

K-12 Basic Treasury Filing and Bond Reporting Requirements



Michigan Department of
TREASURY

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Sources of Requirements

Revised Municipal Finance Act, Act 34, Public Acts of Michigan, 2001, as amended (“Act 34”) and MI Department of Treasury Bulletins

Continuing Disclosure Undertakings in connection with District bond issues (pursuant to Securities and Exchange Commission Rule 15c2-12)

Michigan Revised School Code, Act 451, Public Acts of Michigan, 1976, as amended (the “School Code”)

State School Aid Act, Act 94, Public Acts of Michigan, 1979, as amended (the “School Aid Act”)

Note: This presentation does not address any filing or audit requirements arising from the receipt of federal education funds.

Act 34: Definitions

A municipality is defined to include a school district and an intermediate school district. MCL 141.2103(m).

Generally, a municipality must have “qualified status” in order to issue a municipal security.

A municipality is granted *qualified status* if it has (i) filed a qualifying statement under section 303 of Act 34, and (ii) been determined by the Department of Treasury (Treasury) to be qualified to issue a municipal security without further approval by Treasury MCL 141.2103(3).

Qualifying Statement Revision

- [Numbered Letter 2022-1](#) provides a revised [Qualifying Statement \(Form 5047\)](#) and creates a single source of information by replacing Bulletins 2 and 6 and incorporating elements of Bulletin 1 which will be completely replaced at a future date. Numbered Letter 2022-1 was effective December 5, 2022.
- Goals with the revision include:
 - Increased transparency
 - Eliminating common errors
 - Improving the overall user experience
 - Educating filers
 - Reducing staff effort
- Form submission is now posted on Treasury's document search website as well as the determination letter.

Act 34: Qualifying Statement



Within 6 months from the end of each fiscal year, a municipality shall file an audit report with Treasury, which shall be accompanied by a qualifying statement certified by the chief administrative officer. Note: Filed with Michigan Department of Education (MDE) by November 1.



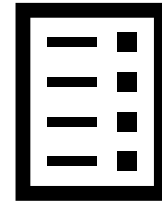
Treasury has 30 business days to determine if the municipality complies with the requirements of section 303 of the Act.



Qualified status continues until the earlier of (i) 30 business days after the next qualifying statement is due, or (ii) a new determination is made by Treasury.

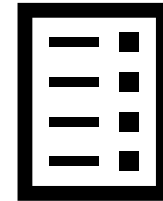
Act 34: Qualified Status Requirements (illustrative list)

- The municipality is not exhibiting fiscal distress.
- The municipality was not delinquent more than one time in the preceding fiscal year in transferring employee taxes withheld to the appropriate agency, transferring taxes collected as an agent for another taxing entity to that taxing unit, or making all required pension, retirement, or benefit plan contributions.
- The debt retirement fund for any municipal security that is funded from an unlimited tax levy does not exceed 150% of the amount required for principal and interest payments due in the next fiscal year.



Act 34: Qualified Status Requirements (cont.)

- The most recent delinquent property taxes of the municipality did not exceed 18% of the amount levied.
- The municipality is not currently exceeding its statutory or constitutional debt limits.
- The municipality did not end the immediately preceding fiscal year with a deficit in any fund, unless the municipality has filed a financial plan to correct the deficit condition that is acceptable to Treasury. (Note: Most plans are filed with MDE. Plans greater than five years are filed with Treasury)
- The municipality has not been determined to be in violation of Act 34 by Treasury during the immediately preceding fiscal year.



Act 34: Prior Approval Application



- If a municipality has not been granted qualified status, it must obtain approval from Treasury for each municipal security it issues.
 - However, even if a school district has obtained qualified status, it still must seek State Treasurer approval to obtain a line of credit. MCL 380.1225
- There are separate prior approval applications for long-term municipal securities (those maturing greater than one year from the date of issuance) and short-term municipal securities (those maturing in one year or less from the date of issuance, ex. State Aid Notes).
- Requires an application, supporting documentation and a filing fee equal to 0.03% of the principal amount of the security, but not less than \$800 nor more than \$2,000.
- A \$100 late fee is also required if the qualifying statement was submitted more than 6 months after the end of the fiscal year.

