

Roeland Park City Council  
**Finance Committee Meeting**  
Minutes  
March 23, 2009

Meeting Chair: Bill Art and Co-Chair: Scott Gregory. Also present at this meeting: John Carter, Debbie Mootz, Megan England, Toni Hull, Mark Kohles, Chief Taylor, and some residents of Roeland Park.

I. Call to order 6:05 PM

II. New Business:

A. Introduction of Bart Accardo- Bart Accardo introduced as the new City Treasurer and he was invited to say a few things about himself. His resume is attached to the agenda for the meeting and he indicated that he would respond to questions.

B. 4th Quarter Report- City Clerk - The City Clerk went over the report that she prepared. The first question was about the need to make adjustments in the report based on information that comes in later. Would not the published Treasurer's report reflect a point in time and reflect amount of cash in and cash out and cash on hand. She said that the information that she got from the auditors showed that she did not show the legal print costs in Special Street Fund 27-A. She also had to make some adjustments in the RC12-12 Stormwater/ST Project and the Special Infrastructure 27-D fund. The council had authorized money be paid out of the 27-D fund to the RC12-12 project. The treasurer's report did not have this reported. The next question referred to the Actual Revenue for 2007 and 2008 compared to the Expenses for 2007 and 2008. The information for the Expenses for 2007 was found in another report. When the revenue amounts were totaled for revenue and compared to the expenses it was found that in the last two years the city expended \$299,859.00 more than what was brought in by revenue. The City Clerk will look into this and provide an answer at the next Finance Meeting.

C. Roeland Park School Discussion – CLO offer - Please refer to the hand out Re: Roeland Park School Site that Scott Gregory presented at this meeting. Scott showed that if the city were to sell the school to CLO according to the terms of their most recent offer we would have out of pocket expense of \$180,000.00 and that after the term of the 10 year loan of the \$100,000.00 the city would still be out the \$100,000.00. Scott outlines his proposed remedies in his attached report. He includes these proposals as protections for the City, its citizens and its coffers.

There was discussion on the need to sub divide the property into 2 lots and remove asphalt. An interest payment on the current loan the city has with US Bank was made 3-1-09 and the next payment is due in September. Out of the \$80,000.00 budgeted for former Roeland Park School there would be \$65,000.00 left to put toward what the city would have to have at closing. \$102,000.00 would need to come out of our reserves.

In the discussion it was indicated that the city does not have a policy on when to use the reserve. One suggestion was to create a policy allowing use for a non-reoccurring expense similar to the county's policy.

Mark K. suggested that we needed to look at the numbers globally and that \$100,000.00 was small compared to the investment being made.

Toni H. wants Mr. Carter to find the needed money from another fund other than the reserve. There is concern about using the city reserves for this loan to CLO especially at such low interest rate. Rates that a municipal intity can obtain and that CLO would like the city to pass this on to them in the loan.

Megan E. Reminded the council that there was a vote on 2-16-09 that indicated that we were selling the school for the terms that came back from the CLO counter proposal.

There were questions to the city attorney and city administrator about doing the personal guarantees as suggested by Scott in his report. A look of the guarantor's financials would be needed, but that not all would need to be made public. They indicated that the agreement was for a 10 year loan and that the city would earn some interest on the money that is loaned.

**The following are Recommendations by the Finance Committee.**

**The city loan to CLO \$100,000.00 for first 3 years at an interest rate of 3.5%**

**On the fourth year the interest will go to 7.0 % for the remainder of the loan.**

**Out of pocket repair costs from the city is capped at \$15,000.00**

**The city will not require the right of first refusal.**

**The 10 year mortgage will have personal guarantors and that their information is legally protected.**

**That the loan will come from the city's general fund reserve and will be paid back within about 2 years.**

A special meeting of the City Council will convene on March 30, 2009 at 6:00 PM to approve the recommendations.

III. Unfinished Business:

A. Timeline for Budget- Of note is the need to complete goals by May 31, 2009. A goal setting meeting needs to happen after the April 7, 2009 general city elections.

