

1. Strong Housing Market & Increasing Taxable Values

Here are some practical implications of this persistent economic trend for your consideration and planning purposes:

Bond Programs:

- Many district's **bonding capacity** may have increased substantially due to strong taxable value growth.
- The **timing** of future millage drops, and subsequent bond series could be advanced sooner than anticipated.
- With increased taxable values existing debt millage rates may produce excess annual tax revenues.
 - There are **limits** on your debt service fund ending balance to maintain "bona fide" status.¹

Headlee Rollbacks: Amendments to the Michigan Constitution approved by voters in 1978 referred to as the "Headlee" amendments, require a taxing jurisdiction (including K-12 school districts) to reduce its millage when annual growth on existing property is greater than the rate of inflation. The following millages are subject to rollback:²

- Operating Millages
- Sinking Fund Millages
- Recreation and Playground Millages

Note: Voted unlimited tax debt millages are NOT subject to roll back.

The state aid formula assumes a district will receive the full 18 mills of operating tax revenues. Headlee rollbacks past 18 mills can be prevented if a K-12 district has a buffer or "**hedge**" operating millage above the 18.00 mill limit.

If the K-12 District's operating millage rate drops below 18 mills, the K-12 District would not receive the full amount of state aid.

1. Internal Revenue Code of 1954, US Treasury Regulations, and Michigan Department of Treasury

2. Michigan Municipal League and Michigan Department of Treasury

2. Recent Interest Rate Activity

The aggregate trend of recent economic data releases may imply cooling inflation pressures coinciding with market volatility derived from tariff uncertainty. This, paired with the Federal Reserve's March decision to maintain the current Fed Funds rate at 4.25 - 4.50%, indicates that we may be in for a volatile ride with near-term future interest rate trends. All these factors could impact borrowing costs, for both long term bonds and short-term notes, and interest earnings for the district's general fund, capital projects funds and debt retirement funds.

Budgeting for Interest Earnings: Institutional money market funds are currently generating around a 4.35%³ return. While we do not expect rates to go back to 0% overnight, a more conservative outlook for interest rate earnings may be warranted. The calendar of remaining Federal Reserve meeting dates to occur during the 2024/25 school district fiscal year are provided below:

- 2025: May 6-7 | June 17-18

Muni Yields (BVAL AAA)				U.S. Treasury Yields			
Maturity	Current Yield	MTD Change	YOY Change	Maturity	Current Yield	MTD Change	YOY Change
1-year	2.55%	(0.03%)	(0.40%)	1-year	4.11%	(0.12%)	(0.97%)
5-year	2.77%	0.02%	0.34%	5-year	4.09%	(0.31%)	(0.25%)
10-year	3.06%	0.07%	0.62%	10-year	4.30%	(0.25%)	(0.03%)
30-year	4.16%	0.23%	0.55%	30-year	4.60%	(0.16%)	0.15%

