

BOND FINANCING AND ALTERNATIVE FUNDING FOR CAPITAL IMPROVEMENTS

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OVERVIEW OF CAPITAL IMPROVEMENT FINANCING/FUNDING OPTIONS

- **Capital Improvement Bonds**
 - Voted Bonds
 - Non-Voted Bonds
 - Refunding Bonds
- **Other Options**
 - Installment Purchase Agreement/Finance Lease
 - Building and Site Sinking Fund Millage
 - Recreation and Playground Millage

WHAT'S NEW ON THE CAPITAL NEEDS FRONT

- **Need for capital projects remains strong.**
- **Size and scope of projects have shifted from space addition to renovation, technology and buses.**
- **Security, Security, Security!**
- **Technology (Bonds issued in multiple series)**
- **Energy conservation.**
- **Tax base – Michigan's Boom! and Bust! Cycles.**
- **Multiple bond proposals considered.**
- **Negative credit pressures!**

NEGATIVE CREDIT PRESSURES ON MICHIGAN BONDS

Moody's Report:

Michigan Schools' Widespread Credit Weakness Persists

- Loss in General Fund Revenues;
- Declining enrollment trends;
- Increased retirement contributions; and
- Limited revenue-raising flexibility.

RECENT ELECTION RESULTS

Bond Election Results for Bonds qualified under the School Bond Qualification and Loan Program:

November 2017

26 Bond Elections

16 Passed

10 Failed

61% Success Rate!

May 2017

25 Bond Elections

7 Passed

18 Failed

28% Success Rate

**This year so far: 25 scheduled for May
1 scheduled for August**

STATUTORY REQUIREMENTS FOR SCHOOL BONDS

- **Michigan Law**
 - Revised School Code
 - Revised Municipal Finance Act
 - School Bond Qualification, Approval and Loan Act
 - Michigan Campaign Finance Act

- **Federal Law**
 - Internal Revenue Code (Tax Laws)
 - Securities Law (Market Disclosure)

VOTED CAPITAL IMPROVEMENT BONDS

- Voter approval required
- Unlimited debt millage
- Eligible for qualification under the Michigan School Bond Qualification and Loan Program (“SBQLP”)
- Limited to 15% of SEV (includes all outstanding bonded indebtedness, excluding SBQLP qualified bonds)
- Use of Bond Proceeds

NON-VOTED CAPITAL IMPROVEMENT BONDS

- **No voter approval**
 - Limited to 5% of SEV (includes all outstanding bonded indebtedness)
 - Exception to 5% SEV limit for Energy Conservation Improvement Bonds
- **General Fund obligation**
- **Use of bond proceeds**

NON-VOTED ENERGY CONSERVATION IMPROVEMENT BONDS

- No voter approval
- Not limited to 5% of SEV
- Use of bond proceeds: “building envelope improvements; heating and cooling upgrades; lighting retrofits; installing or upgrading an energy management system; motor, pump or fan replacements; domestic water use reductions; and upgrading other energy consuming equipment or appliances.”

USE OF BOND PROCEEDS

- Capital improvements and purchases
- Definition of “technology”
- Useful life
- Cannot use bond proceeds for:
 - Maintenance;
 - Repairs;
 - Lease payments;
 - Employee salaries; and
 - Automobiles, trucks or vans.

SCHOOL BOND QUALIFICATION AND LOAN PROGRAM (“SBQLP”)

- SBQLP provides a State credit enhancement and loan mechanism for school bond issues.
- SBQLP qualified bonds receive State credit rating.
- Loan Mechanism: Allows a school district to borrow from the State a portion of the principal and interest on qualified bonds, thus providing a cap on the debt millage.
- Qualification process with the Department of Treasury.
 - Preliminary Qualification
 - Final Qualification

REFUNDING BONDS

- **Refund outstanding bonds to realize interest rate savings and/or restructure debt service.**
- **Advanced Refunding: Not Anymore!**
- **Current Refunding:**
 - Bonds currently callable

INSTALLMENT PURCHASE AGREEMENT ("IPA")/FINANCE LEASE

- **Act 99 authorizes a school district to issue an IPA or finance lease to finance the purchase of real or personal property.**
- **Term cannot exceed 15 years.**
- **Outstanding balance of IPAs/finance leases cannot exceed 1 ¼% of taxable value of real and personal property located in the school district.**
- **Typically issued as a three-party agreement between the school district, vendor and a bank or finance company.**

