



School District Capital Funding Options

April 24, 2024

Hot Topics for Michigan School Districts

Inflation Reduction
Act (IRA)

School Bond Data

Interest Rate Trends

Where is your
School District
millage rate at
currently?

IRA tax credit project funding illustration



Solar

Project cost:	\$1,000,000
30% tax credit	<u>30%</u>
Dollar amount	<u>\$300,000</u>



Geothermal

Project cost:	\$5,000,000
30% tax credit	<u>30%</u>
Dollar amount	<u>\$1,500,000</u>

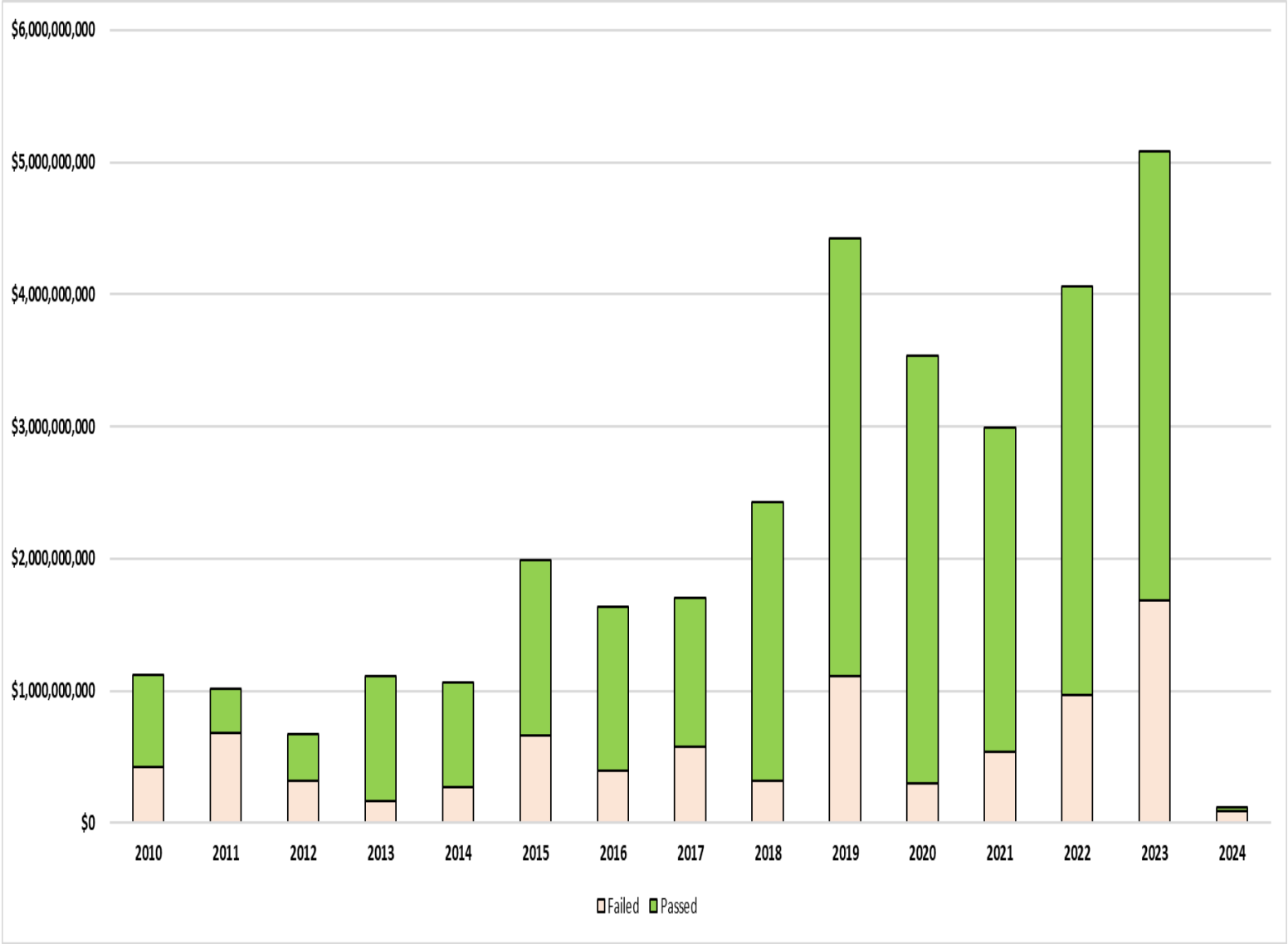


Thermal Energy Storage Tanks

Project cost:	\$1,600,000
30% tax credit	<u>30%</u>
Dollar amount	<u>\$480,000</u>

Funding received comes in the form of tax credits. These are tax engagements. Be sure to consult with tax professionals with experience in filing tax credits. Tax credit percentage and amount is subject to type of project and timing of project.

