



Considerations and Strategies for Funding Capital Projects

2024 Upper Peninsula School Business Officials Conference



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Presented By

R.J. Naughton

naughtonrj@pfm.com

PFM Financial Advisors LLC

555 Briarwood Circle
Suite 333
Ann Arbor, Michigan 48108

Office: 734-994-9700
Direct: 734-794-2531
www.pfm.com

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- ◆ Ranked #1 Financial Advisor in the Michigan¹.
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16 professionals located in and serving Michigan
11 registered Municipal Advisors in Michigan



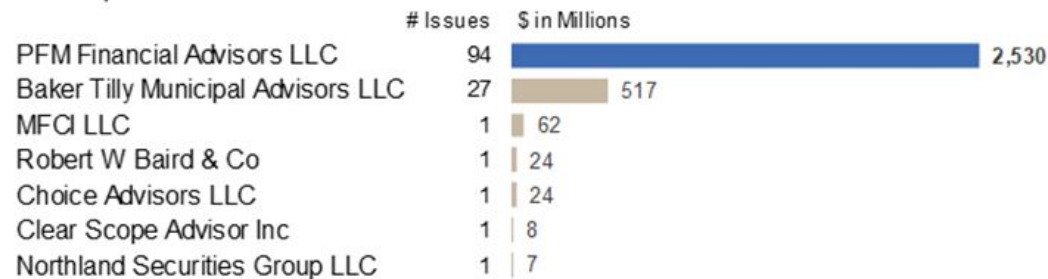
PFM Michigan K-12 Services

- ◆ Building and Site; Refunding Bonds
- ◆ Energy Conservation Financings
- ◆ State Aid Notes
- ◆ Cash Flow Analysis
- ◆ Debt Capacity Analysis
- ◆ Millage Levy Calculation and Allocation
- ◆ Sinking Fund Analysis
- ◆ Debt and Financial Policies and Procedures
- ◆ Multi-Year Financial Forecasting
- ◆ Capital Improvement Plans
- ◆ Continuing Disclosure Assistance

2023 Michigan K-12 Long Term Municipal New Issues

Municipal Financial Advisor Ranking - Full Credit to Each Financial Advisor

Source: Ipreo





Capital Project Funding Alternatives

- The following are the main finance options for Michigan k-12 schools

1. General Fund / Capital Project Funds

- Projects financed with General Fund or Capital Projects fund balances

2. Non-Voted Limited Tax General Obligation Debt

- Paid from the school operating funds, or sinking fund revenue, if allowed/authorized.
- Limited tax debt may only be issued if the total of all outstanding debt does not exceed 5% of State Equalized Value (SEV)
- Energy conservation is exempt from limitation

3. Voted Unlimited Tax General Obligation Debt

4. Sinking Funds

5. Installment Purchase Contracts

- Limited to 1.25% of outstanding Installment Purchase Contracts as percentage of taxable value – typically paid from General Funds





What is a Sinking Fund?

- Voter Approved Millage
- Maximum millage is **3 mills** for a maximum of **10 years** if voted in 2017 or later
- For sinking funds voted in 2017 or later, permitted uses may include instructional technology and security equipment
- For sinking funds voted in November 2023 or later, permitted uses may include buses
- Sinking fund millage subject to Headlee Rollback (typically triggered if the annual growth for existing property taxable value is greater than the current rate of inflation)
- Projects are typically financed on a “pay as you go” basis, and as such interest is generally not paid
- School may issue debt, typically limited tax general obligation bonds (non-voted) with the debt service paid by sinking fund receipts, known as ‘bonding within projected sinking fund receipts’





Sinking Fund Example

- The table below depicts an example of projected dollars to be generated on a 1 mill sinking fund millage over 10 years for a school district with a tax base of approximately \$325 million utilizing a taxable value growth rate of 4.50% for the first year and 3% thereafter.

Tax Year	F/Y End 6-30,	Projected Taxable Value	Growth Rate	Mills Levied [1]	Estimated Annual Revenue From Levy	Cumulative Collection	
2024	2025	\$325,358,852	5.50%	0.00	\$0	\$0	0 years
2025	2026	340,000,000	4.50%	1.00	340,000	340,000	1 years
2026	2027	350,200,000	3.00%	1.00	350,200	690,200	2 years
2027	2028	360,706,000	3.00%	1.00	360,706	1,050,906	3 years
2028	2029	371,527,180	3.00%	1.00	371,527	1,422,433	4 years
2029	2030	382,672,995	3.00%	1.00	382,673	1,805,106	5 years
2030	2031	394,153,185	3.00%	1.00	394,153	2,199,259	6 years
2031	2032	405,977,781	3.00%	1.00	405,978	2,605,237	7 years
2032	2033	418,157,114	3.00%	1.00	418,157	3,023,394	8 years
2033	2034	430,701,828	3.00%	1.00	430,702	3,454,096	9 years
2034	2035	443,622,883	3.00%	1.00	443,623	3,897,719	10 years
					<u>\$3,897,719</u>		

[1] Millage could be reduced due to Headlee Rollback if the annual growth for existing property is greater than the rate of inflation.



Bonds vs. Sinking Funds

- The table below shows common capital projects financed through bonds or sinking fund levy revenue.

