



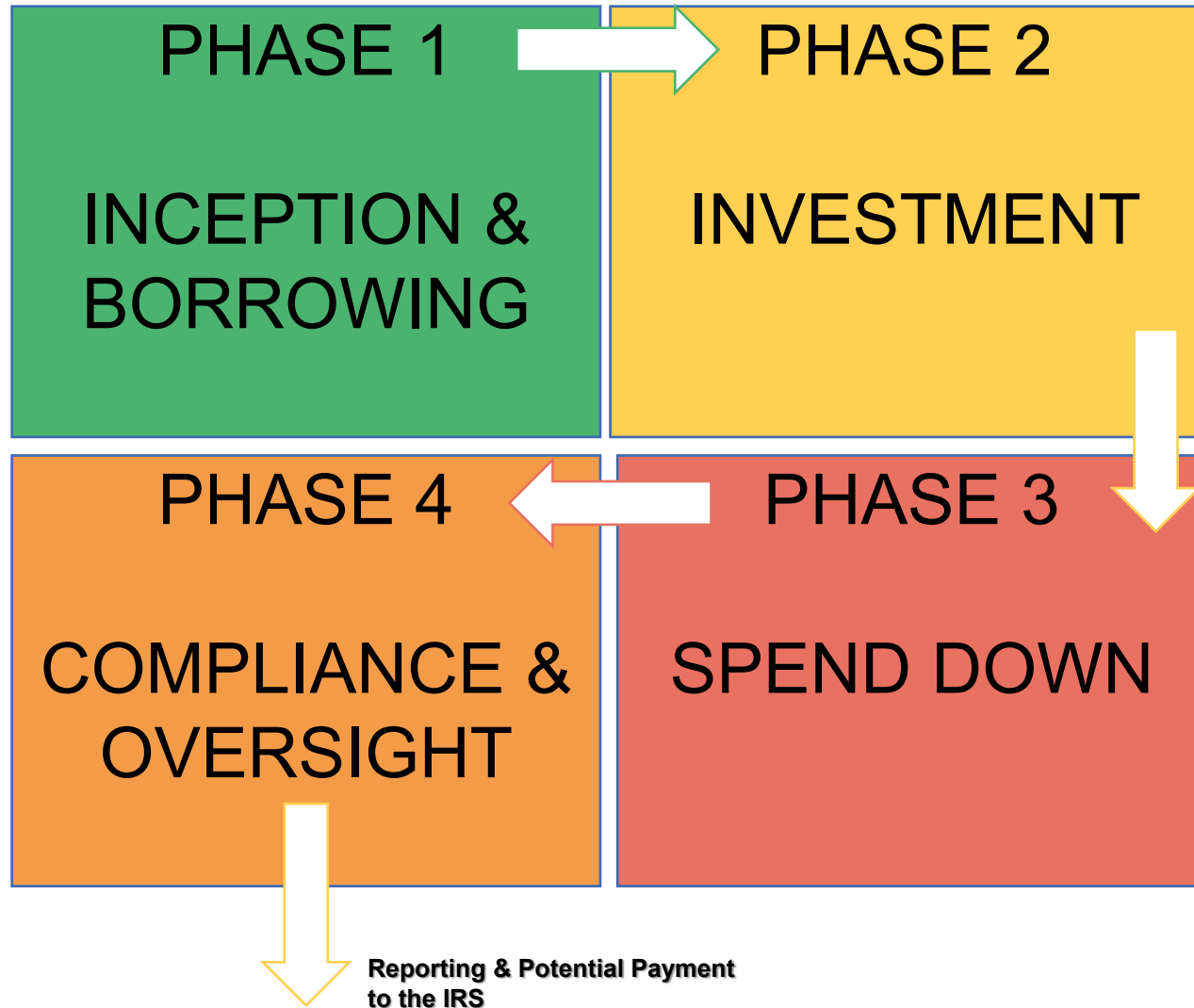
The Federal Reserve, Borrowing Rates, Investing Bond Proceeds & Understanding Arbitrage Rebate

Presented to: CMSBO Regional Group

January 9, 2026



The Life Cycle of a Bond Dollar





The Federal Reserve and Fed Funds Rate 101

1. The Federal Reserve System ("The Fed")

- **What it is:** The central bank of the United States.
- **The Role:** It is the "Mechanic" of the economy. Its dual mandate is to keep the engine running smoothly by balancing two things:
 - **Maximum Employment** (Everyone who wants a job can get one).
 - **Price Stability** (Keeping inflation low and predictable, ideally around 2%).