Estimated MI School Voted Bonds Information

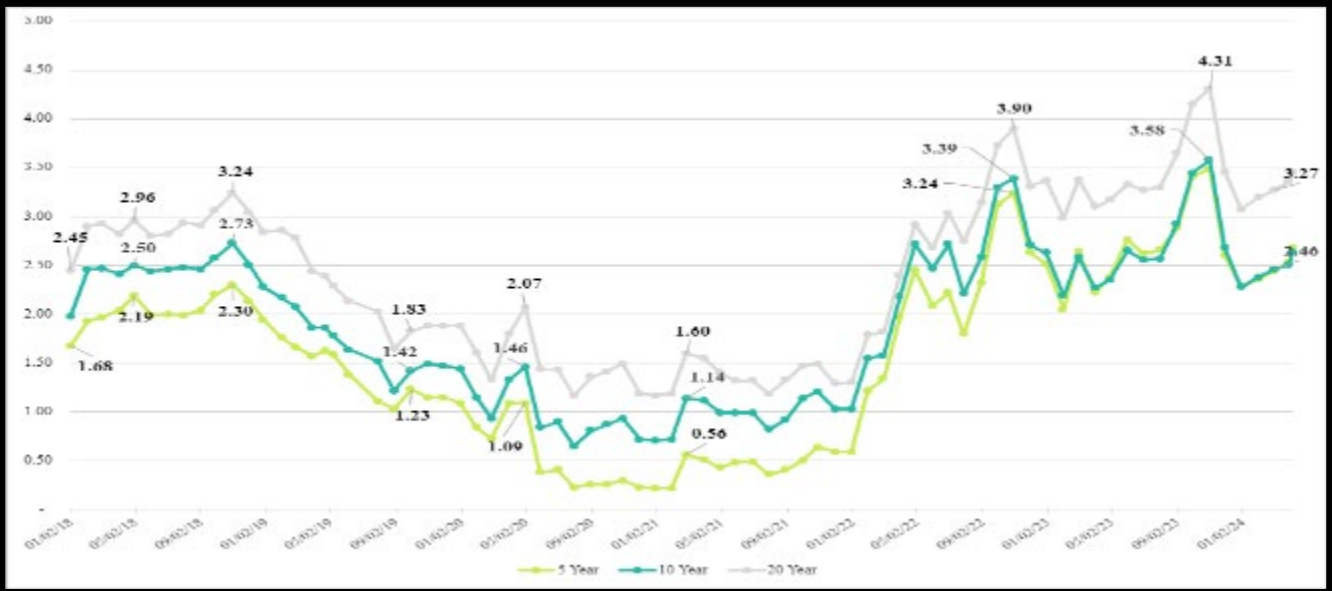
