The School Bond Qualification and School Loan Revolving Fund Revisited
FO9

Presented by:

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Agenda

- School Loan Revolving Fund Background
- Qualified vs. Non-Qualified Bonds
- Qualification Process

School Loan Revolving Fund Background

History

- The School Bond Loan Fund (“SBLF”) was created in 1955
- Section 16 of Article IX of the State Constitution of 1963 provides for the SBLF
- Act 92 of 2005 statutorily implements the SBLF
- School Loan Revolving Fund (“SLRF”) was created in 2005

Background

- The School Bond Loan Fund (“SBLF”) was created to assist schools in addressing infrastructure needs beginning in the late 1950’s

- SBLF / SLRF allows districts to provide a stable millage rate for their current and future taxpayers

- District continues its determined levy until the SBLF / SLRF is repaid

School Loan Revolving Program ("SLRF")

Statistics

415*	• Number of Michigan schools having qualified debt outstanding
137*	• Number of Michigan schools participating in the School Loan Revolving Fund (SLRF)
$13 billion*	• Amount of State qualified debt outstanding
$1.7 billion*	• Amount of new public school debt qualified in 2017

* *Approximate figures*

PA 437 Changes

PA 437 of 2012 made changes to the School Bond Qualification and Loan Act. The key changes:

- Ballot language content
- Record Retention Requirements
- Computed debt millage rate
- Growth rate assumptions

Growth Rate Assumptions

- First five years = Prior 5 year average taxable value growth or decline
- Year 6 and thereafter = Prior 20-year growth rate
  - Minimum rate of 0%
  - Maximum rate of 3%

Repayment of Loan

- Must demonstrate repayment of all outstanding qualified bonds and loans and proposed bonds by Mandatory Loan Repayment Date (MLRD).

Taxable Value Limit

- State Treasurer has the ability to not permit a bond vote if the outstanding bonds and loans, together with the proposed bonds, exceed 25% of the district’s taxable value.

Ballot Language

The ballot now must also include the following:

- The estimated amount to be borrowed from the SLRF
- The estimated interest to be paid on the SLRF borrowing
- The duration of the millage levy
- The estimated computed millage rate for the levy
- The total amount of qualified bond and loan debt currently outstanding
- A statement that the computed millage may change

Items previously required:

- Maximum bond amount
- First year millage and average millage
- Maximum bond term
- Purpose

Sample ballot language

FAVORITE SCHOOL DISTRICT
BONDING PROPOSAL

Shall Favorite School District, Alpha and Beta Counties, Michigan, borrow the sum of not to exceed One Million Dollars ($1,000,000) and issue its general obligation unlimited tax bonds therefor, for the purpose of:

> Erecting, furnishing and equipping additions to school buildings; and developing and improving sites?

The following is for informational purposes only:

The estimated millage that will be levied for the proposed bonds in 2018, under current law, is 3.00 mills ($3.00 on each $1,000 of taxable valuation). The maximum number of years the bonds may be outstanding, exclusive of any refunding, is twenty-six (26) years. The estimated simple average annual millage anticipated to be required to retire this bond debt is 2.27 mills ($2.27 on each $1,000 of taxable valuation).

The school district does not expect to borrow from the State to pay debt service on the bonds. The total amount of qualified bonds currently outstanding is $0.00. The total amount of qualified loans currently outstanding is $0.00. The estimated computed millage rate may change based on changes in certain circumstances.

(Pursuant to State law, expenditure of bond proceeds must be audited, and the proceeds cannot be used for repair or maintenance costs, teacher, administrator or employee salaries, or other operating expenses.)

Qualified vs. Non-Qualified Bonds

School Loan Revolving Program ("SLRF")
Overview

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

Borrowing From and Repaying the SLRF

- Districts must levy between 7 and 13 mills of SLRF qualified debt millage
- Interest rate on the loans is based on the rate of the State's financing (currently **3.16%)**
- A District must repay any loans from the SLRF by the Mandatory Loan Repayment Date
  - 72 months (6 years) after the final maturity on the bonds that result in the first borrowing from the SLRF.
- 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%.

District pays SLRF Qualification Fees at closing

- State law also allows State Treasurer to charge a prequalification application fee and annual loan activity fee (currently not being charged but under consideration by Treasury)

SLRF Qualified Bonds are Subject to State Prevailing Wage

Example School District Taxable Value History

- Taxable values of schools within the State have improved since the Great Recession.
- Overall the taxable value within the State increased 2.47% in 2017.

