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ROBERT SPRAGUE

OHIO TREASURER

TAX-EXEMPT FINANCING: CURRENT MARKET CONDITIONS AND RECENT REGULATORY IMPACTS

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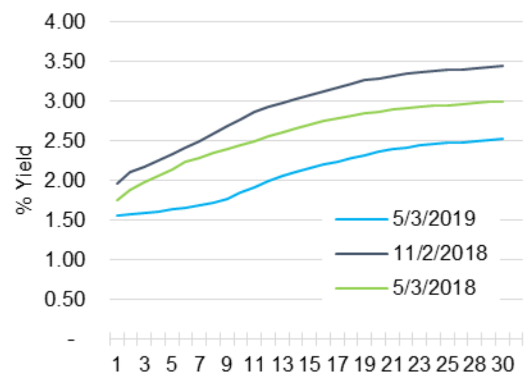
Today's Discussion Topics

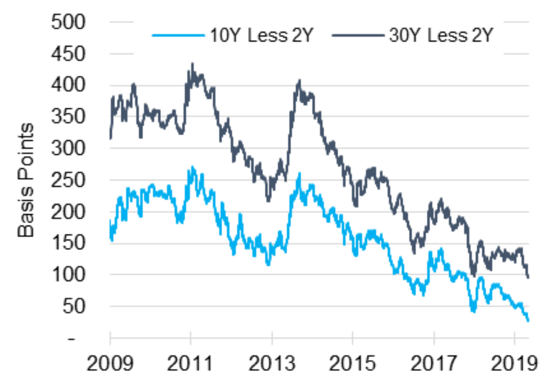
- Current Market Conditions
- Opportunities for Issuers In Current Market
- Current Regulatory Environment For Municipal Bonds
- Compliance and Strategies

Overview of Current Market

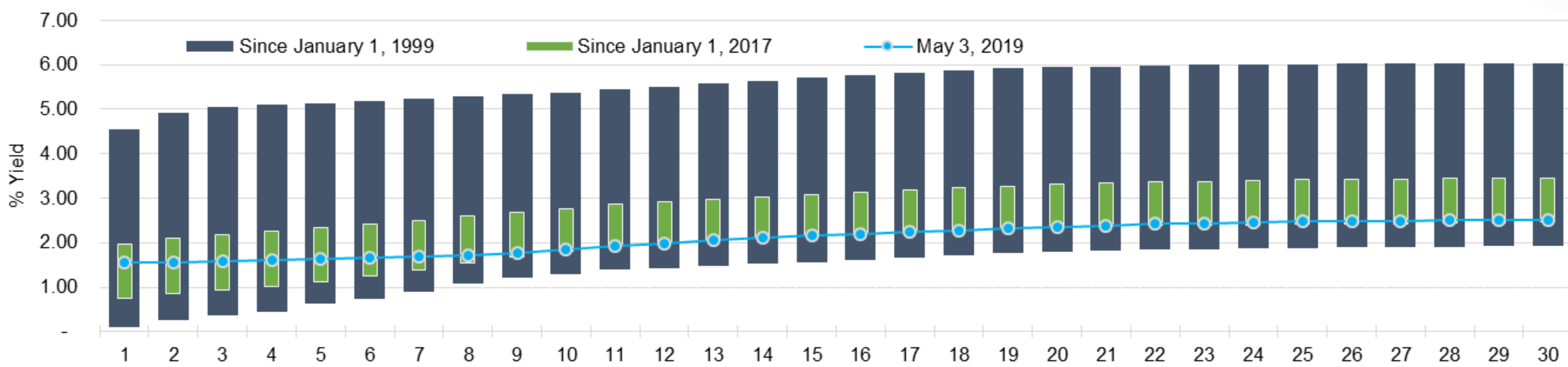
AAA MMD Historical Yield Curve Comparison



