Ready to Finance Your Next Capital Project? Make Sure You're Fully Prepared

COMPASS
MUNICIPAL ADVISORS

110 W Vine Street, Suite 240, Lexington, Kentucky 40507

Presentation Overview

Part 1 – Market Update

- Construction Costs
- Interest Rates

Part 2 – Preparation

- Audits & Continuing Disclosure
- Capital Planning
- Financial Planning
- Policies & Procedures

Part 3 – Execution

- Financial Considerations
- Financing Options
- Process

Part 1: Market Update

Capital Funding Themes

Over the last few years, municipalities across the country began to face considerable challenges in addressing capital needs due to a variety of macroeconomic pressures, including:

1. Inflated construction costs
2. Higher cost of capital (i.e. bond rates)
3. Other budgetary pressures (i.e. operating and other general fund expenses)

Construction Inflation

Municipalities have experienced significant inflation on capital construction costs over the past several years.

- We have seen projects come in 50% to 75% over budget on bid day.
- Large-scale construction projects are up over 100% in some areas over the last years.

Inflation can be caused by many factors, but most economists attribute current inflation to large amounts of fiscal stimulus pumped into the economy since the onset of COVID. The stimuli include, but are not limited to:

- Quantitative easing and related Federal Reserve measures
- Historically low interest rates
- Local Government and Business Grant Programs
  - ESSER
  - ARPA
  - PPP
  - ERTC

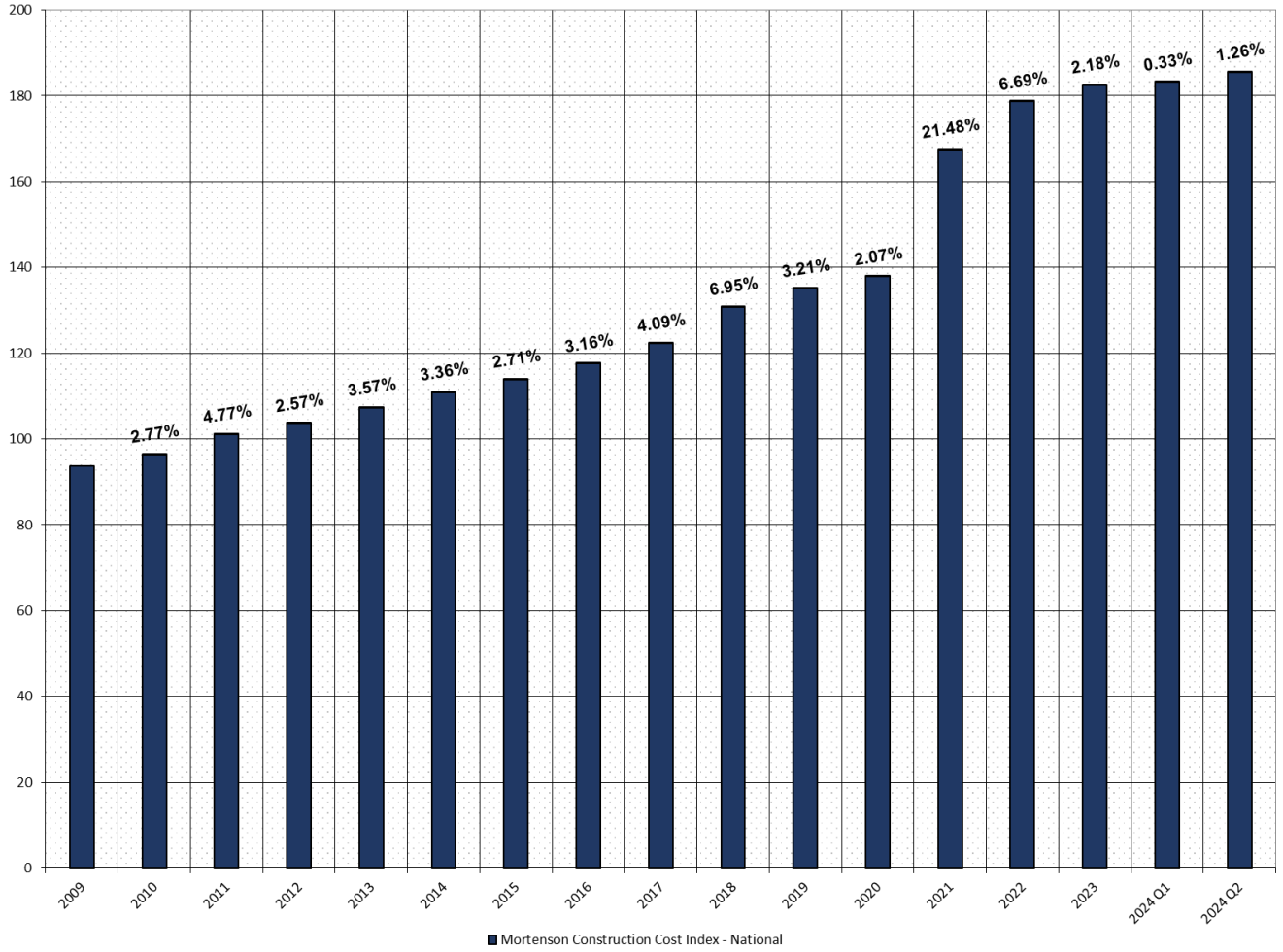
Construction Inflation

While inflation has impacted all municipalities, recent statewide trends show rural areas being impacted more severely than densely populated areas.