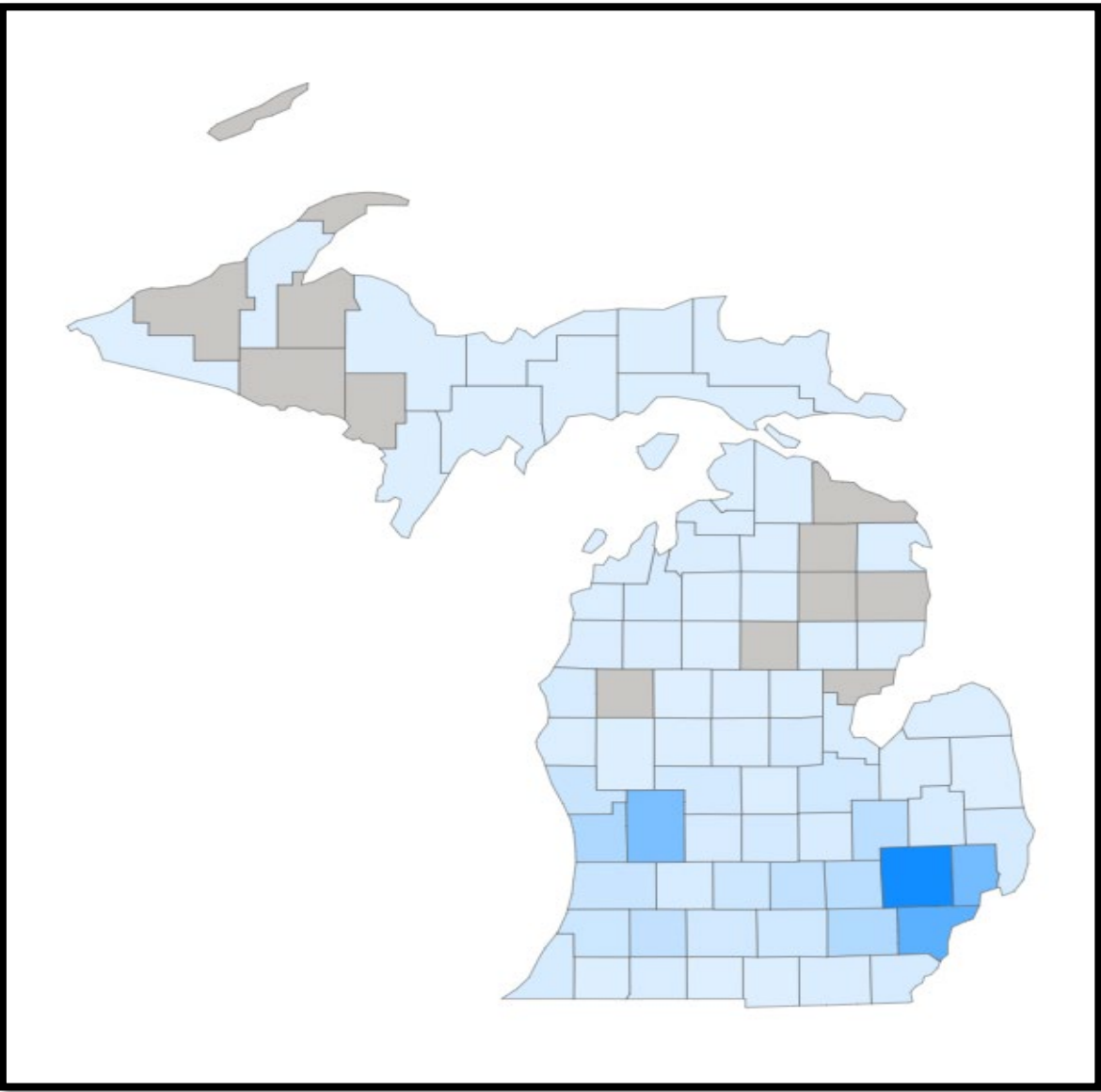
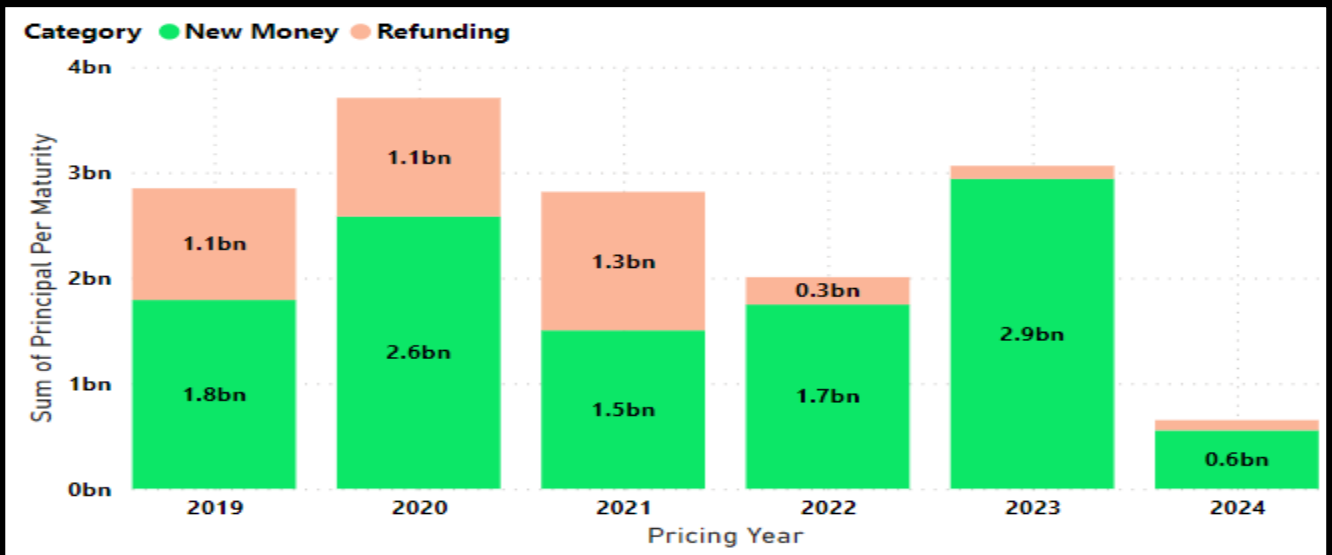


