

Kentucky Tornado Update: Recovering from the Devastation



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The tornadoes that hit Kentucky (as well as five other states) in December produced devastating damage across numerous counties and towns throughout the State, and were considered among the worst storms ever to affect the region. The hardest hit counties were Graves, Muhlenberg, Marshall, Hopkins, Caldwell, and Warren. Of particular note, the towns of Mayfield (population of approximately 9,900) and Dawson Springs (approximately 2,500) were largely decimated.

Local Assistance

The Kentucky Legislature has approved \$200 million in support of these Western Kentucky counties. Of this support, \$30 million of the funds have been earmarked for schools and educational purposes, while \$15 million will be used for temporary housing, as communities try to rebuild. One of the first lines of defense after the tornadoes swept through the area were public schools, which were set up as temporary housing and field kitchens. When residents were asked what the most requested item was in the aftermath of the storms, the overwhelming responses was a hot meal. Food trucks from as far away as Michigan responded to the crisis, handing out meals to assist local residents.

To date, Federal Emergency Management Agency (FEMA) has approved \$49 million in loans—\$36 million of which are Small Business Association (SBA) loans, along with \$9 million in housing assistance. This includes trailers for temporary housing, as local communities seek to rebuild. As of this writing, additional FEMA loans can still be applied for, as needed.

Many pastors have been tasked by donors to hand out checks to those in need. The donors are mostly unknown, and the checks have filled the insurance gap for many residents who had lost their homes.

According to the Army Corps of Engineers, the amount of rubble it is tasked with removing is expected to eclipse

160,000 dump truck loads. The debris removal has been constant since December 11, and the Corps predicts the work may not be completed until June.

The Impact on Schools

Since many schools suffered damage, or have served as shelters for many of the people affected, students have been bused to other counties on a daily basis to attend school. This drop of students in their location of residence, which affects funding for those schools, is being further taken up in the Kentucky Legislature. The affected schools are expected to share in part of the aforementioned \$30 million in emergency funding.

In addition to emergency funding being provided to schools and school districts, it is important to note that all Kentucky School Bonds are backed by two Kentucky guarantee programs: 1) the State's intercept program for lease-supported debt service payments, which guarantees the timely payment of principal and interest; and 2) the Support Education Excellence in Kentucky (SEEK) funding program, a formula-driven allocation of State-provided funds to local school districts.

Additional Assistance

Since many communities in Kentucky are mostly small agricultural areas, the United States Department of Agriculture (USDA) has made low interest loans available to farmers who lost livestock and/or crops as a result of the tornadoes. These loans can also be used to rebuild damaged property, such as barns and other structures. The deadline for applications for USDA loans is slated for August.

To date, over 13,000 Kentuckians have applied for some form of assistance. In Graves County alone, approximately 1,300 homes suffered extensive damage. Weather analysts said the storms were unusual in that they remained on the ground for roughly 165 miles and cut a swath in the landscape about a mile wide. Tragically, more than 80 people perished, making it the deadliest storm in recorded history in the Commonwealth of Kentucky.

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Looking Forward

How long it takes communities to rebuild, and what else may be required in terms of aid and assistance, are unknowns for local governments. It will likely take several more weeks, if not months, before additional details emerge regarding the extent of the damages and what may be needed to recover.

The locally-based portfolio management team of Aquila Churchill Tax-Free Fund of Kentucky will continue to monitor effects on the local municipal bond market and economy. The team does not believe that any of the bonds held in the Fund's portfolio were directly impacted by these devastating storms. Aquila's actively managed approach enables the Fund to swiftly react as needed and seek to identify investment opportunities as they arise.

To help survivors in Kentucky, donations may be made to the Team Western Kentucky Tornado Relief Fund at <http://TeamWKYReliefFund.ky.gov>.

Mutual fund investing involves risk; loss of principal is possible. Investments in bonds may decline in value due to rising interest rates, a real or perceived decline in credit quality of the issuer, borrower, counterparty, or collateral, adverse tax or legislative changes, court decisions, market or economic conditions. Single-state fund performance could be more volatile than that of funds with greater geographic diversification.

The Fund seeks to provide as high a level of income exempt from state and federal income tax as is consistent with capital preservation. For certain investors, some dividends may be subject to federal and state taxes, including the Alternative Minimum Tax. Consult a tax professional.

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Before investing in the Fund, carefully read about and consider the investment objectives, risks, charges, expenses, and other information found in the Fund prospectus. The prospectus is available from your financial advisor, when you visit www.aquilafunds.com or call 800-437-1020.