- Limited number of bidders
- Less skilled labor
- A focus on larger projects

Overall Construction Cost Index

The Mortenson Construction Cost Index is calculated quarterly by pricing a representative non-residential construction project in geographies throughout the country:



Interest Rates

Interest rates have risen as the Federal Reserve increased their benchmark lending rate in an effort to curb the effects of soaring inflation:

- The benchmark fed rate was 0.00% throughout 2021 and 2022
- The current target benchmark range is 5.25% - 5.50%
- The rapid increase in interest rates have deteriorated bonding potential

For municipal borrowers, the MMD yield curve is the benchmark interest rate curve.

- The 10-year US Treasury rate is also a good general indicator of municipal borrowing rates and is more accessible than the MMD yield curve.

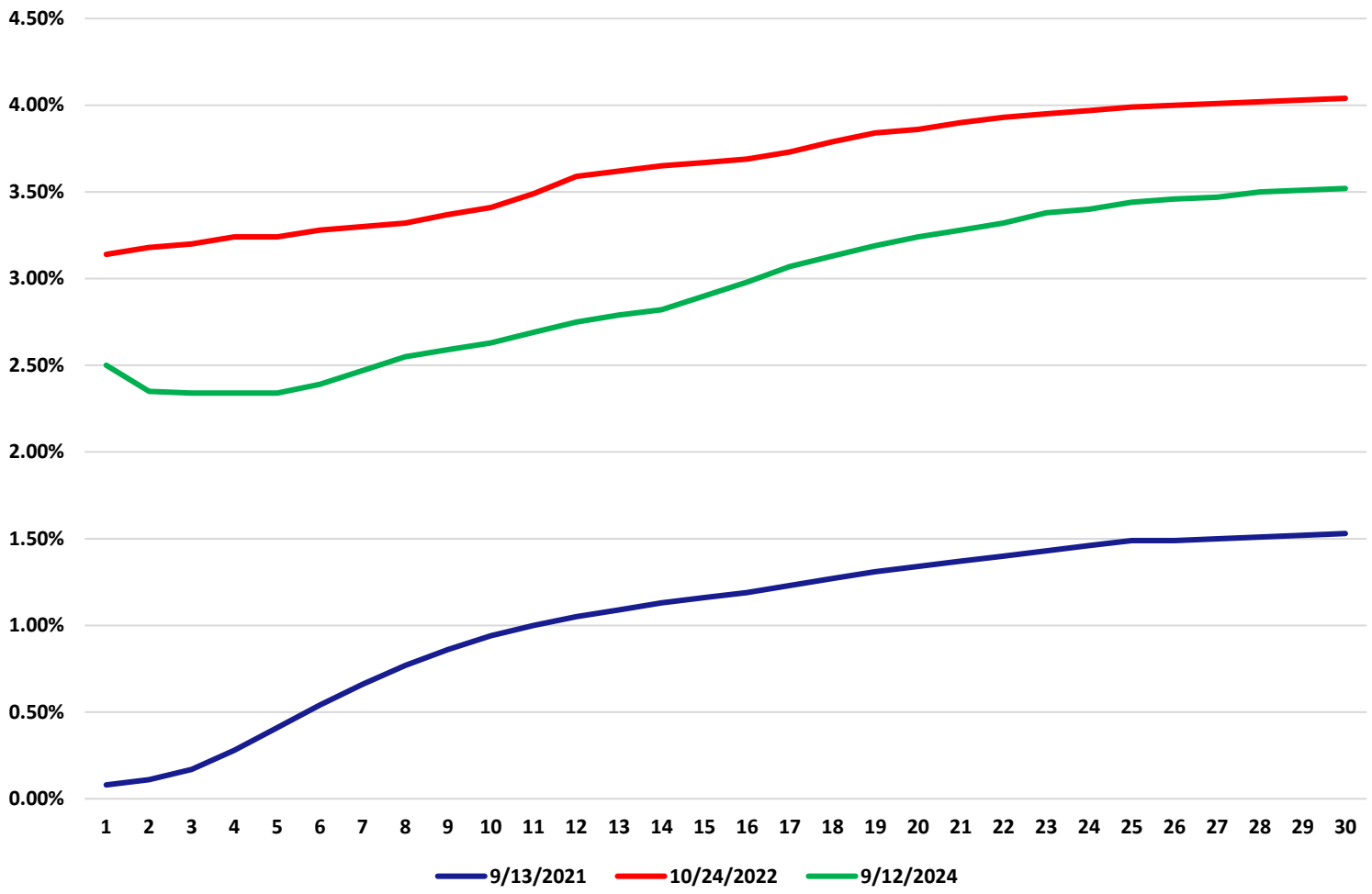
MMD: AAA Yield Curve

- MMD: Municipal Market Data
- The MMD Index is the benchmark index for the municipal industry.
- MMD is meant to represent AAA GO's with a 5% coupon rate.
- Bonds are priced and traded off this index as a spread.
- MMD is set every day at 3PM ET, with updates throughout the day.
- Industry terms for changes are "bump" or "cut."

