

Instructions for Form 3881, Application for Preliminary Qualification of Bonds

School Bond Qualification and Loan Program
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Prequalification Overview

State qualified bonds allow school districts to take advantage of two fundamental aspects that make up the framework of the School Bond Qualification and Loan Program:

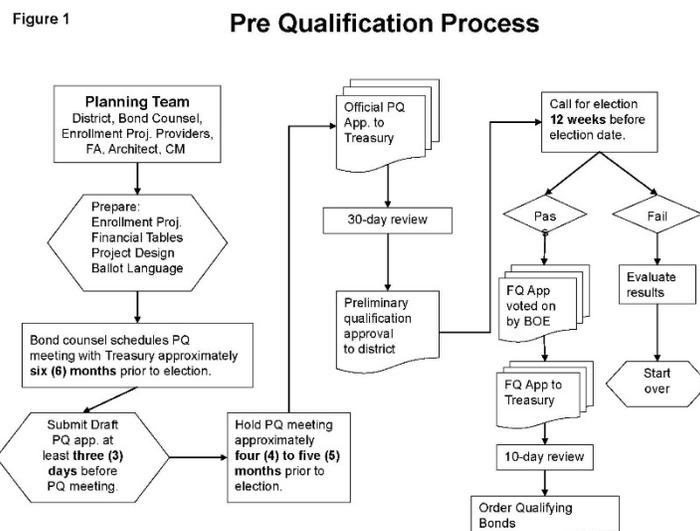
- A credit enhancement that authorizes the use of the State’s bond rating, which may lower the cost of new bonds.
- A loan option for districts that need to borrow from the State to pay principal and interest requirements on outstanding qualified bonds.

A school district that seeks State qualification of its bond issue is required to file a preliminary qualification (PQ) application. The PQ application is the mechanism to seek preliminary qualification. Prior to completing the PQ application, a district should conduct a thorough study to determine facility needs and gauge the level of support that exists within the community. The district’s architect often works with citizen groups to assist with pre-bond studies. The results of a study at the local level should be the foundation of the bond issue and incorporated into the projects funded by bond proceeds.

The architect retained by the school district normally prepares the PQ application in cooperation with other representatives including the district’s bond counsel, financial advisor, and construction manager. Other consultants retained by the district may also be involved in the prequalification process. The prequalification process (shown in Figure 1) includes:

1. PQ meeting with Treasury, the school district and its representatives (architect, bond counsel, financial advisor, construction manager, etc.) meet to discuss the bond issue and the proposed projects financed by the bond proceeds.
2. PQ application review by Treasury to confirm and verify information that pertains to the bond issue such as project construction costs, enrollment projections, and debt service amortization schedules.
3. On-site inspection to evaluate the condition of the existing facilities to determine whether the proposed projects are warranted and to verify that the proposed projects are accurately reflected in the PQ application.

Once all requirements are met, preliminary qualification is granted. Preliminary qualification enables the school district to proceed with calling the election and presenting the bond proposal to its citizens.



A school district may refer to *Bulletin 3160 Bond Qualification Process*. For more information, visit www.michigan.gov/sblf.

Application Time Schedule

The application process must be initiated in sufficient time to meet all statutory requirements and to allow the School Bond Qualification and Loan Program staff to thoroughly review the application before submitting a recommendation to the State Treasurer. School districts should allow additional time for applications that contain statistics outside of Treasury’s parameters and for applications that contain other unusual circumstances.

Additional supporting documentation that addresses individual situations should be submitted with the official PQ application. Supporting documentation clarifies unusual circumstances and provides a basis for a district’s variance from typical standards. These documents are an important part of the application and should receive the same attention to detail and accuracy as the PQ application.

Adhere to the following timetable to ensure sufficient time is allowed to process the PQ application.

Time Frame	Action Required
Not less than <u>180 calendar days</u> before the election.	→ School district in conjunction with its bond counsel should contact the SBQLP to request a PQ meeting.
Not less than <u>three business days</u> before PQ meeting.	→ A completed draft application including financial tables and enrollment projections must be delivered to the office of the SBQLP.
Not less than <u>30 calendar days</u> before the requested approval date.	→ A board approved completed and signed official application that includes all additional supporting documentation must be delivered to the office of the SBQLP.
Not less than <u>12 weeks</u> prior to election date.	→ The district’s Board of Education takes official action to call for the election on the bond proposal(s).

