

Woodford County Schools Update on Bonding Capacity

January 2019



Recap on Bonding Capacity in August 2018 Compared to Today

Date	District	SFCC	Total Bonding
August 2018 ⁽¹⁾	\$21.92 Million	\$1.86 Million	\$23.78 Million
Today with \$600,000 Annual Contribution from the General Fund ⁽²⁾	\$34.37 Million	\$1.84 Million	\$36.21 Million

SFCC Offers of Assistance available for bonding:

- 2014 Offer: \$98,138
- 2016 Offer: \$32,534
- Total Offers: \$130,672

Notes:

- (1) Bonding analysis assumed current market rates as of August 1, 2018 and 20-year amortization of principal. Calculations were based on KDE's 2017-18 Final Seek Calculation and inclusive of all available SFCC Offers of Assistance. Assumes current equalization rate of \$417
- (2) Bonding analysis assumes current market rates as of January 10, 2019 and 20-year amortization of principal. Calculations are based on KDE's 2018-19 Tentative Seek Calculation, \$600,000 annual contribution from the General Fund and inclusive of all available SFCC Offers of Assistance. Assumes current equalization rate of \$417

Options to Generate Additional Bonding Capacity



Levy an additional nickel



Wait and allow bonding capacity to increase over time

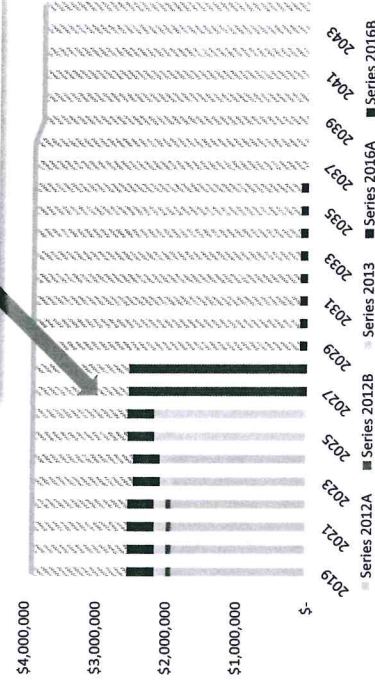


Restrict additional funds from the General Fund

Waiting and Allowing Bonding Capacity to Increase Over Time

Date of Issuance	District Capacity with \$600,000 Annual General Fund Contribution
Today (January 2019)	\$34.37 Million
Three Years (January 2022)	\$37.79 Million
Five Years (January 2024)	\$38.44 Million
Ten Years (January 2029)	\$53.40 Million

Available revenue for new debt service is restricted from FY 2019-2028



Notes:
Bonding analysis assumes current market rates as of January 10, 2019 and 20-year amortization of principal. All calculations herein are based on KDE's 2018-19 Tentative Seek Calculation and \$600,000 annual contribution from the General Fund for 20-years. Assumes current equalization rate of \$417

Restricting Additional General Funds for Bonding Capacity

Date of Issuance	District Capacity with add'l \$300,000 Annual General Fund Contribution Beginning in 2020
Today (January 2019)	\$34.37 Million
Three Years (January 2022)	\$44.33 Million
Five Years (January 2024)	\$45.75 Million
Ten Years (January 2029)	\$57.62 Million

Revenue Restricted from the General Fund for Capital Projects and Debt Service Payments	
Actual FY 2019 (4%)	\$600,000
FY 2020 (recommend 4%)	<u>300,000</u>
Annual General Fund Contribution for 20 Years Beginning in 2020	\$900,000

Notes:
 Bonding analysis assumes current market rates as of January 10, 2019 and 20-year amortization of principal. All calculations herein are based on KDE's 2018-19 Tentative Seek Calculation, \$600,000 annual contribution in FY 2019 from the General Fund, and an additional \$300,000 from the General Fund per year beginning in 2020 for 20-years (for a total of \$900,000 from the General Fund). Assumes current equalization rate of \$417



Current Funds Available for Bonding

Assessment⁽¹⁾	\$2,765,834,223
Prior Year AADA Plus Growth	3,612.162
Capital Outlay ($\$100 \times 3,612.162 \times 80\%$)	\$288,973
FSPK Local Nickel ($\$2,765,834,223 \times .0005$)	1,382,917
Original Growth Nickel ($\$2,765,834,223 \times .0005$)	1,382,917
State FSPK Equalization ($\$417 \times 3,612.162$) - \$1,382,917	123,354
Equalized Facility Funding Nickel ⁽²⁾ ($\$417 \times 3,612.162$) - \$1,382,917	123,354
General Fund Contribution	600,000
Total Annual Funds Available for Bonding	\$3,901,515