2. The FOMC (Federal Open Market Committee)

- **What it is:** The specific group of people *within* the Fed who make the decisions on interest rates. It consists of 12 members (7 Board of Governors + 5 Reserve Bank Presidents).
- **The Role:** They meet 8 times a year (about every 6 weeks) to vote on whether to raise, lower, or hold interest rates.
- **Impact:** When you see news headlines like "*The Fed hikes rates*," it specifically means the FOMC voted to increase the target range.

3. The Federal Funds Rate ("Fed Funds")

- **What it is:** The interest rate that commercial banks charge *each other* for overnight loans.
- **Why it matters:** This is the "Base Rate" for the entire global economy. It is the only rate the Fed controls *directly*.
- **The Domino Effect:**
 - Fed lowers Fed Funds Rate → Banks lower Prime Rate → Credit Card/Auto Loan Rates Go Down → **Short-term Investment Rates (like LGIPs) go Down.**

The Disconnect or Misnomer – (Borrowing vs. Investing)

1. The Fed Controls the "Short End" (Your Investment Rates)

- When the FOMC lowers the Fed Funds Rate, the interest rate on your **Local Government Investment Pool (LGIP)** or Money Market Fund reacts almost immediately.



2. The Market Controls the "Long End" (Your Borrowing Rates)

- The Fed *does not* set the rate for your 10-year, 20-year or 30-year school bond. That rate is set by an interplay between several different macro and micro forces. For Example, on the macro level (U.S. Treasury market, inflation, and federal tax law) and on a micro basis investor sentiments, supply and demand.

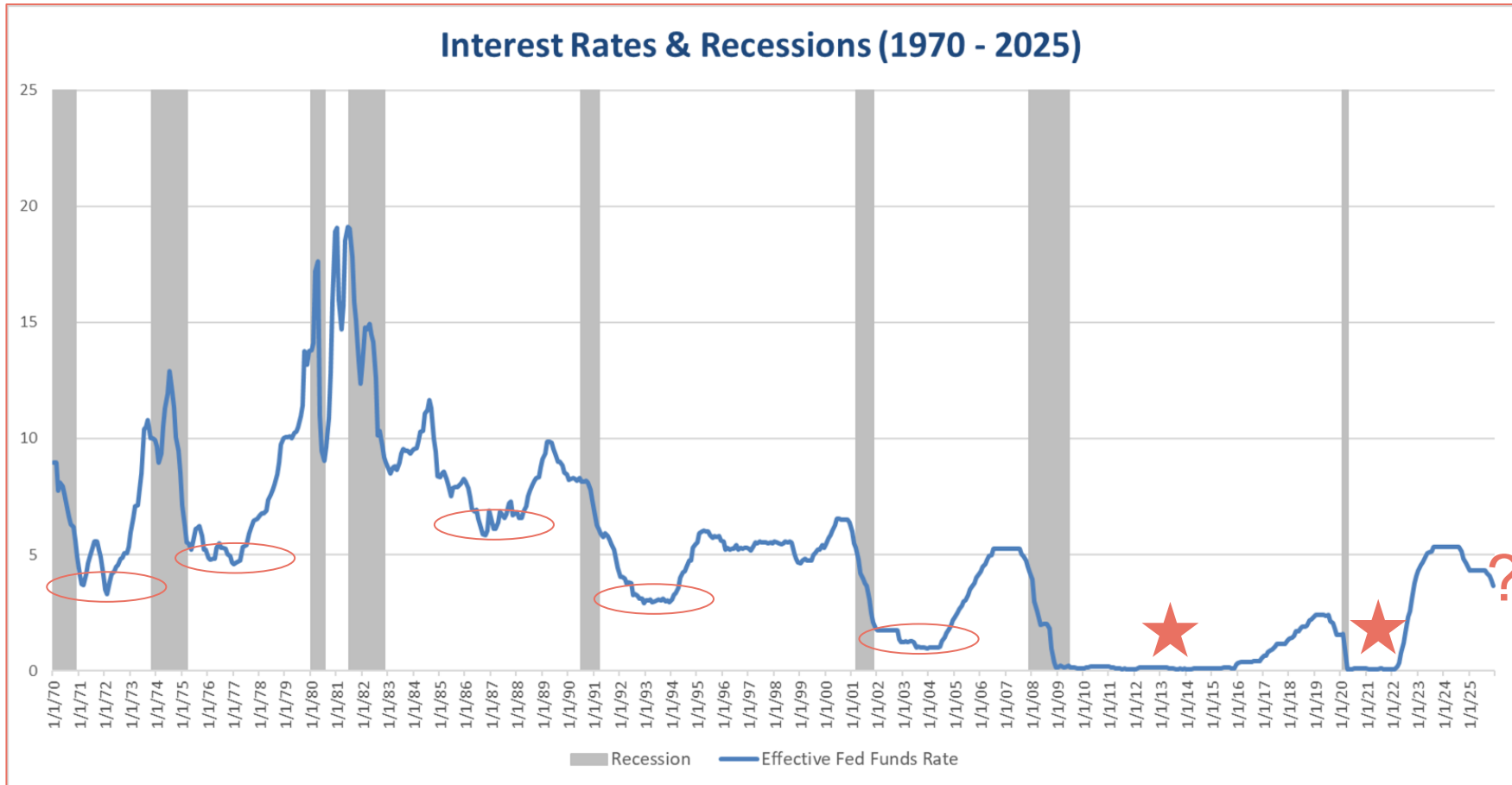
A table showing bond market data with columns for COUPON, NAME, YIELD, and a numerical value. The table lists various bond maturities and their corresponding yields and values.