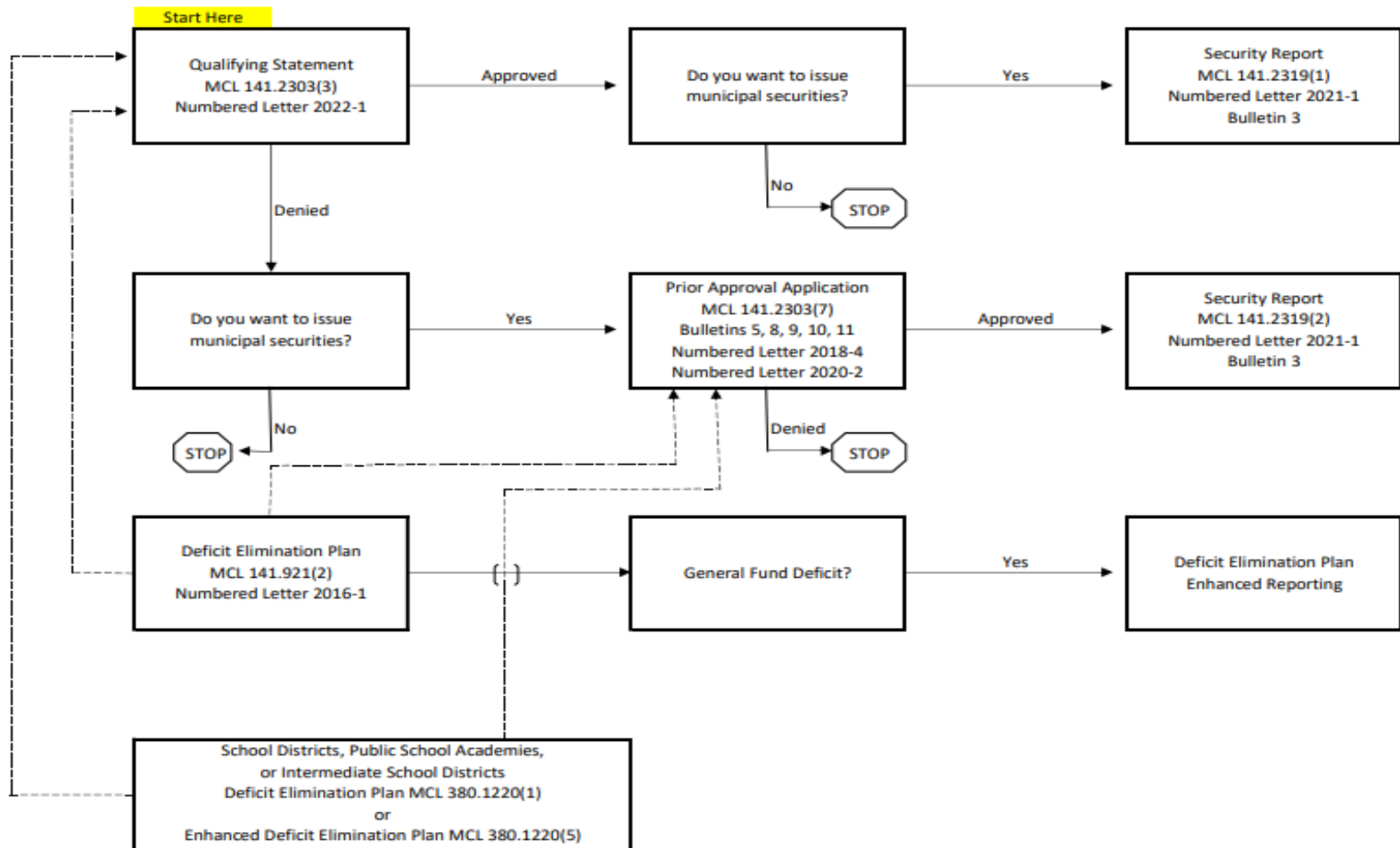
Act 34: Prior Approval Application (cont.)

- Treasury shall approve an application if the municipality:
 - Has indicated the authority to issue the municipal security;
 - Is projected to be able to repay the municipal security when due;
 - Has filed information indicating compliance with the requirements of subsection 3 of section 303 or has satisfactorily addressed any noncompliance; and
 - Has obtained an investment grade rating for the municipal security or procured an insurance policy for the municipal security for an issuance over \$5 million.