Notes:

(1) Based on KDE's 2018-19 Tentative Seek Calculation

(2) Equalization of EFF Nickel sunsets after FY 2038

Summary of Existing Bond Issues

- Currently, five bond issues are outstanding with a total principal balance of \$22.96 million

When the bond issue can be refinanced

Bond Series	Original Purpose	Original Principal	Total Outstanding Principal as of Jan 1, 2019	Call Feature	Interest Rates	Final Maturity
2012A	Advance refund the Series 2003 Bonds ⁽¹⁾	\$15,540,000	\$9,080,000	1/1/2022	2.00 – 2.625%	2023
2012B	Acquisition of land adjacent to the Middle School	680,000	285,000	non-callable	2.00 – 2.65%	2022
2013	Advance refund the Series 2005 Bonds ⁽²⁾	5,150,000	4,640,000	2/1/2023	1.00 – 2.35%	2026
2016A	HVAC replacement at Northside and Southside Elementaries	3,290,000	3,010,000	4/1/2026	2.00 – 3.00%	2036
2016B	Advance refund the Series 2008 Bonds ⁽³⁾	6,265,000	5,945,000	2/1/2026	2.00 – 2.125%	2028
Total		\$30,925,000	\$22,960,000			

≈\$1.38 million of the outstanding principal is paid from the Kentucky School Facilities Construction Commission ("KSFCC") from funding provided by the State

