy direction on versus programmatic direction. We would seek some feedback 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.



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.



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.

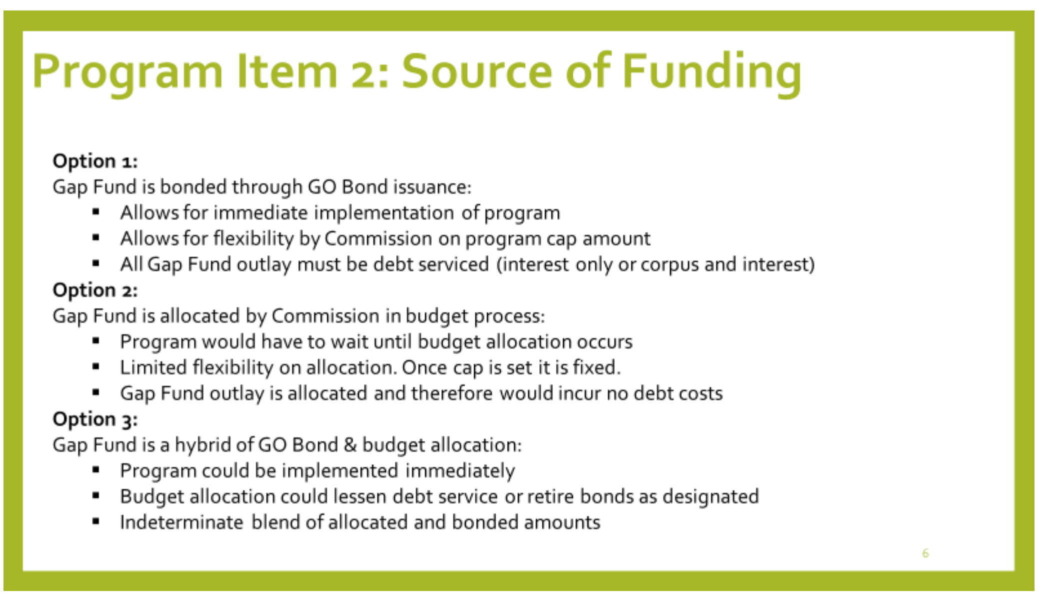
Or, we then explored the idea that this formula could be what we termed an indirect loan program, which means we track it based upon increased property values, tax payments, all of the other benefits of that development that are coming back to the UG and then we're able to—we would work to track what 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.

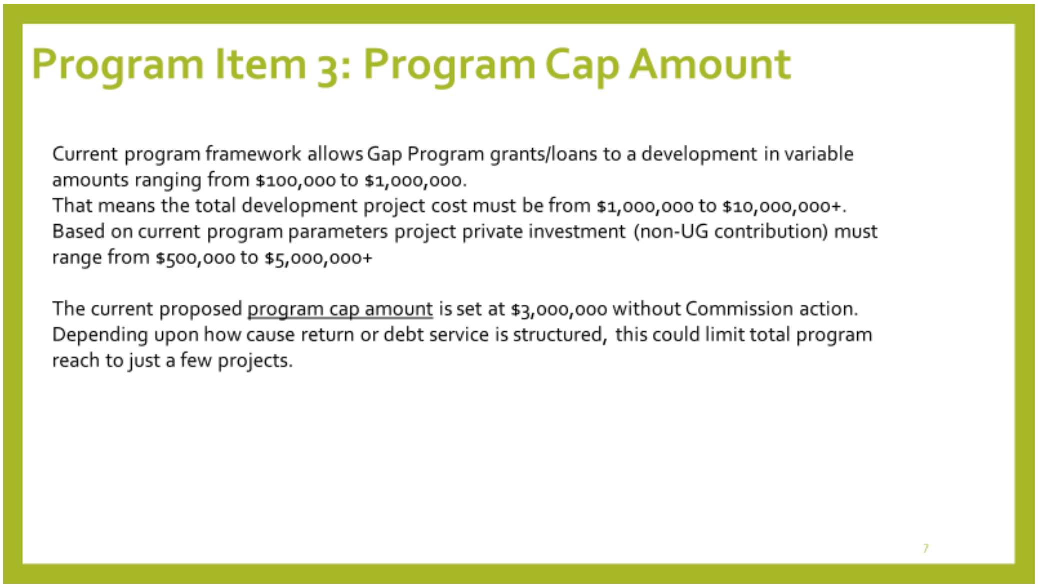


The second issue, which ties very closely to what Kathleen just presented previously, is where do we acquire the source of funding for this program. If we were to implement this program, we have three real distinct options. Option one is the Gap Fund. Whatever the amount, whatever the utilization of 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.