Additional Time Sensitive Items

1. On the business day following the bond election, the school district should notify the SBQLP of the “unofficial” election results. Report whether the proposal(s) passed or failed and the total number of “yes” and “no” votes for the proposal(s).
2. If the election is successful, the district must file an *Application for Final Qualification of Bonds* (Form 3451) to receive an Order Qualify Bonds. This form is available on the SBQLP website.
3. The school district must include a signed copy of the official Certificate of Determination of election results and vote count with the *Application for Final Qualification of Bonds* (Form 3451).
4. Application qualification fees become due upon the sale of bonds that have received preliminary qualification. The *Qualification Fee Schedule* is available on the SBQLP website.

Application Instructions

School districts and their consultants should use the following instructions to complete the PQ application and prepare for a qualified bond election.

1. Download the PQ application from www.michigan.gov/sblf
2. Save the Excel file to your computer's hard drive.
 - a. Preparers may insert formulas into the forms once the application file resides on their computer.
 - b. Preparers may not change the layout of the application forms (no fields may be added or deleted).
 - c. Dollars, student enrollments and classroom capacity figures should be rounded to whole numbers.
 - d. Millage levies and percentages should be rounded to two decimal places.

Page Instructions

Follow the page instructions below to complete the prequalification application.

Page Number	Instructions
Cover Page Table of Contents	<ol style="list-style-type: none">1. Enter the legal name of the school district.2. Use the Table of Contents to confirm all required pages are complete and in the proper order.3. Place worksheets and any additional supporting documentation at the end of the application.
Page 1 Board Certificate	<ol style="list-style-type: none">1. Enter the proposed election date and the application number in the space provided (obtain the application number from Treasury).2. Complete school district, contact, and certificate sections.3. Sign the certificate after the board authorizes the school district to submit the application for preliminary qualification (signature required by the secretary of the board).4. Attach an exact copy of each ballot proposal that will be presented to the electors. Refer to the election and ballot guidelines in the Quick Reference section, page 8, for more information regarding the requirements for structuring ballot proposals. <p>Note: Follow the mailing instructions to ensure that the official application is submitted in a timely manner.</p>
Page 2 Financial Summary	<ol style="list-style-type: none">1. Enter required information in each column or field. If not applicable, enter "N/A".2. Refer to Appendix A (page 11), <i>Useful Life Calculation</i> to complete the supporting worksheet.3. Complete Section H with the preparer's name and firm name. <p>Note: Various supporting financial tables must be prepared to calculate required information. The supporting tables should clearly document statistical information and comply with program requirements. For more information, consult with the school district's financial advisor.</p>

Page 3

Enrollment Projections

1. Enter enrollment information for current enrollment, projected 5-year enrollment, and projected enrollment change for general education students only.
2. Provide a description of the method used in the space provided.

Note: Complete this page after acquiring an enrollment projection report from an approved enrollment projection service provider. Refer to Appendix B (page 12), *Enrollment Projection Service Providers*.

Page 4

Project Sheet

Complete a project sheet for each building or location where bond proceeds will be used.

Separate project sheets may be required for bus purchases, land acquisitions and building demolition if not completed in conjunction with construction remodeling activity.

1. Enter the project number and name of school.
2. Provide a brief project description of work to be completed in each proposal or series.
3. Describe the instructional technology included in the instructional technology budget line item.
4. Describe the site work included in the site work budget line item.
5. Include square footage and cost per square foot if constructing a new building or addition.
6. Describe any environmental or usability problems addressed by the project.
7. Enter estimated costs for each budget line item in the Proposed Construction Project section (entries should be carried to the Cost Summary page).
8. List estimated costs for multiple proposals/series separately (separate bond issue schedules, construction fund schedules, and election/issuance cost schedules must be provided for each ballot proposal/series and for the combined total of all proposals).
9. Complete the certificate (a licensed architect who has participated in the planning of the proposed construction project and is responsible for estimating the costs must sign the certificate).

Note: Provide supporting documentation for the estimated project costs for each category reported on each project sheet. See Appendix C (page 13), *Cost Detail Guidelines*.

Page 5

Building Utilization

1. List the number of teaching stations in the space that corresponds with the appropriate grade capacity.
2. Refer to the Quick Reference section (page 10) for more information on teaching stations.
3. Enter the Current Grade Structure, Proposed Grade Structure, and the Projected 5-Year Enrollment in the spaced provided.
4. Transfer applicable information to the Utilization Summary on page 7 of the application.

Note: Formulas are built in to the worksheet page and will automatically calculate the utilization percentage.