AAA MMD Historical Yield Curve Steepness



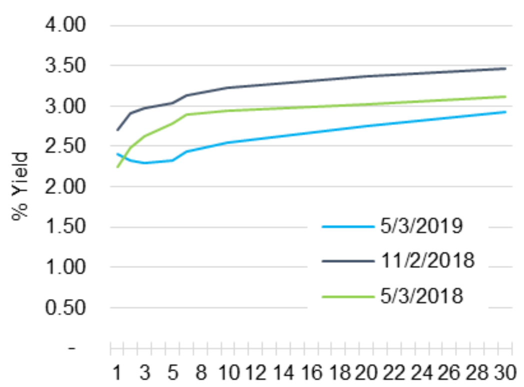
Maximum and Minimum AAA MMD Yields



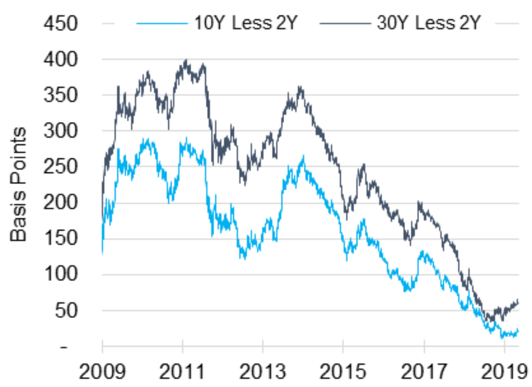
Source: Thomson Reuters Municipal Market Data

Overview of Current Market

UST Historical Yield Curve Comparison



UST Historical Yield Curve Steepness



Maximum and Minimum UST Yields

Source: U.S. Treasury Department

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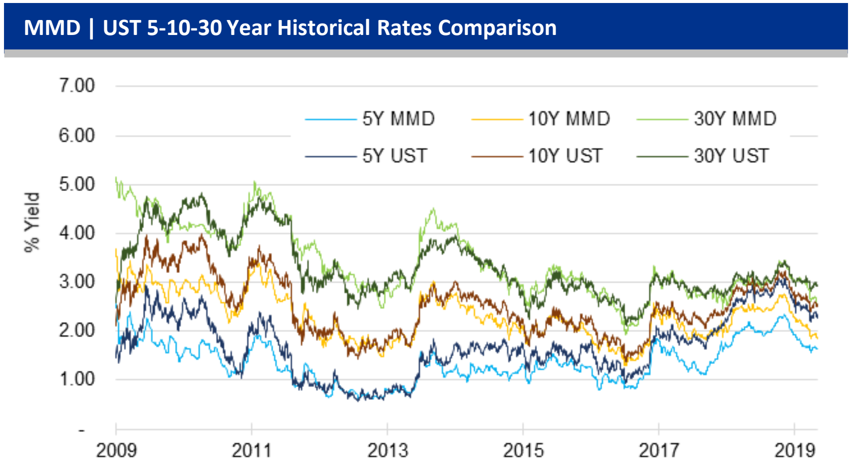
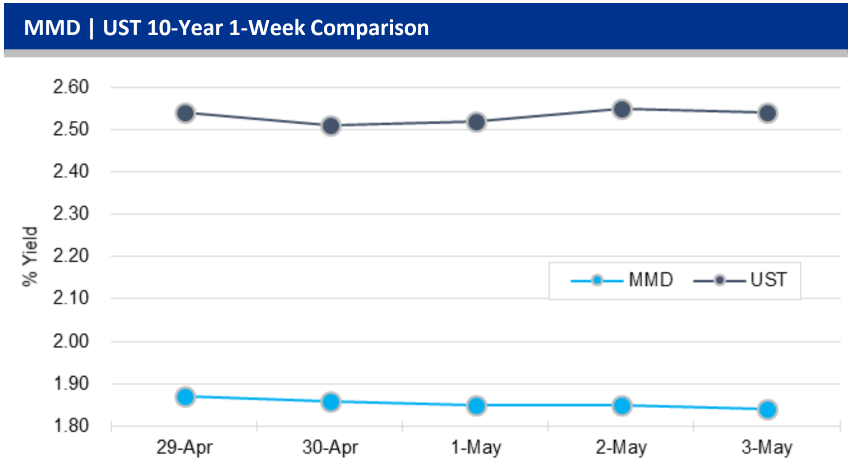
Relationship of Treasuries to MMD





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Source: Thomson Reuters Municipal Market Data and U.S. Treasury Department

