Considerations and Strategies for Your Next Bond Proposal

Upper Peninsula School Business Officials

October 8, 2021

Presented By

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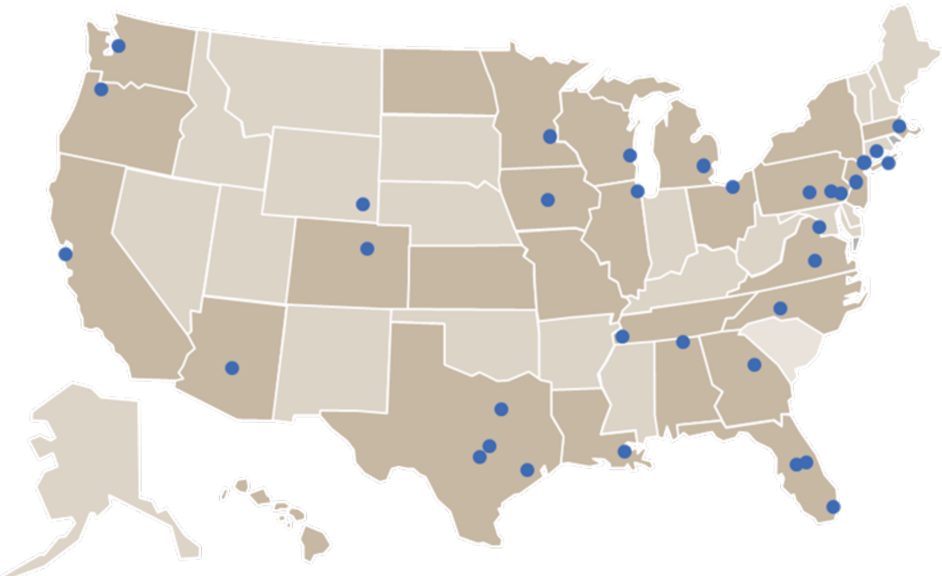
PFM--Who We Are

- **PFM's[1] original practice founded in 1975**
  - on the principle of providing sound, **independent** financial advice to governmental and not-for-profit entities
- **Largest financial advisory firm in the nation**
  - 36 professional locations[2]
  - More than 600 employees
- **Nations leading financial advisory firm**
  - Ranked #1 Financial Advisor in the country for 23 consecutive years[3].
  - In 2020 alone, we advised our clients on 995 issues totaling over $69.733 billion[4].
- **PFM's size provides several unique advantages**
  - Wide array of technical resources
  - Breadth of staff knowledge and "deep bench"
  - Large and frequent market presence and participation
- **Client-centric philosophy**
  - Project managers with local expertise
  - Supported by experts in specialized aspects of financial management
  - Solutions tailored to our clients' unique situations and needs



2020 Full Year Overall Long Term Municipal New Issues

Municipal Financial Advisory Ranking - Equal to Each Financial Advisor

Source: Refinitiv

	# issues	$ in millions
PFM	**995**	**69,733**
Public Resources Advisory Group	159	43,381
Hilltop Securities	712	31,124
Acacia Financial Group Inc	150	17,348
Estrada Hinojosa & Company Inc	125	11,270
Frasca & Associates	46	11,212
KNN Public Finance	82	10,151
Piper Sandler & Co	256	8,187
Davenport & Company LLC	126	6,895
Montague DeRose & Associates LLC	47	6,841

1 Please refer to the last page for Disclosures
2 As of June 30, 2021
3Source: Ipreo
4 Source: Refinitiv, formerly Thomson Reuters, based on par amount and number of transactions as of 12/31/2020

Capital Project Funding Alternatives

- The following are the main finance options for Michigan k-12 schools

1. **General Fund / Capital Project Funds**
   - Projects financed with General Fund or Capital Projects fund balances
2. **Non-Voted Limited Tax General Obligation Debt**
   - Paid from the school operating funds, or sinking fund revenue, if allowed/authorized.
   - Limited tax debt may only be issued if the total of all outstanding debt does not exceed 5% of State Equalized Value (SEV)
   - Energy conservation is exempt from limitation
3. **Installment Purchase Contracts**
   - Limited to 1.25% of the District's taxable value – typically paid from General Funds
4. **Sinking Funds**
5. **Voted Unlimited Tax General Obligation Debt**

Bonds vs. Sinking Funds

- The table below shows common capital projects financed through bonds or sinking fund levy revenue.