Year	Taxable Value	PPT Exemption	Total	Change
2017	$589,900,000	$12,300,000	$602,200,000	2.48%
2016	570,500,000	17,100,000	587,600,000	3.91%
2015	565,500,000		565,500,000	1.31%
2014	558,200,000		558,200,000	-0.82%
2013	562,800,000		562,800,000	0.05%
2012	562,500,000		562,500,000	-3.07%
2011	580,300,000		580,300,000	-6.31%
2010	619,400,000		619,400,000	-6.09%
2009	659,600,000		659,600,000	-1.02%
2008	666,400,000		666,400,000	2.89%
2007	647,700,000		647,700,000	7.40%
2006	603,100,000		603,100,000	10.18%
2005	547,400,000		547,400,000	8.63%
2004	503,900,000		503,900,000	7.69%
2003	467,900,000		467,900,000	6.46%
2002	439,500,000		439,500,000	6.88%
2001	411,200,000		411,200,000	10.27%
2000	372,900,000		372,900,000	5.73%
1999	352,700,000		352,700,000	6.30%
1998	331,800,000		331,800,000	5.50%
1997	314,500,000		314,500,000	
			20-year average	**3.42%**

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2016	570,500,000	17,100,000	587,600,000	3.91%
2015	565,500,000		565,500,000	1.31%
2014	558,200,000		558,200,000	-0.82%
2013	562,800,000		562,800,000	0.05%
2012	562,500,000		562,500,000	
			5-year average	**1.39%**

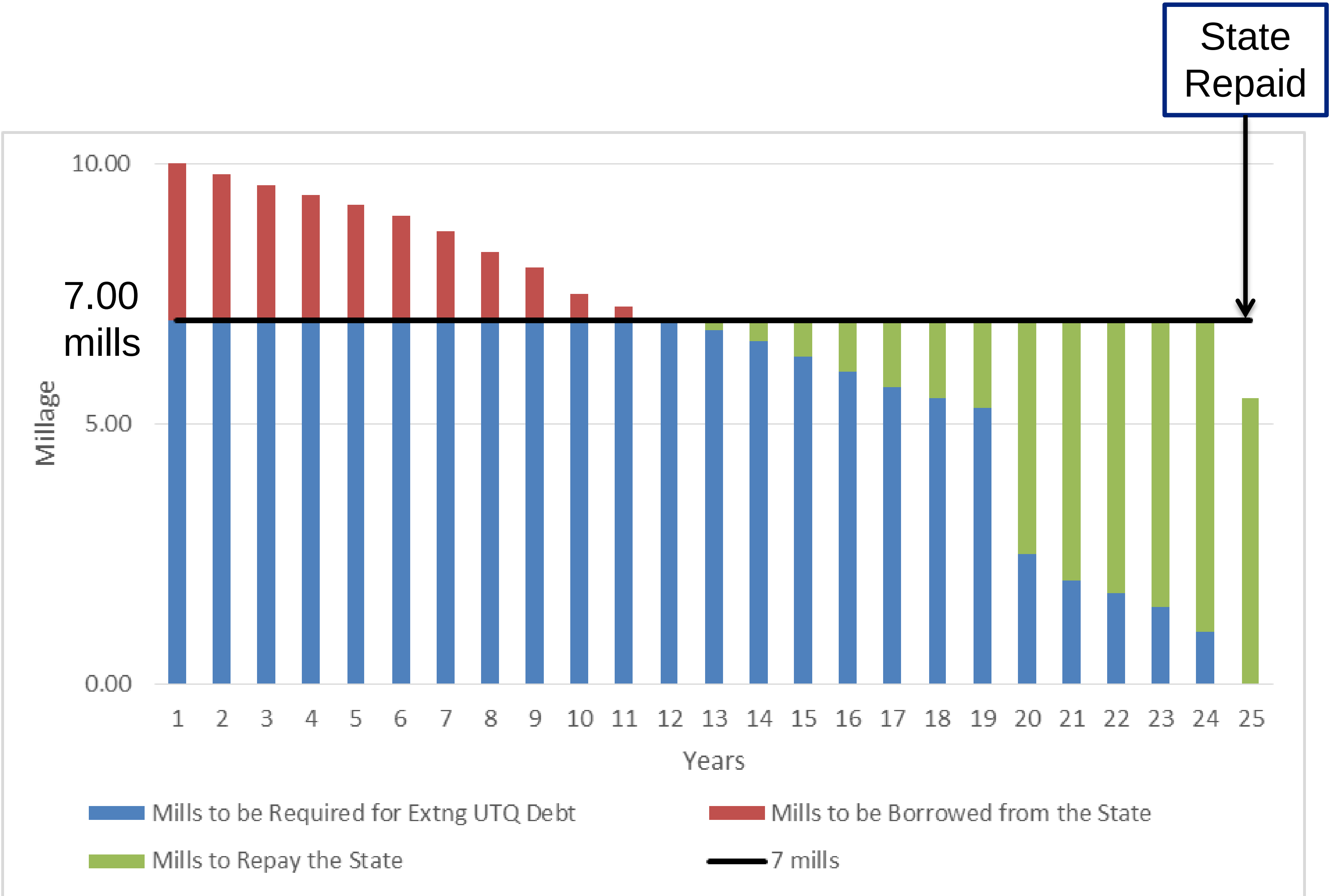
- The 20-year average taxable value growth rate for School District X is 3.42%.
- The 5-year average taxable value growth rate for the School District is 1.39%. If the taxable value growth rate for 2018 is 1.50%, the 5-year average would be 1.68%.

