



Compass Municipal Advisors, LLC

Firm Overview and  
Approach to Kentucky School Finance



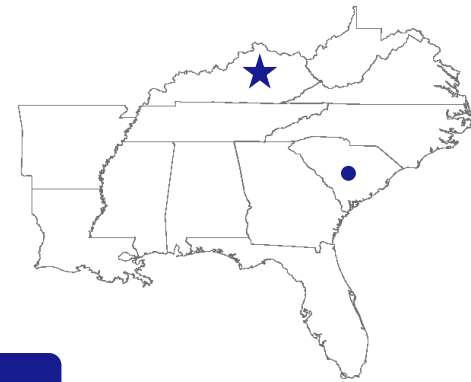
771 Corporate Drive, Ste 1050  
Lexington, Kentucky 40503

# Firm Background

Compass Municipal Advisors, LLC (“Compass”) is an independent municipal advisory firm with offices in Lexington, Kentucky and Columbia, South Carolina. Our team of advisors has been a leader in Kentucky and South Carolina municipal finance for over 30 years and our advisors bring a wealth of industry knowledge and market expertise to every transaction.

As municipal advisors, we assist schools, local and state governments, utilities, as well as non-profit entities in a wide variety of needs including, but not limited to:

- ☐ Financial and Capital Planning
- ☐ Debt Issuance and Management
- ☐ Investment Management Services



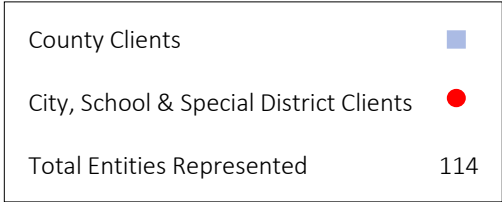
# Firm Experience

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Our team of advisors brings a significant level of expertise to the municipal advisory space with over 100 years of combined experience:

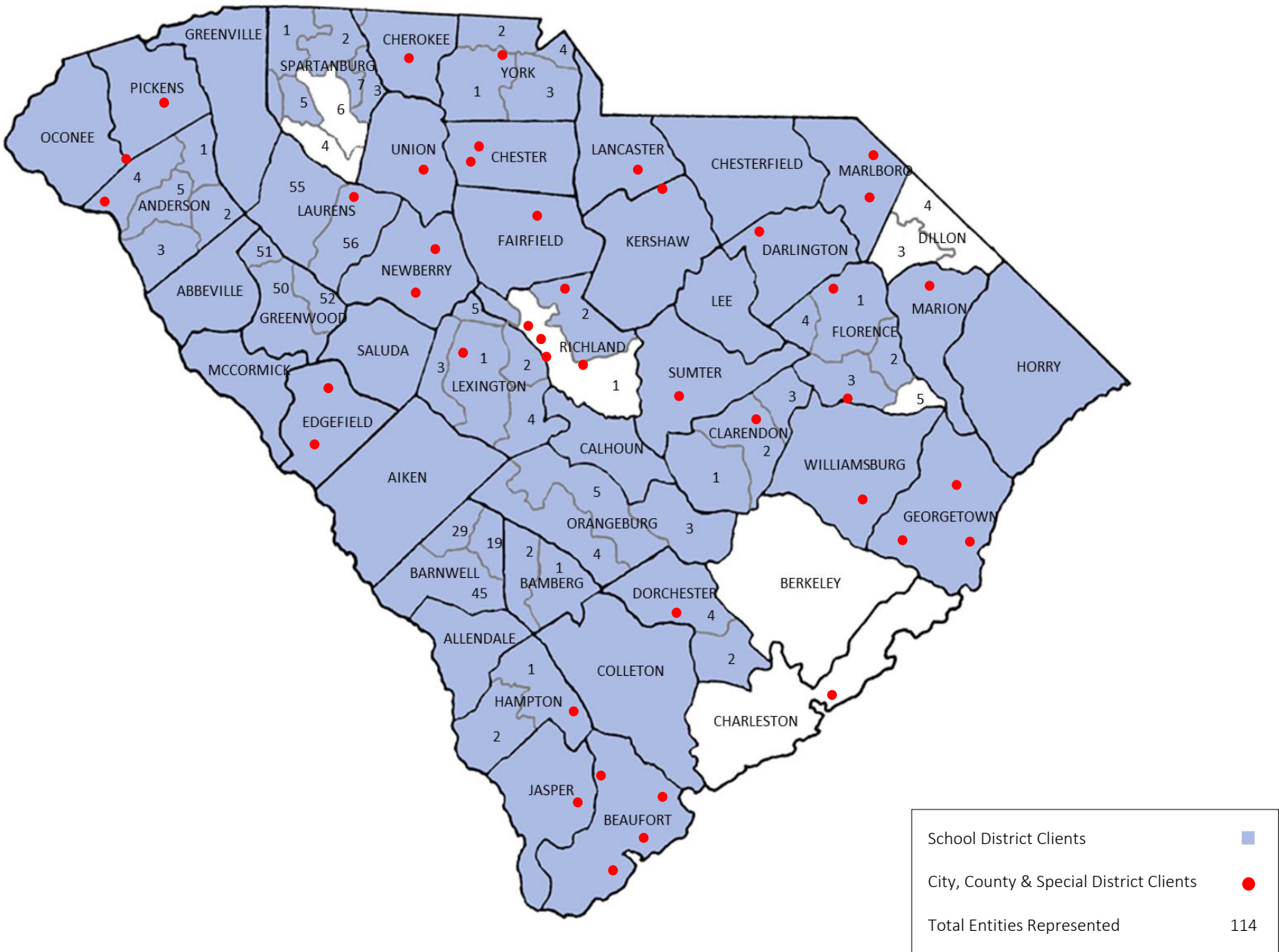
- ❑ Since 2002, **our advisors have financed over \$27 billion in aggregate par**, representing over 1,300 issues.
- ❑ Compass currently represents more than 225 municipal entities, including 77 public school districts across the southeast.
- ❑ Our staff includes a former Kentucky superintendent and former Kentucky legislators with extensive backgrounds in state government and school leadership.
  - Served on bond oversight committee