Description	Bonds?	Sinking Fund?
Purchase of or development of real estate for school buildings?	✓	✓
Construction of school buildings or additions?	✓	✓
Remodeling of school buildings?	✓	✓
Renovations of school buildings and athletic facilities?	✓	✓
Repair / Maintenance of school buildings?	🚫	✓
Technology equipment school security improvements?	✓	✓*
School buses, loose furnishings, equipment?	✓	🚫
Playground development and improvement?	✓	✓
Energy Conservation Improvements and asbestos abatement?	✓	✓

*Only initial purchase of instructional technology equipment is a permitted use for sinking fund millages approved by voters after November 2016. School security improvements does not include personnel costs or operation costs.

Voted School Bond Issues

Voter Approval Required

Voters must authorize the School District to issue a not-to-exceed dollar amount of bonds to pay for improvements identified in the ballot proposal.

Unlimited Debt Millage

The School District levies the number of mills on taxable property necessary to pay the annual principal and interest payments. Debt service is paid by the debt levy, not the General Fund.

Items Required on Ballot

- **Maximum amount** of bonds
- Bond purpose
- **First year's estimated millage** rate for new bonds
- Simple **average annual millage** rate for new bonds
- Maximum **term** of the bonds
- Additional requirements for SLRF qualified bonds
  - Estimated amount to be borrowed from SLRF
  - Estimated interest cost of SLRF loan
  - Estimated term of the loan

Voted School Bonds – State Qualification

Program Overview

- State guarantee for payment of debt service
- Allows use of State's ratings
  - Currently **AA** by S&P, **Aa1** by Moody's and **AA** by Fitch
- Maximum Taxable Value growth rates used to project loan repayment and millage;
  - 5 year historical average Taxable Value growth rate for first five years
  - 20 year average growth rate thereafter, but not less than 0% or more than 3%.

Borrowing From and Repaying the School Loan Revolving Fund ("SLRF") Program

- Districts must levy between 7 and 13 mills of SLRF qualified debt millage
- Interest rate on the loans is 0.125% higher than the State's cost of funds
  - The current rate charged is **3.00%***
  - The highest rate charged in past 15 years was **6.125%**
- A District must repay any loans from the SLRF by the Mandatory Loan Repayment Date (MLRD), which is 72 months after the final maturity on the bonds.

Timing

- State qualification process will add at least 5 weeks to the election process

District pays State Qualification Fees at closing

- Fee is based on the size of the bond issue with a $5,000 minimum

*Legislation is pending (Senate Bill 618) that would eliminate the minimum interest rate charged by the SLRF, and if passed, is expected to reduce the interest rate charged.

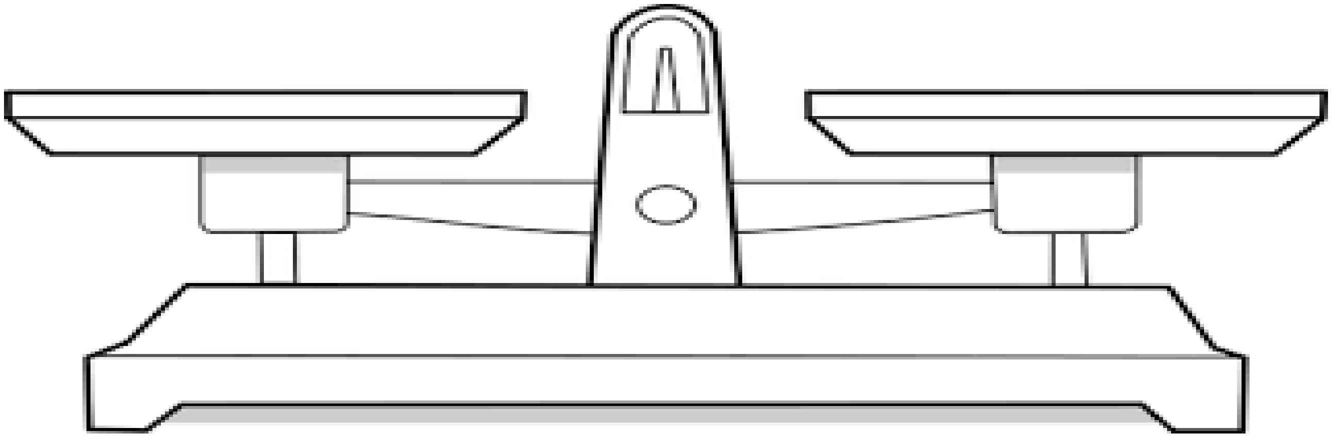
Voted Qualified or Non-Qualified Bonds?

