Memo

To: HSV Board of Directors
From: Mike Medica, Vice President
Lesley Nalley, CFO
Date: December 16, 2015
Re: Motion – Intent to Pursue Bond Refunding and Additional Improvement Funds

MOTION

I move to begin the process of refunding HSV’s current bond debt of $1.535mil and securing $1.8mil in additional improvement funds, as presented in the December 1st Special Board Meeting, and to express the Board’s intent and understanding of the following:

1. The CFO is authorized to engage Paul Phillips of Crews & Associates for financing services and the Friday Law Firm for related legal services;
2. The information presented on December 1st was considered preliminary and based on market rates as of that date;
3. Final repayment models will be updated to reflect current market rates, with the goal of minimizing interest and fees, while also conserving monthly cash outlay;
4. Crews & Associates will pursue private offerings, as a means to control costs, but may also recommend a public offering as dictated by prevailing market rates and HSV’s credit rating;
5. The additional 2017 & 2018 projected improvement funds will be discussed with potential investors but will not be part of the 2016 construction fund deposit; and
6. The Board retains authority to approve the final refunding and improvement model, once completed by Crews & Associates.

BACKGROUND

Given low bond rates and HSV’s need to complete significant sewer system maintenance, the 2016 budget was adopted with $1.8mil of additional bond financing. Furthermore, water rates were increased to cover this additional debt.

At the December 1st Special Board meeting, which was open to the public and attended by the Voice, Paul Phillips, who is Senior Managing Director of Capital Markets for Crews & Associates presented his recommended refunding and improvement bond model. Excerpts from that presentation and the current Debt Service Schedule are attached.
Hot Springs Village Property Owners’ Association

Preliminary Financing Analysis

For Discussion Purposes Only

December 1, 2015
CREWS SNAPSHOT

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to more than $100 million

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Capital Markets Group

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Investor Clients in all 50 States

Paul Phillips
Senior Managing Director
Capital Markets Group
(501) 978-6309
pphillips@crewsfs.com

Sample Arkansas Utility Financings

$25,000,000
City of Conway, Arkansas
Electric Revenue Improvement Bonds
Senior Manager

$5,345,000
City of Camden, Arkansas
Water and Sewer Revenue Bonds
Senior Manager

$160,070,000
City of Little Rock, Arkansas
Sewer Revenue Refunding Bonds
Senior Manager

$9,780,000
City of Mountain Home, Arkansas
Water and Sewer Revenue Improvement Bonds
Senior Manager

$9,745,000
City of Hope, Arkansas
Sewer Revenue Capital Improvement and Refunding Bonds
Senior Manager

$2,540,000
City of White Hall, Arkansas
Public Utility Revenue Refunding Bonds
Senior Manager

More than 4,500 transactions totaling over $53 billion nationwide in the last 10 years.

Our firm provides exceptional financing and underwriting services.

We stand ready to work for you.

Crews & Associates
Investment Bankers
**Interest Rate Trends:** The Bond Buyer's Index of 20 General Obligation Bonds is a weekly gauge of the tax-exempt general obligation bond market using selected general obligation bond issues with a rating equivalent to Moody's "Aa2" and Standard and Poor's "AA" based on a 20 year maturity.
Hot Springs Village Property Owners’ Association

Current Situation

$1,535,000 of bonds outstanding (see summary below)

$1,800,000 needed for sewer improvements in 2016

$1,000,000 needed for sewer improvements in 2017

$1,000,000 needed for sewer improvements in 2018

Objective

Issue additional indebtedness to fund the proposed sewer improvements and/or refinance the Series 2009A Bonds.