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COMPASS  
MUNICIPAL ADVISORS

# South Carolina School Client Map



# Role as Financial Advisor

**Fiduciary Duty:** Duty of care and of loyalty. Issuer goals and objectives are prioritized and the driver of all financial advice. Our advisors facilitate all aspects of the financing:

## Step 1 - Planning

- Assist in prioritizing facility needs
- Develop a long-term capital funding program
- Assistance in drafting financial policies and best practices
- Bond rating analysis
  - Scorecard review
  - Ratings strategy
- KDE approval
  - BG-1 assistance
  - SFCC and Bond Oversight approval
- Board and planning committee reporting

## Step 2 - Execution

- Structure the financing
  - Term and payment structure
  - Revenue constraints
  - Yield curve sensitivities
- Coordinate transaction
- Marketing
  - Prepare materials
  - Identify key UW candidates
  - Disseminate offering to national database of UW's
- Execution of bond sale
  - Resize based on the optimal structure

## Step 3 – Ongoing Services

- Investment of bond proceeds
  - Minimize risk
  - Maximize yield and liquidity
- Continuing disclosure assistance
- Audit assistance
- Monitor debt profile for refunding opportunities
- Bond rating surveillance
  - Annual comment
  - Methodology changes
- Monitor changes to applicable State & Federal laws

# Capital Planning Process

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Our capital planning process includes:

- ❑ Assistance in identifying and prioritizing long-term needs
- ❑ Developing debt models that address 5-10 years of capital needs
  - Structured around revenue constraints and existing debt
  - Considerations for wish list items and longer-term needs
  - **Plan should be flexible and allow for funding of emergency capital needs**
- ❑ Stress test to project feasibility based on fluctuations in tax and interest rates
- ❑ Capital program should be updated annually
  - Available to present during board meetings – i.e. annual “debt day”

# Capital Planning Example

## District with \$95MM in bonding potential

### Step 1

- Identify current and future bonding capacity and other potential funding sources
- Prioritize capital needs – 5 year minimum

(A)	(B)	(C)	(D)	(E)	(F)	(G)
			Funding Sources			
		Total				Interest
Capital	Funding	Project	District	SFCC	SFCC	Rate
Project	Date	Cost*	Portion	Portion	Cash Req.	Assumption
Project TBD	Spring 2021	\$30,000,000	\$23,200,000	\$1,900,000	\$4,900,000	3.000%
Project TBD	Spring 2023	\$25,000,000	\$25,000,000	\$0	\$0	4.000%
Project TBD	Spring 2026	\$20,000,000	\$20,000,000	\$0	\$0	4.250%
Totals:	---	\$75,000,000	\$68,200,000	\$1,900,000	\$4,900,000	---

\*Includes architect fees, contingency and bond related expenses.