(1) The 2003 Bonds financed the construction of Woodford County Middle School

(2) The 2005 Bonds financed renovations to Simmons Elementary School

(3) The 2008 Bonds financed renovations to Huntertown Elementary School

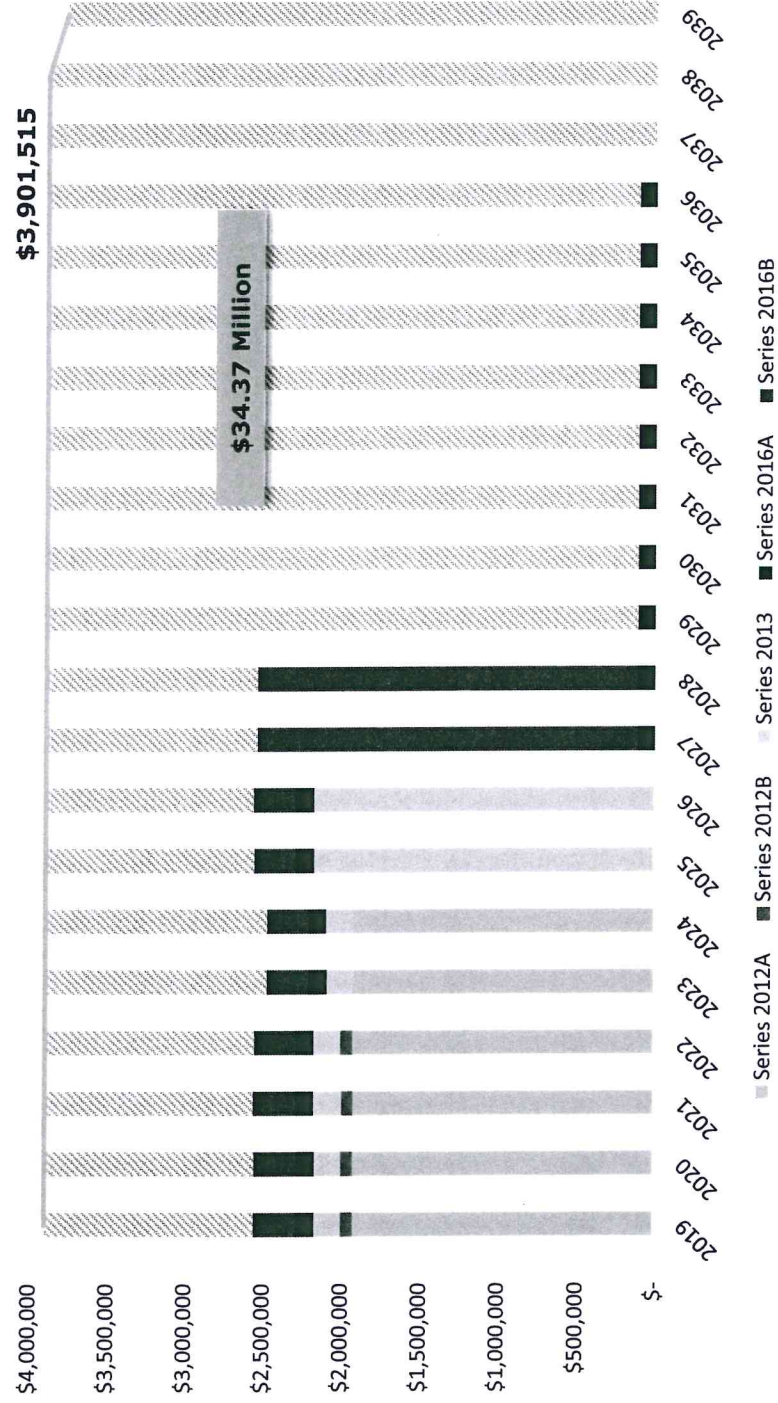
Annual Debt Service Requirements

FY 6/30	Series 2012A	Series 2012B	Series 2013	Series 2016A	Series 2016B	Total	Total Revenues Available for Bonding	Funds Available for New Debt Payments
2019	\$1,928,800	\$76,713	\$169,854	\$118,002	\$266,875	\$2,560,243	\$3,901,515	\$1,341,272
2020	1,929,450	75,313	169,204	115,202	268,975	2,558,143	3,901,515	1,343,372
2021	1,928,294	73,738	178,066	117,402	265,975	2,563,475	3,901,515	1,338,040
2022	1,932,934	76,988	171,566	114,502	262,975	2,558,965	3,901,515	1,342,550
2023	1,928,194		170,166	116,602	264,975	2,479,937	3,901,515	1,421,578
2024	1,930,003		173,679	113,603	261,875	2,479,159	3,901,515	1,422,356
2025			2,182,085	115,602	263,775	2,561,462	3,901,515	1,340,053
2026			2,185,173	117,502	265,575	2,568,249	3,901,515	1,333,266
2027				114,302	2,432,275	2,546,577	3,901,515	1,354,938
2028				115,702	2,430,575	2,546,277	3,901,515	1,355,238
2029				116,990		116,990	3,901,515	3,784,525
2030				116,889		116,889	3,901,515	3,784,626
2031				116,640		116,640	3,901,515	3,784,875
2032				116,239		116,239	3,901,515	3,785,276
2033				115,690		115,690	3,901,515	3,785,825
2034				114,990		114,990	3,901,515	3,786,525
2035				114,140		114,140	3,901,515	3,787,375
2036				113,139		113,139	3,901,515	3,788,376
2037							3,901,515	3,901,515
2038							3,901,515	3,901,515
2039							3,778,162	3,778,162
Total	\$11,577,675	\$302,750	\$5,399,793	\$2,083,137	\$6,983,850	\$26,347,204	\$81,808,463	\$55,461,259

Cash flow we use to predict bonding capacity

- 2012A Bonds are paid off in 2024
- Annual payment on the 2013 Bonds increases from ≈\$174k in 2024 to ≈\$2.18 million in 2025

Financing Plans Require No Change in Revenue for 20 Years



The District's Equalized Facility Funding Nickel from the State is only available for bonding through FY 2038 (currently \$123,354 per year). This assumption is included in all future bonding analysis

Factors that Affect Bonding Capacity

Revenues

- Legislative issues (other Nickels)
- Facilities Support Program Kentucky Equalization
- Leveraging more or less than 80% Capital Outlay
- Leveraging General Fund
- Future School Facilities Construction Commission Offers of Assistance

Expenses

- Retiring old debt
- Refunding existing issues

External

- Average Daily Attendance (ADA) fluctuation
- Interest rate fluctuations

- Interest rates increase by 1.5%, current bonding capacity drops by ~\$9 million

SEC Required Disclosure As Potential Municipal Advisor

Hilliard Lyons may seek the position of Municipal Advisor with you. The activities to be discussed herein will meet the SEC's definition of Municipal Advisor activities. Therefore, we are legally required to make certain disclosures at the very beginning of this process. A more detailed list of actual or potential conflicts of interest of which we are aware, and certain other information, is following this presentation. For instance, we discuss conflicts of interest that may exist, or arise, from the following circumstances:

- Our compensation may be contingent on the closing of a transaction
- We may be advising other clients who could seek to go to market at the same time as you, if a public offering is planned
- Our firm is also a broker-dealer and provides advisory services to client who may buy or sell your securities; we have duties to them as well.
- We also disclose relevant and material regulatory or legal matters that involve our firm.