Garland County, Arkansas, Waterworks and Sewer Facilities Board
(Hot Springs Village Property Owners’ Association)
Revenue Refunding Bonds
Series 2009A

Background Information – Series 2009A Bonds

The Series 2009A Bonds were issued in the original principal amount of $3,085,000 for the purpose of refunding the Series 2004 Bonds, establishing a debt service reserve fund and paying the costs of issuance. The Series 2004 Bonds were used to construct and equip improvements to the sewer system. The Series 2009A Bonds are secured by the revenues derived from the annual assessments. A summary of the Series 2009A Bonds is listed below:

| Original Principal Amount: | $3,085,000 |
| Issue Date: | September 1, 2009 |
| Interest Payment Dates: | April 1 and October 1 |
| Principal Payment Dates: | October 1 |
| Final Maturity: | October 1, 2020 |
| Optional Redemption Date: | October 1, 2014 (in whole or in part on any date) |
| Debt Service Reserve Fund: | $153,500 |
| Credit Rating at Issuance Date: | Not rated |
| Current Principal Balance: | $1,535,000 |
| Remaining Annual Debt Service: | Level—About $346,000 per year |
| Additional Bonds Test: | Pledged Revenues of at least 200% of Maximum Annual Debt Service – Accountant Certification |

Trustee: Bank of New York Mellon
$1,535,000
Garland County, Arkansas
Waterworks and Sewer Facilities Board (Hot Springs Village POA)
Revenue Refunding Bonds - Series 2009A

**Existing Debt Service Schedule**

<table>
<thead>
<tr>
<th>Date</th>
<th>Principal</th>
<th>Coupon</th>
<th>Interest</th>
<th>Total P+I</th>
</tr>
</thead>
<tbody>
<tr>
<td>10/01/2016</td>
<td>285,000.00</td>
<td>3.450%</td>
<td>60,907.50</td>
<td>345,907.50</td>
</tr>
<tr>
<td>10/01/2017</td>
<td>295,000.00</td>
<td>3.750%</td>
<td>51,075.00</td>
<td>346,075.00</td>
</tr>
<tr>
<td>10/01/2018</td>
<td>305,000.00</td>
<td>3.950%</td>
<td>40,012.50</td>
<td>345,012.50</td>
</tr>
<tr>
<td>10/01/2019</td>
<td>320,000.00</td>
<td>4.150%</td>
<td>27,965.00</td>
<td>347,965.00</td>
</tr>
<tr>
<td>10/01/2020</td>
<td>330,000.00</td>
<td>4.450%</td>
<td>14,685.00</td>
<td>344,685.00</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$1,535,000.00</strong></td>
<td>-</td>
<td><strong>$194,645.00</strong></td>
<td><strong>$1,729,645.00</strong></td>
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</tbody>
</table>
Preliminary

$3,405,000
Hot Springs Village Property Owners' Association
Revenue Refunding and Improvement Bonds - Series 2016

Sources & Uses

Dated 04/02/2016 | Delivered 04/02/2016

Sources Of Funds

<table>
<thead>
<tr>
<th>Source</th>
<th>Amount</th>
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</thead>
<tbody>
<tr>
<td>Par Amount of Bonds</td>
<td>$3,405,000.00</td>
</tr>
<tr>
<td>Transfers from Prior Issue DSR Funds</td>
<td>153,500.00</td>
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<tr>
<td>Transfers from Prior Issue Debt Service Funds</td>
<td>142,500.00</td>
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<tr>
<td>Reoffering Premium</td>
<td>46,265.80</td>
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<tr>
<td>Additional Required Equity Contribution</td>
<td>8,537.18</td>
</tr>
<tr>
<td><strong>Total Sources</strong></td>
<td><strong>$3,755,802.98</strong></td>
</tr>
</tbody>
</table>