Act 34: Borrowing Process Flow Chart

Michigan Department of Treasury
 Municipal Finance Borrowing Process Flowchart
 Last Updated: December 5, 2022

Michigan.gov/MunicipalFinance
 Treas_MunicipalFinance@Michigan.gov
NEW! [Online Videos!](#)





Act 34: Investment-Grade Rating

- Generally, a municipal security issued **without the prior approval of Treasury and in excess of \$5 million** must be rated by a nationally recognized rating agency unless 1 or more of the following apply:
 - The municipal security is secured by an unlimited tax general obligation pledge.
 - The municipal security is secured by special assessments.
 - The municipal security obtains a credit enhancement (i.e. bond insurance).
 - The municipal security is purchased by a government agency.
 - Treasury determines that the advantages to the issuer of foregoing a rating outweigh the disadvantages of the municipal security being issued without a waiver. (Requires an application for waiver of the rating requirement)



Act 34: Investment-Grade Rating (Cont.)

- A municipal security issued **with the prior approval** of Treasury and **in excess of \$5 million** must receive an investment grade rating **unless** Treasury determines that the advantages to the issuer of foregoing a rating outweigh the disadvantages of the municipal security being issued without a rating.
- Requires an application for waiver of the rating requirement. An application for waiver under this section requires supplemental materials (see Treasury Bulletin 1, Rev. 12/2007 and Bulletin 10, Rev. 4/2018)

