

# **Presentation to Woodford County Schools**

**March 2019**



# Topics



Bonding Capacity Update

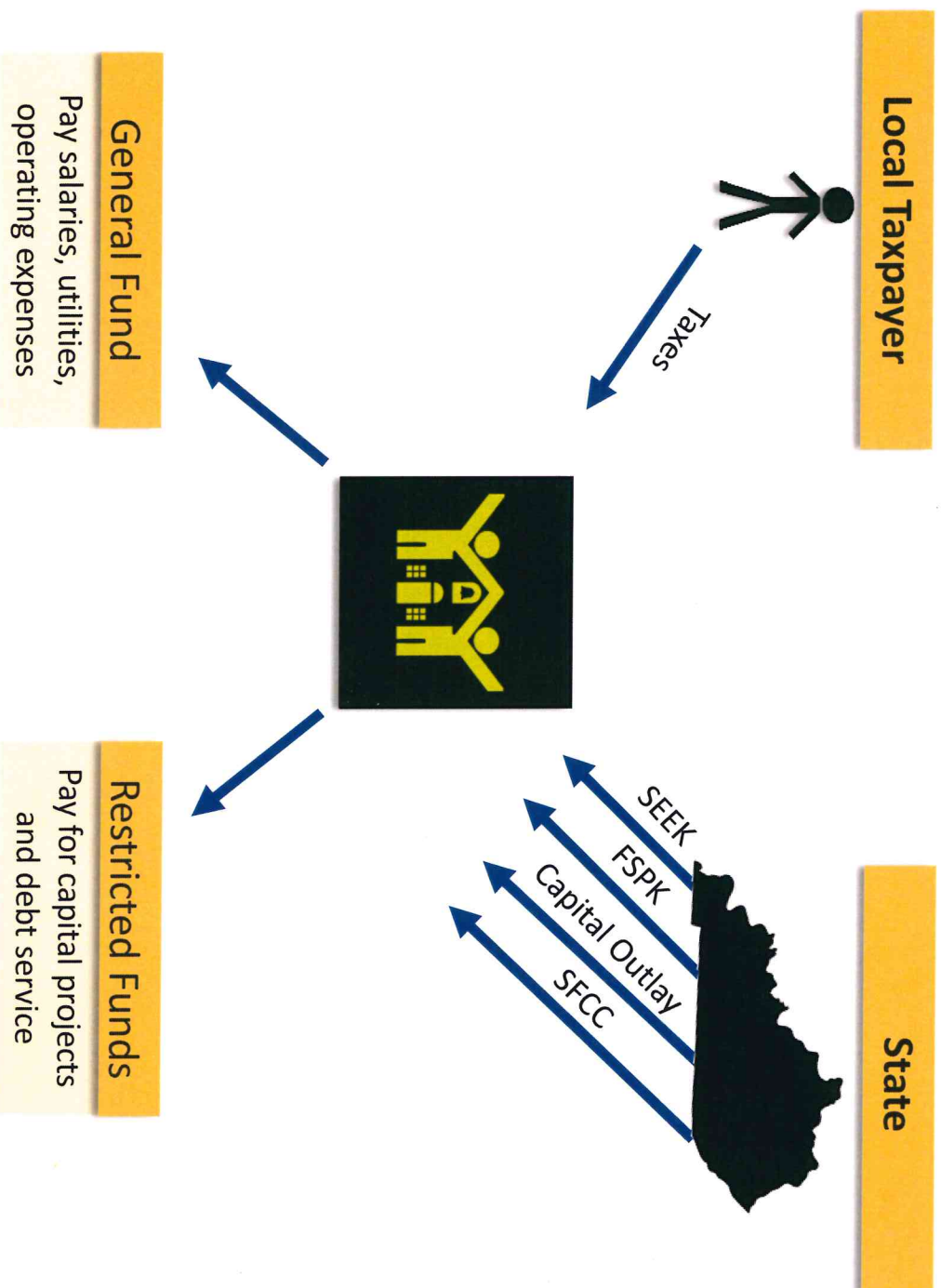


Use of Capital Outlay Funds Towards Bonding Capacity



Tax Rate Info

# Statutory Revenue Sources



# Bonding Capacity Update

Date of Issuance	District	SFCC	Total
March 2019	\$35.14 million	\$1.88 million	\$37.02 million

When Rates  
Bonding Capacity



If rates increase to 5.25%  
(current rate is 3.75%),  
bonding capacity decreases to  
\$28 million