B. 5yr Capital Improvement Plan - This will be discussed at the Finance meeting in April.

IV. Adjourn at 7:20 PM

March 23, 2009

To: Finance Committee  
Council Members  
City Administrator  
City Clerk

From: Scott Gregory

Re: Roeland Park School Site

Attached is my February memo regarding the proposed sale versus development of the site as a park. It is true that a park is consistent with the Comp Plan and the citizens' views expressed in the survey. While some Council Members claim "overwhelming support" for the sale, that is anecdotal evidence and not subject to the randomness criteria of the survey. If, for reasons I cannot fathom, the Council should decide to move ahead with the proposed sale, we are obligated to include in the contract certain protections for the City, its citizens and its coffers.

The deficiencies in the proposed contract and **proposed remedies (in bold)** are as follows:

- ☞ We made it abundantly clear in the beginning that we were not in a position to carry a note. However, the prospective buyer has once again proposed that we finance a portion of the purchase price. That, along with other provisions of their proposal, would, according to John Carter's memo, require us to dip into reserves \$180,000 this year. Applying the repayment of the note over the next 10 years results in a present value of our out-of-pocket at closing of \$100,000. **The remedy would be a cash offer of \$650,000.**
- ☞ The proposed note is a 20-year amortization with a 10-year balloon and interest only for the first year. **IF we were to take a note, it should be a 10-year note, fully amortized in 10 years.**
- ☞ The proposed interest rate is 3.5%. Market rate for such a loan is 6.75% to 7.75%. **Again, IF we were to take a note, it should bear interest at market rate.**
- ☞ A second mortgage offers no real security. A second-mortgage holder is just along for the ride. Were the makers to default, the City's only remedy would be to foreclose, requiring the City to pay off the \$600,000+ first mortgage, not a course of action that would really be possible or prudent. **The only way to overcome the inherent weakness in a second mortgage would be to require personal guaranties, discussed below.**

- ☞ The proposed note offers no guaranty by the principals of the organization. Coupled with its second-mortgage position, that means there is effectively no security for the City. (Are we to think that the first-mortgage lender will not require personal guaranties?) In my days as a banker, I did a loan for a group of athletic supporters to build a new weight-training facility on the OSU campus. Since the facility was on State land, the bank could not foreclose if the loan were in default. Therefore, 20 supporters gave limited guaranties of 10% each, so that we had overlapping guaranties for 200% of the face of the note, allowing for the possibility that half of the guarantors might fall out along the way. **The City should require overlapping limited guaranties from the principals.**
- ☞ We have not seen the financial statements of the prospective buyer. **Due diligence would require us to receive and analyze the financial statements of the buyer.**
- ☞ The proposal requires the City to make any repairs believed necessary upon inspection. Since the proposed sales price is a small fraction of the building's replacement cost, we have assumed it would be sold "as is." The City cannot agree to the contingency of spending even more money on such repairs. **The buyer is obviously welcome to have inspections. However, in the event that deficiencies are revealed, it would be the buyer's option to make the repairs or walk away from the transaction.**
- ☞ The agreement and assurances regarding the use of the parking lot and grounds (presumably in perpetuity) would seem to create a permanent cloud on the title of the so-called park land. **I'm not sure how to fix that.**

The foregoing comments apply only if the City were to proceed to contract. My fellow Council Members know that I consider the proposed sale as the equivalent of Esau's exchange of his birthright for what the Geneva Bible called "a mess of pottage." Again I recommend that we demolish the building and develop the site as a park.

February 11, 2009

To: Council Members  
City Administrator  
City Clerk  
Mayor

From: Scott Gregory

Re: Roeland Park School Site

I had placed on the agenda of the October 6, 2008 Council Meeting a discussion of the redevelopment of the school site with the goal of establishing an ad hoc committee to proceed with redevelopment of the school site, with emphasis on financing, consistent with the following:

- ☞ The Comp Plan recommends a park.
- ☞ The Council has voted to demolish the building.
- ☞ The survey revealed that a majority of residents want a park.

The Mayor, however, in contravention of stated Council wishes and public sentiment, brought in representatives of the autism school, sweeping aside the agenda item referred to above.