SEC Required Disclosure As Potential Municipal Advisor

We also disclose relevant and material regulatory or legal matters that involve our firm.

This Disclosure Statement is provided by Hilliard Lyons ("Municipal Advisor") to Woodford County Schools (the "Client") in anticipation of Hilliard Lyons providing Municipal Advisory services. This Disclosure Statement provides information regarding conflicts of interest and legal or disciplinary events of Municipal Advisor required to be disclosed to Client pursuant to MSRB Rule G-42(b) and (c)(ii).

PART A – Disclosures of Conflicts of Interest

- MSRB Rule G-42 requires that municipal advisors provide to their clients disclosures relating to any actual or potential material conflicts of interest, including certain categories of potential conflicts of interest identified in Rule G-42, if applicable. If no such material conflicts of interest are known to exist based on the exercise of reasonable diligence by the municipal advisor, municipal advisors are required to provide a written statement to that effect.
- **General Mitigations** – As general mitigations of Municipal Advisor's conflicts, with respect to all of the conflicts disclosed below, Municipal Advisor mitigates such conflicts through its adherence to its fiduciary duty to Client, which includes a duty of loyalty to Client in performing all municipal advisory activities for Client. This duty of loyalty obligates Municipal Advisor to deal honestly and with the utmost good faith with Client and to act in Client's best interests without regard to Municipal Advisor's financial or other interests. In addition, because Municipal Advisor is a broker-dealer with significant capital due to the nature of its overall business, the success and profitability of Municipal Advisor is not dependent on maximizing short-term revenue generated from individualized recommendations to its clients but instead is dependent on long-term profitability built on a foundation of integrity, quality of service and strict adherence to its fiduciary duty. Furthermore, Municipal Advisor's municipal advisory supervisory structure, leveraging our long-standing and comprehensive broker-dealer supervisory processes and practices, provides strong safeguards against individual representatives of Municipal Advisor potentially departing from their regulatory duties due to personal interests. The disclosures below describe, as applicable, any additional mitigations that may be relevant with respect to any specific conflict disclosed below.
- **I. Compensation-Based Conflicts.** The fees due under this Agreement will be based on the size of the Issue and the payment of such fees shall be contingent upon the delivery of the Issue. While this form of compensation is customary in the municipal securities market, this may present a conflict because it could create an incentive for Municipal Advisor to recommend unnecessary financings or financings that are disadvantageous to Client, or to advise Client to increase the size of the issue. This conflict of interest is mitigated by the general mitigations described above.
- **II. Other Municipal Advisor or Underwriting Relationships.** Municipal Advisor serves a wide variety of other clients that may from time to time have interests that could have a direct or indirect impact on the interests of Client. For example, Municipal Advisor serves as municipal advisor to other municipal advisory clients and, in such cases, owes a regulatory duty to such other clients just as it does to Client under this Agreement. These other clients may, from time to time and depending on the specific circumstances, have competing interests, such as accessing the new issue market with the most advantageous timing and with limited competition at the time of the offering. In acting in the interests of its various clients, Municipal Advisor could potentially face a conflict of interest arising from these competing client interests. In other cases, as a broker-dealer that engages in underwritings of new issuances of municipal securities by other municipal entities, the interests of Municipal Advisor to achieve a successful and profitable underwriting for its municipal entity underwriting clients could potentially constitute a conflict of interest if, as in the example above, the municipal entities that Municipal Advisor serves as underwriter or municipal advisor have competing interests in seeking to access the new issue market with the most advantageous timing and with limited competition at the time of the offering. None of these other engagements or relationships would impair Municipal Advisor's ability to fulfill its regulatory duties to Client.