## Revenues Available for Bonding

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

Assumes current market rates as of March 11, 2019, 20-year amortization of principal, current equalization rate of \$417, 2018-19 Final SEEK calculations, the District's Equalized Facility Funding Nickel is available through FY 2038, and \$600,000 annual general fund contribution for 20 years



# Bonding Capacity Without Capital Outlay Funds

Date of Issuance	District	SFCC	Total
March 2019	\$29.71 million	\$1.88 million	\$31.59 million

When Rates  
Bonding Capacity




If rates increase to 5.25%  
(current rate is 3.75%),  
bonding capacity decreases to  
\$23 million

## Revenues Available for Bonding

<b>Assessment</b>	<b>\$2,765,834,223</b>
<b>Prior Year AADA Plus Growth</b>	<b>3,612.162</b>
<b>Capital Outlay</b>	<b>\$0</b>
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 ( $\$417 \times 3,612.162$ ) - \$1,382,917	123,354
<b>General Fund Contribution</b>	<b>600,000</b>
<b>Total Annual Funds Available for Bonding</b>	<b>\$3,612,542</b>

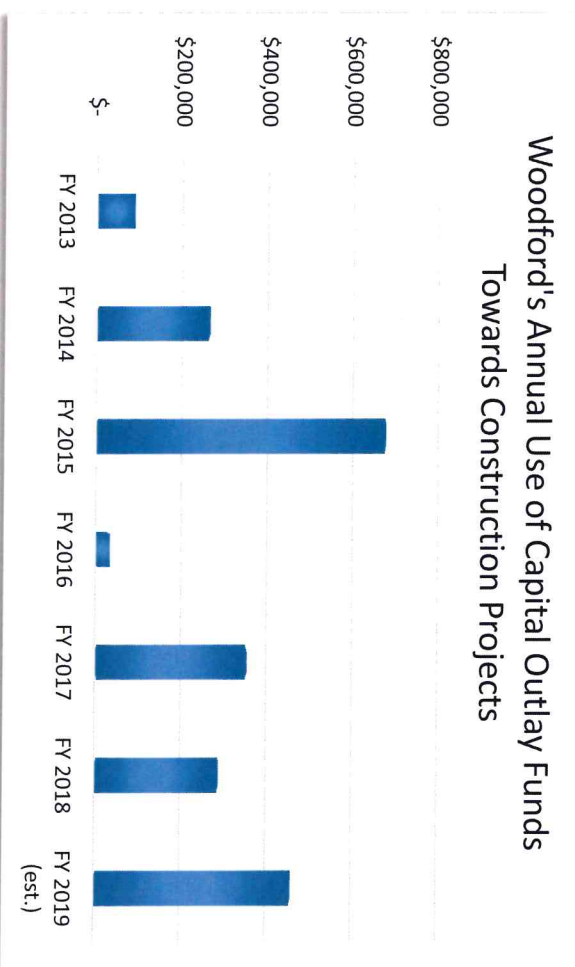
Assumes current market rates as of March 11, 2019, 20-year amortization of principal, current equalization rate of \$417, 2018-19 Final SEEK calculations, the District's Equalized Facility Funding Nickel is available through FY 2038, and \$600,000 annual general fund contribution for 20 years

# Capital Outlay Funds

- Capital Outlay Funds included in SEEK formula – provide funding for capital construction and renovation based on student population
  - Funding Source  ; authorized in 1954; statute (KRS 157.420)
  - \$100 x District's Prior Year Adjusted Average Daily Attendance (AADA)
- Can be used for:
  - Direct payment of construction costs
  - Debt service on bonds (up to 80% of total funds can be used for debt service)
  - Payment/ lease-rental agreements under which the board will eventually acquire ownership of a school plant
  - Retirement of any deficit resulting from over expenditure for capital construction, if such deficit resulted from an emergency declared by the Kentucky Board of Education under KRS 160.550
  - As a reserve fund for the above-referenced purposes, to be carried forward in ensuing budgets

# District's Use of Capital Outlay Funds

- Woodford has relied on the cash provided by Capital Outlay Funds to pay for projects totaling \$2.176 million since 2013
- These projects range from \$2,500 to \$1.18 million
- Recent projects include:
  - Southside cafeteria-kitchen addition
  - District wide security glass project
  - Transportation lift
  - Simmons PA System
  - WCMS seal and stripe parking lot
  - New cameras at WCHS
  - Community Ed Gym Roof Repairs
  - WCHS track repair
- Committing Capital Outlay Funds to pay debt service would require the District to pay for these similar projects with additional debt (bonds) or from the General Fund