Use of Proceeds	Sinking Fund	Bond
Operating Expenses	No	No
Buses ¹	Yes	Yes
Repairs	Yes	No
Other Equipment and Furnishings ²	No	Yes
Maintenance	No	No
Renovations	Yes	Yes
New Construction	Yes	Yes
Site Improvements	Yes, except playground equipment	Yes
Security Equipment ³	Yes	Yes
Technology for Instructional Use ³	Yes	Yes
Technology for Non-Instructional Use	No	Yes
Infrastructure	Yes, most types	Yes

¹Permitted for sinking funds voted since Nov. 2023 that include buses in the millage's stated purpose

²"Other Equipment" excludes security equipment and instructional technology

³Permitted for sinking funds voted since 2017 that include security or instructional technology in the millage's stated purpose



Voted School Bond Issues

◆ Voter Approval Required

Voters must authorize the school district to issue a not-to-exceed dollar amount of bonds to pay for improvements identified in the ballot proposal.

◆ Unlimited Debt Millage

The school district levies the number of mills on taxable property necessary to pay the annual principal and interest payments. Debt service is paid by the debt levy, not the General Fund.

◆ Items Required on Ballot

- **Maximum amount** of bonds
- Bond purpose
- **First year's estimated millage** rate for new bonds
- Simple **average annual millage** rate for new bonds
- Maximum **term** of the bonds
- Additional requirements for SLRF qualified bonds¹
 - Estimated amount to be borrowed from SLRF
 - Estimated interest cost of SLRF loan
 - Estimated term of the loan



¹ Source: Act
451, Public Acts
of Michigan,
© 1976, M
amended



Voted School Bonds – State Qualification



◆ Program Overview

- State guarantee for payment of debt service
- Allows use of State's ratings
 - Currently **AA** by S&P, **Aa1** by Moody's and **AA+** by Fitch
- Maximum Taxable Value growth rates used to project loan repayment and millage;
 - 5 year historical average Taxable Value growth rate for first five years
 - 20 year average growth rate thereafter, but not less than 0% or more than 3%.
- Prevailing wage required for projects funded by bonds voted February 2024 or later

◆ Borrowing From and Repaying the School Loan Revolving Fund (“SLRF”) Program¹

- Districts must levy between 7 and 13 mills of SLRF qualified debt millage
- Interest rate on the loans is 0.125% higher than the State's cost of funds
 - The current rate charged is **4.5922%**²
 - The highest rate charged in past 15 years was **6.125%**
- A school district must repay any loans from the SLRF by the Mandatory Loan Repayment Date (MLRD), which is 72 months after the final maturity on the bonds at the time of the first borrowing.

◆ Timing

- State qualification process will add at least 5 weeks to the election process

◆ District pays State Qualification Fees at closing

- Fee is based on the size of the bond issue with a \$5,000 minimum

¹ Source: Act No. 92, Public Acts of Michigan, 2005, as amended

² Source: Michigan Department of Treasury



Voted Qualified or Non-Qualified Bonds?

State-Qualified Bonds

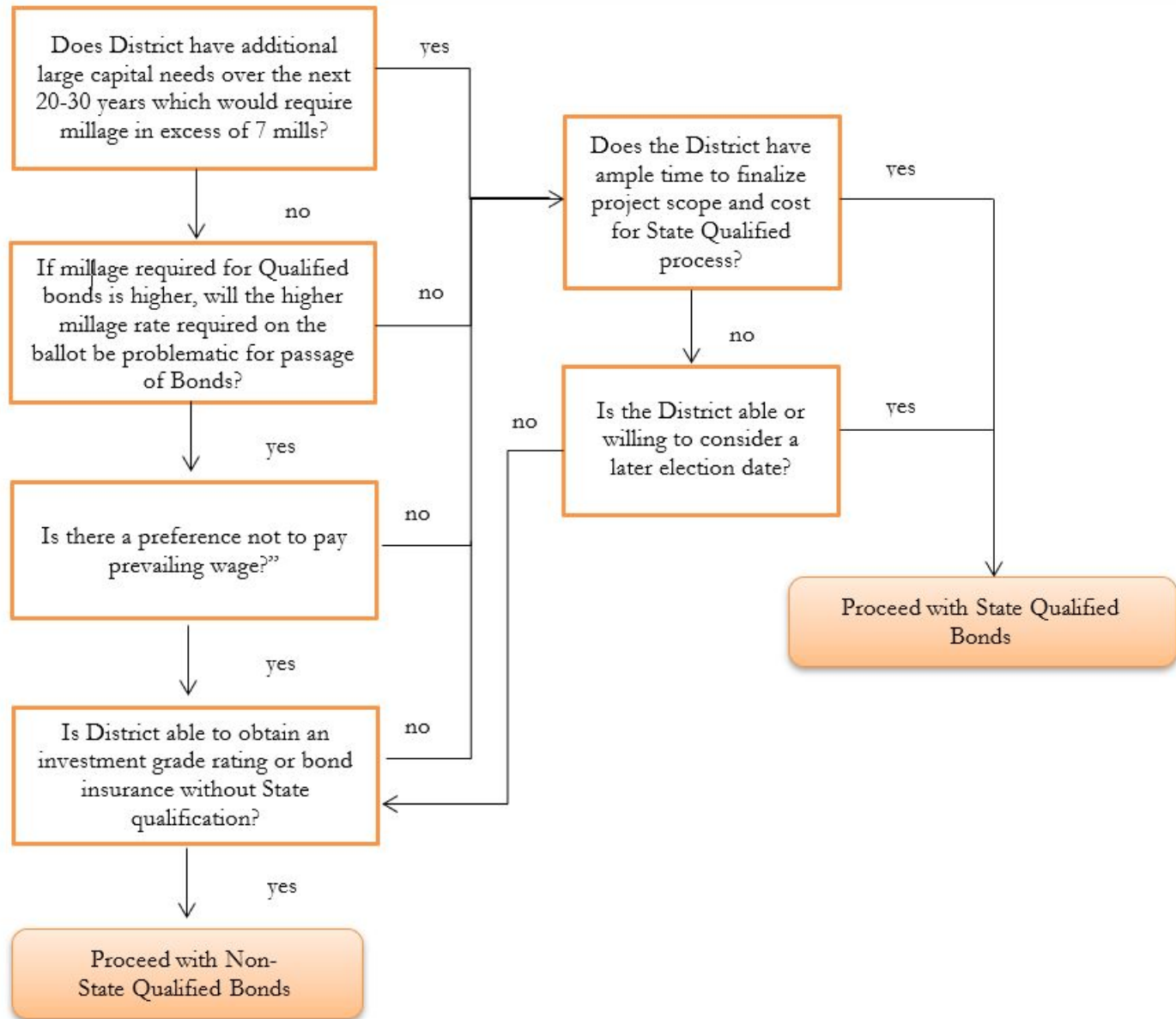
- State ratings / guarantee
- Potentially lower borrowing cost
- Potentially lower millage rate
- Future flexibility on debt millage / capital finance – ability to borrow from State after levying 7.00 mills of “qualified” debt millage.
- Prevailing Wage