State-Qualified Bonds

- State ratings / guarantee
- Potentially lower borrowing cost
- Potentially lower millage rate
- Future flexibility on debt millage / capital finance – ability to borrow from State after levying 7.00 mills of “qualified” debt millage.

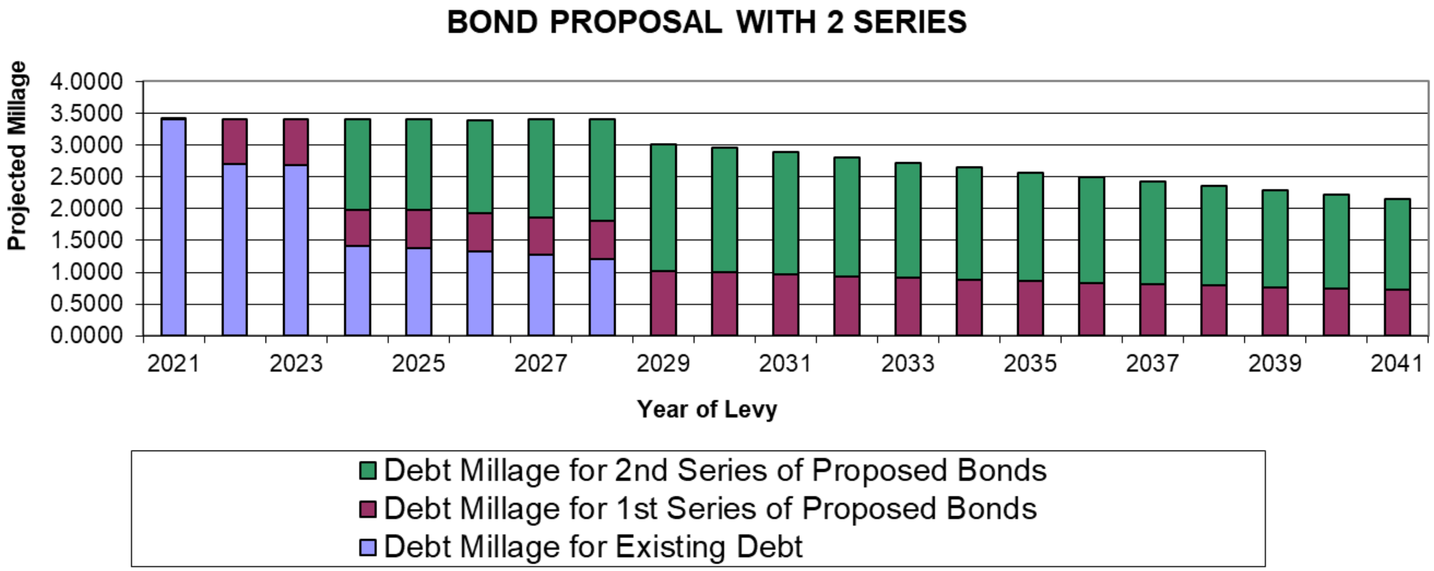
Non-State-Qualified Bonds

- No State oversight
- Less time-consuming process
- Potentially higher borrowing cost
- Potentially higher projected millage rate, depending on historical taxable value growth rates



Voted Bonds Issued in Series

- **Why have bonds issued in more than one (1) series?**
  - **Compliance** with federal spending requirements
    - The School District must have a reasonable expectation at the time of issuing the bonds to spend at least 85% of bond proceeds within 3 years, and 100% within 4 years.
  - **Lower millage impact**, depending on existing debt structure
  - **Increase bond capacity** / amount at desired millage rate, depending on existing debt structure
  - **Reduce** the need or **amount of capitalized interest** in certain circumstances
  - **Financing shorter live assets** such as technology, buses, etc.



NOTE: Chart above is for illustrative purposes only.

Considerations for Voted Bonds Issued in Series

- **Ballot language** -- not-to-exceed amount to be issued in one or more series.

- **Timing and amount --** of each series is estimated at time of election but may change from the original plan based on actual needs and timing but must be within the original voted not to exceed amount.

- The **actual projects funded** by each series could change from original plan as long as they are still within the project description in ballot and included in scope of the Preliminary Qualification application (for State Qualified bonds).

  - These changes from original plan could be based on future needs or millage objective or limitation.

- Bond amounts less than $1 million have lower issuance costs since no official statement or rating are required.

Considerations When Voting Bonds

- **Needs of the school district**

- **Cost of projects**

- **Cost to taxpayers**
    - Can you do it without a millage increase?
    - What are taxpayers willing and able to pay?