# Capital Planning Example

## Step 2

- Structure potential bond issues around existing debt payments and available revenues
- Allocate funds for PAYGO expenses, capital outlay transfers, future capital needs

(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)
			( \$30.0 MM )	( \$25.0 MM )	( \$20.0 MM )			
Fiscal Year	Total Local Funds	Existing Debt Service	Series 2021 EST Bonds	Series 2023 EST Bonds	Series 2026 EST Bonds	Aggregate District Payments	PAYGO and Capital Outlay Transfers	Remaining Local Funds
2022	\$13,223,662	\$10,348,083	\$1,121,000			\$11,469,083	(\$1,750,000)	\$4,579
2023	\$13,223,662	\$10,341,649	\$1,128,250			\$11,469,899	(\$1,750,000)	\$3,763
2024	\$14,306,393	\$10,344,489	\$959,900	\$1,250,000		\$12,554,389	(\$1,750,000)	\$2,005
2025	\$14,306,393	\$10,342,897	\$961,200	\$1,250,000		\$12,554,097	(\$1,750,000)	\$2,297
2026	\$14,306,393	\$9,905,598	\$1,147,200	\$1,500,000		\$12,552,798	(\$1,750,000)	\$3,596
2027	\$14,306,393	\$9,675,328	\$1,127,350	\$1,500,000	\$1,000,000	\$13,302,678	(\$1,000,000)	\$3,716
2028	\$14,306,393	\$9,583,261	\$972,650	\$1,500,000	\$1,250,000	\$13,305,911	(\$1,000,000)	\$483
2029	\$14,306,393	\$7,683,505	\$872,150	\$1,500,000	\$1,250,000	\$11,305,655	(\$1,000,000)	\$2,000,739
2030	\$14,306,393	\$6,150,507	\$1,404,350	\$1,500,000	\$1,250,000	\$10,304,857	(\$1,000,000)	\$3,001,537
2031	\$14,306,393	\$3,584,041	\$1,150,350	\$2,000,000	\$1,250,000	\$7,984,391	(\$1,000,000)	\$5,322,003
2032	\$14,306,393	\$3,251,733	\$1,483,250	\$2,000,000	\$1,250,000	\$7,984,983	(\$1,000,000)	\$5,321,410
2033	\$14,306,393	\$3,250,874	\$1,485,500	\$2,000,000	\$1,250,000	\$7,986,524	(\$1,000,000)	\$5,319,869
2034	\$14,306,393	\$3,246,518	\$1,487,150	\$2,000,000	\$1,250,000	\$7,983,668	(\$1,000,000)	\$5,322,725
2035	\$14,306,393	\$3,244,186	\$1,492,750	\$2,000,000	\$1,250,000	\$7,986,936	(\$1,000,000)	\$5,319,457
2036	\$14,306,393	\$2,696,798	\$2,037,300	\$2,000,000	\$1,250,000	\$7,984,098	(\$1,000,000)	\$5,322,295
2037	\$14,306,393	\$1,868,011	\$2,864,600	\$2,000,000	\$1,250,000	\$7,982,611	(\$1,000,000)	\$5,323,782
2038	\$14,306,393	\$1,489,600	\$2,745,650	\$2,500,000	\$1,250,000	\$7,985,250	(\$1,000,000)	\$5,321,143
2039	\$14,306,393	\$1,129,750	\$3,103,050	\$2,500,000	\$1,250,000	\$7,982,800	(\$1,000,000)	\$5,323,593
2040	\$12,862,751	\$1,128,050	\$2,912,550	\$1,500,000	\$1,000,000	\$6,540,600	(\$1,000,000)	\$5,322,151
2041	\$12,862,751	\$1,116,050	\$2,925,200	\$1,500,000	\$1,000,000	\$6,541,250	(\$1,000,000)	\$5,321,501
2042	\$12,862,751	\$0		\$3,350,000	\$2,000,000	\$5,350,000	(\$1,000,000)	\$6,512,751
2043	\$12,862,751	\$0		\$3,350,000	\$2,000,000	\$5,350,000	(\$1,000,000)	\$6,512,751
2044	\$12,862,751	\$0			\$3,500,000	\$3,500,000	(\$1,000,000)	\$8,362,751
2045	\$12,862,751	\$0			\$3,500,000	\$3,500,000	(\$1,000,000)	\$8,362,751
2046	\$12,862,751	\$0			\$3,500,000	\$3,500,000	(\$1,000,000)	\$8,362,751
Totals:	\$345,388,870	\$110,380,923	\$33,381,550	\$38,700,000	\$32,500,000	\$214,962,473	(\$28,750,000)	\$101,676,397