Non-State-Qualified Bonds

- No State oversight
- Less time-consuming process
- Potentially higher borrowing cost
- Potentially higher projected millage rate, depending on projected taxable value growth rates



Voted Qualified or Non-Qualified Bonds? (Continued)

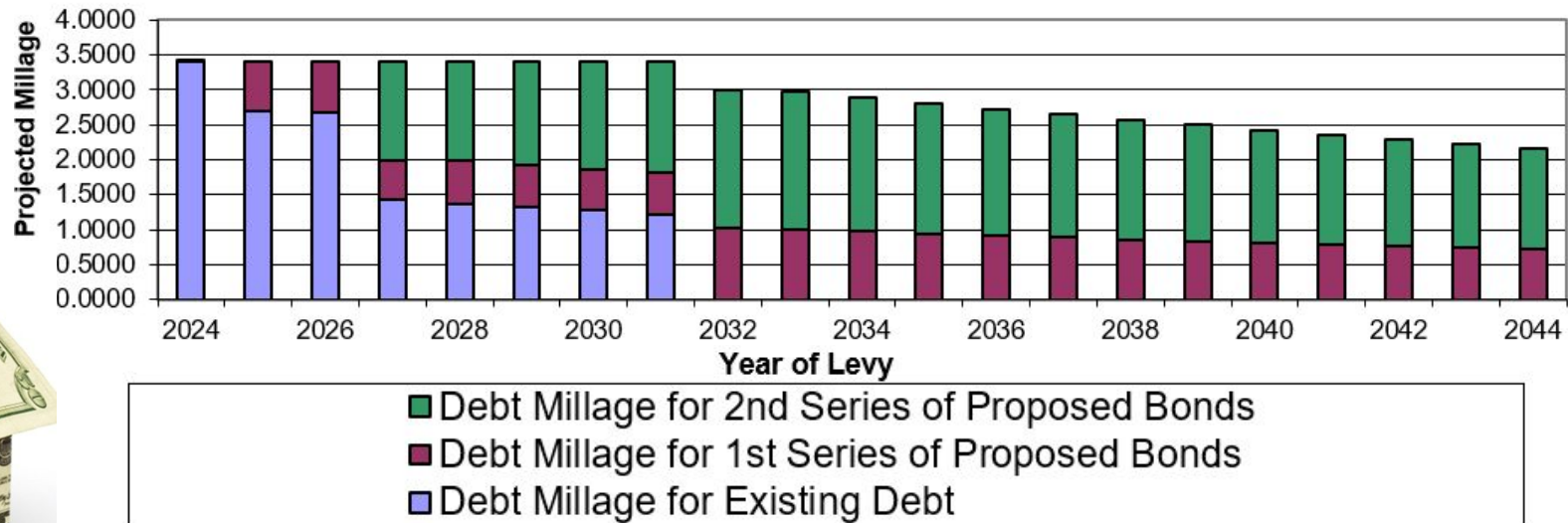




Voted Bonds Issued in Series

Why have bonds issued in more than one (1) series?

- **Compliance** with federal spending requirements
 - The school district must have a reasonable expectation at the time of issuing the bonds to spend at least 85% of bond proceeds within 3 years, and 100% within 4 years.¹
- **Lower millage impact**, depending on existing debt structure
- **Increase bond capacity** / amount at desired millage rate, depending on existing debt structure
- **Reduce** the need or **amount of capitalized interest** in certain circumstances
- **Financing shorter life assets** such as technology, buses, etc.



NOTE: Chart above is for illustrative purposes only.

¹Source:

Internal



Considerations for Voted Bonds Issued in Series

- ◆ **Ballot language** -- not-to-exceed amount to be issued in one or more series.
- ◆ **Timing and amount** -- of each series is estimated at time of election but may change from the original plan based on actual needs and timing but must be within the original voted not to exceed amount.
- ◆ The **actual projects funded** by each series could change from original plan as long as they are still within the project description in ballot and included in scope of the Preliminary Qualification application (for State Qualified bonds).
 - These changes from original plan could be based on future needs or millage objective or limitation.
- ◆ Bond amounts less than \$1 million have lower issuance costs since no official statement or rating are required.