- **Timing**
    - Anticipated drop in millage due to:
        - Declining existing bond payments
        - Increased taxable values
        - Build-up of fund balance in existing debt funds
        - Savings achieved from refunding of existing debt
    - Can the bonds be sold in series to reduce the millage impact?
    - Capitalizing initial interest payments (having bond payments paid from bond proceeds)
    - Preferred election timing
    - Lead time to adequately prepare for successful election
        - At least 5 Months to 1 year before election, depending on project and state qualification
        - Project scope determined no later than a week before the ballot is prepared.

Considerations for Timing

- There are several timing considerations when considering funding of capital projects.
  - How long will it take to prioritize the needs and decide which projects to finance?
  - Can the projects be funded over time, and if so, what will the impact be on the overall cost be?
  - Does the sinking fund millage, if applicable, expire over the time period needed to fund projects?
  - Does the district have an upcoming decline in the existing debt millage or sinking fund millage?
  - Can the decline in existing millage offset the millage needs for funding new capital projects?
  - When issuing/structure debt, always consider the future needs of the district.
  - Does the district have ample time to adequately educate voters?
  - If bonding, does the District have ample time for the State qualification process?

Election Dates	State Qualified Preliminary Qualification Meeting	Filing Deadline
May 3, 2022	Dec. 2021	Feb. 8, 2022
Aug. 2, 2022	March 2022	May 10, 2022
Nov. 8, 2022	June 2022	Aug. 16, 2022

Election Statistics for Michigan School Bond Proposals

- As might be expected, school bond elections with a no millage increase have a higher passage rate than propositions with a millage increase.
- Presidential and Gubernatorial election dates could also impact voter turnout, and election results.

Elections		School Bond Proposals	Passage Rate	With Millage Increase	Passage Rate	Without Millage Increase	Passage Rate
Nov-12	**	13	31%	9	11%	4	75%
Feb-13		13	69%	9	56%	4	100%
May-13		31	74%	21	62%	10	100%
Aug-13		6	33%	4	0%	2	100%
Sep-13		1	100%	1	100%	0	n/a
Nov-13		25	64%	17	53%	8	88%
Feb-14		9	56%	6	33%	3	100%
May-14		37	84%	26	77%	11	100%
Aug-14		7	71%	5	80%	2	50%
Nov-14	***	13	62%	12	58%	1	100%
Feb-15		17	65%	14	57%	3	100%
May-15		30	57%	17	35%	13	85%
Aug-15		9	56%	5	40%	4	75%
Nov-15		31	74%	22	64%	9	100%
Mar-16	*	4	75%	4	75%	0	n/a
May-16		40	83%	31	77%	9	100%
Aug-16		13	62%	9	56%	4	75%
Nov-16	**	9	78%	6	83%	3	67%
May-17		29	55%	19	32%	10	100%
Aug-17		8	50%	4	25%	4	75%
Nov-17		35	74%	17	71%	18	78%
May-18		35	63%	30	60%	5	80%
Aug-18		11	82%	4	75%	7	86%
Nov-18	***	24	75%	14	57%	10	100%
May-19		37	68%	24	50%	13	100%
Aug-19		5	80%	3	67%	2	100%
Nov-19		34	68%	18	44%	16	94%
Mar-20	*	17	82%	10	70%	7	100%
May-20		23	91%	9	78%	14	100%
Aug-20		31	65%	18	39%	13	100%
Nov-20	**	11	100%	9	100%	2	100%
Mar-21		2	0%	2	0%	0	n/a
May-21		32	81%	11	55%	21	95%
Aug-21		14	71%	5	60%	9	78%
Totals		**656**	**460 passed**	**415**	**238 passed**	**241**	**222 passed**
			72%		58%		96%

*Presidential Primary **Presidential Election ***Gubernatorial Election
Source: PFM Ann Arbor (734) 994-9700

Sample Tools to Assist in Educating Public

- Educating your public on what the bond issue will cost them, and how it compares to other schools in your area can be helpful tools in passing a bond issue.