COUPON	NAME	YIELD	
0.10 %	3 Month	0.18 %	+12
0.30 %	6 Month	0.42 %	+26
0.40 %	1 Year	0.58 %	+36
0.60 %	2 Year	0.80 %	+48
0 %	5 Year	1.15 %	+51
0 %	10 Year	1.48 %	+47



The Recent Normal – Deep Economic Shocks (Great Recession & COVID)

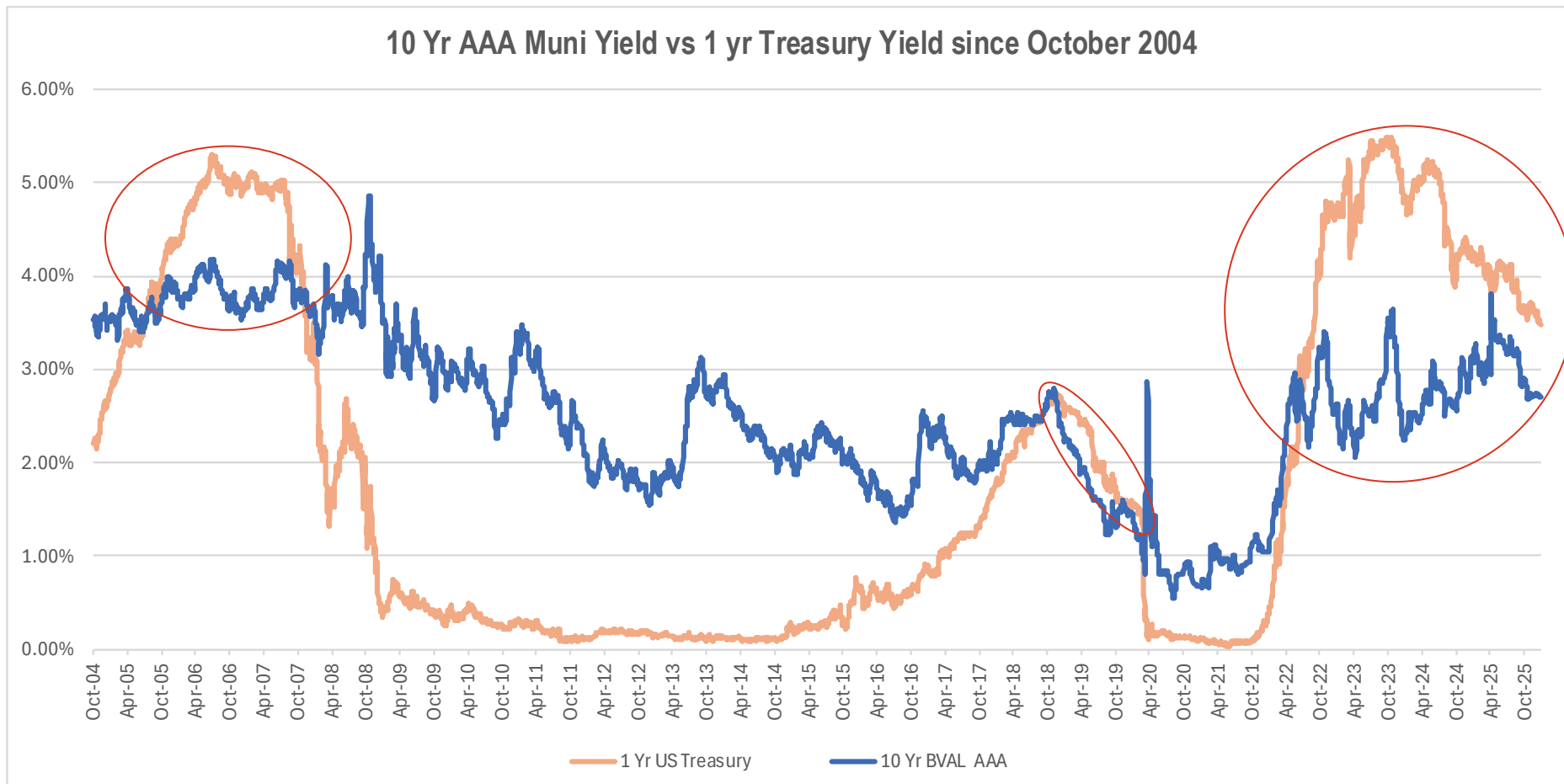
- The US Economy has recently experienced two major economic emergencies which has conditioned us to think that when the economy slows, **rates go to zero**.