The autism organization has offered \$650,000, coincidentally the balance the City owes on the property. Their proposal suggests that the City pay most of the closing costs, including the environmental study. They further request that we finance the deal.

At this point, the incremental cost of developing the site as a park is the \$650,000 opportunity cost of forgoing the sale, plus \$200,000 to demolish the building, a total of \$850,000.

How would we pay for it? Our 2009 budget dedicates over \$80,000 to the school site. That amount, no longer needed to carry and maintain the property, would amortize the \$850,000 above over 15 years.

If we proceed as above, we would have the park, with improvements to be done as funds become available. If we proceed with the sale of the property at a fire-sale price, we would in perpetuity have a dated, shabby old building in our midst. The grounds, a so-called park, would always look as if we were sort of using the schoolyard. The proposed buyer, as a 501(c)(3) organization, would pay no property tax.

For all the reasons above I am asking the Chair of the Finance Committee put this matter on the next Finance agenda.

**Proposed Note Payable by CIO to City of RoelandPark**  
 \$100,000 @ 3.5%, 20-year amortization, 1 year interest only, 10 year balloon, assume annual payments  
 Amortization Schedule

| Date          | Payment               | Interest | Principal | Balance |
|---------------|-----------------------|----------|-----------|---------|
| July 15, 2009 | Original loan balance |          |           | 100,000 |
| July 15, 2010 | (3,500)               | (3,500)  | -         | 100,000 |
| July 15, 2011 | (7,294)               | (3,500)  | (3,794)   | 96,206  |
| July 15, 2012 | (7,294)               | (3,367)  | (3,927)   | 92,279  |
| July 15, 2013 | (7,294)               | (3,230)  | (4,064)   | 88,215  |
| July 15, 2014 | (7,294)               | (3,088)  | (4,207)   | 84,008  |
| July 15, 2015 | (7,294)               | (2,940)  | (4,354)   | 79,655  |
| July 15, 2016 | (7,294)               | (2,788)  | (4,506)   | 75,149  |
| July 15, 2017 | (7,294)               | (2,630)  | (4,664)   | 70,485  |
| July 15, 2018 | (7,294)               | (2,467)  | (4,827)   | 65,658  |
| July 15, 2019 | (67,956)              | (2,298)  | (65,658)  | -       |

**Cash Flow and Cumulative Cash Flow by Year**

| Year | Cash Flow In (Out) | Cumulative Cash Flow |
|------|--------------------|----------------------|
| 2009 | (180,000)          | (180,000)            |
| 2010 | 3,500              | (176,500)            |
| 2011 | 7,294              | (169,206)            |
| 2012 | 7,294              | (161,912)            |
| 2013 | 7,294              | (154,618)            |
| 2014 | 7,294              | (147,324)            |
| 2015 | 7,294              | (140,030)            |
| 2016 | 7,294              | (132,736)            |
| 2017 | 7,294              | (125,442)            |
| 2018 | 7,294              | (118,148)            |
| 2019 | 67,956             | (50,192)             |

**Present Value of Cash Flow**

| Year                     | Cash Flow In (Out) | Present Value Factor | Present Value    |
|--------------------------|--------------------|----------------------|------------------|
| 2009                     | (180,000)          | 1.000000000          | (180,000)        |
| 2010                     | 3,500              | 0.936768150          | 3,279            |
| 2011                     | 7,294              | 0.877534567          | 6,401            |
| 2012                     | 7,294              | 0.822045432          | 5,996            |
| 2013                     | 7,294              | 0.770066916          | 5,617            |
| 2014                     | 7,294              | 0.721374160          | 5,262            |
| 2015                     | 7,294              | 0.675760337          | 4,929            |
| 2016                     | 7,294              | 0.633030761          | 4,617            |
| 2017                     | 7,294              | 0.593003055          | 4,325            |
| 2018                     | 7,294              | 0.555505374          | 4,052            |
| 2019                     | 67,956             | 0.520380679          | 35,363           |
| <b>Net present value</b> |                    |                      | <b>(100,159)</b> |

