

Comments by Ed Morgan
SCARSDALE COMMUNITY CENTER ("SCC")
Financial Presentation, 12/9/08

- The credibility of the SCC's financial projections was attacked during the public comment portion of the VB meeting of November 25th and I would like to respond. Comments included statements that many community centers around the country are in the red, that it is unrealistic to project profitability in the first year and that the Westchester Reformed Synagogue project will cost \$24 million, so how can the SCC facility cost \$15 million?
- The SCC is confident of the integrity of the projections presented by its consultants and looks forward to whatever degree of due diligence the VB deems appropriate.
- Relative to the specific charges –
- Our own consultant has stated in discussions with the VB that few centers cover both operating expense and amortization of construction costs. He cites the reason for this as the fact that few centers set that as their goal. It is a difficult goal and achievement depends significantly on the quality of the team hired to manage the facility and the objectives and incentives given to them.
- Our confidence in the numbers rests on three factors, namely, 1) the flexibility in the projections and the ability to withstand variances, 2) the quality of the financial talent that has been brought to bear on the projections and 3) the detailed due diligence that has been performed in constructing the numbers.
- First, analysis of the financial projections shows several elements supporting the ability to withstand variances from anticipated results. These include:
 - o The ability to cover debt service requirements despite a 20% shortfall in membership and program revenue. In other words, debt service can still be covered even if membership only reaches 1280 members in year one and only grows to 1600 members in year five.
 - o This reflects the fact that the projections include a reserve that grows to \$1.5 million by the end of the fifth year. This reserve is actually \$2.5 million if you add the \$1 million expense contingency contained in the projection. It grows further to over \$3 million if the project is financed over a 25 year term rather than the 20 year term the projections assume.

- o Another element of flexibility is the fact that a majority of the staffing for the center is part-time staff that can be adjusted if revenues are not on target.
- o The high percentage of part-time staff and the fact that we have already completed an initial membership drive are both factors that make us comfortable with projecting profitability even in the first year.
- The quality of the financial talent that has been engaged is another reason for confidence in the numbers.
 - o The SCC chose Ballard*King Associates from Denver as our financial and operations consultant based on the depth of their experience managing, operating and consulting with community centers across the country. In addition to their operating experience, they have performed over 400 similar project studies and have helped over 75 facilities get up and running.
 - o In our due diligence in selecting, Ballard*King we were told that they don't tell their clients what they want to hear, rather they provide their honest assessment. This was key in our selection of their firm. We saw the results in their work as they told us that we needed to increase our prior expense projections by over 70%, adding significantly to the staffing projections and increasing other expenses as well.
 - o The SCC consultant chosen to conduct our site studies and the source of our facility cost projection is similarly credentialed, specializes in community center facilities and is continually exposed to market conditions informing his cost projections. I suggest that the challenge to his facility cost projection based on reference to the Westchester Reformed project is uninformed and completely lacks credibility.
 - o Similarly, others involved in the financial analysis and development of the SCC financing proposal are high quality professionals. These include:
 - Steve Bush, who is the Executive Vice President and Chief Administrative Officer of Apple Bank. Steve is responsible for corporate financial reporting, mortgage lending and risk management at Apple.
 - Neil Bicknell, who has spent his career in financial analysis first at IBM, then on Wall Street, leaving Goldman Sachs in 1987 to start his own merger and acquisitions advisory firm. Neil happens to hold the Chartered Financial Analyst credential and has been intimately involved in the SCC's operating and financing projections.

- Jim Buck chaired the financing committee and his career has similarly been spent on Wall Street as the head of various fixed income trading desks and he was responsible for all fixed income marketing at a member firm.
 - David Martin is the managing director in charge of the principal mortgage trading group at Barclay's Bank. The group is a proprietary group investing in residential and commercial mortgages and securities.
 - Dr. Kevin Hebner is a partner and the Global Investment Strategist for Third World Global Investors, a global macro hedge fund based in Greenwich. Kevin was previously a Managing Director and Chief Investment Officer and Global Investment Strategist for Credit Suisse Asset Management in Tokyo.
 - Joseph Kaufman is a partner in the corporate department of the law firm Simpson Thacher & Bartlett LLP, specializing in capital markets and other finance transactions. He has been at that firm for 14 years.
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- Finally, the due diligence performed before submitting the financial projections was in depth. Ballard*King indicated that in their more than 400 feasibility studies they have never see projections developed in such detail and with such back-up of the numbers. Steve Bush has been in periodic contact with a range of regional community center operations to understand their current cost structure.
 - Ballard*King also commented that they have never seen a community conduct an upfront membership campaign, receiving membership pledges and funds on deposit the way Scarsdale has done.
 - Further, the SCC financing proposal benefited from consultations with the Chairman of the Municipal Assistance Corporation, a specialized municipal bond attorney, a professional municipal bond credit analyst and detailed review of Moody's rating analyses and reports and detail contained in Scarsdale's latest municipal bond rating and offering memorandum.
 - These extraordinary steps, undertaken by this extraordinary pool of talent combined with the flexibility and ability to manage operations, leave us very confident with the financial projections that have been presented and we submit, should be reason for the VB and the community to have a similar level of confidence that the community center can be built and operated without any adverse impact on the village tax rate.