Notes of Interest

May Financial Report

Budget update

- During May, we made budget allocations totaling $564,149 for one-time projects. The largest was $350,000 of moving expenses for the summer relocations. Additionally, we added $147,488 of recurrent budget. The largest of these was $115,693 for three resource teachers in Diversity, Equity & Poverty Programs. This org chart change was approved on January 23, 2018.

Financial report overall review

- The May Financial Report is consistent with prior years. While there are some accounts that collected more or spent less, JCPS finances are steady from year to year overall. For this reason, Finance administration spends significant time reviewing detailed account level data and transaction data to understand the smaller fluctuations that make up the big picture.

Page 2

- Property tax revenues continue to reflect our assessment growth. The collection year is now over other than a final settlement and accounting done in June.

- Occupational taxes continue to slowly rise as we continue a growth period that has extended for a number of years.

- In Jefferson County, our assessments have been rising faster than other areas of the state. This has resulted in lower state SEEK revenues.

- Federal grants revenues are drawn down at the end of each month as we are reimbursed for our program expenses during the following month.

- Other sources of revenues are down because we haven't issued any construction bonds yet this year.

Page 4

- Other local revenues are higher than previous years due to the sale of a property on Sandray Boulevard where Frost Middle School was previously located.

Page 7

- Transportation Professional/Technical Services are negative due to reimbursements from grants for direct transportation services provided to the grant programs, such as preschool.

Pages 13-16 Construction Project Funding (part 2)

In April's Notes of Interest on the Financial Report, we discussed the revenues sources that are available for construction and renovation projects. This month, we will review bonding capacity and some expense considerations.

Notes of Interest

Bonding capacity refers to the amount of bonds JCPS can sell with Capital Outlay and Building Fund revenues. In addition to JCPS Finance and our fiscal agents managing project funding closely, the Kentucky Department of Education provides oversight of all Kentucky school districts to ensure that they don't issue more bonds than they can afford to pay off with current revenue levels and don't depend on assessment growth or risky alternative funding like derivatives.

The District's bonding capacity changes over time due to these factors:

- Issuing bonds uses bonding capacity, and paying off bonds through monthly debt service principal payments increases bonding capacity.
- The District's bond rating, similar to an individual's credit score, is a determining factor in the interest rates required by bond buyers. Our bond rating is an evaluation of the local and national economy, the adequacy of JCPS's fund balance, and whether the fund balance is stable, increasing, or decreasing.
- Market interest rates directly affect bonding capacity as higher interest rates mean more revenues must be used for interest instead of paying off bonds.
- Market factors influence interest rates. The bond market has inventory fluctuations as most markets do. When fewer bonds are available in the market, buyers may be willing to accept lower interest rates on JCPS bonds. Consumer confidence, corporate and governmental economic climates, the housing market, and many other factors affect interest rates and affect our bonding capacity.

Essentially, bonding capacity is a review of the interplay of a number of factors. The first factor is how much Capital Outlay and Building Fund revenues does JCPS have and whether these revenues are stable. When approving bond issues, KDE doesn't allow approvals that depend upon future assessment growth. Over the past twenty years, Jefferson County assessments have grown at an average rate of 4.07% and have never experienced a significant reduction. Our assessments are far more stable than many of the boom-or-bust real estate markets that received so much media attention after the crash of 2008. This stability with steady growth means that our bonding capacity will continue to grow over time beyond any current-day snapshot.

The second factor is the current market interest rates. When interest rates are high, the cost of borrowing is higher. This increased cost must be funded by our limited Capital Outlay and Building Fund revenues and reduce our long-term bonding capacity.

Accordingly, our bonding capacity decreases as the cost of construction work increases. After projects are bid, we bond a number of projects at the total bid cost. If the bid costs rise, we can pay for fewer projects with our bonding capacity. Adding to this challenge is that JCPS does most major construction during summer months only. This condensed construction schedule results in longer hours, more overtime, and some staffing shortages, like electricians.

Although JCPS currently has a bonding capacity that is far short of our District Facility Plan's unmet needs, our bonding capacity increases every year as assessments grow, new property is constructed, and as JCPS continues to pay off a portion of its debt every year. For these reasons, our bonding capacity should be adequate for several years.