Tahquamenon Area Schools

HOMESTEAD PROPERTY TAX CREDIT MODEL

1	Please Input Your Annual Household Income.	$40,000.00
2	Please Input Your Taxable Value (Approximately 50% Home Value).	$60,000.00
3	If you are age 65 or older, unremarried spouse of a person who was 65 or older at the time of death select "Senior". If you are deaf, hemiplegic, paraplegic, quadriplegic, or totally and permanently disabled, select "Disabled". All others select "General"	○ General ◉ Senior ○ Disabled
4	Please select if your property is Homestead or Non-Homestead.	◉ Homestead ○ Non-Homestead
5	Please choose the appropriate Local Unit within which your property is located. (Make sure to click on the name)	Newberry Village

	Without Bond Proposition	With Bond Proposition	Increase (Decrease)
Estimated Tax Bill	$2,400.28	$2,514.28	$114.00
Less: Homestead Property Tax Credit Available	$672.17	$740.57	$68.40
Estimated Net Tax Bill after Homestead Property Tax Credit	$1,728.11	$1,773.71	$45.60

ESTIMATED NET ANNUAL TAX INCREASE: $45.60

ESTIMATED NET MONTHLY TAX INCREASE: $3.80

ESTIMATED NET DAILY TAX INCREASE: $0.12

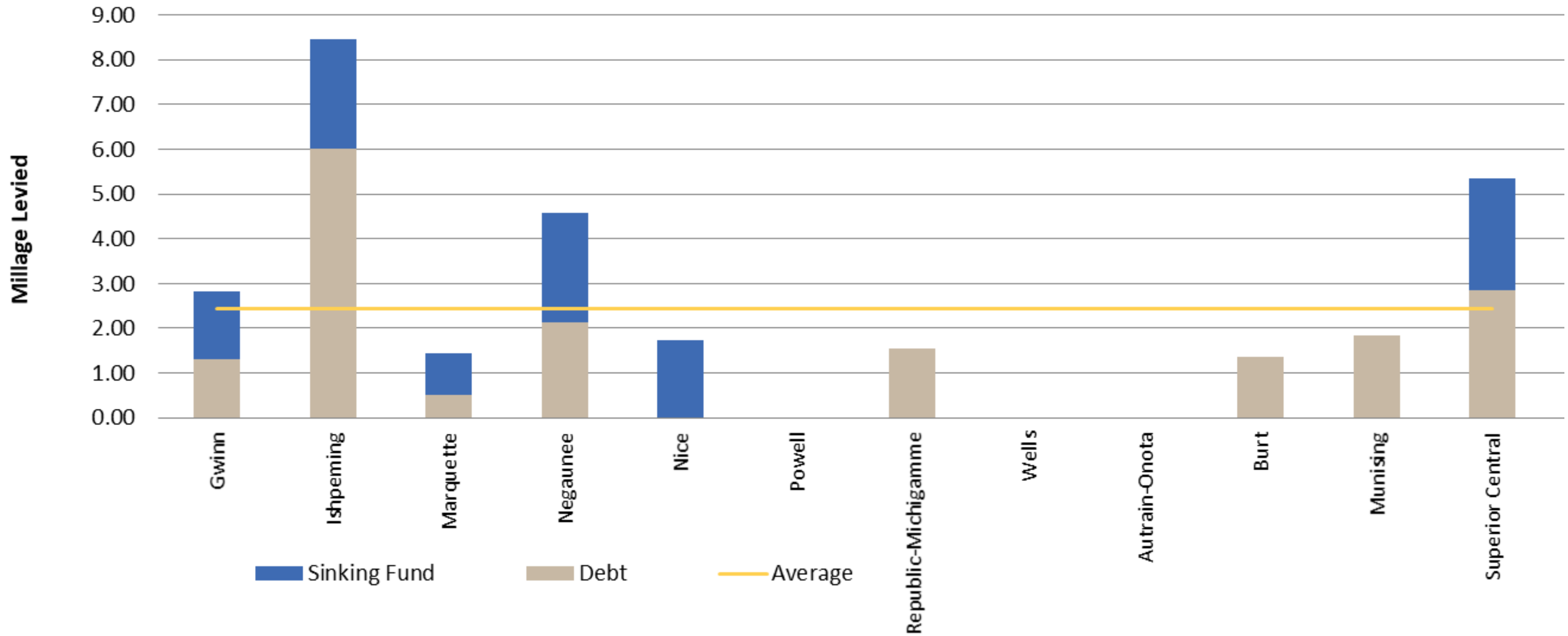
Estimated Net Tax Increase calculated using a Taxable Value of **$60,000.00**, a Household Income of **$40,000.00**, a before Bond Proposition Millage Rate of **40.0047** (of which **0.00** mills is for existing school district debt), and a Millage Increase of **1.90**. If property taxpayers itemize deductions on their federal income tax return, the taxpayer's net federal income tax will likely decrease and the "net" tax increase to the taxpayer would be less than shown above.

https://pfmtaxcalc.com/TahquamenonAreaSchools/default.aspx

NOTE: Chart above is for illustrative purposes only.

