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Farmers Bank & Trust v. Homestead Community Development

Court of Appeals of Kansas - October 2, 2020 - P.3d - 2020 WL 5849345

In 2007, Farmers Bank lent $600,000 to Homestead Community Development, Inc. to remodel a property called the Bartell House in downtown Junction City. Terry Heldstab, who was Mayor at the time, signed a letter of guaranty to Farmers.

When Homestead failed to pay the loan, Farmers sued Homestead on its note and foreclosed its mortgage. The court granted Farmers judgment when Homestead failed to pay the loan. Farmers then turned to the City and sought to enforce the guaranty. But the City maintained that the guaranty was void and unenforceable.

The District Court ruled in favor of City and City appealed.

The Court of Appeals upheld the ruling, finding that:

- The guaranty violated the state Cash Basis Law, which requires that it shall be unlawful for the governing body of any municipality to create any indebtedness in excess of the amount of funds actually on hand in the treasury of such municipality at the time for such purpose. To comply with this law, the City needed to set out in its budget how much it anticipated to spend on the guaranty. In other words, the budget must be itemized and classified so that revenues are earmarked for this particular purpose;
- The guaranty violated the state Budget Law, which provides that it shall be unlawful for the governing body of any municipality to create an indebtedness in any manner or in any fund after the total indebtedness created against such fund shall equal the total amount of the adopted budget of expenditures for such fund for that budget year.
- The City not only needed to have enough funds available in its treasury, it needed to designate those funds to pay the guaranty so the funds would not be used for another purpose.

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