	Failed	Passed	Total	Pass % of Number of Elections
2010	\$420,120,000	\$698,275,000	\$1,118,395,000	66%
2011	680,605,000	331,635,000	1,012,240,000	46%
2012	321,510,000	350,065,000	671,575,000	52%
2013	161,740,000	944,970,000	1,106,710,000	77%
2014	266,250,000	791,805,000	1,058,055,000	73%
2015	659,035,000	1,332,260,000	1,991,295,000	61%
2016	395,720,000	1,236,845,000	1,632,565,000	74%
2017	579,330,000	1,122,210,000	1,701,540,000	62%
2018	319,220,000	2,105,710,000	2,424,930,000	72%
2019	1,110,965,000	3,316,155,000	4,427,120,000	66%
2020	297,760,000	3,238,540,000	3,536,300,000	83%
2021	539,570,000	2,454,930,000	2,994,500,000	69%
2022	970,286,000	3,092,840,000	4,063,126,000	61%
2023	1,678,210,000	3,407,305,000	5,085,515,000	57%
2024	92,650,000	22,790,000	115,440,000	20%

Over \$2 billion on the May 2024 ballot.

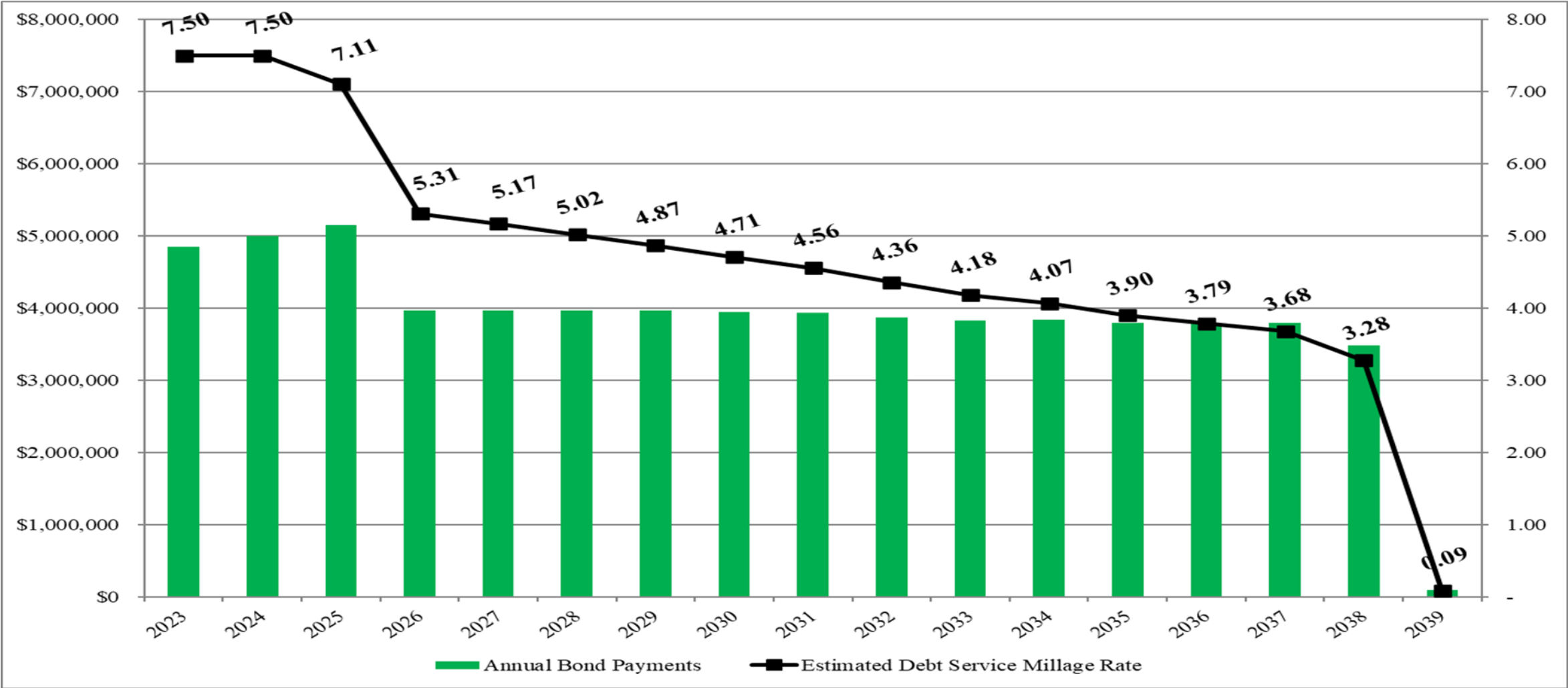
Per internal Baker Tilly database.

Estimated MI School Bonds Issuance



Per internal Baker Tilly database. Calendar year data.

Do you know what your long-term bond millage rate is?



Would a long-term estimate of your bond millage rate be helpful? Baker Tilly can assist with this item.

Capital Funding Alternative Table

	Alternative	Election Required?	Bond Payments Funded from General Fund or Other Internal Source?	Bond Payments Funded from Energy Savings Resulting from the Project?	Dedicated Voter Approved Millage Rate?
Non-Voted Financings	Bond Issue	No	Yes	No	No
	Energy Conservation Improvement Bond Issue	No	Possibly	Yes	No
	Installment Purchase Agreement (“IPA”)	No	Yes	No	No
Voted Financings	Voted Bond Issue	Yes	No	No	Yes
Voted Capital Millage	Sinking Fund	Yes	N/A	N/A	Yes

Non-Voted Bond Issue

- Overview:** School district submits capital improvement project list to bond counsel for review. Board of Education adopts a bond authorizing resolution. Bond sale, bond closing, funds deposited into school district capital improvement account.
- Timing:** Shorter time period needed for completion. Can be as fast as 3 – 4 months.
- Bond Repayment Sources:** General fund, identified energy savings, sinking fund collections, other.
- Constraints:** Subject to non-voted debt limit of 5% of State Equalized Value (“SEV”).
- Advantages:** No election required. Shorter financing period so funds can be received faster.
- Disadvantages:** Subject to non-voted debt limit of 5% of SEV. Bond issue must be repaid from existing sources as noted above. A dedicated bond millage rate is not allowed for bond repayment since an election did not occur.

Non-Voted Energy Conservation Improvement Bond Issue

- Overview:** School district submits capital improvement project list to bond counsel for review. Board of Education adopts a bond authorizing resolution. Bond sale, bond closing, funds deposited into school district capital improvement account.
- Timing:** Shorter time period needed for completion. Can be as fast as 3 – 4 months.
- Bond Repayment Sources:** General fund, identified energy savings, sinking fund collections, other.
- Constraints:** Proposed improvements must be allowable per Public Acts for Energy Conservation Improvement Bond issues.
- Advantages:** **Not** subject to non-voted debt limit of 5% of State Equalized Value (“SEV”). No election required. Shorter financing period so funds can be received faster.
- Disadvantages:** Bond issue must be repaid from existing sources as noted above. A dedicated bond millage rate for bond repayment is not allowed since an election did not occur. Improvements must be allowable per Energy Conservation Improvement Bonds Public Acts.
- Allowable Uses:** 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.