Sample School District Millage Example

Table No.	SLRF Qualified?	Bond Amount	Taxable Value Growth Assumptions			Bond Term	Estimated Interest Rate	Estimated Interest Cost	Ballot Information		Total Debt Millage Required	Est Debt Millage Increase
			Year 1	Years 2-6	Thereafter				1st Year Levy	Avg. Mills		
A1	No	$38,800,000	2.50%	3.00%	3.00%	19.86 yrs	4.50%	$22,500,000	0.72	1.24	3.00	0.00
B1	Yes	$30,000,000	1.50%	1.68%	3.00%	19.86 yrs	4.00%	$17,000,000	0.48	1.01	3.00	0.00

- The estimated bond amount is lower for the qualified bonds due to the State-restricted 5-year average taxable value growth rate
- The taxable value growth rate projections used in the non-qualified scenario remain lower than the 20-year average
- The estimated interest rate is higher for the non-qualified bonds because the District’s credit rating is lower than the State’s

Millage Projection – with SLRF Loan



Prevailing Wage

Qualified Bonds Require the use of Prevailing Wages:

- Qualified bonds are required to use **<u>regionalized</u>** prevailing wages
- Estimated cost range from 0% to 10% (currently estimated to be 0% to 5%) on <u>labor costs</u> from the use of regionalized prevailing wages
- Risk of mixing union with non-union workers on job site

Limitation on Use of Bond Proceeds

If the District has completed all projects approved by the voters, the District may use the remaining proceeds to:

- Pay debt service on the qualified bonds
- Repay the State

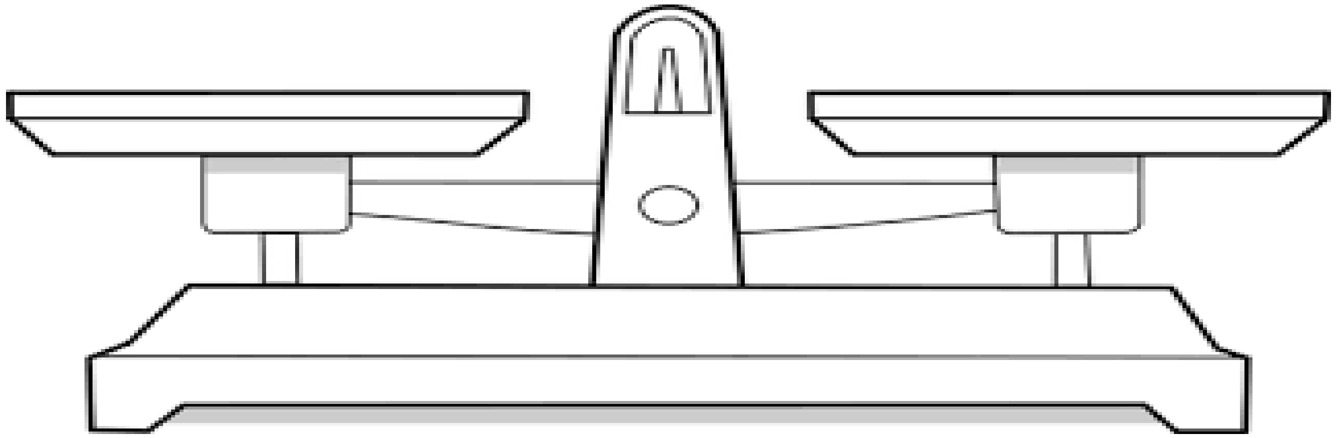
Qualified or Non-Qualified Bonds?