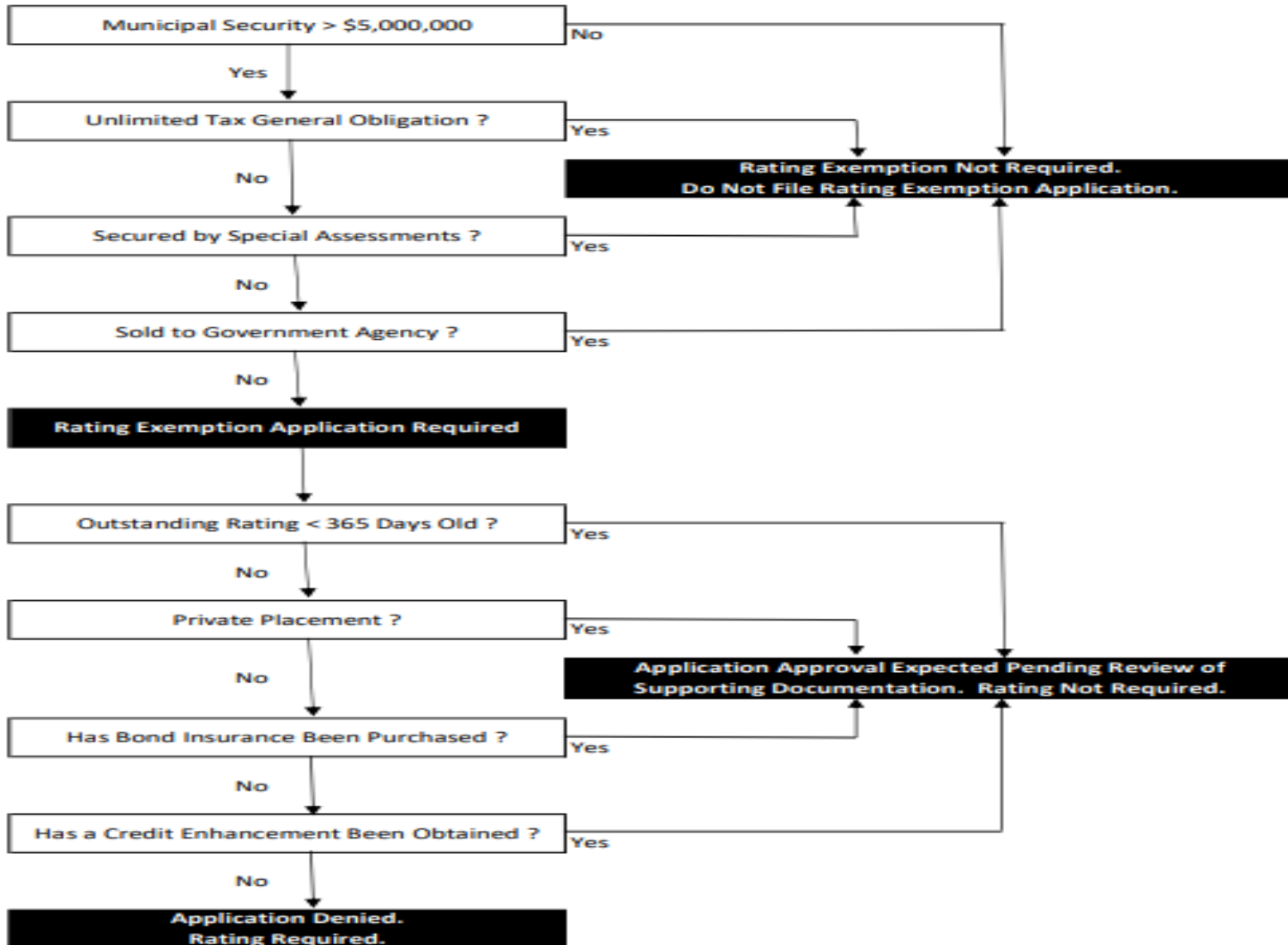
Act 34: Investment-Grade Rating Waiver

- An application for waiver must be filed with Treasury.
 - The application must include if the municipality has an outstanding rating for existing debt of the municipality and the date the rating was obtained.
 - The municipality will be required to indicate if the security is a private placement and with whom, the cost to obtain a rating, and other actions that may have been taken. A draft of the investment certificate will be required.
- Generally, a waiver will not be granted for:
 - Municipalities that do not have an existing rating or have a rating that is more than 365 days old,
 - The municipal security is not a private placement, and
 - Have not taken any additional actions. IE: Bond Insurance, Credit Enhancement

Act 34: Investment-Grade Rating Flowchart

Michigan Department of Treasury
Rating Exemption Application Flowchart
MCL 141.2303(7)(d) and MCL 141.2323
Bulletin 10

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Last Updated May 9, 2022





Act 34: Net Present Value Savings

- Generally, the net present value of the principal and interest to be paid on a refunding security must be less than the net present value of the principal and interest on the security to be refunded.
- A waiver may be granted if Treasury determines a reasonable basis for the exception exists. A reasonable basis means the refunding is one of the following:
 - Required by a state or federal agency.
 - Necessary to reduce or eliminate requirements of ordinances or covenants applicable to the outstanding security.
 - Necessary to avoid a potential default on an outstanding security.
 - To refund bond anticipation notes.

Act 34: Discount

- A municipal security may be sold at a discount exceeding 10% of the principal amount of the municipal security only if 1 or more of the following apply:
 - The sale will result in a more even distribution for the municipality of total debt service on proposed and outstanding municipal securities (requires investment grade rating or bond insurance);
 - The sale will result in an interest cost savings when compared to the best available alternative that does not include a security being sold at a discount in excess of 10% (requires investment grade rating or bond insurance);
 - The issuance is based on the availability of specific revenues previously pledged for another purpose and lawfully available for this purpose (requires investment grade rating or bond insurance);
 - The municipal security is issued to the state or federal government to secure a loan or agreement;
 - The municipal security is issued to pay an unfunded pension liability or unfunded accrued health care liability under section 518 of Act 34.
- Requires an application which specifies under which condition the municipality is applying (with documentation supporting the condition and the calculation of the discount rate)
- Capital Appreciation Bonds – Not common

Act 34: Waivers Generally

- A municipality must file an application to seek a waiver of the ratings requirement, the savings requirement, and the discount requirement.
- Waiver applications must be submitted electronically at <http://www.michigan.gov/municipalfinance>
- Users must have a user id and password

Act 34: Waivers (cont.)

- An application for a waiver of a requirement under Act 34 must be accompanied by a **certified copy of the resolution** of the governing body that **specifically authorizes** the request for exemption, and the **application must be certified** by the chief administrative officer of the municipality.
- If the resolution was adopted at a special meeting and a member of the governing body was absent, then notarized proofs of call or a waiver of notice must be filed.