**Alternate Note Payable by CLO to City of Roeland Park (Market Interest Rate)**  
 \$100,000 @ 6.75%, 10-year amortization, assume annual payments  
**Amortization Schedule**

| Date          | Payment               | Interest | Principal | Balance |
|---------------|-----------------------|----------|-----------|---------|
| July 15, 2009 | Original loan balance |          |           | 100,000 |
| July 15, 2010 | 14,074                | 6,750    | 7,324     | 92,676  |
| July 15, 2011 | 14,074                | 6,256    | 7,818     | 84,858  |
| July 15, 2012 | 14,074                | 5,728    | 8,346     | 76,512  |
| July 15, 2013 | 14,074                | 5,165    | 8,909     | 67,603  |
| July 15, 2014 | 14,074                | 4,563    | 9,511     | 58,092  |
| July 15, 2015 | 14,074                | 3,921    | 10,153    | 47,939  |
| July 15, 2016 | 14,074                | 3,236    | 10,838    | 37,101  |
| July 15, 2017 | 14,074                | 2,504    | 11,570    | 25,531  |
| July 15, 2018 | 14,074                | 1,724    | 12,350    | 13,181  |
| July 15, 2019 | 14,074                | 893      | 13,181    | -       |

**Cash Flow and Cumulative Cash Flow by Year**

| Year | Cash Flow<br>In (Out) | Cumulative<br>Cash Flow |
|------|-----------------------|-------------------------|
| 2009 | (180,000)             | (180,000)               |
| 2010 | 14,074                | (165,926)               |
| 2011 | 14,074                | (151,852)               |
| 2012 | 14,074                | (137,778)               |
| 2013 | 14,074                | (123,704)               |
| 2014 | 14,074                | (109,630)               |
| 2015 | 14,074                | (95,556)                |
| 2016 | 14,074                | (81,482)                |
| 2017 | 14,074                | (67,408)                |
| 2018 | 14,074                | (53,334)                |
| 2019 | 14,074                | (39,260)                |

**Present Value of Cash Flow**

| Year                     | Cash Flow<br>In (Out) | Present<br>Value Factor | Present<br>Value |
|--------------------------|-----------------------|-------------------------|------------------|
| 2009                     | (180,000)             | 1.000000000             | (180,000)        |
| 2010                     | 14,074                | 0.936768150             | 13,184           |
| 2011                     | 14,074                | 0.877534567             | 12,350           |
| 2012                     | 14,074                | 0.822045432             | 11,569           |
| 2013                     | 14,074                | 0.770066916             | 10,838           |
| 2014                     | 14,074                | 0.721374160             | 10,153           |
| 2015                     | 14,074                | 0.675760337             | 9,511            |
| 2016                     | 14,074                | 0.633030761             | 8,909            |
| 2017                     | 14,074                | 0.593003055             | 8,346            |
| 2018                     | 14,074                | 0.555505374             | 7,818            |
| 2019                     | 14,074                | 0.520380679             | 7,324            |
| <b>Net present value</b> |                       |                         | <b>(79,998)</b>  |

**Old School Financial Information**  
**March 19, 2009**

Cash Needs – Assuming 7/15/2009 Closing

|                                |               |
|--------------------------------|---------------|
| Principal Balance              | \$650,000     |
| Interest March 1, 2009         | 17,062        |
| Interest July 15, 2009         | 12,808        |
| Engineering / Site Work        | 10,000        |
| Building Repairs – Estimate    | 40,000        |
| Closing Costs/ Attorney        | <u>2,000</u>  |
| <br>Total Estimated Cash Needs | <br>\$731,870 |

Available Cash

|  |              |
|--|--------------|
| Sale Proceeds from CLO                 | 550,000      |
| Cash Reserves                          | 102,280      |
| Unspent 2009 school budget             | 65,000       |
| Original note (remaining cash)         | 9,500        |
| City Attorney/City Engineer line items | <u>5,000</u> |
|  | \$731,870    |

Remember – The \$80,000 that we would budget in 2010 for the school would be available to replenish the reserves