Period	Year	"AAA"
1	2025	3.01
2	2026	2.73
3	2027	2.58
4	2028	2.45
5	2029	2.41
6	2030	2.41
7	2031	2.41
8	2032	2.42
9	2033	2.43
10	2034	2.43
11	2035	2.52
12	2036	2.61
13	2037	2.71
14	2038	2.89
15	2039	2.97
16	2040	3.03
17	2041	3.09
18	2042	3.15
19	2043	3.2
20	2044	3.25
21	2045	3.3
22	2046	3.35
23	2047	3.4
24	2048	3.45
25	2049	3.49
26	2050	3.51
27	2051	3.52
28	2052	3.55
29	2053	3.56
30	2054	3.57

Source: Refinitiv

MMD Yield Curve



Source: Refinitiv

MMD Yield Curve

(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)	(M)	(N)
	Averages:	**0.00**	**0.00**	**(0.03)**	**(0.08)**	**(0.25)**	**(0.50)**	**1.32**	**(1.11)**	**0.16**	**(0.29)**	**0.19**	**0.81**
	9/12/2024												
	Current	1-Day	2-Day	1-Week	1-Month	3-Month	1-Year	5-Year	vs. 1-Year		vs. 1-Year	vs. 3-Year	vs. 5-Year
Year	**Yields**	Change	Change	Change	Change	Change	Change	Change	High	Low	Average	Average	Average
1	2.50	0.08	0.08	0.03	(0.15)	(0.59)	(0.75)	1.33	(1.28)	0.08	(0.60)	0.17	0.93
2	2.35	0.00	0.00	(0.05)	(0.24)	(0.70)	(0.78)	1.19	(1.35)	0.00	(0.61)	0.04	0.79
3	2.34	0.00	0.00	(0.05)	(0.24)	(0.59)	(0.67)	1.17	(1.23)	0.00	(0.50)	0.07	0.79
4	2.34	0.00	0.00	(0.05)	(0.23)	(0.56)	(0.57)	1.16	(1.19)	0.06	(0.42)	0.08	0.78
5	2.34	0.00	0.00	(0.03)	(0.20)	(0.51)	(0.56)	1.15	(1.17)	0.09	(0.39)	0.07	0.74
6	2.39	0.00	0.00	(0.03)	(0.18)	(0.43)	(0.51)	1.17	(1.14)	0.14	(0.34)	0.09	0.74
7	2.47	0.00	0.00	(0.03)	(0.14)	(0.34)	(0.43)	1.21	(1.09)	0.22	(0.26)	0.14	0.76
8	2.55	0.00	0.00	(0.03)	(0.09)	(0.25)	(0.38)	1.24	(1.03)	0.29	(0.20)	0.19	0.78
9	2.59	0.00	0.00	(0.03)	(0.07)	(0.20)	(0.38)	1.22	(1.01)	0.31	(0.17)	0.19	0.77
10	2.63	0.00	0.00	(0.03)	(0.05)	(0.16)	(0.37)	1.21	(0.98)	0.35	(0.14)	0.20	0.76
11	2.69	0.00	0.00	(0.03)	(0.05)	(0.11)	(0.38)	1.21	(0.99)	0.36	(0.14)	0.20	0.76
12	2.75	0.00	0.00	(0.03)	(0.03)	(0.09)	(0.43)	1.23	(1.03)	0.32	(0.15)	0.19	0.75
13	2.79	0.00	0.00	(0.03)	(0.03)	(0.14)	(0.51)	1.23	(1.11)	0.25	(0.21)	0.14	0.71
14	2.82	0.00	0.00	(0.03)	(0.04)	(0.17)	(0.59)	1.22	(1.17)	0.15	(0.28)	0.09	0.68
15	2.90	0.00	0.00	(0.03)	(0.04)	(0.15)	(0.61)	1.26	(1.19)	0.13	(0.28)	0.11	0.70
16	2.98	0.00	0.00	(0.03)	(0.04)	(0.17)	(0.57)	1.30	(1.15)	0.13	(0.28)	0.14	0.74
17	3.07	0.00	0.00	(0.03)	(0.04)	(0.17)	(0.52)	1.35	(1.11)	0.16	(0.27)	0.18	0.78
18	3.13	0.00	0.00	(0.03)	(0.04)	(0.17)	(0.51)	1.37	(1.10)	0.16	(0.26)	0.20	0.80
19	3.19	0.00	0.00	(0.03)	(0.04)	(0.17)	(0.50)	1.39	(1.09)	0.16	(0.26)	0.21	0.82
20	3.24	0.00	0.00	(0.03)	(0.04)	(0.17)	(0.49)	1.40	(1.09)	0.16	(0.26)	0.23	0.83
21	3.28	0.00	0.00	(0.03)	(0.04)	(0.17)	(0.48)	1.40	(1.08)	0.15	(0.26)	0.23	0.84
22	3.32	0.00	0.00	(0.03)	(0.04)	(0.17)	(0.48)	1.41	(1.08)	0.14	(0.27)	0.24	0.85
23	3.38	0.00	0.00	(0.03)	(0.04)	(0.17)	(0.46)	1.44	(1.06)	0.15	(0.26)	0.26	0.87
24	3.40	0.00	0.00	(0.03)	(0.04)	(0.17)	(0.47)	1.43	(1.09)	0.12	(0.28)	0.25	0.86
25	3.44	0.00	0.00	(0.03)	(0.04)	(0.17)	(0.46)	1.46	(1.09)	0.12	(0.28)	0.27	0.88
26	3.46	0.00	0.00	(0.03)	(0.04)	(0.17)	(0.44)	1.47	(1.07)	0.12	(0.27)	0.27	0.89
27	3.47	0.00	0.00	(0.03)	(0.04)	(0.17)	(0.44)	1.47	(1.07)	0.12	(0.28)	0.27	0.89
28	3.50	0.00	0.00	(0.03)	(0.04)	(0.17)	(0.42)	1.49	(1.05)	0.12	(0.27)	0.29	0.90
29	3.51	0.00	0.00	(0.03)	(0.04)	(0.17)	(0.42)	1.49	(1.05)	0.12	(0.27)	0.29	0.90
30	3.52	0.00	0.00	(0.03)	(0.04)	(0.17)	(0.42)	1.49	(1.05)	0.12	(0.27)	0.29	0.90
2Y-10Y	**0.28**	0.00	0.00	0.02	0.19	0.54	0.41	0.02	0.37	0.35	0.48	0.16	(0.03)
2Y-20Y	**0.89**	0.00	0.00	0.02	0.20	0.53	0.29	0.21	0.26	0.16	0.35	0.19	0.04
2Y-30Y	**1.17**	0.00	0.00	0.02	0.20	0.53	0.36	0.30	0.30	0.12	0.34	0.25	0.11