Security Reports

- Form reporting the issuance of a municipal security to Treasury
- Treasury issued Numbered Letter 2021-1, announcing a new form of Security Report (Form 3892) for all reports filed on or after March 1, 2021
- The revised Security Report has undergone major revisions in an effort to fulfill statutory requirements and gather additional borrowing information
- Additional detailed information about the municipal security must be reported on the new Security Report, including: the type of sale, the source of repayment, structure, rating and the municipality's debt limit
- A Security Report and with all required supporting documentation now must be uploaded online and submitted as a single PDF file
 - Submit at www.Michigan.gov/MunicipalFinance and click on "Security Report Upload"
 - A User ID and Password are required
- All Security Reports and supporting documentation submitted electronically will be available online on Treasury's document search website

Security Report

INSTRUCTIONS: File this report within 15 business days of completing issuance of any municipal securities. Security Reports and supporting documentation are to be uploaded online and shall be submitted together as a single .pdf file. The name of the file should be the six-digit MuniCode followed by "3892SecRpt." For example: 3320203892SecRpt.pdf. We will no longer accept Security Reports that are missing supporting documentation or do not provide an explanation as to why the supporting documentation was not included. Those deemed incomplete may not count toward the 15-business day requirement and may result in a subsequent year denial of the municipality's Qualifying Statement.

To upload a Security Report and supporting documentation, go to Michigan.gov/MunicipalFinance, and click on "Security Report Upload." If not already acquired, users must obtain a new user ID and password by clicking on the "Request Access New User" link on the login page. An instruction link will be available should you require additional assistance. Once logged in and on the form submission page, select from the dropdown menus, your County, Municipality Type, and Municipality, and for Form select Security Report. Click on "Create Form." On the subsequent page, check the box to certify that the Chief Administrative Officer is aware of the information included in the filing and has asserted to the user that the filing is complete and accurate in all respects. Click on "Submit." On the final page, click on "OK."

NOTE: The single .pdf file you provide will be posted on our publicly available Web site as submitted without changes. Do NOT include a copy of the check, banking information or other confidential information.

If a filing fee and/or late fee is due, mail through the United States Postal Service a copy of the Filing Fee Voucher and payment to Community Engagement and Finance Division, Michigan Department of Treasury, PO Box 30728, Lansing MI 48909. Direct questions to 517-335-7469 or e-mail to Treas_MunicipalFinance@Michigan.gov.

FILING UNDER

Revised Municipal Finance Act, PA 34 of 2001, MCL 141.2319 (1) — Filing Fee Required (See Filing Fee Voucher)

Revised Municipal Finance Act, PA 34 of 2001, MCL 141.2319 (2) — Filing Fee Previously Paid with Long-Term or Short-Term Borrowing Application

Agency Finance Reporting Act, PA 470 of 2002, MCL 129.177 (7) — No Filing Fee Required

ISSUE INFORMATION

Check if filing for multiple drain districts. Must attach list of individual Drain Names, Municipal Codes and Par Amounts.

Municipality (Legal) Name _____

AUTHORIZING STATUTE			AUTHORIZING STATUTE		
Public Act	Year	Section	Public Act	Year	Section

Title of Security _____ Municipality Code _____

Amount of Issue _____

Date Sold	First Call Date	Issuance Date	First Call Price %	Final Maturity Date	True Interest Cost %