Considerations When Voting Bonds

◆ Needs of the school district

◆ Cost of projects

◆ Cost to taxpayers

- Can you do it without a millage increase?
- What are taxpayers willing and able to pay?

◆ Timing

- Anticipated drop in millage due to:
 - Declining existing bond payments
 - Increased taxable values
 - Build-up of fund balance in existing debt funds
 - Savings achieved from refunding of existing debt
- Can the bonds be sold in series to reduce the millage impact?
- Capitalizing initial interest payments (having bond payments paid from bond proceeds)
- Preferred election timing
- Lead time to adequately prepare for successful election
 - At least 5 Months to 1 year before election, depending on project and state qualification
 - Project scope determined no later than a week before the ballot is prepared.





Considerations for Timing

- There are several timing considerations when considering funding of capital projects.
 - How long will it take to prioritize the needs and decide which projects to finance?
 - Can the projects be funded over time, and if so, what will the impact be on the overall cost?
 - Does the sinking fund millage, if applicable, expire over the time period needed to fund projects?
 - Does the district have an upcoming decline in the existing debt millage or sinking fund millage?
 - Can the decline in existing millage offset the millage needed for funding new capital projects?
 - When issuing/structuring debt, always consider the future needs of the school district.
 - Does the school district have ample time to adequately educate voters?
 - If bonding, does the school district have ample time for the state qualification process?





2025 through 2027 Elections and Estimated Lead Times

Election Dates	State Qualified Preliminary Qualification Meeting	Filing Deadline For Ballot
May 6, 2025	Dec. 2024 to early Jan. 2025	Feb. 11, 2025
Aug. 5, 2025	March to early April 2025	May 13, 2025
Nov. 4, 2025	June to early July 2025	Aug. 12, 2025
May 5, 2026	Dec. 2025 to early Jan. 2026	Feb. 12, 2026
Aug. 4, 2026	March to early April 2026	May 12, 2026
Nov. 3, 2026	June to early July 2026	Aug. 11, 2026
May 4, 2027	Dec. 2026 to early Jan. 2027	Feb. 9, 2027

Estimated Lead Time

- 5 Months to 1 year before election, depending on project
- Ballot prepared at Preliminary Qualification meeting
- Project scope finalized no later than a week before ballot is to be written



Election Statistics for Michigan School Bond Proposals

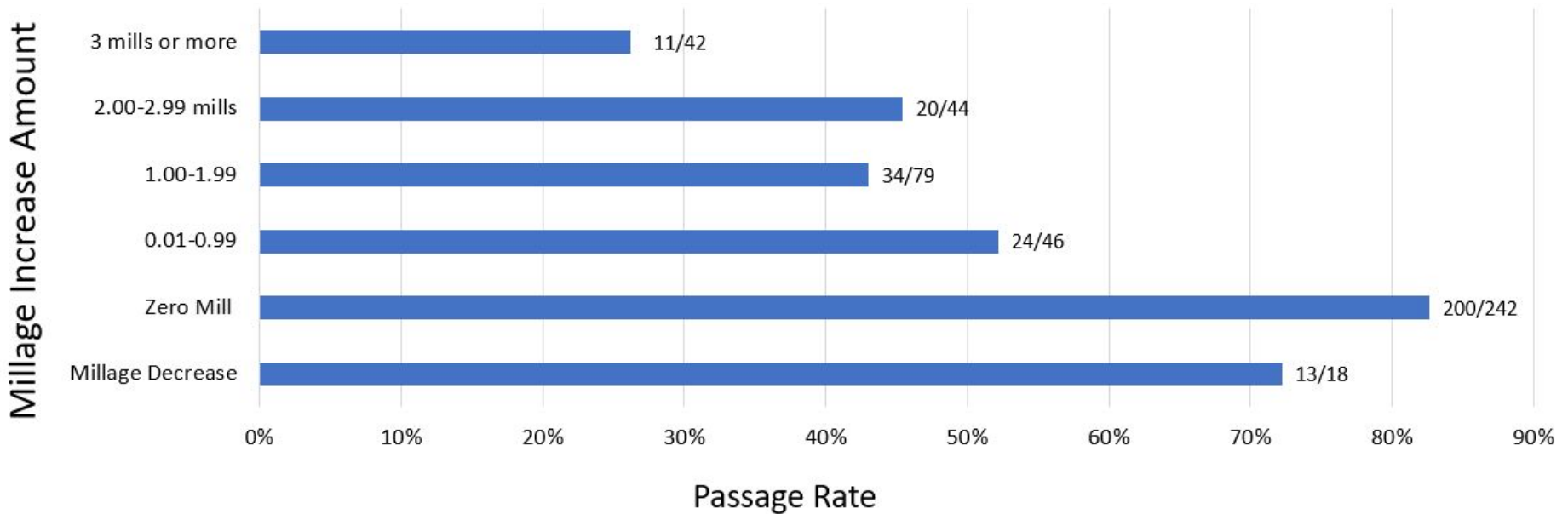
- As might be expected, school bond elections with a no millage increase have a higher passage rate than propositions with a millage increase.