Non-Voted Energy Conservation Improvement Bond Issue Structure Illustration

Year	Estimated Annual Energy Savings	Bond Payments			Difference
		Principal	Interest	Total	
1	\$125,000		\$97,000	\$97,000	\$28,000
2	250,000	\$135,000	97,000	232,000	18,000
3	250,000	140,000	91,600	231,600	18,400
4	250,000	145,000	86,000	231,000	19,000
5	250,000	150,000	80,200	230,200	19,800
6	250,000	155,000	74,200	229,200	20,800
7	250,000	160,000	68,000	228,000	22,000
8	250,000	165,000	61,600	226,600	23,400
9	250,000	175,000	55,000	230,000	20,000
10	250,000	180,000	48,000	228,000	22,000
11	250,000	190,000	40,800	230,800	19,200
12	250,000	195,000	33,200	228,200	21,800
13	250,000	205,000	25,400	230,400	19,600
14	250,000	210,000	17,200	227,200	22,800
15	250,000	220,000	8,800	228,800	21,200
Totals	<u>\$3,625,000</u>	<u>\$2,425,000</u>	<u>\$884,000</u>	<u>\$3,309,000</u>	<u>\$316,000</u>

Potential interest only in first year to match construction time period and not experiencing a full year of energy savings.

Principal payments in amortization schedule structured to match estimated annual energy savings.

Installment Purchase Agreement (“IPA”)

- Overview: Agreement between school district, contractor, and financial institution. Can be used for capital and equipment purchases allowable within Public Acts. Used a lot of time for larger equipment purchases.
- Timing: Shorter time period needed for completion. Can be as fast as 3 – 4 months.
- Bond Repayment Sources: General fund or other internal source.
- Constraints: Subject to limit debt limit of 1.25% of taxable value. Cannot exceed 15-year term.
- Advantages: No election required and shorter financing process.
- Disadvantages: Typically repaid from the general fund. Subject to 1.25% of taxable value limiting the size of items that can be funded using this mechanism.

Voted Bond Issues

Overview:	School district completes a capital improvement planning process, and a referendum is held for the community to vote on the proposed not to exceed bond amount and allowable uses of bond proceeds.
Timing:	Longer planning period. Can be 1.50 – 2.00 years before the election date.
Bond Repayment Sources:	Dedicated bond millage rate.
Constraints:	Must complete a successful bond election. Allowable bond uses must be capital by nature and are subject to the ballot language approved by the community.
Advantages:	Large amounts of capital funding dollars can be received. Long-term capital plans can be approved in one election. A dedicated bond millage rate funds the annual bond payments.
Disadvantages:	Long planning period. Subject to successful bond election. Limited number of allowable election dates available each year.

Allowable and Unallowable Uses of Voted Bond Proceeds

Allowable Uses:

- Constructing new school buildings.
- Constructing additions to existing school buildings.
- Remodeling existing school buildings.
- Energy conservation improvements.
- Land purchases.
- Site development and improvements.
- Athletic and physical education facility development and improvements.
- Playground development and improvements.
- Direct bond program costs such as: professional fees, election fees, issuance costs, qualification fees, insurance fees, final audit costs.
- School bus purchases.
- Loose furnishings and equipment purchasing.
- Technology. (*Purchases limited to hardware and communication devices that transmit, receive or compute information for pupil instructional purposes only. The initial purchase of operating system and customized application software is allowed if purchased with the initial hardware.*)

Unallowable Uses:

- Repairs, maintenance, or maintenance agreements.
- Supplies, salaries, service contracts, lease payments, installment purchase contracts.
- Automobiles, trucks, or vans.
- Portable classrooms purchased for temporary use.
- Uniforms.
- Textbooks.
- Upgrades to an existing computer operating system or application software.
- Computer training, computer consulting, or computer maintenance contracts.

“Qualified” and “Non-Qualified” Voted Bonds Issues

“Qualified” Voted Bond Issues

- Means that the school district has selected to utilize the School Bond Qualification and Loan Program (“SBQLP”) for the voted bond issue.
- The SBQLP was established to provide a state credit enhancement and loan mechanism for school district voted bond issues. The voted bonds must be qualified by the State Treasurer and the bond proceeds must be used for capital expenditure purposes.
- Website: https://www.michigan.gov/treasury/0,4679,7-121-1753_56435---,00.html

Advantages

- Credit enhancement to the bond issue of the SBQLP bond rating. This reduces the school district’s bond issue cost of borrowing. The SBQLP current bond rating is AA.
- Ability to utilize an additional program known as the School Loan Revolving Fund (“SLRF”).
- Qualified bonds are not subject to the voted bonds debt limit of 15% of SEV.

Disadvantages

- Additional rules and application process required which reduces voted bonds capital planning time.
- Reduced flexibility due to being tied to Department of Treasury Application.
- Subject to prevailing wage.

“Non-Qualified” Voted Bond Issues

- Means that the school district has chosen not to use the SBQLP for the voted bond issue.
- Inverse advantages and disadvantages of qualified bonds.

Voted Bonds Summary

Overview	Bond millage rate	Multiple bond series option
<ul style="list-style-type: none">The community approves a not-to-exceed maximum amount of bonds to be issued at a scheduled election. Bond proceeds may only be used for items contained in the ballot language. The following are key items the community approves:<ul style="list-style-type: none">Maximum par amount of bonds allowedAllowable expenditures of the bond proceeds	<ul style="list-style-type: none">If the bond proposal is approved, the school district will levy a bond millage rate to fund annual bond payments. The bond millage rate can increase or decrease each year based upon the annual change in taxable value and required bond payment.	<ul style="list-style-type: none">The maximum amount of bonds approved in the election does not have to be issued immediately. The school district may choose to issue the bonds in series over periods of time. This option assists with long-term capital planning, bus and technology replacement programs, as well as increasing total capital funding available.