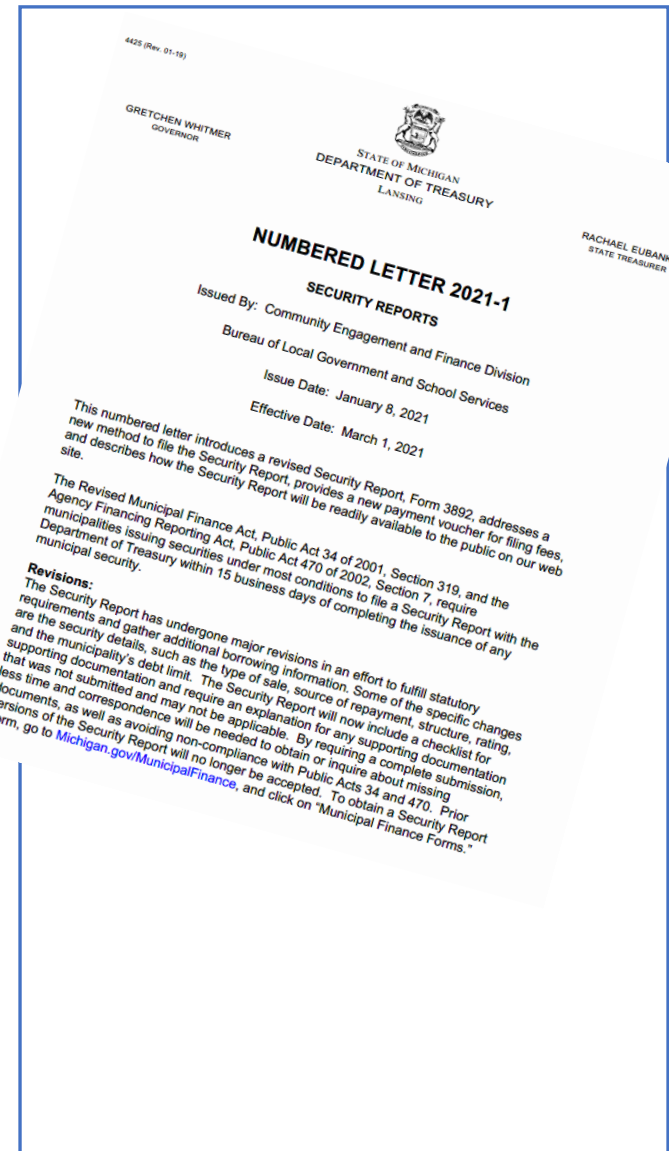
Was an Exemption Required? None Net Present Value Loss Rating Discount > 10%

Purpose of Security: _____

Continue on Page 2

Security Reports – Cont.

- Due 15 business days after the date of issuance
- In addition to the Security Report Form, other multiple documents must be filed with Treasury (MCL 141.2319) (illustrative list)
 - A report on a form approved by Treasury – Form 3892
 - The municipal security (specimen bond)
 - Proof of publication of notice of sale (if applicable)
 - Award resolution or sale order
 - Rating
 - Legal opinion
 - Bond/Note authorizing resolution
 - Official statement, if any
 - Proof of savings if a refunding security
 - Filing fee equal to 0.02% of the principal amount of the security, but not less than \$100 nor more than \$1,000 (Note: this fee is paid with the long form application if a school district does not have qualified status)
- If any required supporting documentation is not submitted at the time of filing, and no exception exists, the Security Report will not be accepted

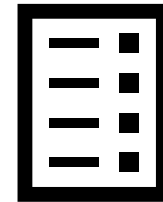


Online Videos

- Treasury has created online videos for the topics below. These are you tube videos. Each video lasts approximately five minutes. Go to Michigan.gov/MunicipalFinance, at the top of the page click on “Education and Training Resources,” then scroll down to find the “Video Library.”
 - Qualifying Statement (2 videos)
 - Prior Approval Application (4 videos)
 - Security Reports (2 videos)

Municipal Finance - Borrowing in the State of Michigan

- [Deficit Elimination Plan: What is it, and Why is it Important Part 1](#)
- [Deficit Elimination Plan: How to File - Part 2](#)
- [Qualifying Statement - What is it and why is it important](#)
- [Qualifying Statement - How to file and Important questions](#)
- [Prior Approval Application – What is it and why is it important](#)
- [Prior Approval Application – How to file and important questions](#)
- [Prior Approval Application – Exemptions: What are they](#)
- [Prior Approval Application – Exemptions: How to file](#)
- [Security Report: What is it and why is it important](#)
- [Security Report: How to File](#)



Continuing Disclosure

Securities Exchange Act of 1934, Rule 15c2-12

- Regulates brokers and dealers; NOT municipalities

Generally, an issuer of a municipal security in a principal amount of \$1M or more shall:

- Prepare and deliver to a participating underwriter a preliminary official statement prior to the time such underwriter bids for, purchases, offers or sells a municipal security; and
- Deliver a final official statement to a participating underwriter within 7 business days after any final agreement to purchase offer or sell a municipal security; and
- Undertake to provide to the public certain annual financial and operating data, audited financial statements and notice of certain material events within certain prescribed time periods

Continuing Disclosure – 2019 Changes

- The SEC revised Rule 15c2-12 which added two new material events to continuing disclosure undertakings applicable to any new bond issues closing on or after February 28, 2019.
- The new events require more diligence in monitoring for the occurrence.

