

SCC Financing Remarks

Slide 2 – Two Primary Financing Sources

The SCC envisions two primary financing sources – public financing and contributions of private capital.

The public financing should take the form that the Village believes is most advantageous from the standpoint of its own financial profile and costs. A general obligation debt issue is the most straightforward structure, but other alternatives might include use of IDA (Industrial Development Agency) or LDC (Local Development Corporation). It is our understanding that the legislative authority for issuing IDA bonds has lapsed at the moment, but may be re-authorized over the timeframe that we are considering.

Private capital also needs to play a part in order not to burden the financial operations of the Community Center with a heavy debt service requirement.

Finally, we may be able supplement these sources with government or other grant funding for specific project components such as “green” or energy-efficient design as the specifics of the project are finalized. Grants are expected to play a minor role in the overall financing scheme.

Slide 3 – Proposed Structure

As Joel indicated earlier, the capital cost of the project is estimated at approximately \$15 million. We are proposing to raise \$16 million with the extra \$1 million going to cover the cost of the capital campaign, the early hiring of staff and to create an opening financial reserve to the extent that funds remain. We are proposing that this cost be split between \$10 million in public debt financing and \$6 million in private capital contributions.

This is a public-private partnership, but not without local parallels.

The Village of Mamaroneck has recently undertaken a renovation of the Public Library, with groundbreaking on October 27th. The original capital cost was estimated at \$20 million with \$15.5mm in general obligation bonds issued by the municipality and the balance raised privately. To date the capital campaign has raised \$5.1mm. The capital cost is now estimated at \$18mm. The Village of Mamaroneck is similar to the Village of Scarsdale

in total population and households. However, Scarsdale's per capita income is \$90,000 according to the 2000 census compared with \$37,000 for Mamaroneck Village.

Slide 4 - Rationale

We arrived at this allocation after considering several variables.

First, we gave priority to the maintenance of Scarsdale's "Aaa" credit rating. This is an important asset to the Village, particularly in troubled times, and this limited the level of debt we were willing to consider.

Second, as I noted a minute ago, the operations of the Community Center need to be able to comfortably cover the debt costs the Village incurs in order to ensure that taxpayers are protected. The Center's debt service capacity, after allowing a buffer for possible variances, places limits on the debt that can be prudently issued.

On the other side of the scale, our conversations with fund raising consultants indicate limits to the level of private capital that can be raised for a project of this kind.

After weighing these competing considerations, we concluded that the \$10 million - \$6 million mix was the combination that met the goal while satisfying the constraints.

Let me go through that thought process in a little more detail.

Slide 5 – Protecting Aaa Rating

To gauge the amount of debt we could issue without endangering the Aaa credit rating, we looked at the profile of the median Aaa-rated villages with populations under 50,000 as reported by Moody's. We then compared Moody's median Aaa-rated community with Scarsdale across a number of specific measures. The objective was to get a sense of how deep into "Aaa" territory we really are or how close to the edge we are.

As part of that analysis we also had to take into account the fact that the Village has a potential debt issuance calendar that goes beyond the Community Center. The Village's "Aaa" debt capacity has to be considered in light of all the projects it might be funding in the coming five years. This information was developed based on interviews with the Village Manager and Village Treasurer.

So we measured Scarsdale against the Aaa Moody's median village under 50,000 today and then after the issuance of debt for the SCC and other projects. Our source was a Moody's report with median data for government entities of various sizes and ratings issued in January 2008.

Let's begin with Scarsdale's current position.

Slide 6 – GF Revenue & Population

This chart compares Scarsdale to the Moody's Aaa median village under 50,000. Scarsdale is slightly smaller in population, but slightly higher in General Fund Revenues compared with the Aaa median village. Note that the Aa-rated median has approximately the same population size but half the General Fund Revenues as the Aaa median.

So, based on General Fund Revenues, or per capita General Fund Revenues, Scarsdale is in a stronger position than the median Aaa community.

Slide 7 – Much Higher Income

This standing is enhanced when we turn to per capita income compared to the Aaa median. Scarsdale is at almost \$90,000 based on the 2000 census compared with the Aaa median at \$52,000 – almost twice as much. The full value assessment per capita is more than twice the Aaa median at \$525,000. And again, the Aaa median is well above the Aa median.

These statistics show Scarsdale in a materially better position than the Aaa median. And recall that the median itself is a "midpoint" measure for the Aaa population. Half of the sample is above and half below the median point.

Slide 8 – Much Lower Debt

Scarsdale's advantages compared with the Aaa median village are enhanced again when you consider the level of debt. Scarsdale's debt as a percent of Full Value Assessment is 0.10% compared with 0.62% for the Aaa median and 0.76% for the Aaa median.

(Direct net debt reflects the direct net debt less sinking fund accumulations, short-term operating debt and self-supporting debt divided by the estimated full market value of all taxable property within the local government.)

The Overall Debt Burden of 1.16% of Full Value Assessment compares to 1.67% for the Aaa median. This is a broader measure of debt that includes school debt and the Village's share of county debt.

Whichever metric we looked at showed that Scarsdale appears today to be situated deeply within "Aaa territory", in a strong position to protect its rating if it adds to its outstanding debt.