BUILDING AND SITE SINKING FUND MILLAGE

- **Voter approval.**
- **Up to 3 mills for up to 10 years.**
- **Purchase of real estate for sites for, and the construction or repair of, school buildings, security improvements and technology.**
- **NO EQUIPMENT OR FURNISHINGS.**
- **NO MAINTENANCE.**
- **Annual Audit.**
- **Maintenance – keeping in good condition – preventative.**
- **Repair – putting back in good condition – curative.**

RECREATION AND PLAYGROUND MILLAGE: PUBLIC ACT 156 OF 1917

- **Sec. 2. Any school district may operate a system of public recreation and playgrounds, may vote a tax to provide funds for operating same, and may exercise all other powers enumerated in Section 1.**
- **Sec. 1. Any city, village, county or township may operate a system of public recreation and playgrounds; acquire, equip and maintain land, buildings or other recreational facilities; employ a superintendent of recreation and assistants; vote and expend funds for the operation of such system.**
- **Allowable uses of Recreation and Playgrounds Millage?**

CONSOLIDATED ELECTION LAWS

- **Since January 1, 2005, school district elections have been governed by the Consolidated Election laws.**
- **Beginning in 2012, the Regular School Election to elect school board members must be held on the general November election date.**
- **First Tuesday following the first Monday in November, even-years only.**
- **Ballot proposals may still be submitted on dates other than the Regular School Election date.**

SUBMISSION OF BALLOT QUESTION

- **A school district may submit a ballot question, such as a bond proposal, to the school electors on one of the following dates:**
 - Regular election date (i.e., one of the four fixed dates);
 - A date when a city or township within the school district's jurisdiction is holding an election; or
 - A “floater” election date.

FOUR FIXED REGULAR ELECTION DATES

- **The four fixed regular election dates are as follows:**
 - Fourth Tuesday in February;
 - First Tuesday after the first Monday in May;
 - First Tuesday after the first Monday in August;
 - First Tuesday after the first Monday in November.*

*The November regular election date, even-years only, is the school district's Regular School Election date.

REMAINING REGULAR ELECTION DATES

2018

- **Tuesday, May 8, 2018**
- **Tuesday, August 7, 2018**
- **Tuesday, November 6, 2018***

***Regular School Election date**

- **Ballot question must be submitted to the School District's Election Coordinator no later than 4:00 p.m. on the Twelfth Tuesday before the election date.**

“FLOATER” ELECTION DATE

- **Any Tuesday that falls more than 30 days before or 35 days after one of the four fixed regular election dates.**
- **Requires initiative petition.**
- **3,000 signatures or 10% of voters who voted in the last gubernatorial election.**

SCHOOL ELECTION TIMETABLE – STATE QUALIFIED BONDS

- **Feasibility Study**
- **Determination of Project Scope**
- **Preliminary meeting with Department of Treasury**
- **Treasury approval**
- **School Board approves Bond Proposition**
- **Certification of Bond Proposition to election coordinator**
- **Election**
- **Canvassers Certify Vote**
- **On to Bond Sale!**

MICHIGAN CAMPAIGN FINANCE ACT

- School districts are prohibited from spending public funds or using other resources for campaign activities, including the election or defeat of candidates or ballot proposals.
- School districts cannot advocate for a ballot proposal but may use its resources to inform (i.e. factual information).

Do not use language like:

- This will really help our kids.
- This will benefit everyone in the district.
- We need your help.

However, you may say:

- The ballot proposal is intended to benefit every child in the district.
- Make an informed decision.
- There is a lot of information available. (Indicate location, school, website, newsletter, etc.)
- Read this issue of...It contains information about the proposal.

CHOOSING A BOND ELECTION DATE: CONSIDERATIONS

- **Millage Increase?**
- **Cost.**
- **Turn-out/ballot fatigue/other ballot issues.**
- **“Stealth Election”.**
- **Coordination with construction timetable.**

OTHER TIMETABLE CONSIDERATIONS

- **Expiring Board Member Terms**
- **Other Millage Renewals**
- **Input from Community, Staff and Students?**
- **Determining Needs vs Wants.**
- **Continuity of Internal Personnel**
- **Professional Team**
- **Meeting, meetings and more meetings**

Thank you!



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