# Levy Impact

<b>Tax Levy <sup>(1)</sup></b>	<b>Additional Annual Bondable Revenues <sup>(2)</sup></b>	<b>Additional District Capacity in Nov 2019</b>
One Cent	\$228,000	\$5 million
Two Cent	456,000	9 million
Three Cent	684,000	12 million
Four Cent	912,000	15 million
Five Cent	1,140,000	19 million

(1) Assumes current market rates as of March 15, 2019 and 20-year amortization of principal. Assumes current equalization rate of \$417, annual general fund contribution and issuance in November 2019

(2) Additional revenue numbers provided by KDE and assumes 90% collection rate



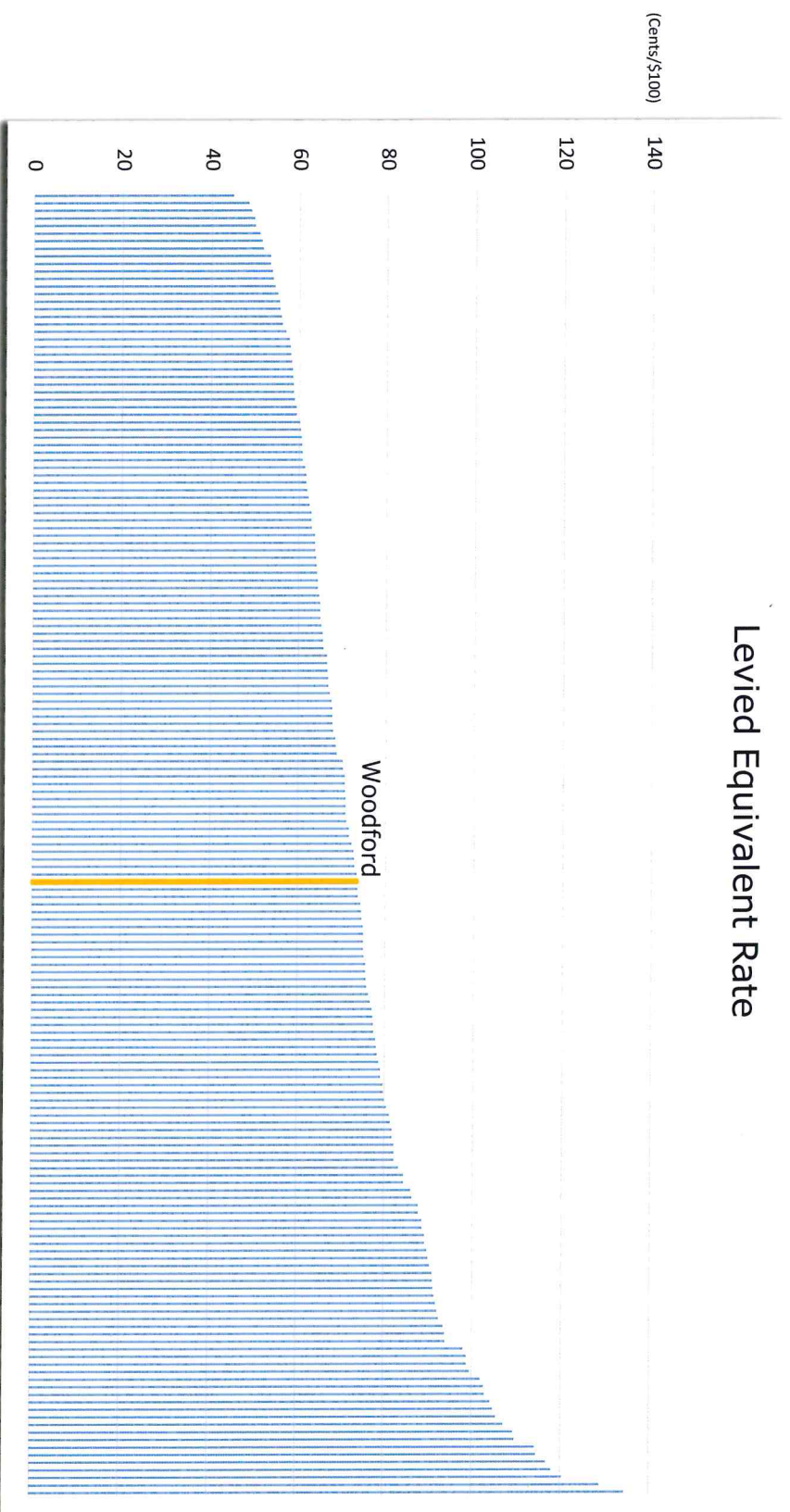
# History of Tax Rates

Tax Year	Real Estate	Tangible Personal	Motor Vehicle
2019	68.2¢	68.2¢	50.9¢
2018	66.4	66.4	50.9
2017	66.4	66.4	50.9
2016	66.4	66.4	50.9
2015	64.3	64.3	50.9
2014	62.2	62.2	50.9
2013	59.5	59.5	50.9
2012	54.9	54.9	50.9
2011	52.1	52.1	50.9
2010	49.6	49.6	50.9

Note: includes adjustment for exonerations

- Total tax revenues received for tax year 2019 (YTD) are ≈\$17.7 million vs. ≈\$11.7 million in 2010
- For a \$100,000 house, the property owner pays \$682 today in Real Estate taxes vs. \$496 in 2010, representing a difference of \$186

# Levied Equivalent Rate for All 173 KY School Districts



Source: Kentucky Department of Education

# Setting Tax Rates

- HS Bill 44 – outlines limitations on setting rates
  - Compensating Rate – the rate when applied to the current year's property assessment, excluding new property, produces an amount of revenue equal to the revenue produced in the preceding year