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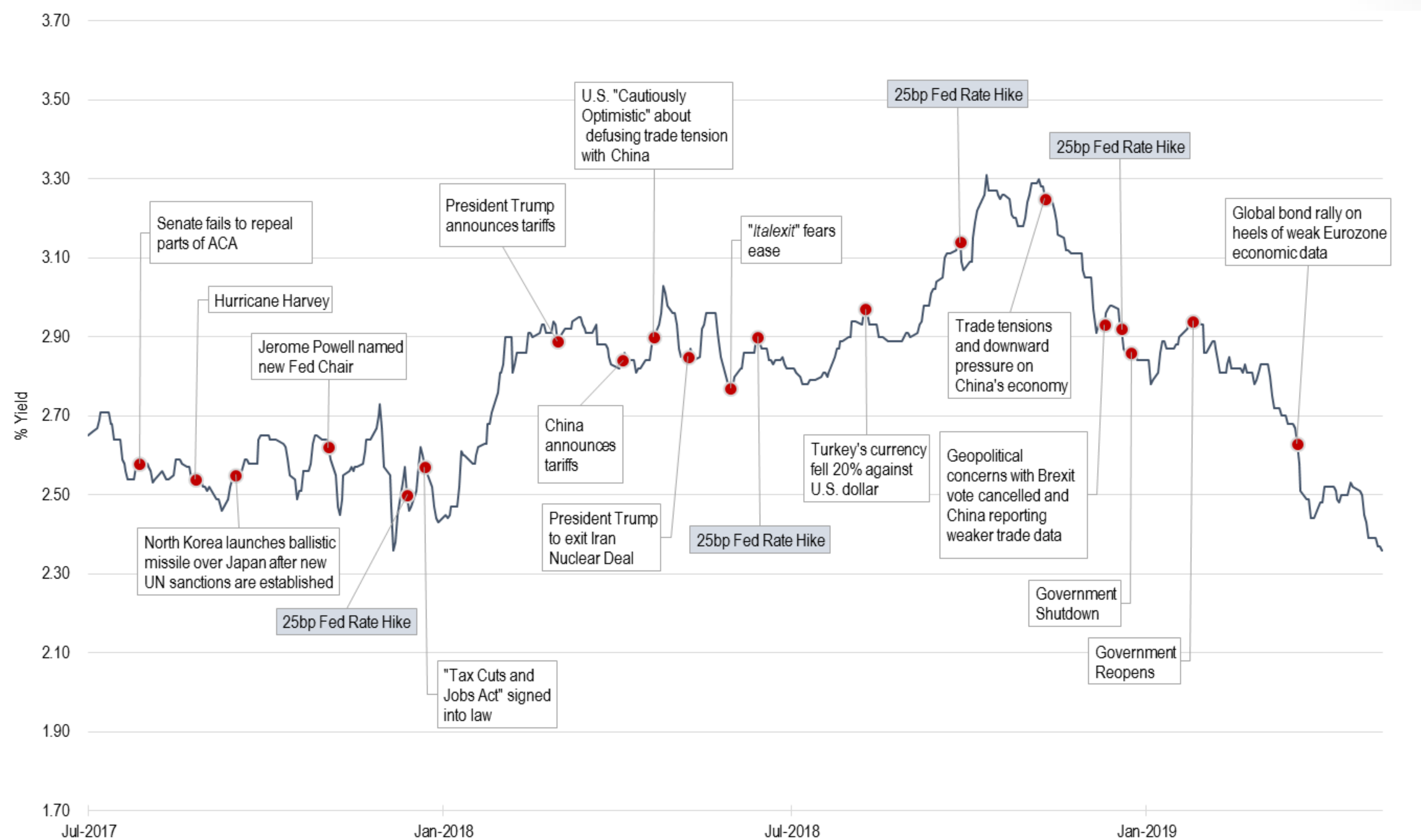
Overview of Current Market