Source: Bloomberg, treasury.gov

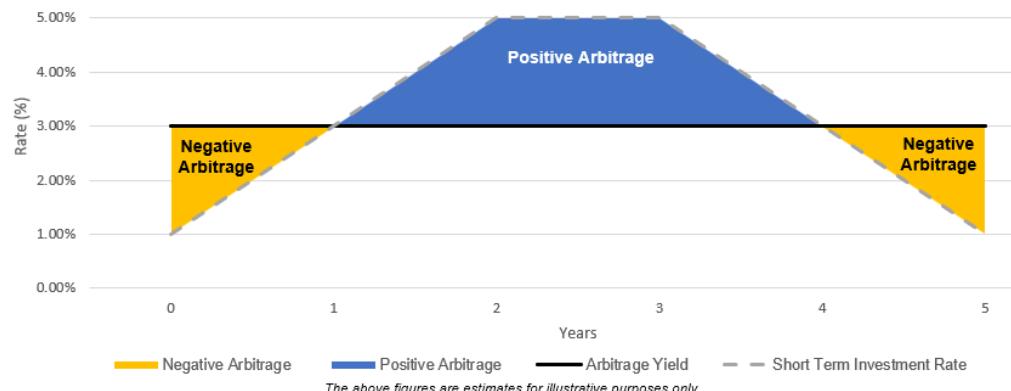
Current date: 3/17/2025

MTD represents change between current date and 2/15/2025

YOY represents change between current date and 3/18/2024

Arbitrage Rebate on Bond Capital Project Funds and Debt Retirement Funds: Given the recent volatility in short-term rates, many district's bond capital project funds and debt retirement funds are generating an investment yield greater than their outstanding bonds arbitrage yield. As a result, districts may have to pay the IRS back these excess investment earnings.

3. PFM Internal Records



3. Cybersecurity and Municipal Bond Closings

A Michigan local government's recent bond issuance was a victim of a cyber-attack, compromising their bond financing originally scheduled to close in November of 2024. This unfortunate event has brought cybersecurity back to the forefront for our local governments and school districts. However, this time shining light on the municipal bond sale closing process, and the need for the market to implement improved methods to secure financings. It is likely on your next bond closing you will see additional cybersecurity measures to protect against these types of security breaches. Some of the new strategies you will hear about may involve the following:

1. Secure File Sharing Portals
2. Encrypted Emails and/or Encrypted Documents
3. Multi-Factor Authentication
4. Virtual calls to verify wiring instructions
5. Review of cybersecurity insurance coverage and policies

4. Potential Elimination of Tax Exempt Status for Municipal Bonds

Congress will once again consider changes to the tax code in 2025, including discussions about the elimination of the tax exemption for municipal bonds. This same idea was proposed with the prior Trump administration; however, it did not make its way into the final version of the [Tax Cuts and Jobs Act of 2017](#). Many local government professional associations have teamed up with the Government Finance Officers Association ("GFOA") to educate lawmakers on the importance of retaining this critical tax code feature. A sampling of these additional parties includes the American School Business Officials International ("ASBO"), the National League of Cities ("NLC"), and the National Association of Counties ("NACO"). If you are interested in reading more about this important topic, please visit the GFOA's website on Tax-Exempt Municipal Bonds and Infrastructure and their current #BuiltbyBonds educational campaign by clicking [here](#).

Source: <https://www.gfoa.org/>

5. Bond Refinancing Opportunities

With the recent volatility in tax-exempt borrowing rates, some economists (as shown below) are anticipating a more gradual decline in long term interest rates over the course of 2025 than previously estimated. As a reminder, tax-exempt advance refunding is no longer permissible (Tax Cuts and Jobs Act of 2017); therefore, a refunding is the most plausible for districts within 90-days of the call date (a current tax exempt refunding) of the refunded bonds.

Provided below is an interest rate forecast for municipal tax-exempt bond rates:

Rate Forecasts	3/14/2025	1Q2025	2Q2025	3Q2025	4Q2025
2Y MMD	2.62%	2.65%	2.40%	2.35%	2.25%
5Y MMD	2.80%	2.80%	2.50%	2.60%	2.40%
10Y MMD	3.12%	3.15%	3.20%	2.95%	2.70%
30Y MMD	4.21%	4.20%	4.20%	4.05%	3.80%

Source: J.P. Morgan Research as of 3.14.25, figures represent forecasted rates and are subject to change

6. Upcoming Critical Deadlines & Key Dates for Michigan Public School Debt Management

April 29 – May 1, 2025	MSBO 86 th Annual Conference – If you will be attending MSBO, we would love to see you, stop by and join in the fun!
May 1, 2025	Bond payments due to the Paying Agent for May 1 st
May 13, 2025	County Clerk filing deadline for August 5, 2025 ballot propositions
End of June 2025	Set millage rates and approve tax rate request form L4029, including debt millage if applicable
August 12, 2025	County Clerk filing deadline for November 4, 2025 ballot propositions