State-Qualified Bonds

- State ratings / guarantee
- Potentially lower borrowing cost
- Potentially lower millage rate
  - Flexibility to borrow from State over 7 mills

Non-State-Qualified Bonds

- No State oversight
- Less time consuming process
- No prevailing wage cost
- Potentially higher borrowing cost



Considerations in Determining Qualified vs. Non-Qualified

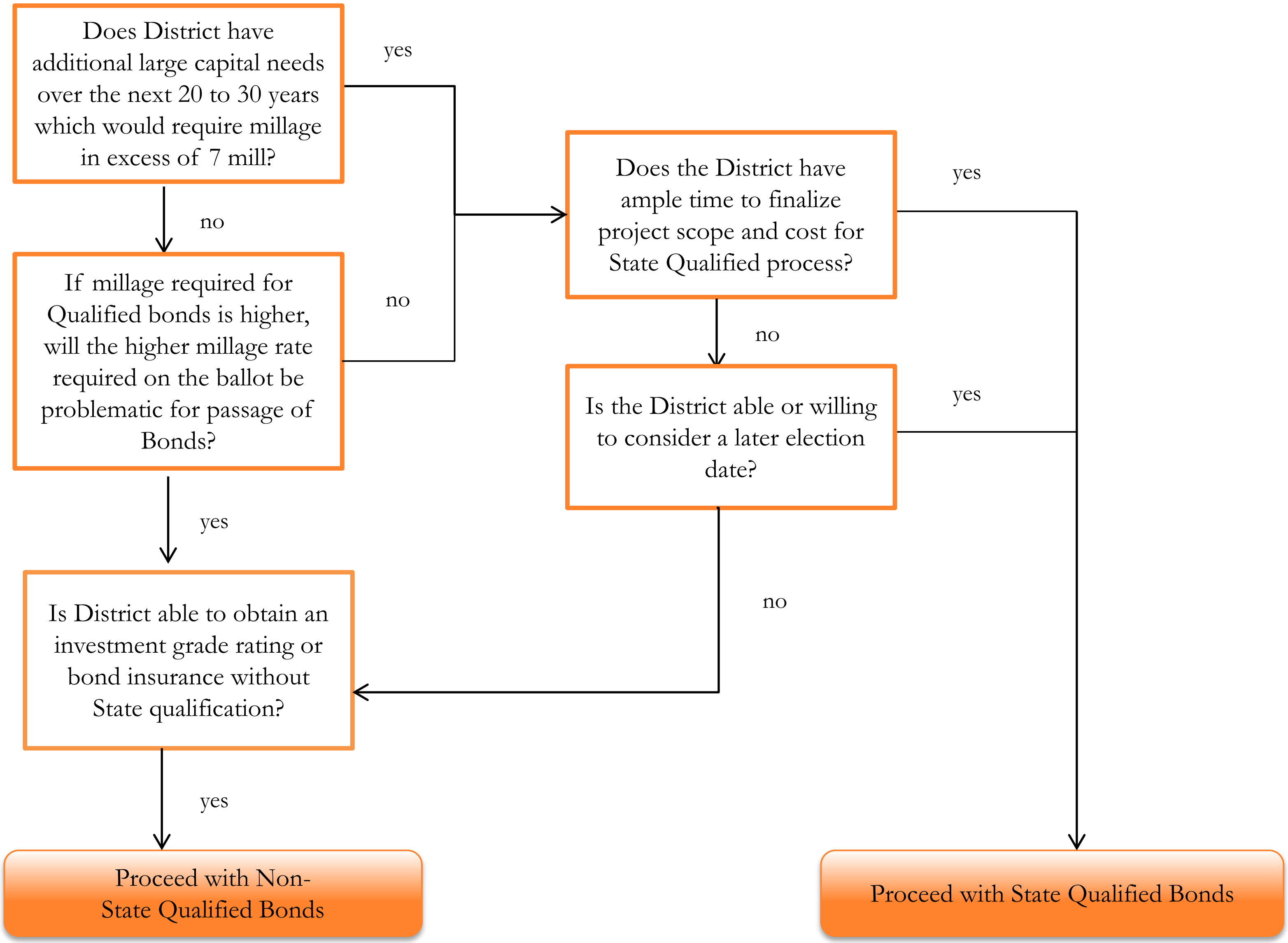
- Future Financing Needs

- Timing Considerations

- Credit Considerations
  - State’s ratings of AA- / Aa1 / AA
  - School district’s rating
  - Purchase of bond insurance

- Cost considerations
  - Millage rate impact
  - Interest cost differential
  - Project cost differential (prevailing wage..)