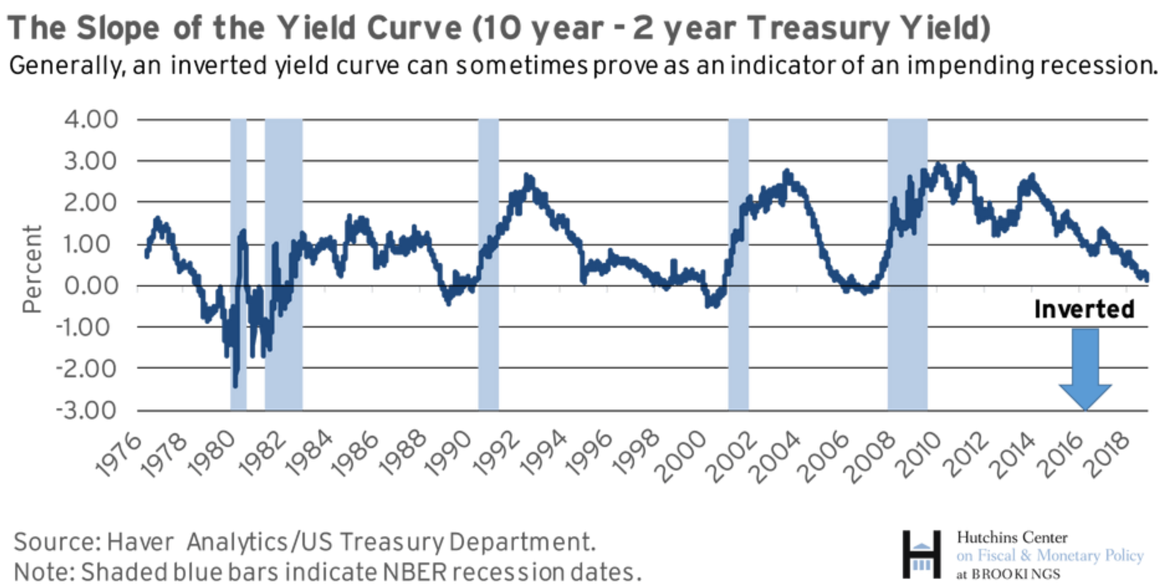
Change in 20-Year MMD with Market Commentary



Source: Thomson Reuters Municipal Market Data and HilltopSecurities

Inverted Yield Curves

- Inverted Yield Curve: Yields on long-term bonds are lower than yields on short-term bonds
- Inverted yield curves are often seen as bad omens. Markets could be anticipating a recession:



- Inverted yield curves often precede recessions. But they are no guarantee that there will be a recession soon, or at all

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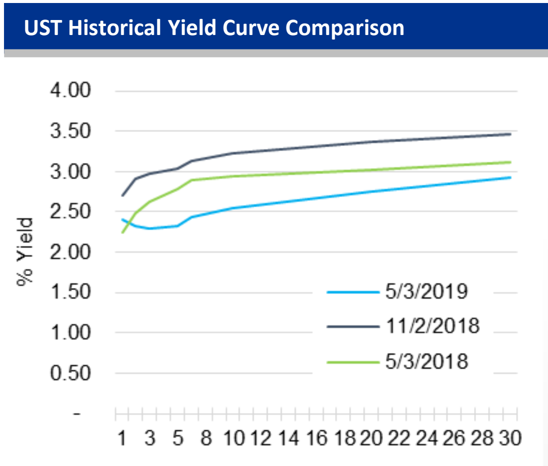
Inverted Yield Curves

Term	1 Mo.	2 Mo.	3 Mo.	6 Mo.	1 Yr.	2 Yr.	3 Yr.	5 Yr.	7 Yr.	10 Yr.	20 Yr.	30 Yr.
Yield	2.42	2.43	2.43	2.45	2.37	2.30	2.26	2.28	2.38	2.49	2.71	2.89

- Short-term treasury yields (maturities from one month to one year) are higher than the yields of Treasury instruments maturing from two to seven years
- The yield of a six month Treasury instrument is higher than the yield of a one-year Treasury instrument



Source: U.S. Treasury Department

Rates as of May 8, 2019

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Opportunities Given Current Market Conditions

- Tax-exempt rates remain near historical lows
- How can issuers take advantage of this? Refinancing?
- Many bonds have optional redemption features: a right to redeem or call all or a portion of an outstanding issue of bonds prior to its stated date of maturity
- Optional redemption features allow issuers to pay off bondholders early (i.e. 'refund' the bonds)
- Example language:
  - The Bonds maturing on December 1, 2020 and thereafter are subject to optional redemption prior to maturity, in whole or in part on any date in any order maturity as determined by the City and by lot within a maturity, at the option of the City on or after December 1, 2019 at par plus accrued interest thereon to the date of redemption