School district voted bonds professional services team members

Municipal advisor

- Responsible for the financial plan and issuance of the voted bonds. Duties include:
 - Calculating the voted bonds financial plan alternatives
 - Calculating the estimated bond millage rate
 - Financial portion of SBQLP application (if applicable)
 - Bond sales process
 - Official statement preparation
 - Bond rating assistance
 - Bond sale calculations and closing assistance

Bond counsel

- Responsible for creating and reviewing the legal attributes of the voted bonds project. Duties include:
 - Reviewing legal parameters of the project
 - Reviewing SBQLP application (if qualified)
 - Preparing ballot language and election resolutions
 - Bond issuance process
 - Bond authorizing resolutions
 - Review/prepare official statement
 - Legal opinion and bond closing documents

Construction team

- Responsible for creating the construction plan of the voted bonds project. Duties include:
 - Facility and infrastructure studies
 - Facility design and configuration alternatives, including construction cost estimates
 - Construction parts of SBQLP application (if qualified)
 - Design, construction and implementation of improvements approved by the community
- Note: Construction team members can include architect, construction manager, owner's representative, technology consultant, and others.

School Bond Qualification and Loan Program ("SBQLP").

School District Voted Bonds Long-Term Planning Objective:



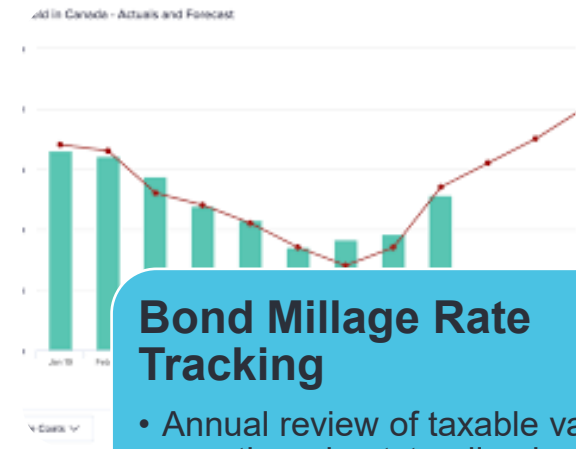
Facilities and Equipment Assessments

- What are our facility needs in the long-term?
- What improvements will make our district stand out?
- Are future bus and technology purchases needed?



Financial alternatives/millage analysis

- What funding options are available at what millage rates?
- How do we use the bond series approach to assist us?



Bond Millage Rate Tracking

- Annual review of taxable value growth and outstanding bond payments.
- Tracking long-term bond millage rate
- Planning when next election is available.

***Planning ideally starts 1 ½ to 2 years prior to the election date.**

Illustration of Voted Bonds Capital Plan

	Bond Series			Total Election
	20X4	20X6	20X8	
Instructional technology	\$750,000	\$750,000	\$750,000	\$2,250,000
Bus purchases	500,000	500,000	500,000	1,500,000
High school			15,000,000	15,000,000
Middle school		10,000,000		10,000,000
Elementary school A	5,000,000			5,000,000
Elementary school B	5,000,000			5,000,000
Elementary school C	5,000,000			5,000,000
Total bond par amount	<u>\$16,250,000</u>	<u>\$11,250,000</u>	<u>\$16,250,000</u>	<u>\$43,750,000</u>
Plus estimated interest income [1]	<u>\$30,000</u>	<u>\$20,000</u>	<u>\$30,000</u>	<u>\$80,000</u>
Total estimated funding available	<u>\$16,280,000</u>	<u>\$11,270,000</u>	<u>\$16,280,000</u>	<u>\$43,830,000</u>

[1] Interest earned from bond proceeds can be used to fund additional capital improvements.
Baker Tilly Investment Services assists school districts with this process.