Sample Tools to Assist in Educating Public - Continued

- The chart below shows the capital related (debt and sinking fund) millage rates for schools within Marquette-Alger RESA for 2021.



Source: Individual Districts, County Apportionment Reports, and Michigan Department of Treasury Millage Rate Search site
NOTE: 2020 rates were carried forward where 2021 values were not available

NOTE: Chart above is for illustrative purposes only.

Setting Annual Debt Millage

- Districts should carefully review and set debt millage annually to guard against fluctuations in annual millage rates and to be aware of future drops in millage which could provide opportunities for new capital funding.
- District's financial advisor available to assist with setting annual debt millage and creating future debt strategy

Schedule of Estimated Millage Needed to Retire Bonded Debt Before Additional Bonding

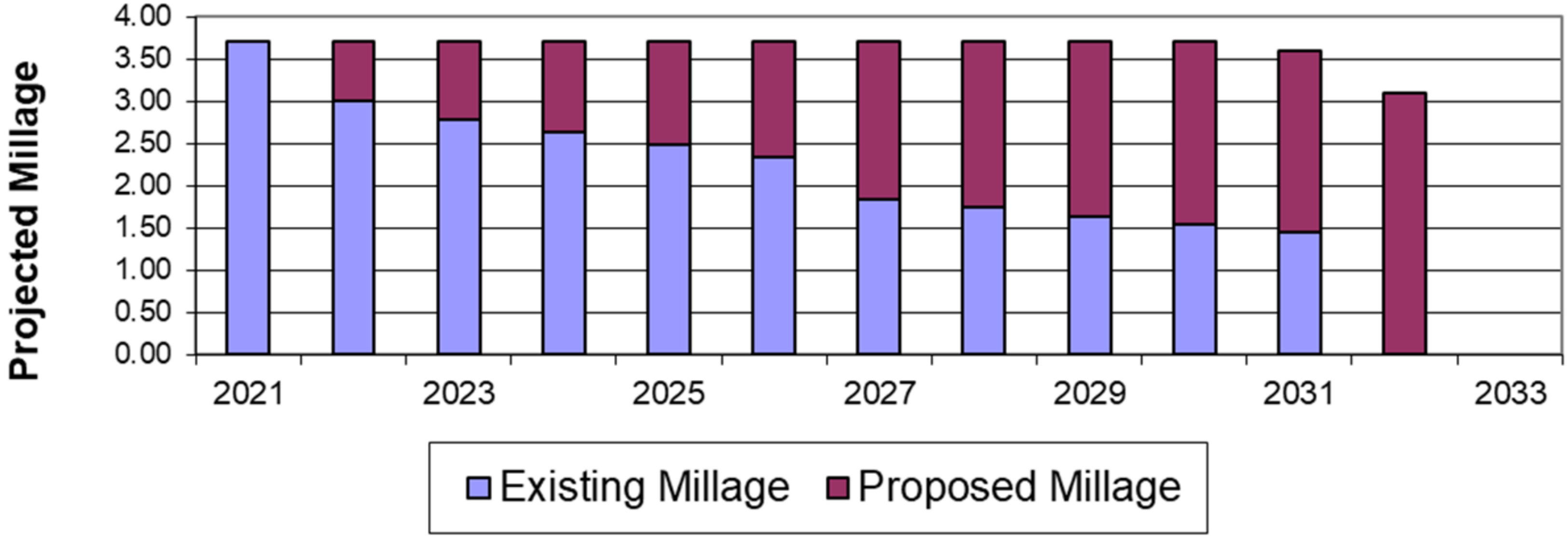
Collection Cycle	
July Levy:	100%
Current Levy:	3.70

Tax Year	F/Y End 6-30,	Existing Debt $7,405,000	Plus: 8.00% Allow for Delinq.	(Use) of Funds on Hand $95,000	Net Existing Debt	Projected Txbl Value	Growth Rate	Mills Needed All Debt
2021	2022	$1,139,145	$95,535	($40,498)	$1,194,181	$322,751,754	2.90%	3.70
2022	2023	1,047,695		(54,265)	993,430	331,143,300	2.60%	3.00
2023	2024	948,070		(237)	947,833	339,753,026	2.60%	2.79
2024	2025	915,350		0	915,350	348,586,604	2.60%	2.63
2025	2026	887,465		0	887,465	357,649,856	2.60%	2.48
2026	2027	858,865		0	858,865	366,948,752	2.60%	2.34
2027	2028	694,550		0	694,550	376,489,420	2.60%	1.84
2028	2029	672,220		0	672,220	386,278,145	2.60%	1.74
2029	2030	649,600		0	649,600	396,321,376	2.60%	1.64
2030	2031	626,690		0	626,690	406,625,732	2.60%	1.54
2031	2032	603,490		0	603,490	417,198,001	2.60%	1.45
2032	2033	0		0	0	428,045,149	2.60%	0.00
		$9,043,140	$95,535	($95,000)	$9,043,675			

NOTE: Schedule above is for illustrative purposes only.