Opportunities - Refundings

- A refunding is an issuance of new bonds at lower interest rates to defease, or retire, outstanding bonds with higher interest rates

- The sole purpose of this refunding is to reduce the issuer's interest costs and save issuers interest on the repayment of prior bonds

- The Government Finance Officers Association recommends a minimum of 3-5% savings for refunding bonds, unless the refunding bonds are being issued for reasons other than economic savings
  - By refunding Build America Bonds, issuers are able to opt out of any potential further cuts to the Bonds' subsidy
    - This reduces legislative risk to the issuer
  - Restructuring debt for reasons other than economic savings
    - Ex: adjusting debt service to match revenues

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Opportunities - Refundings

- The passage of time allows refunding opportunities – created by the Yield Curve
- Seven years after the original issuance, a 20-Year bond interest rate can be replaced with a 10-Year bond interest rate
- Today's market allows issuers to capture:
  1. "Rolling down the Yield Curve"
  2. Considerably lower rates

2007 Market Interest Rates																				
Maturity	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Yield	3.70	3.73	3.77	3.82	3.86	3.90	3.94	3.99	4.04	4.10	4.15	4.18	4.21	4.24	4.26	4.28	4.30	4.32	4.34	4.36

7 Years Later (Same 2007 Interest Rates)												
Maturity	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Yield	3.99	4.04	4.10	4.15	4.18	4.21	4.24	4.26	4.28	4.30	4.32	4.34

7 Years Later (Current Market Interest Rates)												
Maturity	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Yield	0.15	0.30	0.52	0.81	1.13	1.53	1.88	2.16	2.35	2.49	2.62	2.75

Source: Municipal Market Data (MMD)

Opportunities - Refundings

- **Current Refunding**
  - A transaction where the bonds being refunded will all mature or be redeemed within 90 days or less from the date the refunding bonds are issue
  - Current market conditions are favorable to current refundings
    - Tax-exempt rates remain below historical averages and near 20-year lows
    - High short-term taxable rates allow issuers to earn more in their escrow accounts

- **Advance Refunding**
  - A transaction where the bonds being refunded will all mature or be redeemed within a period of more than 90 days from the date the refunding bonds are issued
    - Tax Cuts and Jobs Act passed in late 2017 (the "TCJA"), amended Section 149(d) of the Internal Revenue Code to preclude the issuance of tax-exempt bonds to advance refund outstanding tax-exempt bonds
    - The TCJA does not preclude the issuance of tax-exempt bonds to advance refund non-tax advantaged taxable bonds (like Build America Bonds)
    - The TCJA does not preclude the issuance of taxable bonds to advance refund outstanding tax-exempt bonds

Tax-Exempt Refundings of Taxable Bonds

- An IRS Chief Counsel memorandum released October 26, 2018 states that 'Section 149(d), as amended by § 13532 of the 2017 Act, does not preclude the issuance of tax-exempt bonds to advance refund non-tax-advantaged, taxable bonds'

- Ex: Build America Bonds (BABs)

- Extraordinary Optional Redemption Features
  - Ex: The Series 2010 Bonds will be subject to extraordinary optional redemption prior to their stated maturities until December 1, 2020, at the option of the District, upon the occurrence of an Extraordinary Event from any source of available funds, as a whole or in part, by lot, at the Extraordinary Redemption Price
  - "An Extraordinary Event will have occurred if there is any guidance published by the Internal Revenue Service….pursuant to which the Direct Payment is reduced or eliminated"

- The benefit of issuing bonds at lower, tax-exempt rates can outweigh the loss of the subsidy payment on the outstanding taxable bonds, allowing the issuer to realize debt service savings

- Refunding a BAB issue also reduces some legislative risk; the issuer no longer risks larger interest payments in the event the federal subsidy is eliminated or reduced

Alternatives to Advance Refundings – Taxable Advance Refundings

- Taxable advance refundings
  - 2017 Tax Reform did not prohibit taxable advance refundings
  - Refund outstanding tax-exempt bonds by issuing taxable bonds
  - The tax-exempt bonds being refunded will all mature or be redeemed within a period of more than 90 days from the date the taxable refunding bonds are issued
  - Current market conditions - taxable advance refundings
    - Short-term taxable rates are near ten-year highs
    - Negative arbitrage