Bond Election Timetable

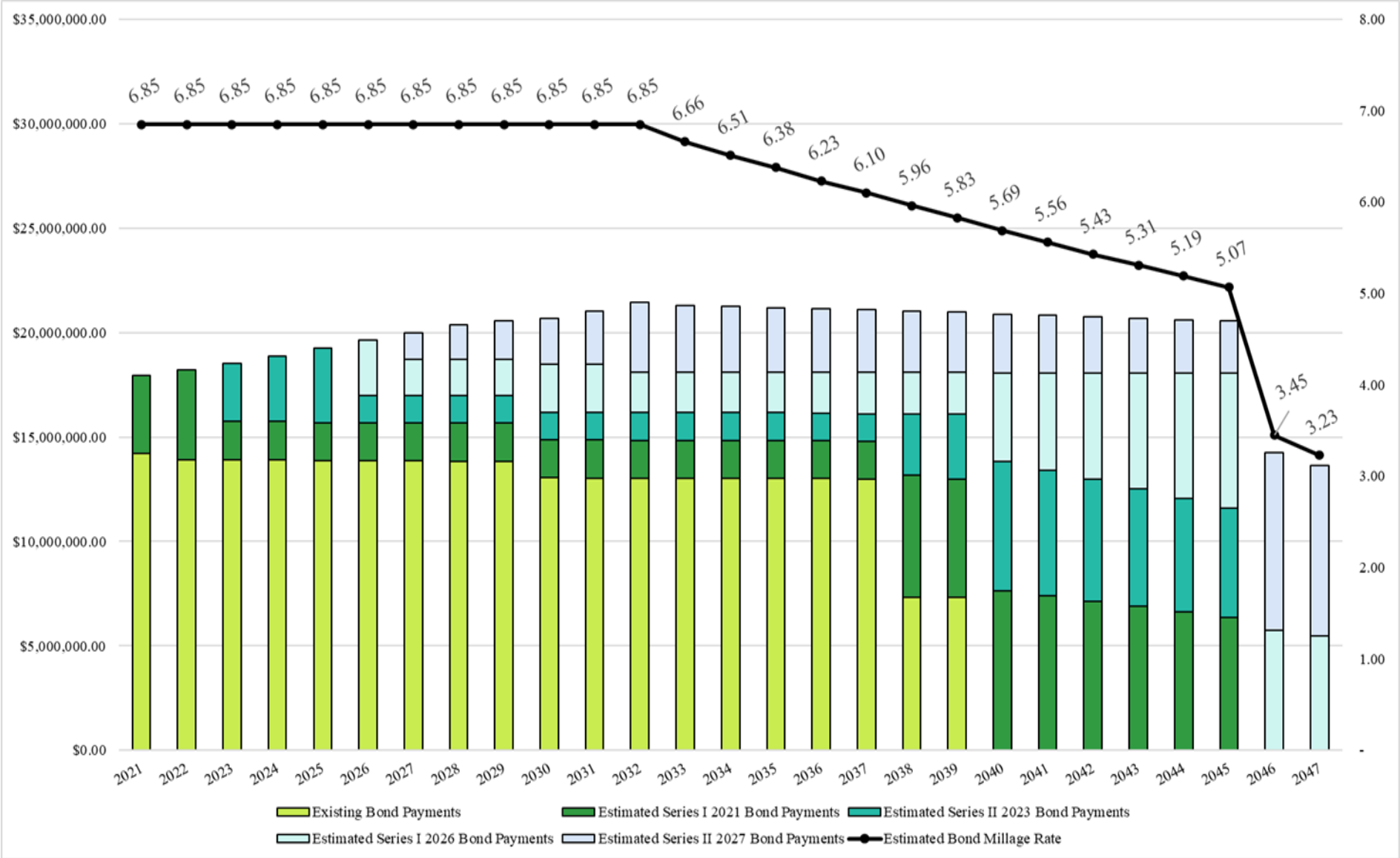
<u>PRIOR TO ELECTION</u>	<u>REQUIRED ACTION</u>
5 months +	<u>PREPARE TREASURY APPLICATION:</u> Complete draft of the Application for Preliminary Qualification (“PQ Application”).
4 to 5 months	<u>TREASURY MEETING:</u> Meeting with Treasury to review draft PQ Application.
4 months +	<u>BOARD ACTION:</u> Board Resolution to approve the final PQ Application and its submission to Treasury. TREASURY REQUIRES 30 DAYS FOR APPROVAL
3 months +	<u>TREASURY APPROVAL:</u> Approval of the PQ Application from Treasury.
3 months +	<u>BOARD ACTION:</u> Board Resolution certifying the Bond Proposal to its Election Coordinator (i.e., the XYZ County Clerk) for submission to the electors at the selected election date.
3 months (12 weeks)	<u>SUBMISSION OF BOND PROPOSAL:</u> School District must submit the certified Bond Proposal to its Election Coordinator no later than 4 p.m. on this date
ELECTION DATE	

Voted Bonds Allowable Election Dates

2024	2025	2026
February 27, 2024*	N/A	N/A
May 7, 2024	May 6, 2025	May 8, 2026
August 6, 2024	August 5, 2025	August 7, 2026
November 5, 2024**	November 4, 2025	November 6, 2026**

*Presidential Primary Election Date

**Regular School Election Date



Portage Public Schools August 2021 Bond Election

2021 Bond Series I	\$50,000,000
2023 Bond Series II	38,965,000
2024 Bond Series III	43,380,000
2026 Bond Series IV	43,380,000
Total election	<u>\$175,725,000</u>

Statutory Requirements for a Sinking Fund

Pre-2017 Voter Authorization	Post-2016 and Pre 2023 Voter Authorization	Post-2022 Voter Authorization
<ul style="list-style-type: none"> Up to 5 mills for up to 20 years. 	<ul style="list-style-type: none"> Up to 3 mills for up to 10 years. 	<ul style="list-style-type: none"> Up to 3 mills for up to 10 years.
<ul style="list-style-type: none"> Purchase of real estate for sites for, and the construction or repair¹ of, school buildings. NO EQUIPMENT OR FURNISHINGS. 	<ul style="list-style-type: none"> Purchase of real estate for sites for, and the construction or repair¹ of, school buildings. NO EQUIPMENT OR FURNISHINGS OTHER THAN THE FOLLOWING: <ul style="list-style-type: none"> School Security Improvements³; Technology⁴; 	<ul style="list-style-type: none"> Purchase of real estate for sites for, and the construction or repair¹ of, school buildings. NO EQUIPMENT OR FURNISHINGS OTHER THAN THE FOLLOWING: <ul style="list-style-type: none"> School Security Improvements³; Technology⁴; Student Transportation Vehicles⁵ and parts, supplies and equipment to maintain these vehicles; Trucks and Vans⁶ and parts, supplies and equipment to maintain these vehicles.
<ul style="list-style-type: none"> NO MAINTENANCE² 	<ul style="list-style-type: none"> NO MAINTENANCE² 	<ul style="list-style-type: none"> NO MAINTENANCE²
<ul style="list-style-type: none"> ANNUAL AUDIT 	<ul style="list-style-type: none"> ANNUAL AUDIT 	<ul style="list-style-type: none"> ANNUAL AUDIT

Statutory Requirements for a Sinking Fund - Footnotes

¹ **“Repair”** – putting back in good condition – curative.