Source: Refinitiv


Be prepared!

Audited Financial Statements

- Track record of timely (within at least 210 days of fiscal year end) release of audited financial statements is of critical importance when accessing capital funding:
  - Auditors
  - Banks
  - Investors
  - Rating Agencies
  - SEC
  - Underwriters
- Establish policies and procedures
  - Designate responsible person
  - Establish internal deadlines and ticklers
  - Review annually
- **Start your audit immediately**

Continuing Disclosure

Continuing Disclosure consists of **important** information about municipal bond issuers that arise after the initial issuance of the bonds.

Continuing Disclosure reflects the financial health or operating condition as it changes over time and the occurrence of specific events.

The market regulators want municipal issuers to provide ongoing information about their debt issues:

- Ensures market transparency by making information available to the public
- Ensures bonds sold to investors in the secondary market are properly priced based on information provided by issuers

Continuing Disclosure requirements are imposed by the Securities and Exchange Commission, also known as the "SEC."

- ✓ Know your CDA requirements
- ✓ Address past non-compliance immediately
- ✓ Establish policies and procedures
  - Designate responsible person
  - Establish internal deadlines and ticklers
  - Review annually
- ✓ Make auditor aware of CDA due dates
- ✓ Consider engaging a dissemination agent
  - Responsibility to comply still rests with you
- ✓ Submit financial and operating report ASAP
- ✓ If you can't meet your requirements:
  - File failure to file notice
  - File unaudited financial statements

Capital Planning

Long-term capital planning is an essential part of a long-term financial plan. Developing a **multi-year** capital improvement plan involves identifying, prioritizing and scheduling capital projects and needs. Determining the timing of each project and source of funding:

- Budgetary: Project/Need that impacts revenues and/or expenses and is considered on an on-going basis
- PAYGO: Project/Need that impacts revenues and/or expenses but is substantially one time in nature
- Financing: Project/Need that requires a material amount of funds and therefore requires financing (i.e. funds required are not available or would drain fund balance below Fund Balance Policy Requirement)

Item #	Description	Funding Type	Funding Source	2023	2024	2025	2026	2027	Total
1	Road Improvements	Budgetary	Road Fund	$800,000	$808,000	$816,080	$824,241	$832,483	$4,080,804
2	Fire Trucks	PAYGO	General Fund	$750,000	$0	$0	$0	$788,258	$1,538,258
3	Jail Improvements	Financing	Jail Fund	$0	$0	$0	$10,000,000	$0	$10,000,000
4	Voting Machines	PAYGO	General Fund	$0	$0	$350,000	$0	$0	$350,000
5	Park Improvements	Financing	General Fund	$0	$5,000,000	$0	$0	$0	$5,000,000
Totals:	---	---	---	**$1,550,000**	**$5,808,000**	**$1,166,080**	**$10,824,241**	**$1,620,741**	**$20,969,062**

Capital Planning

While many factors are taken into consideration, core process is built around the following methods:

- Identifying and prioritizing both short and long-term capital needs
- Developing debt models that address 5-10 years of capital needs
  - Considerations for wish list items and longer-term needs
  - Plans should be flexible and allow for funding of emergency capital needs
- Stress test to project feasibility based on fluctuations in cashflows and interest rates
- State and federal funding opportunities
- Capital program should be updated annually

			------ Funding Sources ------				
Capital Projects	Funding Date	Total Project Cost**	County Portion	Grants	Cash & Other Contributions	Interest Rate Assumption	Funding Term
Project - TBD	Summer 2022	$10,000,000	$8,500,000	$500,000	$1,000,000	4.00%	25 Years
Project - TBD	Spring 2023	$2,000,000	$1,250,000	$750,000	$0	4.50%	25 Years
Project - TBD	Spring 2025	$30,000,000	$30,000,000	$0	$0	4.50%	25 Years
Project - TBD	Spring 2027	$5,000,000	$5,000,000	$0	$0	4.50%	25 Years
Totals:	---	**$47,000,000**	**$44,750,000**	**$1,250,000**	**$1,000,000**	---	---

What is Long-Term Financial Planning?