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Alternatives to Advance Refundings – Forward Delivery Bonds

- Forward Delivery Bonds
  - Can be issued as a public offering or private placement
  - Price/sign Bond Purchase Agreement and lock in deal now
  - Closing at a later date allows the issue to be a current refunding
  - Investors typically demand a premium to compensate for the interest rate risk they incur from forward rate locks. For example, an investor may require an additional 0.05% for each additional month between the pricing and closing dates

<u>Example</u>:

- Price/sign BPA: April 1, 2019 (holds rates)
- Close: September 5, 2019
- Pay off Prior Bonds: December 1, 2019
  - Closing is within 90 days = Current Refunding
  - Closing occurs five months after pricing (there are four additional months between pricing and closing)
    - (four additional months) * (0.05% premium for each additional month) = 0.20% estimated penalty

Other Alternatives to Advance Refundings

- Shorter par call dates
- Make-whole calls prior to par call
- Synthetic advance refundings
- Taxable sandwich structures
  - Taxable bonds are issued to advance refund an issue
  - These taxable bonds are later refunded by tax-exempt bonds
- "Cinderella" structures,
  - Taxable bonds which convert to tax-exempt bonds on a certain date

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Public Offering or Private Placement?

- **Public Offering**
  - Issuer sells the bonds to an underwriter who resells the bonds to retail investors and institutional investors on established securities markets
- **Private Placement**
  - Issuer borrows money directly from a banking institution or other financial institution

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Public Offering or Private Placement?

- **Public Offering**
  - Issuer sells the bonds to an underwriter who resells the bonds to retail investors and institutional investors on established securities markets
    - Substantial flexibility of final maturity
    - Usually lower interest rates than a direct bank placement/ private placement
    - Higher costs of issuance
    - Long-term obligations
    - Bond insurance and state credit enhancement can provide additional credit support to bring down interest rates
    - Public offerings require Issuers to supply offering disclosure and continuing disclosure
    - Rating agencies provide ratings that affect the desirability of the bonds to investors
    - Limited offering – 35 or fewer sophisticated investors
      - $100,000 denominations

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Public Offering or Private Placement?

- **Private Placement**
  - Issuer borrows money directly from a banking institution or other financial institution
    - May not require a bond rating
    - Low costs of issuance - may have higher interest rates
    - Banks consider public issuers to be low risk ways to invest capital
    - Public issuers generally have high quality assets to pledge
    - Generally, no disclosure document is needed
    - No official statement or offering memorandum is needed because bonds, loan agreements, or leases are held by banks or sold privately to institutional investors
    - Bank financings must still satisfy federal tax laws to ensure interest on bonds, loans, and leases remains tax-exempt
    - Still need legal authority for the transaction
    - Same constitutional and statutory debt limit restrictions apply
    - Make all necessary arbitrage rebate and yield reduction payments
    - Recent Examples
      - School Bus Financing lease purchase vs. general obligation
      - Recent financing - Flexible Call Features
        - Callable anytime? Cost?

Public Offering or Private Placement?

- **Private Placement (continued)**
- Placements can be fast, less complicated and minimize origination expenses due to the following:
    - Committed rate
    - Normally requires no official statement, trustee, or paying agent
- Placements not competing with bonds offered in the public marketplace -booked in the bank's portfolio
- Intent to hold until maturity
- Evaluate by determining all-in cost to the issuer

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Current Regulatory Environment

- Greater Focus by Regulators on Primary and Continuing Disclosure
  - Primary Disclosure
    - Accuracy
    - Adequacy
  - Continuing Disclosure
    - Contents
    - Timeliness

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Current Regulatory Environment

- What is Rule 15c2-12?
  - SEC Rule
  - Designed to address fraud by enhancing disclosure in the municipal securities market
- Currently, SEC Rule 15c2-12 does not require continuing disclosure as a condition to a private placement
  - Under a private placement, there is no need to enter into a Continuing Disclosure Agreement.
  - Transaction documents may require disclosure or lender public information to obtain financial records.