Continuing Disclosure – 2019 Changes (cont.)

- New material event (15): **Incurrence** of a financial obligation of the obligated person, if material, **or** agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the obligated person, any of which affect security holders, **if material**.
- New material event (16) Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the obligated person, any of which **reflect financial difficulties**.
- Notice must be filed on EMMA within 10 business days from the occurrence.

Continuing Disclosure: Audit and Financial and Operating Data

- An issuer of a municipal security must contractually undertake to file its annual audited financial statements and the financial and operating data with EMMA no later than the end of the 6th month after the end of its fiscal year.
 - The financial and operating data presented in the “back half” of the P/OS must be updated.



Continuing Disclosure: Material Events

- 16 Material Events set forth in Rule 15c2-12
- A material events notice must be filed not later than 10 business days after the occurrence of (illustrative list):
 - P & I payment delinquencies
 - Unscheduled draws on debt service reserve (or on a credit enhancement)
 - Adverse tax opinions
 - Material modifications to rights of security holders
 - * Bond calls and tender offers
 - * Defeasances
 - * Rating changes

Continuing Disclosure: Exemptions

- Offering of municipal securities in authorized denominations of \$100,000 or more, if such securities:
 - Are sold to no more than 35 persons, each of whom the participating underwriter reasonably believes
 - Has knowledge and experience in financial and business matters that is capable of evaluating the merits and risks of the prospective investment; and
 - Is not purchasing for more than 1 account or with a view to distribute the securities; OR
 - Have a maturity less than 9 months.

Other Filing Requirements

- Revised School Code Audit Requirement
 - Requires annual audit of books of the school district at least annually. Must be filed with the Department of Education pursuant to the State School Aid Act.
 - Requires annual audit of books of the intermediate school district at least annually
 - Each must be filed with the MI Department of Treasury pursuant to Act 34
- Energy Conservation Improvements (MLC 380.1274a)
 - A school board or ISD that has made energy conservation improvements shall report to the Michigan Department of Treasury on [Form 6039](#) certain information **within 60 days after the completion** of the improvements, and shall report certain information relating to the actual energy consumption of each improved facility to the state treasurer **by July 1 of each of the 5 years** after the improvements were completed.

Other Filing Requirements (cont.)

- Audit of Bond Proceeds Expenditures (MCL 380.1351a)
 - Audit must be completed by Nov. 1st following the completion date (as measured by the June 30th following the Certificate of Substantial Completion issued by the District's architect) of all projects financed by the proceeds
 - Shall be filed as part of the annual audited financial statements with the Department of Education (a School District must also file a certification letter with the Department of Treasury at the same time).
 - Audit must be performed by a Michigan licensed CPA and be for the entire construction period.
 - See Treasury [Numbered Letter 2023-1](#) (Rev. 11/2023).

Other Filing Requirements (cont.)

- Sinking Fund Millage Audit (MCL 380.1212)
 - If a school district levies a sinking fund millage, it shall have an independent audit of its sinking fund conducted annually and shall file the report with the Department of Education as part of the school district's annual audit. This filing satisfies the Department of Treasury filing requirement.
 - See Treasury Numbered Letter 2023-1 (Rev. 11/2023).

School Bond Qualification and Loan Program: Annual Loan Activity Application

- If a school district **owes a balance** to the revolving loan fund or has been identified as a **potential borrower**, it shall file an **annual loan activity application** with the state treasurer no less than 60 days before certifying its annual tax levy. It must be accompanied by a certified resolution of the governing body authorizing a designated official to complete all necessary documents to obtain a loan from the revolving loan fund or for making repayments to the revolving loan fund for that year.

School Bond Qualification and Loan Program: Computed Millage Waivers

- Prior to June 1 of each year, a school district may request a waiver to levy a recalculated computed millage that is less than the computed millage stated on the most recent order qualifying bonds, but not lower than the computed millage rate noted on the applicant's current loan agreement in effect at the time of the request. MCL 388.1923(a).