Uses Of Funds

<table>
<thead>
<tr>
<th>Use</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deposit to Project Construction Fund</td>
<td>1,800,000.00</td>
</tr>
<tr>
<td>Deposit to Current Refunding Fund</td>
<td>1,535,169.19</td>
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<tr>
<td>Deposit to Debt Service Reserve Fund (DSRF)</td>
<td>340,500.00</td>
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<tr>
<td>Costs of Issuance</td>
<td>77,562.50</td>
</tr>
<tr>
<td>Rounding Amount</td>
<td>2,571.29</td>
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<tr>
<td><strong>Total Uses</strong></td>
<td><strong>$3,755,802.98</strong></td>
</tr>
</tbody>
</table>
Preliminary

$3,405,000

Hot Springs Village Property Owners' Association
Revenue Refunding and Improvement Bonds - Series 2016

**Debt Service Schedule**

<table>
<thead>
<tr>
<th>Date</th>
<th>Principal</th>
<th>Coupon</th>
<th>Interest</th>
<th>Total P+I</th>
</tr>
</thead>
<tbody>
<tr>
<td>10/01/2016</td>
<td>120,000.00</td>
<td>2.000%</td>
<td>46,191.95</td>
<td>166,191.95</td>
</tr>
<tr>
<td>10/01/2017</td>
<td>260,000.00</td>
<td>2.000%</td>
<td>90,500.00</td>
<td>350,500.00</td>
</tr>
<tr>
<td>10/01/2018</td>
<td>270,000.00</td>
<td>2.000%</td>
<td>85,300.00</td>
<td>355,300.00</td>
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<td>10/01/2019</td>
<td>275,000.00</td>
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<td>79,900.00</td>
<td>354,900.00</td>
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<td>74,400.00</td>
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<tr>
<td>10/01/2021</td>
<td>285,000.00</td>
<td>3.000%</td>
<td>66,000.00</td>
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<td>10/01/2022</td>
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<td>57,450.00</td>
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<td>48,600.00</td>
<td>353,600.00</td>
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<td>10/01/2024</td>
<td>315,000.00</td>
<td>3.000%</td>
<td>39,450.00</td>
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<td>10/01/2025</td>
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<td>30,000.00</td>
<td>355,000.00</td>
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<td>10/01/2026</td>
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<td>20,250.00</td>
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<td>10/01/2027</td>
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<td>10,200.00</td>
<td>350,200.00</td>
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<td><strong>Total</strong></td>
<td><strong>$3,405,000.00</strong></td>
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<td><strong>$648,241.95</strong></td>
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<td>Date</td>
<td>Bond Dollars</td>
<td>Yield</td>
<td>Interest</td>
<td>Total</td>
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<td>------------</td>
<td>--------------</td>
<td>-------</td>
<td>----------</td>
<td>-------------</td>
</tr>
<tr>
<td>10/01/2013</td>
<td>260,000.00</td>
<td>3.00%</td>
<td>85,497.50</td>
<td>345,497.50</td>
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<tr>
<td>10/01/2014</td>
<td>270,000.00</td>
<td>2.90%</td>
<td>77,697.50</td>
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<td>10/01/2015</td>
<td>280,000.00</td>
<td>3.20%</td>
<td>69,867.50</td>
<td>349,867.50</td>
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<tr>
<td>10/01/2016</td>
<td>285,000.00</td>
<td>3.45%</td>
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<td>14,685.00</td>
<td>344,685.00</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>$3,085,000.00</strong></td>
<td></td>
<td><strong>$730,420.63</strong></td>
<td><strong>$3,815,420.63</strong></td>
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</tbody>
</table>

**Yield Statistics**

- **Bond Year Dollars**: $19,757.08
- **Average Life**: 6.404 Years
- **Average Coupon**: 3.6970064%
- **Net Interest Cost (NIC)**: 3.8778377%
- **True Interest Cost (TIC)**: 3.6784341%
- **Bond Yield for Arbitrage Purposes**: 4.7115828%
- **All Inclusive Cost (AIC)**: 3.9445072%

**IRS Form 8038**

- **Net Interest Cost**: 3.7087635%
- **Weighted Average Maturity**: 6.387 Years

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**Stephens Inc.**

Public Finance