Elections	School Bond Proposals	Passage Rate	With Millage Increase	Passage Rate	Without Millage Increase	Passage Rate
Aug-14	7	71%	5	80%	2	50%
Nov-14	*** 13	62%	12	58%	1	100%
Feb-15	17	65%	14	57%	3	100%
May-15	30	57%	17	35%	13	85%
Aug-15	9	56%	5	40%	4	75%
Nov-15	31	74%	22	64%	9	100%
Mar-16	* 4	75%	4	75%	0	n/a
May-16	40	83%	31	77%	9	100%
Aug-16	13	62%	9	56%	4	75%
Nov-16	** 9	78%	6	83%	3	67%
May-17	29	55%	19	32%	10	100%
Aug-17	8	50%	4	25%	4	75%
Nov-17	35	74%	17	71%	18	78%
May-18	35	63%	30	60%	5	80%
Aug-18	11	82%	4	75%	7	86%
Nov-18	*** 24	75%	14	57%	10	100%
May-19	37	68%	24	50%	13	100%
Aug-19	5	80%	3	67%	2	100%
Nov-19	34	68%	18	44%	16	94%
Mar-20	* 17	82%	10	70%	7	100%
May-20	23	91%	9	78%	14	100%
Aug-20	31	65%	18	39%	13	100%
Nov-20	** 11	100%	9	100%	2	100%
Mar-21	2	0%	2	0%	0	n/a
May-21	32	81%	11	55%	21	95%
Aug-21	14	71%	5	60%	9	78%
Nov-21	25	64%	10	40%	15	80%
May-22	32	66%	13	46%	19	79%
Aug-22	13	46%	6	17%	7	71%
Nov-22	*** 23	57%	13	31%	10	90%
May-23	38	58%	21	43%	17	76%
Aug-23	16	69%	4	25%	12	83%
Nov-23	45	51%	21	10%	24	88%
Feb-24	* 7	14%	2	50%	5	0%
May-24	43	60%	13	15%	30	80%
Aug-24	24	50%	5	40%	19	53%
Totals	787	520 passed	430	219 passed	357	301 passed
		66%		51%		84%



Passage Statistics

- The graph below provides the election statistics for Michigan school bond proposals from May 2019 to August 2024.



Source: PFM Financial Advisors LLC



Sample Tools to Assist in Educating Public

- Educating your public on what the bond issue will cost them, and how it compares to other schools in your area can be helpful tools in passing a bond issue.

Les Cheneaux Community Schools

PROPERTY TAX IMPACT MODEL	
1	Please Input the Taxable Value of Your Property. <input type="text" value="\$70,000.00"/>
2	If you are age 65 or older, unmarried spouse of a person who was 65 or older at the time of death select "Senior". If you are deaf, hemiplegic, paraplegic, quadriplegic, or totally and permanently disabled, select "Disabled". All others select "General" <input type="radio"/> General <input checked="" type="radio"/> Senior <input type="radio"/> Disabled
3	Please select if your property is Homestead or Non-Homestead. <input checked="" type="radio"/> Homestead <input type="radio"/> Non-Homestead
4	Please choose the appropriate Local Unit within which your property is located. (Make sure to click on the name) <input type="text" value="Marquette Township"/>
5	Please Input Your Annual Household Resources. (Subtract income received from the Michigan Department of Health and Human Services) (This is an optional input to estimate Homestead Property Tax Credit) <input type="text" value="\$50,000.00"/>

	Without Bond Proposition	With Bond Proposition	Increase (Decrease)
Estimated Tax Bill	\$1,619.02	\$1,738.02	\$119.00
Less: Homestead Property Tax Credit Available	<u>\$11.41</u>	<u>\$82.81</u>	<u>\$71.40</u>
Estimated Net Tax Bill after Homestead Property Tax Credit	<u>\$1,607.61</u>	<u>\$1,655.21</u>	<u>\$47.60</u>
ESTIMATED NET ANNUAL TAX INCREASE:			<u>\$47.60</u>
ESTIMATED NET MONTHLY TAX INCREASE:			<u>\$3.97</u>
ESTIMATED NET DAILY TAX INCREASE:			<u>\$0.13</u>

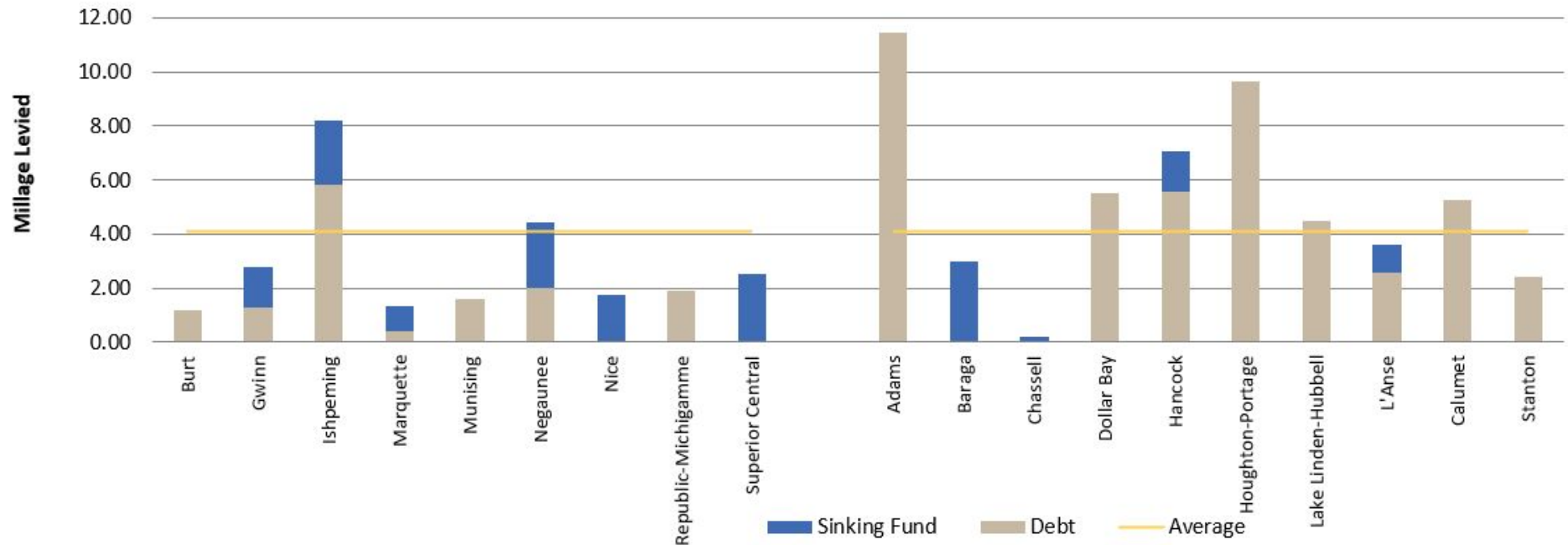
Estimated Net Tax Increase calculated using a Taxable Value of **\$70,000.00**, a Household Income of **\$50,000.00**, a before Bond Proposition Millage Rate of **23.1288** (of which 0.00 mills is for existing school district debt), and a Millage Increase of **1.70**.