# Proprietary Bond Rating Model

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**It has become increasingly important for Kentucky School Districts to apply for their own individual bond rating to enhance the marketability of their bonds and drive down capital costs.**

- ❑ Compass has developed an in-house proprietary model based on both Moody's and S&P ratings methodologies
  - In-depth financial analysis of the District and its operations
  - Individual scoring and metric comparison analysis
- ❑ Used by issuers to predict a first-time rating outcome prior to a transaction or to examine various credit scenarios that would impact an existing bond rating
- ❑ Provides issuers with a tool to identify credit areas in which they can improve
  - Foundation for a comprehensive rating strategy
  - Development of policy and procedures
- ❑ Successfully utilized to upgrade bond ratings for numerous issuers across a variety of security structures

# Execution - Marketing

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Often overlooked, one of the **primary roles** of your Financial Advisor is to market the debt offering to improve investor demand.

- ❑ Opening the market to more investors means a more competitive sale process and potentially a lower cost of borrowing

We actively work to expand the bidding network and increase competition by:

- ❑ Leveraging our robust southeast market share
- ❑ Improving and modernizing sale document language
- ❑ Implementing a thorough marketing plan
- ❑ Improving disclosure and use of a dissemination agent

**In 2020, Compass-advised public bond issues have averaged six bids per transaction.**

# Execution - Benefits of an Independent Municipal Advisor

The Kentucky Bond Market has historically been serviced by firms that offer both underwriting and financial advisory services. Changes in federal securities law (MSRB Rule G-23) prohibit firms from acting in both capacities.

Compass and the municipalities we advise are uniquely positioned to benefit from this as we do not offer underwriting services.

- Focus exclusively on financial advisory
- No conflicts in service offering; free to expand the bidding network and increase competition
- All underwriting firms can bid on your bonds

**MSRB Rule G-23 prohibits firms from acting as both municipal advisor and underwriter on the same transaction.**

## Kentucky Competitive Capital Market Transactions - CY 2020

Lead Underwriter	Transactions	Market Share	Par
Robert W Baird & Co Inc	56	33.33%	\$350,185,000
Stifel Nicolaus & Co Inc	18	10.71%	\$44,360,000
Raymond James	15	8.93%	\$84,953,000
Keybanc Capital Markets	14	8.33%	\$134,941,000
PNC Capital Markets	13	7.74%	\$70,680,000
Huntington Securities	12	7.14%	\$187,975,000
FHN Financial Capital Markets	8	4.76%	\$110,085,000
INTL FCSTONE	8	4.76%	\$53,170,000
Piper Sandler	3	1.79%	\$17,985,000
Stonex Financial	3	1.79%	\$24,065,000
Bank of America Merrill Lynch	3	1.79%	\$259,470,000
Citi	3	1.79%	\$103,505,000
Other (13)	12	7.14%	\$343,670,000
<b>Total</b>	<b>168</b>	<b>100.00%</b>	<b>\$1,785,044,000</b>

# Ongoing Services

- ☐ Assistance with Continuing Disclosure and Audit Requests
- ☐ Assistance with the preparation of the District's BG-1 forms and other capital outlay and related requests.
- ☐ Monitoring of Debt Profile
  - Refunding opportunities
  - Tax and rebate deadlines
- ☐ Annual Capital Program Updates
  - SEEK and SFCC updates
  - Assistance with Facilities Plan
  - Board and LPC Presentations