Source: Board of Governors of the Federal Reserve System (US) via FRED®



Positive Arbitrage Environment

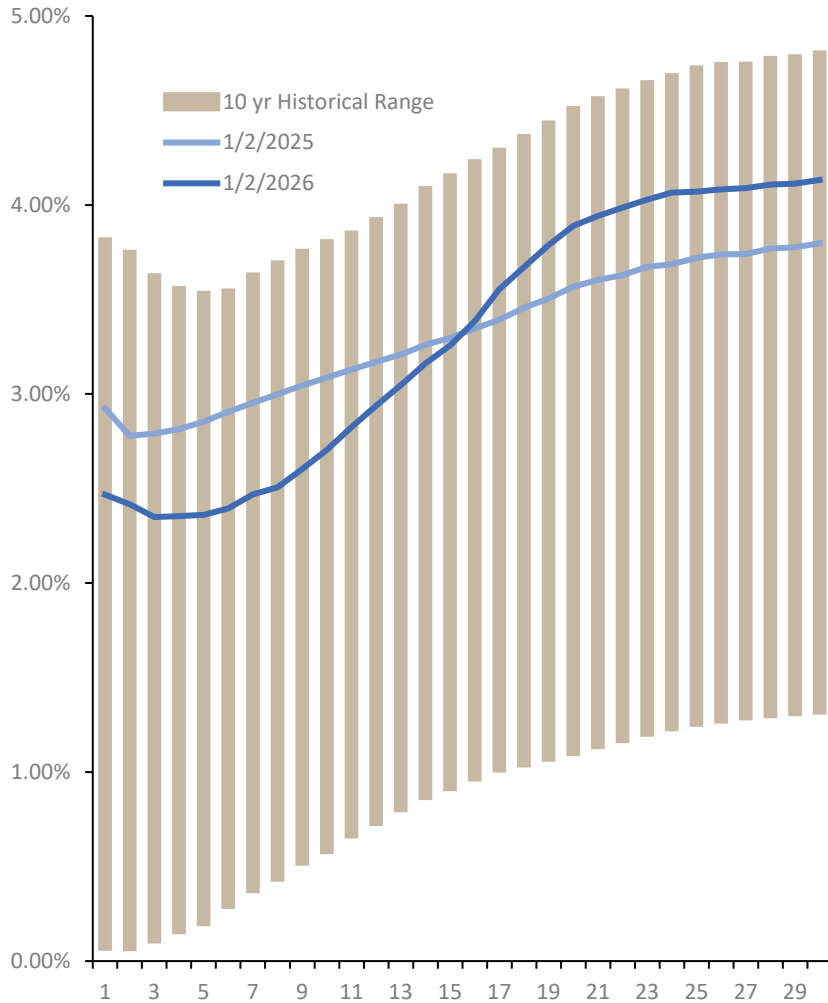


Source: Bloomberg

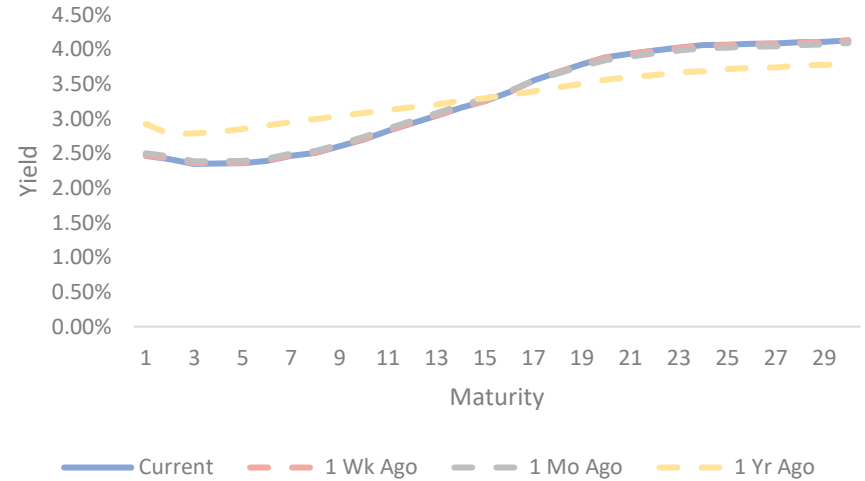


Michigan K-12 Municipal Bond Borrowing Rates - Current

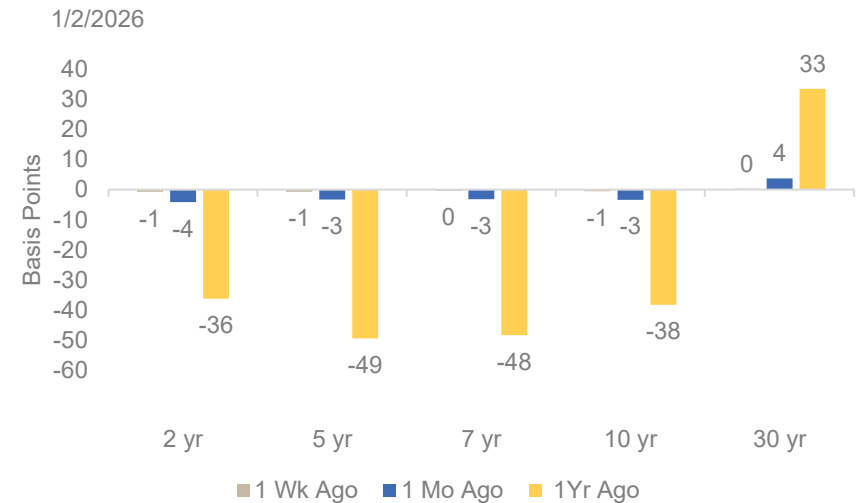
AAA Municipal Curve



BVAL AAA G.O. Curve



BVAL AAA G.O. Yield Curve Changes





4th Quarter Michigan K-12 Bond Sale Summary Table

MICHIGAN K12 COMPETITIVE BOND SALES - Q4 2025													
Sale Date	Issuer	Amount	Title/Type	Federal Tax Status	Bank Qualified	Moody's	S&P	Final Maturity	Coupon Rate	Yield*	Spread**	Arb. Yield	T.I.C.****
10/09/25	Hudson Area Schools	\$1,910,000	2025 School Building and Site Bonds (LTGO)	Tax-Exempt	Yes	--	AA (AGM) / A+	2045	4.000%	4.080%	18 bps	3.78%	4.01%
10/30/25	Union City Community Schools	\$2,500,000	2025 School Building and Site Bonds, Series I (UTGO)	Tax-Exempt	Yes	--	AA (Insured) / A-	2042	4.000%	4.000%	53 bps	3.47%	3.82%
11/04/25	Marysville Public Schools	\$18,310,000	2025 School Building and Site Bonds (UTGO)	Tax-Exempt	N/A	Aa1/A1***	--	2045	4.250%	4.340%	57 bps	3.83%	3.95%

*Reflects coupon / yield for final maturity