<https://www.pfmtaxcalc.com/LesCheneauxCommunitySchools/>



Sample Tools to Assist in Educating Public - Continued

- The chart below shows the capital related (debt and sinking fund) millage rates for schools within Marquette-Alger RESA and Copper Country ISD for 2023.



Source: Individual Districts, County Apportionment Reports, and Michigan Department of Treasury Millage Rate Search site

NOTE: Chart above is for illustrative purposes only.



Setting Annual Debt Millage

- School districts should carefully review and set debt millage annually to guard against fluctuations in annual millage rates and to be aware of future drops in millage which could provide opportunities for new capital funding.
- School district's financial advisor available to assist with setting annual debt millage and creating future debt strategy

Schedule of Estimated Millage Needed to Retire Bonded Debt

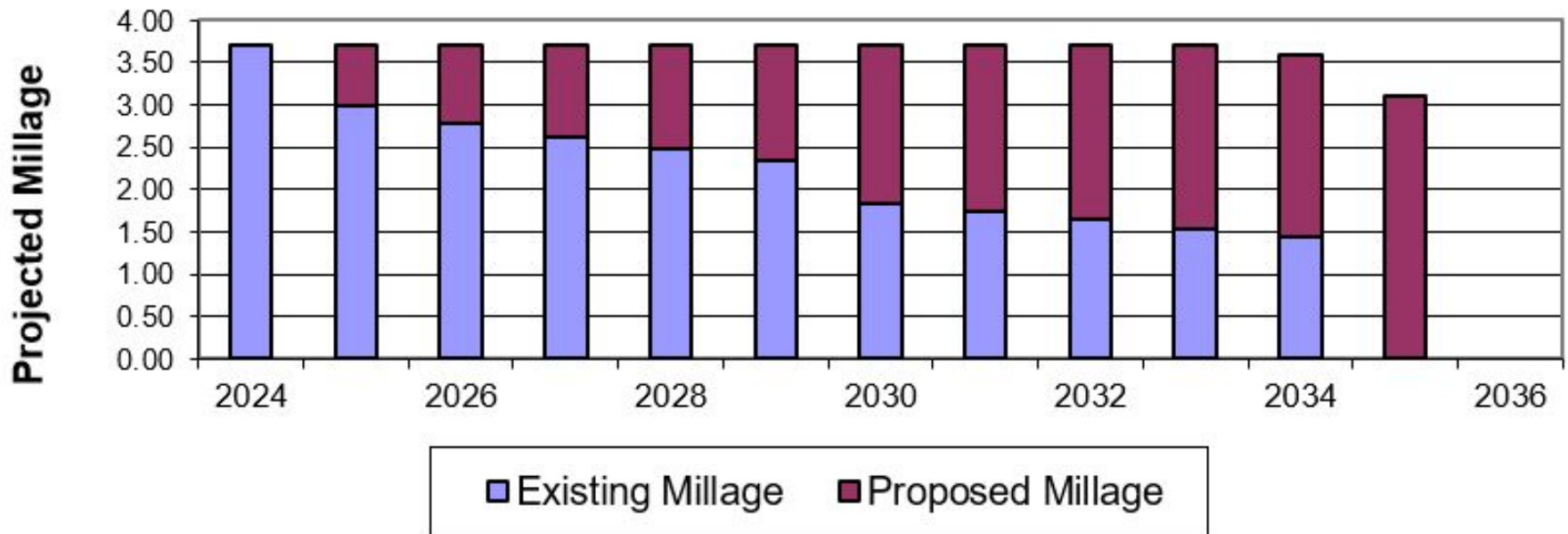
		Collection Cycle July Levy: 100%		Current Levy: 3.70				
Tax Year	F/Y End 6-30,	Existing Debt	Plus: 8.00% Allow for Delinq.	(Use) of Funds on Hand \$95,000	Net Existing Debt	Projected Taxable Value	Growth Rate	Mills Needed All Debt
2024	2025	\$1,139,145	\$95,535	(\$40,498)	\$1,194,181	\$322,751,754	2.90%	3.70
2025	2026	1,047,695		(54,265)	993,430	331,143,300	2.60%	3.00
2026	2027	948,070		(237)	947,833	339,753,026	2.60%	2.79
2027	2028	915,350		0	915,350	348,586,604	2.60%	2.63
2028	2029	887,465		0	887,465	357,649,856	2.60%	2.48
2029	2030	858,865		0	858,865	366,948,752	2.60%	2.34
2030	2031	694,550		0	694,550	376,489,420	2.60%	1.84
2031	2032	672,220		0	672,220	386,278,145	2.60%	1.74
2032	2033	649,600		0	649,600	396,321,376	2.60%	1.64
2033	2034	626,690		0	626,690	406,625,732	2.60%	1.54
2034	2035	603,490		0	603,490	417,198,001	2.60%	1.45
2035	2036	0		0	0	428,045,149	2.60%	0.00
		<u>\$9,043,140</u>	<u>\$95,535</u>	<u>(\$95,000)</u>	<u>\$9,043,675</u>			