SEC Required Disclosure As Potential Municipal Advisor

- **III. Broker-Dealer and Investment Advisory Business.** Municipal Advisor is a broker-dealer and investment advisory firm that engages in a broad range of securities-related activities to service its clients, in addition to serving as a municipal advisor or underwriter. Such securities-related activities, which may include but are not limited to the buying and selling of new issue and outstanding securities and investment advice in connection with such securities including securities of Client, may be undertaken on behalf of, or as counterparty to, Client, personnel of Client, and current or potential investors in the securities of Client. These other clients may, from time to time and depending on the specific circumstances, have interests in conflict with those of Client, such as when their buying or selling of Client's securities may have an adverse effect on the market for Client's securities, and the interests of such other clients could create the incentive for Municipal Advisor to make recommendations to Client that could result in more advantageous pricing for the other clients. Furthermore, any potential conflict arising from Municipal Advisor effecting or otherwise assisting such other clients in connection with such transactions is mitigated by means of such activities being engaged in on customary terms through units of the Municipal Advisor that operate independently from Municipal Advisor's municipal advisory business, thereby reducing the likelihood that the interests of such other clients would have an impact on the services provided by Municipal Advisor to Client under this Agreement.

- **IV. Secondary Market Transactions in Client's Securities.** Municipal Advisor, in connection with its sales and trading activities, may take a principal position in securities, including securities of Client, and therefore Municipal Advisor could have interests in conflict with those of Client with respect to the value of Client's securities while held in inventory and the levels of mark-up or mark-down that may be available in connection with purchases and sales thereof. In particular, Municipal Advisor or its affiliates may submit orders for and acquire Client's securities issued in an Issue under the Agreement from members of the underwriting syndicate, either for its own account or for the accounts of its customers. This activity may result in a conflict of interest with Client in that it could create the incentive for Municipal Advisor to make recommendations to Client that could result in more advantageous pricing of Client's bond in the marketplace. Any such conflict is mitigated by means of such activities being engaged in on customary terms through units of the Municipal Advisor that operate independently from Municipal Advisor's municipal advisory business, thereby reducing the likelihood that such investment activities would have an impact on the services provided by Municipal Advisor to Client under this Agreement.

PART B – Disclosures of Information Regarding Legal Events and Disciplinary History

- MSRB Rule G-42 requires that municipal advisors provide to their clients certain disclosures of legal or disciplinary events material to its client's evaluation of the municipal advisor or the integrity of the municipal advisor's management or advisory personnel. The SEC permits certain items of information required on Form MA or MA-I to be provided by reference to such required information already filed by Municipal Advisor in its capacity as a broker-dealer on Form BD or Form U4. For the sake of consistency, and because the Municipal Advisor is (also) a broker-dealer, we refer you to our Form BD, which is filed with the SEC, but is available at a web service maintained by FINRA. The web service is named BrokerCheck, and it allows you to review any disciplinary disclosures made by us, as well as any made about an individual employed by us. The web address is <http://brokercheck.finra.org/>. On this page, click "FIRM" and insert our firm's CRD number (453) in the next blank. Then click "CHECK". The resulting web page has a link near the middle (in this sentence: **This firm has disclosure events. See detailed report for more information.**) Click on the words "detailed report" and you will receive a PDF file with our complete disclosures on individual DRPs (Disclosure Reporting Pages.) Please note that you may similarly check the individual records of our employees with whom you deal, by clicking ".INDIVIDUAL" and inserting their names on the initial page of BrokerCheck.
- To the extent that any disciplinary action against us as a Municipal Advisor, or our employee, is **not** reported on a DRP added to our Form BD, it would be reported to the SEC on Form MA or MA-I. Those forms are available at: <http://www.sec.gov/cgi-bin/browse-edgar?action=getcompany&CIK=0000764107&owner=exclude&count=40&hidefilings=0>.
- The most recent change in legal or disciplinary event disclosure was on August 28, 2018.

PART C – Future Supplemental Disclosures

- As required by MSRB Rule G-42, this Disclosure Statement may be supplemented or amended, from time to time as needed, to reflect changed circumstances resulting in new conflicts of interest or changes in the conflicts of interest described above, or to provide updated information with regard to any legal or disciplinary events of Municipal Advisor. Municipal Advisor will provide Client with any such supplement or amendment as it becomes available throughout the term of the Agreement.