**Reflects spread to applicable index (BVAL AAA for tax-exempt financings and applicable Treasury for taxable financings) as of the time of pricing. Spreads are calculated to the monthly BVAL index aligning closest to the month of the final maturity

***State Backed

****Reflects the estimated True Interest Cost ("TIC") of the Bonds.

MICHIGAN K12 NEGOTIATED BOND SALES - Q4 2025													
Pricing Date	Issuer	Amount	Title/Type	Federal Tax Status	Bank Qualified	Moody's	S&P	Final Maturity	Coupon Rate	Yield*	Spread***	Arb. Yield	T.I.C.****
10/07/25	Eastpointe Community Schools	\$15,530,000	2025 School Building and Site Bonds	Tax-Exempt	N/A	--	AA/A***	2050	5.000%	4.66%	53 bps	4.19%	4.52%
10/15/25	Fennville Public Schools	\$21,000,000	2025 School Building and Site Bonds	Tax-Exempt	N/A	--	AA/A+***	2050	5.000%	4.55%	51 bps	4.07%	4.43%
10/21/25	Bath Community Schools	\$24,290,000	2025 School Building and Site Bonds	Tax-Exempt	N/A	Aa1/A2***	--	2042	5.000%	4.00%	52 bps	3.35%	3.67%
10/30/25	Wayland Union Schools	\$27,575,000	2025 School Building and Site Bonds, Series II	Tax-Exempt	N/A	--	AA/A+***	2050	5.000%	4.46%	48 bps	3.91%	4.33%