Millage Impact of New Bond Issue

- The millage projection below depicts a new money bond structure which is wrapped around a school district's existing debt issue for a \$0.00 mill increase
 - The ability to do this type of structure will be dependent on the school district's existing debt structure

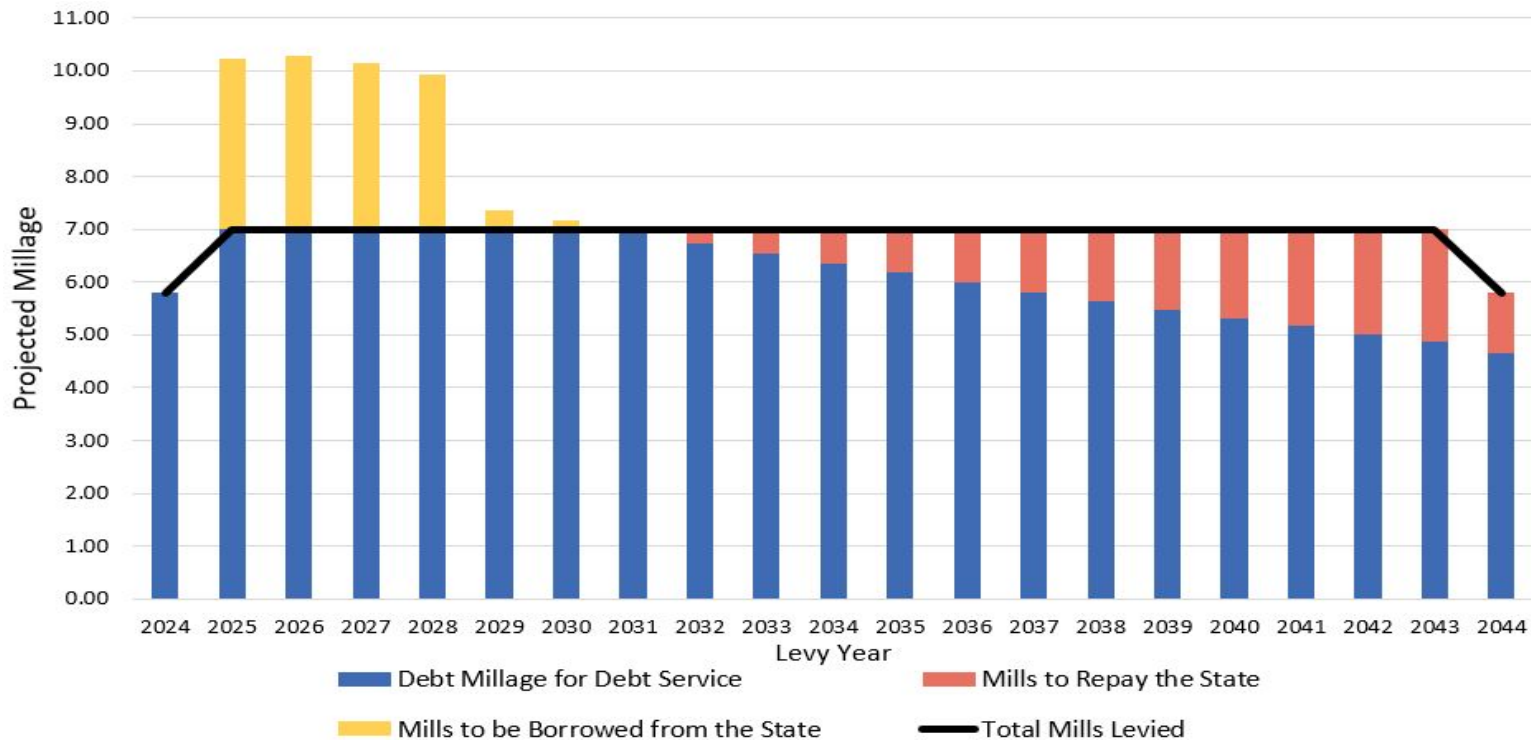


NOTE: Chart above is for illustrative purposes only. The actual millage is subject to several variables including interest rate on the proposed bonds and actual taxable value.



Sample SLRF Millage Projection

- The projection below depicts a school district that participates in the State School Loan Revolving Fund (SLRF).
 - The debt payments require a debt millage in excess of 7.00 mills.
 - The district levies 7.00* mills, and borrows the amount need in excess of what 7.00 mills produces from the SLRF (borrowing is shown as yellow bars).
 - Once 7.00* mills produces more revenue than needed to repay the annual debt service on the bonded debt, the school district would begin to repay the SLRF (repayment is shown as red bars) and would continue to levy 7.00* mills until the SLRF loan has been repaid.
 - Once the SLRF has been repaid, the millage would drop to the amount needed to meet the annual debt service payments.