Slide 9 – Significant Capacity

This slide shows the magnitude of the Scarsdale's potential debt capacity before it reached the Aaa median. The ratio we used here was the Direct Net Debt to Full Value Assessment. If Scarsdale's ratio of 0.10% were converted to the Aaa median ratio of 0.62%, the potential debt capacity would be \$58 million compared with \$10 million today. Even at this level, half of the Aaa communities would have higher debt levels than Scarsdale.

I want to emphasize that this analysis is not in itself a rationale to run out and issue debt. That decision has to rest on the merit of the projects being financed. But the analysis does suggest that there is substantial room to issue debt without endangering our Aaa credit rating because we are so far within Moody's Aaa territory.

Side 10 – Scarsdale Debt Ratios

This slide recaps the data we have been looking at, comparing Scarsdale with the median communities of triple A, double A, and single A ratings.

It also includes one other measure we haven't seen before, which Scarsdale's debt service as a % of expenditures of 3.5% compared with 8.62% for the Aaa median.

So our position today is strong and we have substantial debt capacity within the Aaa rating category. But how will financing for the SCC and other potential projects affect our position?

Slide 11 – Potential New Bond Issues

This slide lists potential future Village projects amounting to some \$27 million over the next several years. One of these, the Reeves Newsome Pump Station, will be supported by the water rates paid by Village residents and wouldn't count in Moody's Direct Net Debt measure, but we've included it here anyway. Again, this data is from the Village.

The debt issued for the SCC is analogous to the Pump Station since it will be supported by operating revenues of the SCC, not the property tax base. Therefore, it might not go into the Direct Net Debt measure either. But let's assume it did for the purposes of this discussion.

Slide 12 – Scarsdale Debt Ratio Remains Well Below Aaa Median

If we did all these projects plus the \$10mm in debt for the SCC in Fiscal 2012, based on the schedule indicated on the previous slide, the Direct Net Debt as a percent of Full Value rises from 0.10% today to 0.41% in Fiscal 2012 & 2013. It then declines to 0.38% by the 2014-5 year as some existing debt matures. These ratios are well within the Aaa median, and include debt that arguably could be excluded.

For this purpose we've held Full Value flat through 2009 and grown it 0.90% per annum after that.

Slide 13 – Debt Service

This slide does the same projection, looking at debt service as a percent of expenditures. For this purpose we've grown base expenditures at 3.5% per annum as suggested by the Village. Once again, we remain below the Aaa median at all points, rising from 3.5% to 7.7% and falling back to 6.2%.

Slide 14 – Safety of CC Debt Service Coverage

In the previous slide, we are recording the SCC debt as through it were 100% funded by Scarsdale taxpayers. But, the SCC is designed to be a self-supporting operation and will support its own debt service with zero impact on the taxpayers.

Debt service is covered with a margin safety by cash available, defined as cash operating income, interest income, and if necessary, the equipment replacement reserves built into the income statement.

Cumulative cash available after the first year is the current year cash available plus residual cash available from the prior years.

Slide 15 – Strong Coverage Ratios

In fact, the SCC's operating projections show healthy coverage of debt service after operating expenses in each year and gradual accumulation of cash that provides additional coverage as time passes.

Slide 16 – Debt Service Covered Even w/ 20% Revenue Shortfall

We also looked at a sensitivity of these projections to revenue shortfalls. We modeled shortfalls in membership revenue and associated program revenue of 10% and 20%. We made only modest expense reductions in variable program staffing, so assumed minimal management response to the shortfalls. In reality, management should be expected to take some countervailing action with respect to the causes of any shortfall.

Even with a 20% revenue shortfall, debt service coverage is maintained when looking at the total cash available to the Center – that is, both the current year surplus and accumulated surplus from prior years. So, even if we reach only 1,280 members by opening (rather than the 1,600 we expect) and 1600 by year five (instead of 2,000) we can cover debt service for the SCC.

So, we believe the Center's operations will be sufficient to protect taxpayers from the supporting the debt issued to finance the Center.

Slide 17 - \$6 MM Capital Campaign Planned

Switching gears to look at the private capital contribution to the financing package, the SCC has held preliminary discussions about the feasibility of raising private capital with fundraising consultants Community Consulting Services (CCS). CCS is familiar with this community and has indicated that a \$6 million capital campaign is reasonable proposition. We need to conduct a formal feasibility or planning study to validate this conclusion. If the initial read is confirmed, we would conduct a capital campaign lasting 12-18 months to raise the funds.

Slide 18 – Financing Plan = No Cost to Taxpayers

In summary, the financing plan we envision enhances Scarsdale and protects its taxpayers.

- The debt issuance leaves our Aaa rating secure.
- The SCC covers the required debt service with a healthy margin for error.
- Private capital will cover 40% of the cost.
- If the Village wants to pursue alternatives to general obligation debt, there may be other alternatives like the IDA available by the time the capital campaign is concluded.
- The existence of the facility augments property values for everyone and adds to the distinctiveness of this community at **NO COST TO TAXPAYERS.**
- The public debt commitment we are seeking is reasonable and commensurate with the value to all members of the Village.