Current Regulatory Environment

- Rule 15(c)2-12 - governs primary offering disclosure and continuing disclosure, including submission of annual financial information and material event notices
  - Primary offering of municipal securities in principal amount of $1 million or more, subject to exceptions
  - Directly governs underwriters and indirectly governs issuers and obligated persons

Official Statement

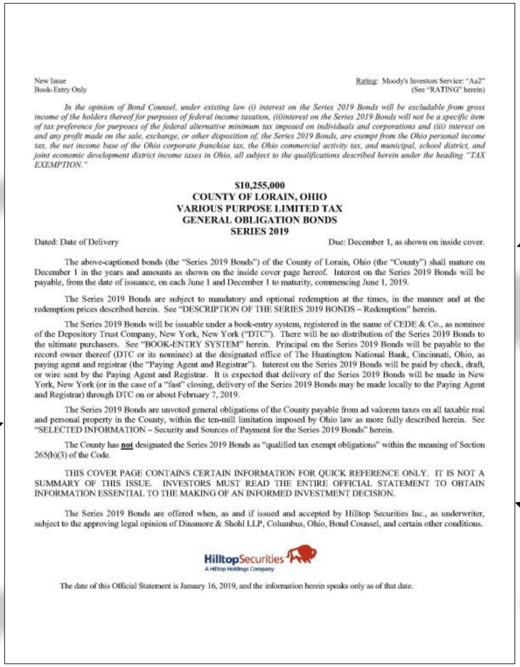
- What is Primary Offering Disclosure?

Issuer

- Issuer overview
- Projections
- Facilities data
- Financial outlook
- Financial Statements

Underwriter/MA

- Structuring information
- Continuing disclosure agreement
- Economic Development



New Issue
Book-Entry Only

Rating: Moody's Investors Service: "Aa2"
(See "RATING" herein)

In the opinion of Bond Counsel, under existing law (i) interest on the Series 2019 Bonds will be excludable from gross income of the holders thereof for purposes of federal income taxation, (ii)interest on the Series 2019 Bonds will not be a specific item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations and (iii) interest on and any profit made on the sale, exchange, or other disposition of, the Series 2019 Bonds, are exempt from the Ohio personal income tax, the net income base of the Ohio corporate franchise tax, the Ohio commercial activity tax, and municipal, school district, and joint economic development district income taxes in Ohio, all subject to the qualifications described herein under the heading "TAX EXEMPTION."

$10,255,000
COUNTY OF LORAIN, OHIO
VARIOUS PURPOSE LIMITED TAX
GENERAL OBLIGATION BONDS
SERIES 2019

Dated: Date of Delivery

Due: December 1, as shown on inside cover.

The above-captioned bonds (the "Series 2019 Bonds") of the County of Lorain, Ohio (the "County") shall mature on December 1 in the years and amounts as shown on the inside cover page hereof. Interest on the Series 2019 Bonds will be payable, from the date of issuance, on each June 1 and December 1 to maturity, commencing June 1, 2019.

The Series 2019 Bonds are subject to mandatory and optional redemption at the times, in the manner and at the redemption prices described herein. See "DESCRIPTION OF THE SERIES 2019 BONDS – Redemption" herein.

The Series 2019 Bonds will be issuable under a book-entry system, registered in the name of CEDE & Co., as nominee of the Depository Trust Company, New York, New York ("DTC"). There will be no distribution of the Series 2019 Bonds to the ultimate purchasers. See "BOOK-ENTRY SYSTEM" herein. Principal on the Series 2019 Bonds will be payable to the record owner thereof (DTC or its nominee) at the designated office of The Huntington National Bank, Cincinnati, Ohio, as paying agent and registrar (the "Paying Agent and Registrar"). Interest on the Series 2019 Bonds will be paid by check, draft, or wire sent by the Paying Agent and Registrar. It is expected that delivery of the Series 2019 Bonds will be made in New York, New York (or in the case of a "fast" closing, delivery of the Series 2019 Bonds may be made locally to the Paying Agent and Registrar) through DTC on or about February 7, 2019.

The Series 2019 Bonds are unvoted general obligations of the County payable from ad valorem taxes on all taxable real and personal property in the County, within the ten-mill limitation imposed by Ohio law as more fully described herein. See "SELECTED INFORMATION – Security and Sources of Payment for the Series 2019 Bonds" herein.