* Assumes district can repay the state loan within the mandatory loan repayment term at 7 mills.

NOTE: Chart above is for illustrative purposes only.

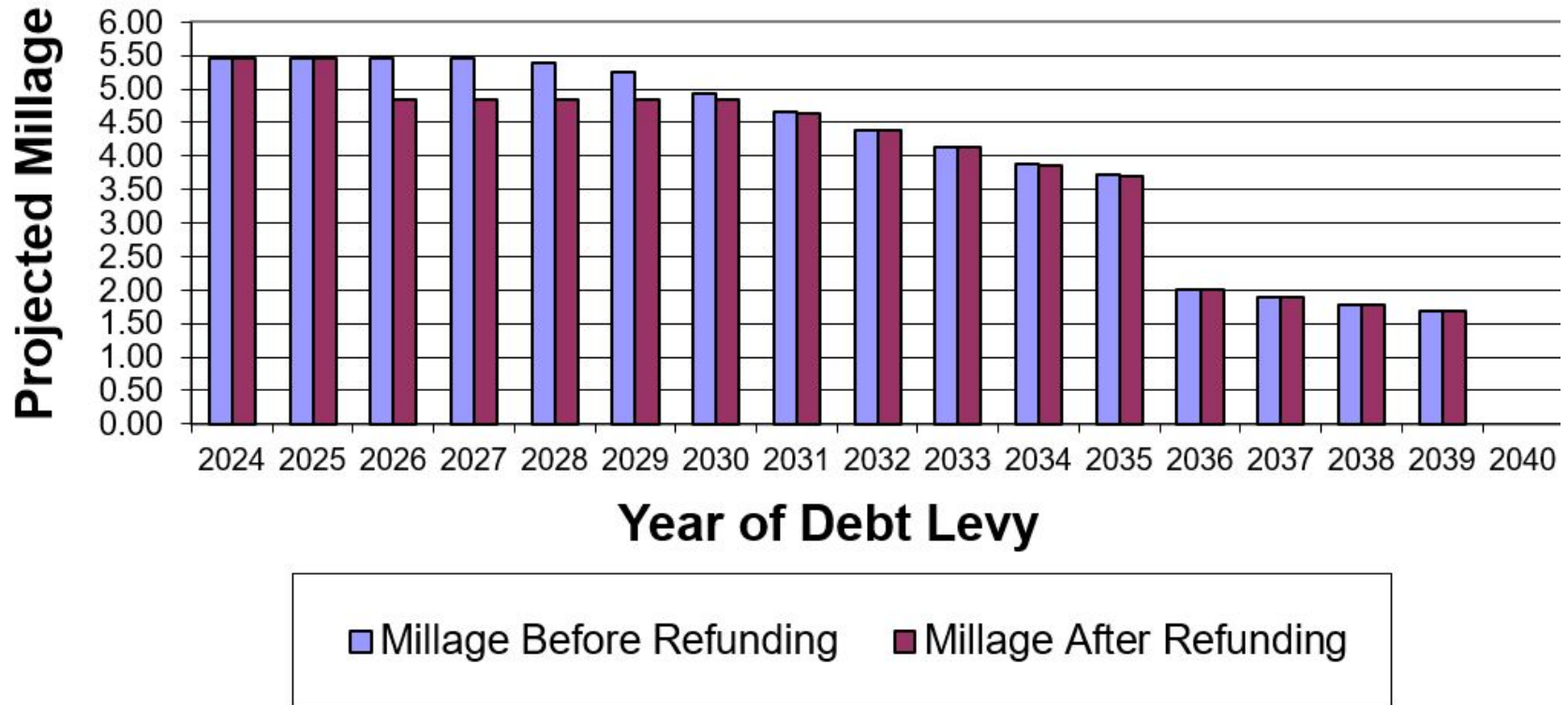
Specific requirements for State Qualified bonds can be found at:

Michigan Department of Treasury – School Bond Qualification & Loan Program website: michigan.gov/treasury



Refunding Impact on Millage

- Refunding existing debt can assist school districts in planning and/or providing opportunities for future capital financings.
- The graph below shows an example of a school district which strategically placed refunding savings in 2026 in order to assist with reducing the millage rate during those years.



NOTE: Chart above is for illustrative purposes only.

Questions?



R.J. Naughton, Director

PFM Financial Advisors LLC

555 Briarwood Circle, Suite 333

Ann Arbor, MI 48108

General Phone: 734-994-9700

Direct Dial: 734-794-2531

naughtonrj@pfm.com

www.pfm.com





PFM Michigan Financial Advisory Team



Kari Blanchett
Managing Director



★ Nate Watson
Managing Director



★ RJ Naughton
Director



★ Brodie Killian
Director



★ Dale Deis
Senior Managing Consultant



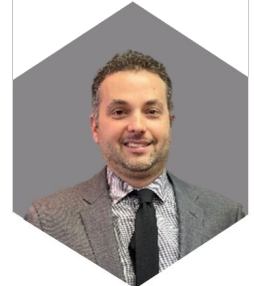
★ Sean Wahl
Senior Managing Consultant



★ Kristine Griffiths
Senior Managing Consultant



★ Sarah Moore
Senior Managing Consultant



★ Aaron Wright
Senior Managing Consultant

Our Other Michigan Project Support Team

★ ★
Nathan Thomas, Senior Analyst
Vincent Hayes, Senior Analyst
★ ★
Stacy Atkins, Managing Municipal Bond Assistant
Nicole Weddington, Municipal Bond Assistant II





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