Millage Impact of New Bond Issue

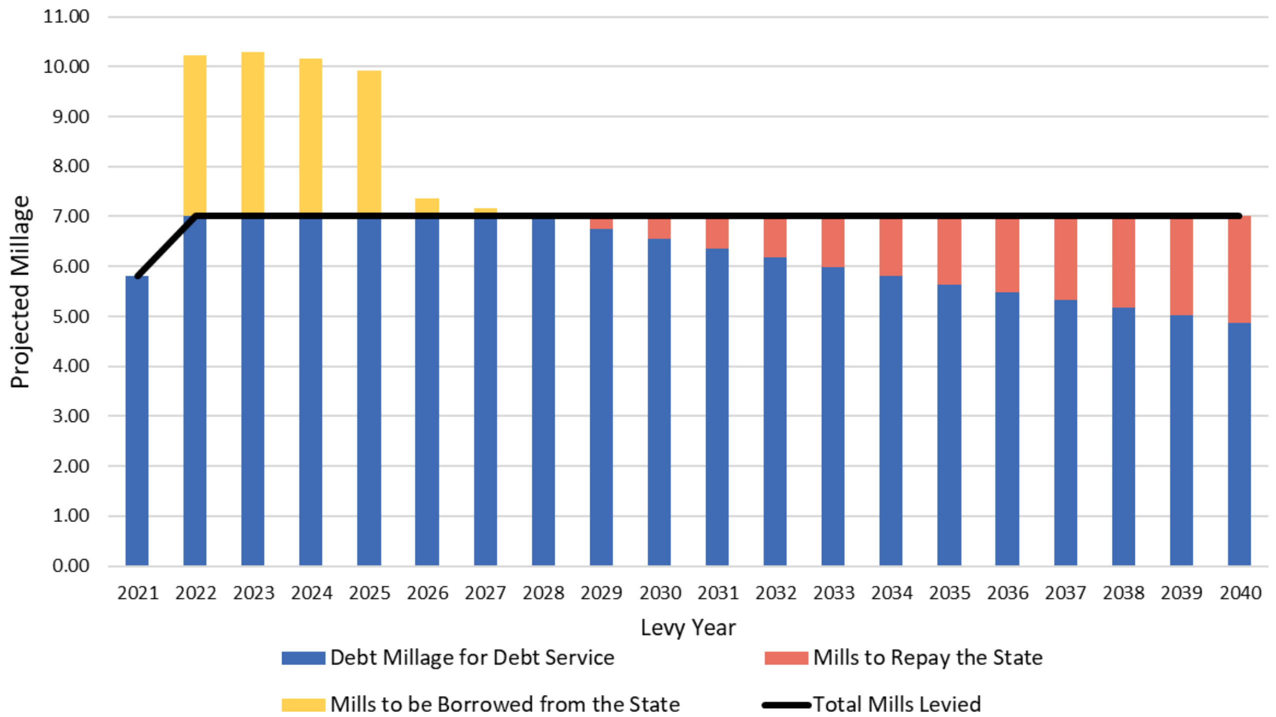
- The millage projection to the right depicts a new money bond structure which is wrapped around a district's existing debt issue for a $0.00 mill increase
  - The ability to do this type of structure will be dependent on the district's existing debt structure



NOTE: Chart above is for illustrative purposes only. The actual millage is subject to several variables including interest rate on the proposed bonds and actual taxable value.

Sample SLRF Millage Projection

- The projection below depicts a District that participates in the State School Loan Revolving Fund (SLRF).
  - The debt payments require a debt millage in excess of 7.00 mills.
  - The district levies 7.00* mills, and borrows the amount need in excess of what 7.00 mills produces from the SLRF (borrowing is shown as yellow bars).
  - Once 7.00* mills produces more revenue than needed to repay the annual debt service on the bonded debt, the district would begin to repay the SLRF (repayment is shown as red bars) and would continue to levy 7.00* mills until the SLRF loan has been repaid.
  - Once the SLRF has been repaid, the millage would drop to the amount needed to meet the annual debt service payments.