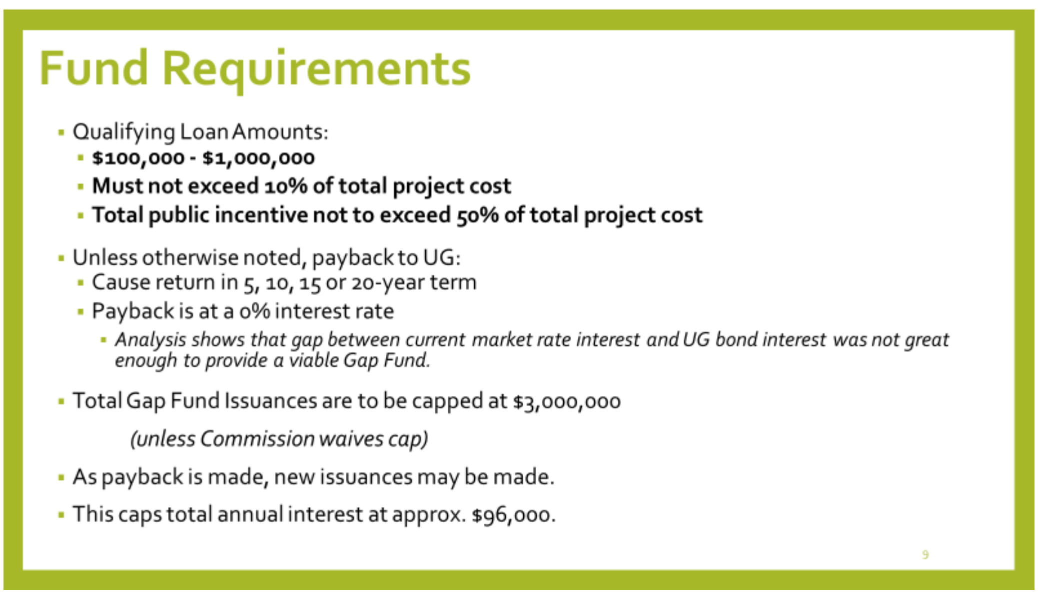
Third, however, it must be debt serviced. In many instances, that would be the corpus as well as interest on that. For instance, on a million-dollar total outlay, we're looking at about a $1.4M repayment or $70,000 a year in servicing of a million-dollar gap fund program.

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.



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.



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.

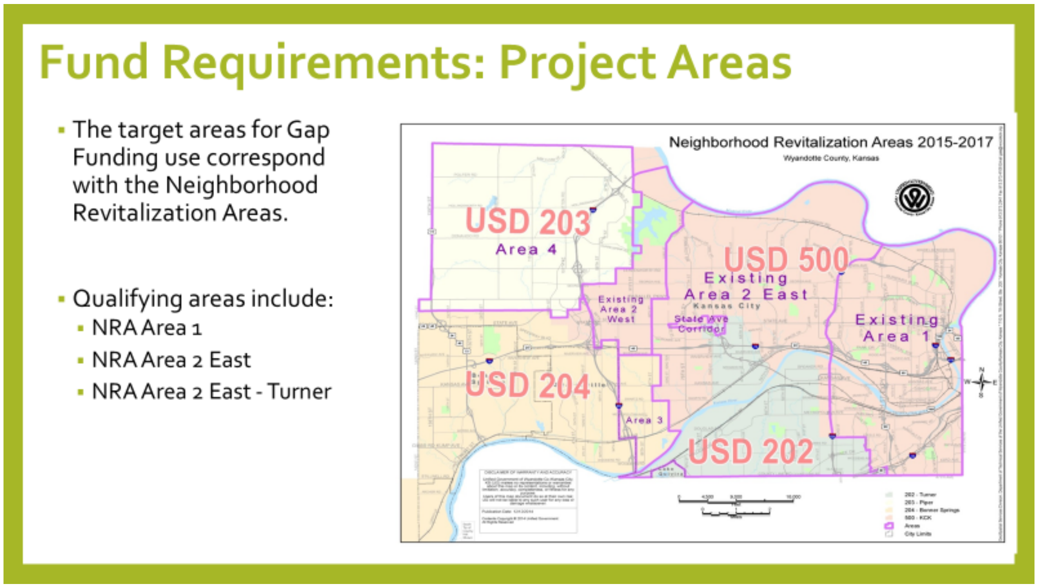
Mr. Stephens said but, to answer your question, there would also be no requirement that that be applied back to this program. **BPU Board Member Bryant** said I was just thinking about the comment about it being a limited number of funds per annual. If there was interest coming back in from previous 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?



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 image 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, tough, 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.

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