11/12/25	New Haven Community Schools	\$11,490,000	2025 Refunding Bonds (UTGO)	Tax-Exempt	N/A	Aa1/A2***	--	2030	5.000%	2.68%	31 bps	2.71%	2.80%
11/13/25	Grosse Pointe Public School System	\$23,325,000	2025 School Building and Site Bonds (UTGO)	Tax-Exempt	N/A	Aa3	--	2045	5.000%	4.19%	43 bps	3.87%	4.26%
11/20/25	Oxford Community Schools	\$21,455,000	2025 Refunding Bonds (UTGO)	Tax-Exempt	N/A	Aa1/Aa3***	--	2032	5.000%	2.76%	30 bps	2.70%	2.87%

*Reflects coupon / yield for final maturity

**Reflects spread to applicable index (BVAL AAA for tax-exempt financings and applicable Treasury for taxable financings) as of the time of pricing. Spreads are calculated to the monthly BVAL index aligning closest to the month of the final maturity

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****Reflects the estimated True Interest Cost ("TIC") of the Bonds.



Implication: The Small Issuer Exception

Consideration: Smaller Bond Series – no rebate liability vs. larger Bond Series locking in rates now and paying a potential arbitrage rebate.

Implication: Construction Fund Spending Exception

Consideration: Project Draw Schedule & Allocation of Projects Between Series



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