KENTUCKY DEPARTMENT OF EDUCATION 702 KAR 4:160		BG-1 PROJECT APPLICATION FORM	
SCHOOL DISTRICT: _____		Initial: _____	Revised: _____
PROJECT NAME: _____		BG# _____	
<b>II. PROPOSED PLAN TO FINANCE APPLICATION</b>			
<b>A. Statement of Probable Costs:</b>		<b>B. Funds Available:</b>	
1. Total Construction Cost	_____	1. SFCC Cash Req.	_____
2. Architect/Engineer Fee	_____	2. SFCC Special Offer	_____
3. Construction Manager Fee	_____	3. SFCC Bond Sale	_____
4. Bond Discount	_____	4. Local FSPK Bond Sale	_____
5. Fiscal Agent Fee	_____	5. Local Gen. Fund Bond Sale	_____
6. Construction Contingencies	_____	6. SFCC Cash Req. (C. Outlay)	_____
7. Site Acquisition	_____	7. SFCC Cash Req. (FSPK)	_____
8. Equipment/Furnishings	_____	8. SFCC Cash Req. (Bldg Fund)	_____
9. Equipment/Computers	_____	9. Cash - Inv. Earnings	_____
10. Technology Network Sys. (KETS)	_____	10. KETS	_____
11. Other* <u>Property Survey</u>	_____	11. KYTC Reimbursement	_____
12. Other* <u>special inspections</u>	_____	12. Other* <u>food service cash</u>	_____
13. Other* <u>commissioning/abatement</u>	_____	13. Other* <u>Reoffering Premium</u>	_____
14. Other* <u>printing/advertisement</u>	_____	14. Other*	_____
15. Other* <u>plan review</u>	_____	15. Other*	_____
16. Other* <u>asbestos</u>	_____	16. Other*	_____
17. Other* <u>rating &amp; paying agent</u>	_____	17. Other*	_____
18. Other* <u>bond insurance</u>	_____	17. Other*	_____
19. Other* <u>rounding</u>	_____	17. Other*	_____
Total Project Cost	_____	Total Funds Available	_____
*Define		*Define	

# Auxiliary Services

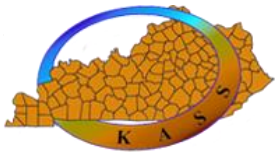
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In addition to the services discussed, Compass assists Districts on a wide variety of financial and consulting services that fall outside of the traditional role of a fiscal agent. These include the following:

- ☐ Investment of Bond Proceeds and General Fund Monies
  - Served as investment bid agent on over \$3B in government funds since 2015
- ☐ Budgetary Assistance
- ☐ Tax Analysis
- ☐ Quantitative Modeling
- ☐ Telecom and Related Real Estate Revenue Opportunities
- ☐ Ongoing State and National Legislative Updates
- ☐ Regulatory Updates

# Kentucky School Support and Education

Compass is proud to sponsor and support the following Kentucky School organizations that improve our education system as shown below. Further, we routinely participate in educational training for superintendents, administrative officials and school board members.



# Online Client Portal

Compass is pleased to offer our new online client portal to Kentucky Schools. The online portal is customized for each District and is offered free of charge to our Kentucky School clients. The online portal includes access to the following:

- Bond Documents
- Bond Sale Results
- Payment Schedules
- Final Number Packets
- BG-1's
- Capital Funding Models
- Ratings Analysis

The screenshot displays the 'Client Portal' for the Frankfort Independent School District. At the top, there is a navigation bar with links for 'home', 'help', and 'logout'. Below this, the district's name 'Frankfort Independent School District' is prominently displayed, along with a personalized greeting: 'Good morning, Houston. Welcome to your client portal.' The main content area is organized into three columns. The left column features a vertical stack of buttons for various services: 'Compass Web Site', 'EMMA', 'Capital Funding Program', 'Cumulative Bond Payment Schedule', 'District Facility Plan', 'Moody's Rating Scorecard', 'SEEK Workbook', and 'Tax Analysis'. The middle column lists three bond series: 'Series 2020 ECB' (\$845,000, Energy Conservation Revenue Bonds), 'Series 2016 QZAB' (\$3,000,000, Taxable Qualified Zone Academy Bonds), and 'Series 2014 REF' (\$2,275,000, School Building Refunding Revenue Bonds). The right column provides a list of documents for each bond series, including 'BG-1', 'Final Numbers', 'Official Statement', 'Sale Results', and 'Transcript'.

