Benefits of Cash Flow Forecast

- Ensures liquidity
- Can increase investment income / decrease interest expense
  - Amounts available for investment
  - Period of time to hold the investment
  - Assists with investment strategies
- Forecasts problems – trend lines
  - Revenues not being collected properly
  - Expenditures exceed budget
Methods to Develop a Cash Flow

- **Historical Method**
  - If the District is stable from year to year
  - If the District’s historical data is reliable and in a consistent format

<table>
<thead>
<tr>
<th>Taxable Value Information</th>
<th>Property Taxes Collections</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-Pre Taxable Value</td>
<td>$151,527,203</td>
</tr>
<tr>
<td>Millage Rate</td>
<td>18,0000</td>
</tr>
<tr>
<td>Comm PP Taxable Value</td>
<td>$14,317,157</td>
</tr>
<tr>
<td>Millage Rate</td>
<td>6,0000</td>
</tr>
<tr>
<td>Local Revenue From Millage</td>
<td>$2,813,393</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>FYE</th>
<th>30-Jun</th>
<th>July</th>
<th>August</th>
<th>September</th>
<th>October</th>
<th>November</th>
<th>December</th>
<th>January</th>
<th>February</th>
<th>March</th>
<th>April</th>
<th>May</th>
<th>June</th>
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</thead>
<tbody>
<tr>
<td>2018</td>
<td>0.00%</td>
<td>9.67%</td>
<td>43.87%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>12.78%</td>
<td>6.97%</td>
<td>0.00%</td>
<td>6.74%</td>
<td>6.26%</td>
<td>1.57%</td>
<td>12.14%</td>
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</tr>
<tr>
<td>2017</td>
<td>0.00%</td>
<td>7.20%</td>
<td>54.06%</td>
<td>5.80%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>9.53%</td>
<td>2.89%</td>
<td>12.49%</td>
<td>0.69%</td>
<td>7.34%</td>
<td>0.00%</td>
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</tr>
<tr>
<td>2016</td>
<td>0.00%</td>
<td>19.08%</td>
<td>0.00%</td>
<td>42.07%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>10.09%</td>
<td>4.24%</td>
<td>13.98%</td>
<td>4.43%</td>
<td>0.00%</td>
<td>6.11%</td>
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</tr>
<tr>
<td>2015</td>
<td>0.00%</td>
<td>11.79%</td>
<td>53.27%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>1.37%</td>
<td>11.26%</td>
<td>3.94%</td>
<td>11.82%</td>
<td>0.16%</td>
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<td>6.39%</td>
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</tr>
<tr>
<td>2014</td>
<td>13.11%</td>
<td>52.75%</td>
<td>4.72%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.81%</td>
<td>5.83%</td>
<td>5.88%</td>
<td>5.06%</td>
<td>5.94%</td>
<td>0.00%</td>
<td>5.91%</td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>0.00%</td>
<td>0.00%</td>
<td>72.29%</td>
<td>0.47%</td>
<td>0.00%</td>
<td>0.13%</td>
<td>11.35%</td>
<td>7.46%</td>
<td>7.72%</td>
<td>0.59%</td>
<td>0.00%</td>
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<td></td>
</tr>
<tr>
<td>3 Yr Avg</td>
<td>0.00%</td>
<td>11.99%</td>
<td>32.64%</td>
<td>15.96%</td>
<td>0.00%</td>
<td>4.26%</td>
<td>8.86%</td>
<td>2.38%</td>
<td>11.07%</td>
<td>3.79%</td>
<td>2.97%</td>
<td>6.08%</td>
<td>100.00%</td>
</tr>
</tbody>
</table>

|          | $0  | $337,188 | $918,409 | $448,901 | $0  | $119,846 | $249,388 | $66,873 | $311,384 | $106,768 | $83,530 | $171,105 | $2,813,393 |

- **Projection Based Forecasting**
  - If the District is growth or declining
  - Material changes are occurring with the District
  - Material change in contracts
  - Tax cycle change
  - Payroll cycle change
  - New revenue stream (i.e. sinking fund millage)
Thoughts on how to Mitigate the Cash Flow Borrowing Amount Needed

- Shifting the operating millage cycle?
- Has the District’s operation millage been reduced by the Headlee Factor?
- Can the District structure its cash flow borrowing with potentially interest cost reducing features?
- Review the operating budget to identify cost(s) that could shift into a capital millage?
- Is the District’s excess fund balance suitably invested?
Sinking Funds

What is a sinking fund?

- Voter approval required
- 3 mill maximum
- 10 year maximum
- Projects typically financed on a “pay as you go” basis
- May issue limited tax bonds and use sinking fund to pay for larger projects which are eligible to be funded from sinking fund levies.