- Uses financial forecasting and analysis to identify future financial challenges and opportunities
- Identifies strategies to secure financial sustainability in light of the challenges and opportunities
- Participative and consensus-driven process, involving elected officials, staff and the public
- The Plan must:
  - Provide strategies to achieve and maintain financial balance
  - Identify how the County will provide a consistent level of public services and address special issues of concern to constituents

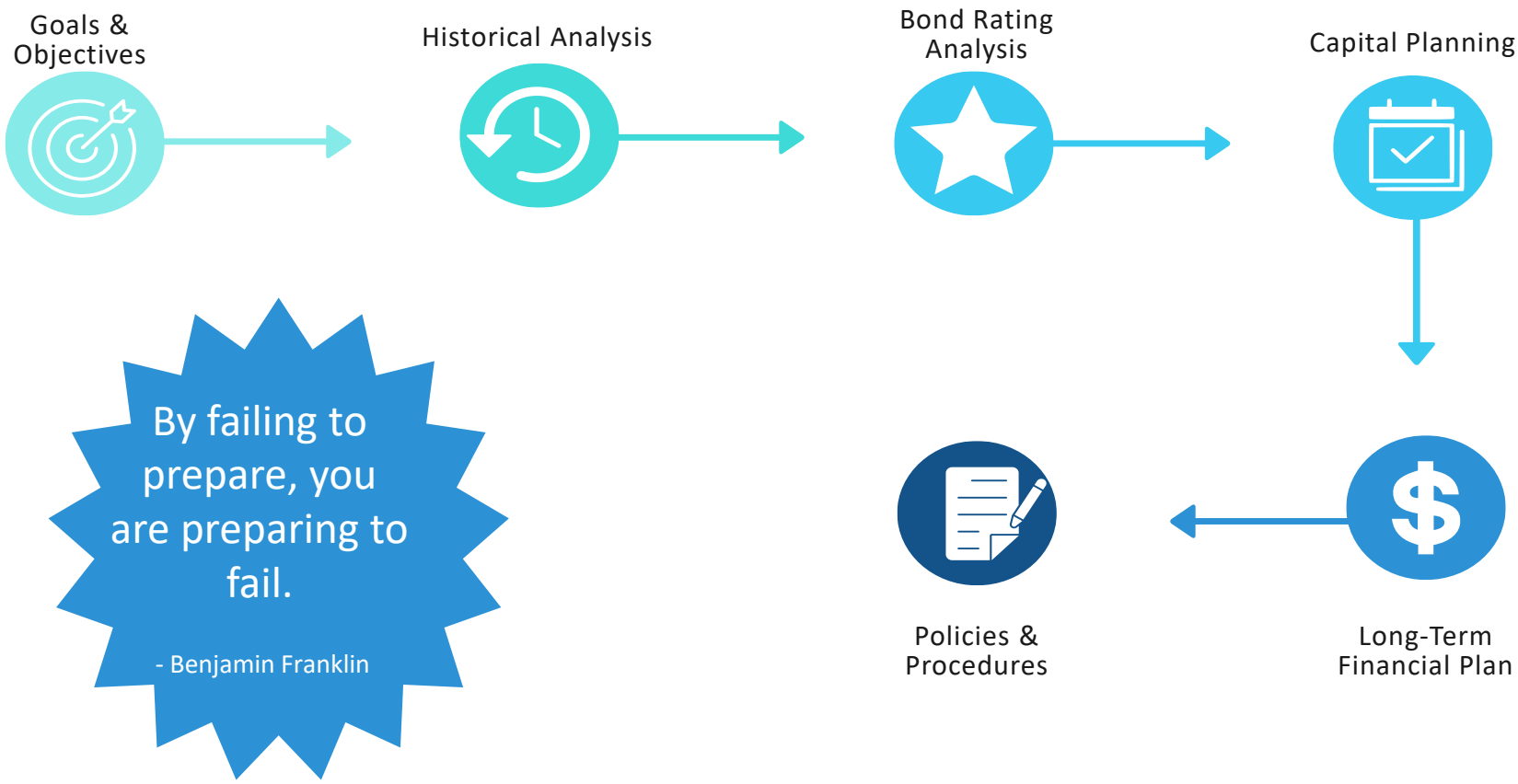
Give me six hours to chop down a tree
and I will spend the first four sharpening the axe.

– Abraham Lincoln

Why Consider Long-Term Financial Planning?