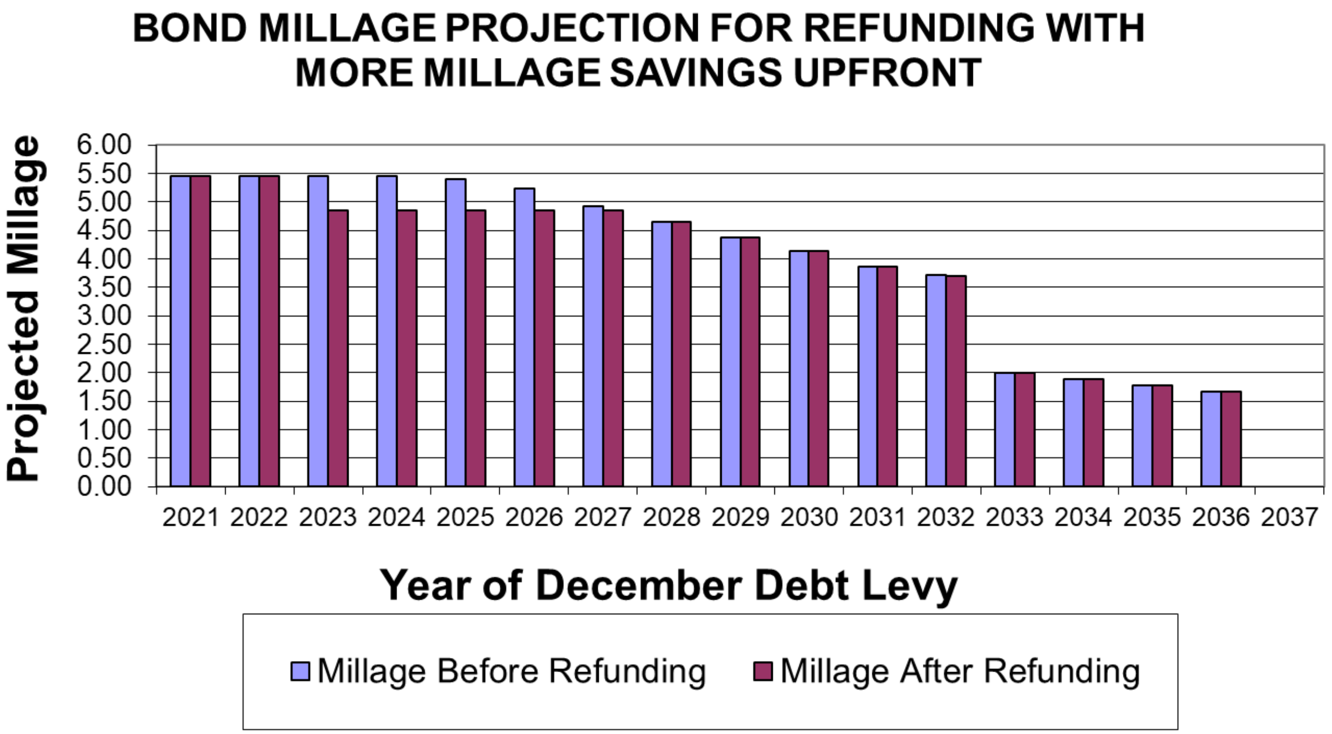


* *Assumes district can repay the state loan within the mandatory loan repayment term at 7 mills.*

NOTE: Chart above is for illustrative purposes only.

Refunding Impact on Millage

- Refunding existing debt can assist District's in planning and/or providing opportunities for future capital financings.
- The graph below shows an example of a District which strategically placed refunding savings in 2023 in order to assist with reducing the millage rate during those years.



NOTE: Chart above is for illustrative purposes only.

Summary

- **The following are considerations and strategies for planning your next bond proposal**
  - Have debt millage projection updated annually
  - Consider having bonds issued in series
  - Consider the timing of upcoming bond proposals and/or sinking fund proposals
  - Consider the timing of the next operating millage proposal
  - Understand the impact of improvements to taxable value have on existing debt millage and millage of potential new bond proposal
  - Consider structuring refunding bonds to better accommodate the next bond proposal
  - Consider educating voters on the taxpayer impact and comparisons with neighboring districts

Questions?

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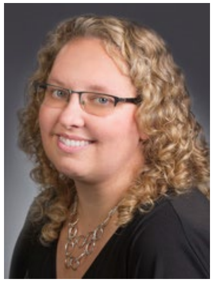

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