Sinking Fund Uses

- Purchase of real estate for school building sites
- Construction, remodeling or repair of school buildings
- Technology equipment
- School safety improvements
- Funds can **NOT** be used to purchase buses
Voted School Bond Issues

- **Voter Approval Required**
- **Unlimited Debt Millage**
- **Permissible Expenditures**
  - Purchasing, erecting, completing, remodeling, or equipping or reequipping school buildings or other facilities;
  - Furnishing or refurnishing new or remodeled school buildings;
  - Acquiring, preparing, developing or improving sites;
  - Purchasing school buses;
  - Acquiring, installing or equipping or re-equipping school buildings for technology.
- **Impermissible Expenditures**
  - Maintenance and repair costs;
  - Operating costs;
  - Upgrades to operating system or application software;
  - Training, consulting or software support;
  - Most computer media.
Cash Flow Borrowing Options
Cash Flow Borrowing

- Authorized under the Revised School Code, Section 1225

- Short Term Cash Flow Borrowings:
  - State Aid Notes (SANs)
  - Tax Anticipation Notes (TANs)
  - Line of Credit
Sample SAN Financing Timeline

1. Prepare Cash Flow / Determine Need
2. Verify / Obtain “Qualified Status”
3. Determine Sale Method
4. Adopt Note Authorizing Resolution
5. Apply to MFA / Solicit Bids / Note Pricing
6. Finalize Closing Documents
7. Note Closing / Funds Received
State Aid Note - Borrowing Restrictions

- Federal Tax Lax
  - Maximum amount of tax exempt notes is governed by federal law

- Must have deficit cash position during fiscal year without the issuance of a State Aid Note

- Michigan Law
  - Pledge up to 70% of state aid (within fiscal year)
  - Pledge up to 50% of state aid (during last 4 month of fiscal year, for next fiscal year end)

- Must show ability to repay State Aid Note
Typical SAN Financing Options

- Solicit bids through an RFP process / Private Placement
- Michigan Finance Authority
  - August SAN pool
  - Spring SAN pool / Additional pools based on demand
- Public Offering
  - Competitive Sale
  - Negotiated Pricing
Note / Bond Sale Methods

There are 3 methods of sale for school notes and bonds, as shown below.

1. Competitive Sale
   - Sold at a specific date and time
   - Any firm may bid on the offering – most received via internet
   - Awarded to the lowest conforming bid

2. Negotiated Sale
   - Underwriter pre-selected (may be through an RFP process)
   - Underwriter offers note / bonds for sale to investors (includes local citizens)
   - Pricing date, amount of notes or bonds and maturities flexible
   - Commonly used for complex financings, credit stories, distressed credits and/or in volatile market conditions

3. Direct or Private Placement
   - Sold directly to private investor or bank (may be through an RFP process)
   - Typically shorter bond / note terms and small par amounts
Revolving Line of Credit

- Not a common financing vehicle for K-12 short-term borrowings
- May be difficult to obtain due to Bank credit tightening policies
- Several hurdles at the Treasury level related to continuous disclosures
- Tighter controls were implemented due to historical misuse of line
  - Used as a long-term financing vehicle
  - Used for purposes outside of short-term, operational needs
  - Did not clear the lines on a regular basis

Discuss with legal counsel the process for using a line to see if it is the best fit for the District
Tax Anticipation Notes

- Pledge future tax revenues
  - As opposed to State Aid
- Not as common as State Aid Notes for Michigan school district
- Mandatory set aside required
Federal Tax Concerns

Arbitrage concerns
• Earning more interest in the bank from your note proceeds than the interest you are paying on the notes

Rebate Exceptions
• Under certain circumstances you may be able to keep the extra interest earned
  • Small Issuer
    • $5 million for non-school construction projects
  • Six month exception (100% in 6 months)

Back of the envelope test
• If in six months after the District’s note issuance the note proceeds are earning a higher interest rate than the yield of the notes than a rebate calculation should be performed if the District did not meet an exception above
About the Speaker

Nate Watson
Senior Managing Consultant

- Joined PFM in 2007
- Provides transaction management and oversight, including technical and analytical support
- Lead advisor for a number of counties and local governments in Michigan
- Over 10 years’ experience serving as a financial advisor to Michigan local governments

Nathaniel Watson, a registered Municipal Advisor Representative (Series 50), is a Senior Managing Consultant in PFM’s Michigan practice. Mr. Watson joined Public Financial Management in 2007 as a Consultant in the firm’s Ann Arbor office. Mr. Watson provides transaction management and oversight and also technical and analytical support for PFM’s Michigan clients. Mr. Watson’s experience includes general obligation bonds, revenue bonds, special assessment and tax increment financing, refunding bonds, cash flow borrowing and installment purchase financing. He has successfully completed municipal bond and note transactions using both taxable and tax-exempt structures. Mr. Watson also assists clients through all stages of the capital planning process from initial analysis for capital projects to the execution of a competitive, negotiated or privately placed bond issue. Mr. Watson is a 2005 graduate from Grand Valley State University, Seidman School of Business, with a Bachelor’s Degree in Finance and Accounting.
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