- Allows elected officials and staff to develop a shared vision of the priorities/issues
- Essential for ongoing financial sustainability, providing a consistent level of public services and protecting the constituents from volatility in taxes
- Better equipped to deal with long-range financial challenges
- Link annual budgets together into a coherent long-term strategy
- Better anticipate and prepare for financial shocks
- Encourages strategic thinking and allows decision makers to focus on long-term objectives
- Promotes overall awareness for financial literacy
- Creates commitment and motivation to provide a guide for decision-making

Long-Term Financial Planning Process

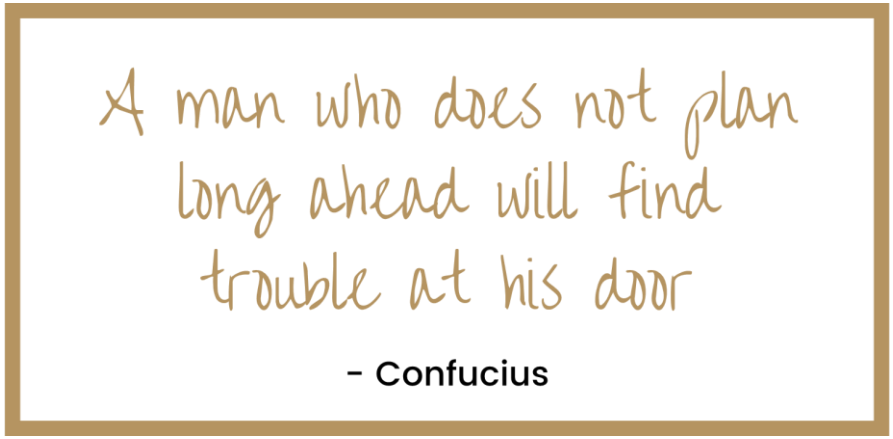


Policies and Procedures

The addition of certain policies and procedures are designed to create sound principals to guide the fiscal court in making important financial decisions. Secondarily, they address common weaknesses in the operations and controls of reporting fiscal stability to key stakeholders (constituents, local government oversight agencies, bond holders, etc.).

Common policies to be considered regard the following:

- Capital planning
- Financial planning
- Reserves and liquidity
- Debt management
- Continuing disclosure
- Investment management




Debt Financing
Definition, Types, & Sources

The development of the **optimal financing plan** requires an understanding of both short and long-term goals and the willingness and financial flexibility to assume risk. While achieving the lowest cost of capital is the primary objective, there are many factors to consider in creating financial flexibility, minimizing risk and optimizing savings including: financing vehicle, payment structure and term, budget constraints, timeline, prepayment flexibility and future capital needs.

Cost of Capital: Regardless of the financing mechanism utilized, cost of capital will be driven by market conditions and credit rating.

Budget Constraints: The term of the debt should be dependent upon the useful life of the assets financed, interest rate achieved and the ability to make debt service payments while maintaining a structurally balanced budget.

Financing Options

The Kentucky Constitution limits the maximum amount of indebtedness local governments may borrow based upon assessed values.

Short-Term Borrowing Act KRS (65.7701-.7721)

- Tax and Revenue Anticipation Notes
  - Must mature prior to June 30th
- Cash flow borrowing
  - < 75% of remaining fiscal year revenues

Governmental Leasing Act (KRS 65.940 -.956)

- General Obligation, Revenue and Appropriated
- Flexible borrowing terms (maximum 40 years)
- KACo Financing Programs

Bonded Indebtedness (KRS 66.011 -.270)

- General Obligation Bonds and BANs
- Flexible borrowing terms (maximum 40 years)
- Bond ratings, typically required

Public Properties Bonds (KRS 58.010 -.205)

- Revenue Bonds and BANs
- Issued through a City/County Agency
- Project leased to another entity
- Bond ratings, typically required

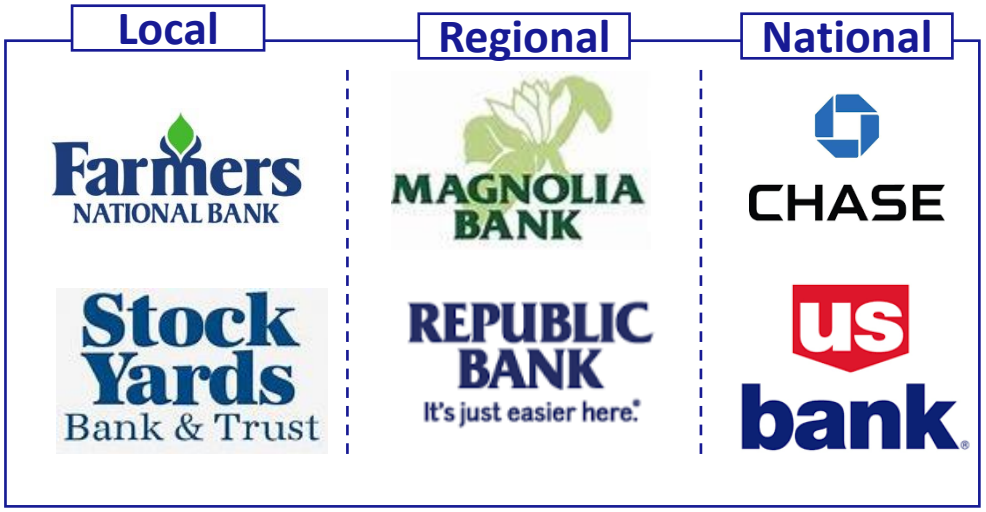
Revenue Bonds (KRS 96.190 -.510)