  - 4% Increase - allows for a tax rate increase that will produce 4% over the amount of revenue produced by the Compensating Rate
  - Any tax rate increase over the 4% is subject to recall

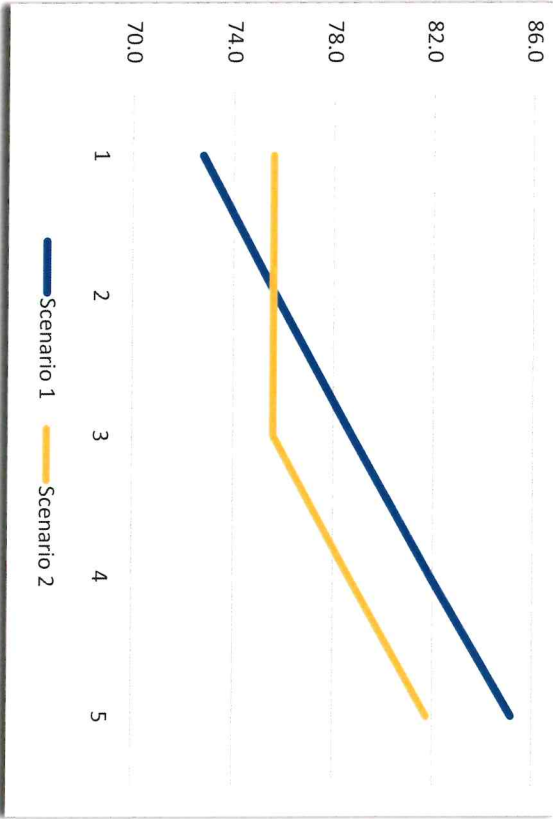
Assessment Analysis		
Fiscal Year	Assessment	Growth/ Decline (%)
2010	2,324,731,286	
2011	2,351,310,530	1.14%
2012	2,414,904,412	2.70%
2013	2,339,189,539	-3.14%
2014	2,366,349,802	1.16%
2015	2,401,523,793	1.49%
2016	2,468,451,292	2.79%
2017	2,562,662,062	3.82%
2018	2,691,155,520	5.01%
2019	2,765,834,223	2.77%
Average Change (%)		1.97%



# Tax Rate Scenarios

Assumes Current Tax Rate of 70¢

Year	Scenario 1 Annual Increases at 4%	Scenario 2 +5.6¢ in Yr. 1; Flat for Yr. 2 & 3; 4% Yr. 4 & 5	Scenario 3
0	70.0	70.0	70.0
1	72.8 +4%	75.6 +5.6¢	?
2	75.7 +4%	75.6 +0%	?
3	78.7 +4%	75.6 +0%	?
4	81.9 +4%	78.6 +4%	?
5	85.2 +4%	81.8 +4%	?



# Path Forward

- Acknowledge what's been accomplished
  - "Where Great Minds Meet"
- Doing the right things
  - Performing due diligence so informed decisions can be made
- Big and exciting decisions take time
  - No decision needs to be made today



Source: Woodford County Public Schools' website

Reaffirm our commitment as a long-term partner to WCPS

# 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-1 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-1. 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.