Qualification Considerations



Computed Millage Rate Changes

Debt millage must be recalculated annually

- Must prove repayment of loan by the Mandatory Loan Repayment Date (MLRD)
- An increase in debt millage may be required to prove compliance with the payoff of the loan by MLRD

Debt millage increase may be limited to:

- To the % decline in value of the immediately preceding year

Millage may be decreased in the future if:

- Recomputed millage proves able to repay loans by MLRD
- Not lower than 7 mills or the original computed millage rate while loans are outstanding

Application for Computed Millage Waiver

- Treasury will consider annual Waiver requests for:
  - Districts that issue refunding bonds which results in a higher computed millage rate
  - Allow to levy a recalculated computed millage that is less than the order qualifying the refunding bonds, but not less than the computed millage rate on the District's existing loan agreement

- Must be requested prior to June 1 each year and may be granted if the following statutory conditions are met:
  - Application specifies the mills to be levied, which shall be equal to the recalculated computed millage
  - The waiver will be financially beneficial to the state, the school district, or both (it is presumed that the recalculated computed millage meets this condition)
  - The waiver will not reduce the millage levied on qualified bonds and/or loans less than 7 mills
  - The Board of the District must pass a resolution that they will comply with all conditions the State Treasurer considers necessary

Record Retention Requirement

The District:

- Must agree to keep books and records showing the investment of SLRF qualified bond proceeds

- Must agree to keep books and records showing the expenditure of SLRF qualified bond proceeds

- Must provide detailed information regarding investment and expenditures of SLRF qualified bond proceeds to the State Treasurer within five (5) business days of the request

State Qualification Process

Qualification Process

- Application to Treasury Prepared
  - Enrollment Projections Needed
  - Detailed Cost Estimates Included
  - Bond Millage Projections Included

- District Meets With Treasury Officials

- Ballot Language Finalized

- School Board to approve Preliminary Qualification

- State Approves Application

- Ballot language is provided to County Clerks

Voted Process Overview - SBLF Qualified

Contact Bond Counsel and Financial Advisor

At least 150 days before election:

Finalize Project Scope

Schedule PQ Meeting with Treasury

120-150 days before election:

Attend PQ Meeting with Treasury

Board Adopts Resolution Approving Ballot Language

At least 84 days before election:

Certify ballot to election coordinator

Call election

Election

Ongoing State Borrowing Process

School Loan Revolving Fund Calendar

January

February

March
- **May Debt Service Payment:** Complete May draw request and submit to the School Bond Qualification and Loan Program by **April 1**.

April
- Adjust disbursement amount for tax revenue revisions that occurred after request was filed and return final fax confirmation by the 15th.
- Verify receipt of SLRF funds and distribute among debt service accounts as appropriate.
- Process debt service payment to the paying agent five days prior to debt service due date.

May
- Receive loan confirmation from Treasury.
- Make appropriate internal accounting entries to account for disbursement.

June
- Take appropriate local board action to set the summer debt millage levy.
- Receive a Statement of Account from SLRF staff regarding principal, interest and total amount due.
- Receive letter stating interest rates charged throughout the year.
- Reconcile reported principal against district accounting records.
- Distribute interest among debt retirement accounts as appropriate.
- Provide loan records and balances to independent auditors for inclusion in the annual report.

July
- Obtain local board authorization to apply for loans or make payments and designate the district official authorized to execute loan documents.
- Submit completed Annual Loan Activity Application to the Michigan Department of Treasury, School Bond Qualification and Loan Program by **August 1**.

August

September
- Take appropriate local board action to set the winter debt millage levy.
- **November Debt Service Payment:** Complete November draw request and submit to the School Bond Qualification and Loan Program by **October 1**.

October
- Adjust disbursement for tax revenue revisions that occurred after request was filed and return final fax confirmation by the 15th.
- Verify receipt of SLRF funds and distribute among debt service accounts as appropriate.
- Process debt service payment to the paying agent five days prior to debt service due date.

November
- Receive loan confirmation from Treasury.
- Make internal accounting entries to account for disbursement.

December

Questions??

If you have any questions or need additional information, please contact us:

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