- Revenue Bonds and BANs
- Project revenues pledged
- Bond ratings, typically required

Private Bank Loans

Private bank loans are a common form of financing for municipalities. These loans are primarily used for equipment or shorter-term capital needs:

- Loan sold to single purchaser – i.e. a bank
- Borrowing rate based on financial strength
    - Debt is typically issued as General Obligation or Lease Appropriated
- Very competitive market with lots of interested providers
- Debt payments can be customized



Private Bank Loans

Duration

- Banks typically will not offer a fixed rate beyond 12-15 years
  - Preference is below 10 years

Interest Rate

- Rates based on bank's cost of capital, size, risk exposure and loan demand
- Pricing benefit for bank qualification ("BQ") status
  - **BQ limitation for issuer is $10MM per calendar year**

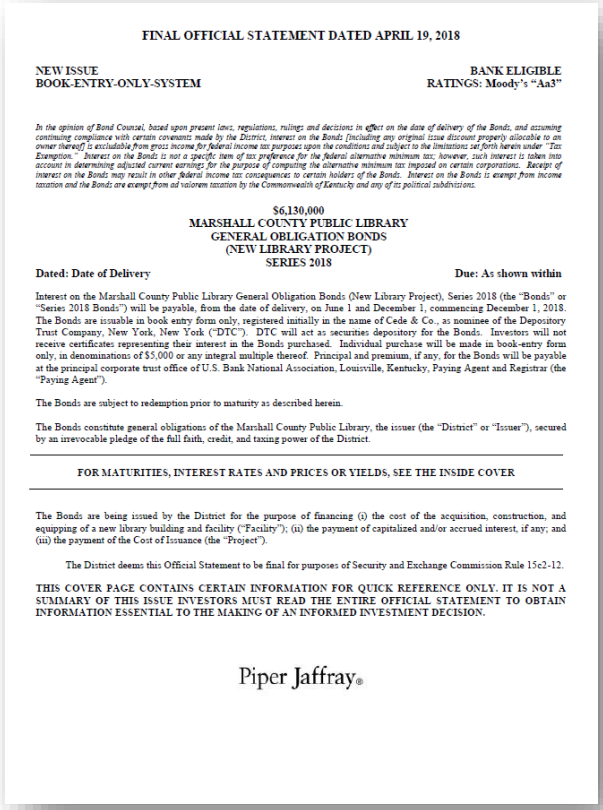
Transaction Size & Structure

- Based on size of bank, portfolio, risk, etc.
  - Local and regional banks typically max out in the $10MM - $15MM range
- For competitively bid transactions, simplicity is important
- Prepayment terms are typically more favorable compared to a public market transaction

Public Market Bonds

Public Market Bonds are an efficient way to access long-term capital:

- Bonds sold to an underwriter(s) for resale to a series of investors
- Typically requires a bond rating
  - Rating provides feedback to investors on the credit strength of the issuer
- Debt payments can be customized
- Official Statement
- Continuing Disclosure required (EMMA)



FINAL OFFICIAL STATEMENT DATED APRIL 19, 2018

NEW ISSUE
BOOK-ENTRY-ONLY-SYSTEM

BANK ELIGIBLE
RATINGS: Moody's "Aa3"

In the opinion of Bond Counsel, based upon present laws, regulations, rulings and decisions in effect on the date of delivery of the Bonds, and assuming continuing compliance with certain covenants made by the District, interest on the Bonds [including any original issue discount properly allocable to an owner thereof] is excludable from gross income for federal income tax purposes upon the conditions and subject to the limitations set forth herein under "Tax Exemption." Interest on the Bonds is not a specific item of tax preference for the federal alternative minimum tax; however, such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations. Receipt of interest on the Bonds may result in other federal income tax consequences to certain holders of the Bonds. Interest on the Bonds is exempt from income taxation and the Bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky and any of its political subdivisions.

$6,130,000
MARSHALL COUNTY PUBLIC LIBRARY
GENERAL OBLIGATION BONDS
(NEW LIBRARY PROJECT)
SERIES 2018

Dated: Date of Delivery **Due: As shown within**

Interest on the Marshall County Public Library General Obligation Bonds (New Library Project), Series 2018 (the "Bonds" or "Series 2018 Bonds") will be payable, from the date of delivery, on June 1 and December 1, commencing December 1, 2018. The Bonds are issuable in book entry form only, registered initially in the name of Cede & Co., as nominee of the Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. Investors will not receive certificates representing their interest in the Bonds purchased. Individual purchase will be made in book-entry form only, in denominations of $5,000 or any integral multiple thereof. Principal and premium, if any, for the Bonds will be payable at the principal corporate trust office of U.S. Bank National Association, Louisville, Kentucky, Paying Agent and Registrar (the "Paying Agent").