Bond Series	Amount	Bond Type	Documents Available
Series 2020 ECB	\$845,000	Energy Conservation Revenue Bonds	BG-1, Final Numbers, Official Statement, Sale Results
Series 2016 QZAB	\$3,000,000	Taxable Qualified Zone Academy Bonds	BG-1, Final Numbers, Official Statement, Sale Results, Transcript
Series 2014 REF	\$2,275,000	School Building Refunding Revenue Bonds	Final Numbers, Official Statement, Sale Results, Transcript
Series 2014	\$1,910,000	School Building Revenue Bonds	Final Numbers, Official Statement, Sale Results, Transcript



# Our Kentucky School Staff



Michael George  
Managing Director  
Michael.George@compassmuni.com  
859.368.9622



Anthony Strong\*  
Vice President  
Anthony.Strong@compassmuni.com  
859.412.5452



R.J. Palmer  
Senior Vice President  
RJ.Palmer@compassmuni.com  
859.621.8812



Keith Brock  
Senior Vice President  
Keith.Brock@compassmuni.com  
859.361.5611



Greg Phillips  
Senior Vice President  
Greg.Phillips@compassmuni.com  
502.657.6307



Louis Ragusa  
Vice President  
Louis.Ragusa@compassmuni.com  
859.953.3804



Linda Melton\*  
Senior Assistant & Closing Coordinator  
Linda.Melton@compassmuni.com  
859.421.0923

*\* Not registered as a municipal advisor*

# Disclosure

Pursuant to Municipal Securities Rulemaking Board Rule G-42, on Duties of Non-Solicitor Municipal Advisors, Municipal Advisors are required to make certain written disclosures to clients which include, amongst other things, “Conflicts of Interest” and any “Legal or Disciplinary events” of the Firm and its associated persons.

As of the date of this document, there are no known material conflicts of interest that Compass is aware of, based on the exercise of reasonable diligence. In connection with the issuance of any municipal security or product, Compass may receive compensation for providing certain municipal advisory services, which compensation may be contingent upon the successful closing of a transaction and based on the size and scope of a potential transaction. Consistent with the requirements of certain regulatory authorities, Compass discloses that such contingent and transactional compensation may present a conflict of interest regarding our ability to provide unbiased advice to enter into such transaction. In addition, Compass and the Kentucky Association of Counties, Inc. (“KACo”) have entered into a joint services agreement to provide municipal advisory services whereas KACo will be compensated by Compass from any fees described above. Compass’s ability to render unbiased and competent advice or to fulfill its fiduciary duty to its clients will not be impaired. If Compass becomes aware of any additional potential conflicts of interest after this disclosure, Compass will disclose the detailed information in writing to you in a timely manner. Any fee paid to Compass increases the cost of investment. The increased cost occurs from compensating Compass for municipal advisory services provided. Compass does not act as principal in any of the transaction(s) related to this document. The following are other material conflicts of interest that were considered:

- (1) Compass does not have any affiliate that provides any advice, service, or product to or on behalf of that is directly or indirectly related to the municipal advisory activities to be performed by Compass.
- (2) Compass has not received any payments from third parties to enlist recommendation of its services, any municipal securities transaction or any municipal finance product.
- (3) Compass does not have any other engagements or relationships that might impair Compass’s ability either to render unbiased and competent advice to or on behalf of or to fulfill its fiduciary duty to the municipal entity client, as applicable.

There have been no changes to any legal or disciplinary events that have been disclosed on Compass’s SEC registration Form MA filed on March 26, 2019 or Form MA-I’s filed on March 26, 2019.

A customer complaint/civil litigation disclosure has been made as to two Compass personnel. The details are available on Brian Nurick and Robert Michael Gallagher’s Form MA-I in item 6; I(1)(a) and I(2)(a) and the corresponding customer complaint DRP section on each of their Form MA-I. Issuers may electronically access Compass’s most recent Form MA and each most recent Form MA-I filed with the Commission at the following website: [www.sec.gov/edgar/searchedgar/companysearch.html](http://www.sec.gov/edgar/searchedgar/companysearch.html).

If Compass makes a recommendation of a municipal securities transaction or municipal financial product or if the review of a recommendation of another party is requested and is within the scope of any engagement, Compass will determine, based on the information obtained through reasonable diligence whether a municipal securities transaction or municipal financial product is suitable. In addition, Compass will inform you of:

- (1) The evaluation of the material risks, potential benefits, structure, and other characteristics of the recommendation.
- (2) The basis upon which Compass reasonably believes that the recommended municipal securities transaction or municipal financial product is, or is not, suitable.
- (3) Whether Compass has investigated or considered other reasonably feasible alternatives to the recommendation that might also or alternatively serve your objectives.

If a client elects a course of action that is independent of or contrary to advice provided by Compass, Compass is not required on that basis to disengage from the client.