The County has **not** designated the Series 2019 Bonds as "qualified tax exempt obligations" within the meaning of Section 265(b)(3) of the Code.

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.

The Series 2019 Bonds are offered when, as and if issued and accepted by Hilltop Securities Inc., as underwriter, subject to the approving legal opinion of Dinsmore & Shohl LLP, Columbus, Ohio, Bond Counsel, and certain other conditions.

HilltopSecurities
A Hilltop Holdings Company

The date of this Official Statement is January 16, 2019, and the information herein speaks only as of that date.

Bond Counsel

- Demographic info from Census & other sources
- Description of tax base and other sources of revenue
- Debt limitation tables
- Debt tables
- Bond counsel opinion
- Interface with County Auditor
- Actual production of document

County Auditor

- Assessed Valuation data
- Tax tables
- Largest taxpayer list

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Continuing Disclosure

- Required by SEC Rule 15(c)2-12
- Selected financial and operating data from Official Statement must be filed annually while the bonds are outstanding

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Continuing Disclosure Agreements

- Issuer subject to Rule 15(c)2-12 must enter into a continuing disclosure undertaking
  - Continuing Disclosure Agreement
- Continuing Disclosure Agreements
  - Annual filing date
  - Sets forth what needs to be filed:
    - Audited financials*
    - Selected annual financial/operating data from the Official Statement (largest taxpayers, tax collection rates, assessed valuation, etc.)
    - Material Event Notices (rating change, late payment, etc.)

*if audit not available by filing date, is to be filed once it becomes available

Continuing Disclosure – Two New Events for 2019

	Events	Materiality
1	principal and interest payment delinquencies	Without regard to materiality
2	Non-payment related defaults	If material
3	unscheduled draws on debt service reserves reflecting financial difficulties	Without regard to materiality
4	unscheduled draws on credit enhancements reflecting financial difficulties	Without regard to materiality
5	substitution of credit or liquidity providers, or their failure to perform	Without regard to materiality
6	adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the securities, or other material events affecting the tax status of the securities	Without regard to materiality
7	modifications to rights of Holders of the securities	If material
8	bond calls and tender offers	If material
9	defeasances	Without regard to materiality

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Continuing Disclosure – Two New Events for 2019

	Events	Materiality
10	release, substitution, or sale of property securing repayment of the securities	If material
11	rating changes	Without regard to materiality
12	bankruptcy, insolvency, receivership or similar event of the obligated person	Without regard to materiality
13	the consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the Obligated Person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material	If material
14	appointment of a successor or additional trustee or the change of name of a trustee, if material	If material
15	incurrence of a financial obligation of the Obligated Person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the Obligated Person, any of which affects security holders, if material	If material
16	default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the Obligated Person, any of which reflect financial difficulties	Without regard to materiality

Compliance Strategies

- Compliance Strategies
  - Post-Issuance Compliance Policy
  - Dissemination Agent
  - EMMA e-mail reminders

MyCPIM Password

Disclosure

Disclosure: Hilltop Securities Inc. ("HilltopSecurities") is providing the information contained in this document for discussion purposes only in anticipation of serving as underwriter to the Issuer. As an underwriter, HilltopSecurities' primary role is to purchase securities for resale to investors in an arm's length transaction between the Issuer and HilltopSecurities. HilltopSecurities' financial and other interests will differ from those of the Issuer, and therefore, HilltopSecurities will not serve as a municipal advisor, financial advisor, or fiduciary to the Issuer or any other person or entity on such transaction, regardless of whether HilltopSecurities or its representatives or affiliates have advised or are advising any such parties on other matters. The information provided herein is not intended to be and should not be construed as "advice" within the meaning of Section 15B of the Securities and Exchange Act of 1934. The Issuer should consult with its own financial, municipal, legal, accounting, tax and/or other advisors, as applicable, to the extent it deems appropriate. If the Issuer would like a municipal advisor that has legal fiduciary duties to the Issuer, the Issuer should consider engaging a municipal advisor to serve in that capacity. HilltopSecurities will not have any duties or liability to any person or entity in connection with the information being provided herein. The information provided in this document is indicative only and constitutes our judgment as of this date based on current market conditions and other information available to us.

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