The Bonds are subject to redemption prior to maturity as described herein.

The Bonds constitute general obligations of the Marshall County Public Library, the issuer (the "District" or "Issuer"), secured by an irrevocable pledge of the full faith, credit, and taxing power of the District.

FOR MATURITIES, INTEREST RATES AND PRICES OR YIELDS, SEE THE INSIDE COVER

The Bonds are being issued by the District for the purpose of financing (i) the cost of the acquisition, construction, and equipping of a new library building and facility ("Facility"); (ii) the payment of capitalized and/or accrued interest, if any; and (iii) the payment of the Cost of Issuance (the "Project").

The District deems this Official Statement to be final for purposes of Security and Exchange Commission Rule 15c2-12.

THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR QUICK REFERENCE ONLY. IT IS NOT A SUMMARY OF THIS ISSUE INVESTORS MUST READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION.

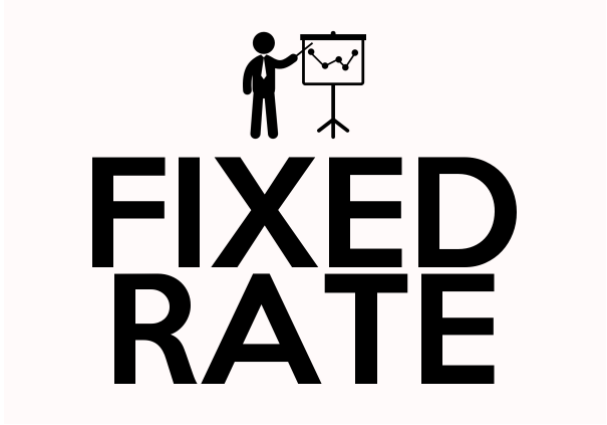
Piper Jaffray®

Public Market Bonds

COMPASS MUNICIPAL ADVISORS

Interest Rate

- Rates can be fixed or variable
  - Overwhelming majority of public market bonds in Kentucky are issued as fixed rate
- Rates are benchmarked against the AAA MMD yield curve.
  - Spread based on credit quality and investor demand.



Duration

- Bond duration 0-40 years

Transaction Size & Structure

- Ability to fund large scale projects
  - Typically not cost effective for transactions under $1.0MM
- Investors typically want some level of pre-payment protection
  - 7-10 year call is typical

Other Considerations

- Very efficient way to access capital
  - Reaching all types of investors
    - Institutional and Retail buyers
- More burdensome process
  - Rating and official statement requirements upfront
  - Ongoing disclosure requirements
- Ability to access long-term fixed rate debt
- **Must have current Audits**

KACo Bond Pool

KACo's Bond Pool program provides an alternative for access to long-term fixed rates but not wanting to go through the public market process.

- Benefits include:

KACO Bond Pool

1. Provides credit enhancement
   - S&P AA- Rating (stable outlook)
   - Economies of scale
2. Debt structure flexibility
   - Long-term fixed rates (1 to 30 years)
   - Customized payment amounts
3. Ease and convenience
   - Standardized documentation; limited disclosure (audits)

Who utilizes the pool?

- Borrowers who have or anticipate a bond rating at or below the “A” rating class
  - The pool provides a pricing benefit
- Borrowers of smaller amounts looking for longer terms at a fixed rate
  - Generally amounts less than $2.00MM for 10+ years
- Borrowers seeking to avoid burdensome disclosure requirements
- Borrowers seeking ease and convenience

Capital Funding Options - Summary

All three options discussed have various pros and cons. Deciding which route to pursue ultimately depends on your specific situation, goals and objectives:

Private Bank Loan	Public Market Bond	KACo Bond Pool
• Flexible Terms • Ease & Convenience • Payments can be tailored • Limited disclosure • No long-term fixed rate • Legal provisions can be burdensome	• Offers long-term fixed rates • Provides for funding of large amounts • Payments can be tailored • Rate based on credit rating and market • Disclosure requirements • Current audits required	• Offers long-term fixed rates • Provides for funding of small and large amounts • Payments can be tailored • Rate based on “pooled” credit rating • Limited disclosure requirements • Economies of scale

Financing Process

1. Analyze and evaluate financing options based upon goals and objectives
2. Develop the optimal financing plan
3. Authorize the financing plan
   - Ordinance or resolution
   - Publish notice of adoption
4. Petition the Department for Local Government for approval
   - Required for counties financing >$500,000
   - Advertised public hearing required
5. Preparation of offering documents
   - Preliminary Official Statement
   - Request for Proposal
6. Rating agency conference call, if required
7. Market the debt
8. Sell the debt
9. Execution of closing documents
10. Financial close

Let's Recap

Inflation and higher interest rates have created capital funding headwinds that have moderated in recent months. However, there is no magic bullet. Implementing a long-term planning strategy can help narrow funding gaps and optimize financings regardless of market conditions:

- ***Plan, plan, plan***
  - Develop a long-term capital and financial plan
    - Update annually
  - Develop policies and procedures to guide important financial decisions
  - Complete audits as quickly as possible
- Evaluate financing options based upon goals and objectives
- Execute financings at the lowest achievable cost of capital

Questions?

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