² **“Maintenance”** – keeping in good condition – preventative.

³ **“School Security Improvements”** - any capital improvement or purchase that is designed to act as a deterrent to unauthorized entry of persons or items onto school premises or to otherwise promote security, including, but not limited to, metal detectors, locks, doors, lighting, cameras, and enhancements to entryways. School security improvement also includes a mobile telephone application that provides the ability to communicate with personnel on site while also connecting an emergency telephone call to a 9-1-1 center. School security improvement does not include personnel costs or operation costs related to a capital improvement or purchase or related to a mobile telephone application.

⁴ **“Technology”** – as defined in Section 1351a of the Revised School Code which is as follows

As used in this section, "technology" means any of the following:

- (a) Hardware and communication devices that transmit, receive, or compute information for pupil instructional purposes.
- (b) The initial purchase of operating system software or customized application software, or both, accompanying the purchase of hardware and communication devices under subdivision (a).
- (c) The costs of design and installation of the hardware, communication devices, and initial operating system software or customized application software authorized under this subsection.

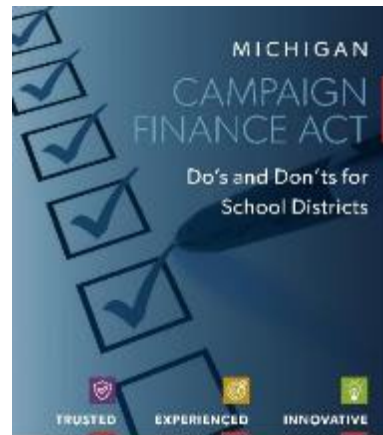
⁵ **“School Transportation Vehicles”** – defined by Treasury to mean school buses or other school related vehicles that are used to transport students.

⁶ **“Trucks and Vans”** – must be registered under the Michigan Vehicle Code and used to carry parts, equipment and personnel for or in the maintenance of school buildings.

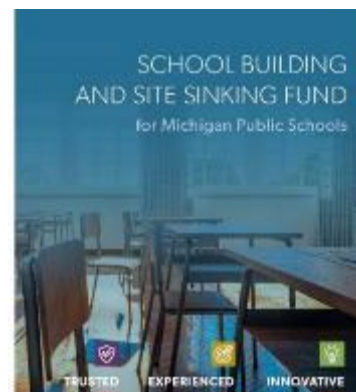
Sinking Funds Revenue Stream Illustration

Year	Taxable Value	Estimated Growth Percentage	Sinking Fund Millage Rate Alternatives		
			1.00	2.00	3.00
1	580,000,000		\$580,000	\$1,160,000	\$1,740,000
2	585,800,000	1.00%	585,800	1,171,600	1,757,400
3	591,658,000	1.00%	591,658	1,183,316	1,774,974
4	597,574,580	1.00%	597,575	1,195,149	1,792,724
5	603,550,326	1.00%	603,550	1,207,101	1,810,651
Totals			\$2,958,583	\$5,917,166	\$8,875,749

Questions?



This practice guide discusses generally the Michigan sales tax obligations of Michigan public schools under the Michigan General Sales Tax Act, Act 167, Public Acts of Michigan, 1933, as amended (MCL 207.51 et seq.). The Act imposes a tax on most retail sales of tangible personal property at a rate of 6% of the seller's gross proceeds from the sale. Under the Act retail sales to public schools for their own use, storage or consumption are generally exempt from sales tax and retail sales made by public schools are generally subject to sales tax. However, exceptions apply for various types of sales made by public schools.



This practice guide discusses the requirements for the levy of a building and site sinking fund by school districts under Section 121 of the Michigan General School Code, MCL 380.121. Section 121 requires that, with some exceptions, a school district may levy a sinking fund for its own use, storage or consumption. The guide provides a checklist of items that should be included in the sinking fund proposal and discusses the requirements for the levy of a sinking fund and the purchase of school equipment.



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FOIA/OMA/Governance	Energy Conservation
Technology	Property Disposition/Real Estate
Labor Agreements	Investigations



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Baker Tilly - Services available for school districts

- Capital improvement planning
- Bond issuance: voted, non-voted, energy conservation, refinancing
- Bond continuing disclosure
- State aid note issuance and cash flow
- Arbitrage/rebate calculations
- Investment advisory
- Inflation Reduction Act (“IRA”) assistance

Our Michigan presence



- 114 team members
- 11 partners
- Named "Metro Detroit Best and Brightest Company to Work For" for the 8th consecutive year
- Over 250 communities served with bond issuance in excess of \$6.1 billion completed



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largest accounting
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6,500+
team members



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2,000+
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\$1.3B
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