Page 6
Utilization Summary

1. Enter required information in each column.

Note: Figures on the Utilization Summary are carried forward from the enrollment projections and the building utilization worksheets.

Page 7
Facility Summary

1. List all school facilities and buildings owned by the district, including any proposed new facilities or those under construction.
2. Enter required information in each column.
3. Total each applicable column.

Note: Buildings that are being closed should be reported on the Facility Summary page regardless of whether or not bond proceeds are used.

Page 8
Cost Summary

1. Enter required information in each column (entries should reflect the totals of all project sheets).
 2. Prorate the percentage of election/issuance costs in Column 15.
 3. Complete funding information in Box 17.
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Additional Application Instructions

Financial advisors are required to provide the following attachments to the application that document the basis for their calculations and support the information on the Financial Summary on Page 2:

Proposed Bond Issue Schedules

- Total amount of existing debt (by year)
- Proposed bond maturity structure, interest rates, and interest cost (by year)
- Taxable value, projected growth rate, and projected tax (by year)
- SBL borrowed/repaid, interest rate, interest cost, and balance (by year)
- Require millage levy with/without SBL fund borrowing (by year)
- Millage levy attributable to the new bonds (by year)
- Average millage rate of new bonds
- Interest costs including SBL fund interest for the new bonds
- Interest to bond ratio for new bonds
- Calculation of average growth rate of taxable value for previous five years and 20 years
- Debt to taxable value ratio
- Weighted average maturity of qualified bonds

Existing Debt Schedules

- Bond structure, interest, and total (by year)
- SBL borrowed/repaid, interest, balance (by year)
- Required millage levy (by year)

Construction Fund/Bond Issuance Cost

- Draw schedule, interest rate, and interest earnings
- Estimate of capital projects through voted bonds

Financial advisors are allowed to use proprietary software applications to calculate the information reported on the Financial Summary. A predetermined design for these attachments is not required.

Quick Reference

Bond maturity structure

Qualified bonds must be structured in compliance with the requirements of all state and federal provisions including, but not limited to:

School Bond Qualification, Approval, and Loan Act, as amended - MCL 388.1921-388.1939

The Act establishes requirements for qualified school district bond issues.

- Qualified bonds can be issued for periods not to exceed 120% of the average reasonably expected useful life of the assets being financed, excluding land and site improvements.
- If the school district anticipates borrowing from the School Bond Loan Program, the State Treasurer and the school district will enter into a loan agreement setting forth the terms and conditions of any qualified loans to be made to the school district.
- The qualified loans shall be due not later than 72 months after the date on which the qualified bonds are due and payable.
- To borrow from the School Bond Loan Fund, a district must levy a minimum of 7 debt mills and may be required to levy additional millage up to a maximum of 13.

The Revised School Code - MCL 380.1351 through 380.1372

Part 17 - *Bonds and Notes*, establishes the requirements for qualified, non-qualified, and non-voted school district debt issued for capital purposes.

The Revised Municipal Finance Act - MCL 141.2101 through 141.2821

The Revised MFA establishes the requirements relative to the borrowing of money, the issuance of debt, and levy of taxes for all Michigan municipalities including school districts.

Many IRS rules and regulations apply to all tax-exempt bonds and issuers that are beyond the scope of this document. Appropriate training and bond counsel advice should be acquired regarding all legal requirements.

Building square footage

Building square footage should be computed in accordance with the following:

- All measurements should be from the exterior, rough wall lines.
- Enclosed space should be counted as a full area (i.e. boiler/heater rooms).
- Covered, unenclosed spaces should be counted as one half of the actual area (i.e. open/covered passages, porches, planting areas, and overhangs and sun control devices designed to function as covered walks).

Do not count the following areas: eaves, unsheltered platforms, and steps.

Cost per square foot

Calculate cost per square foot by dividing the estimated cost for new construction by the new construction square footage:

Example: $\$73,454,300 / 477,500 = \153.83 or \$154

Note: Cost per square foot parameter is reviewed annually and may change to reflect current economic conditions.

Debt service dates

Debt service dates (and potential SBL fund borrowing) should be structured for May 1 and November 1 unless approval for alternative dates is received from the Department of Treasury.

Election and ballot guidelines School district elections regarding qualified bonds must comply with all applicable local, state and federal provisions, including but not limited to:

The School Bond Qualification, Approval and Loan Act, as amended – MCL 388.1928:

- Estimated amount to be borrowed plus interest (if applicable)
- Total qualified bonds and qualified loans outstanding
- Disclosure that estimated millage may change in certain circumstances
- Estimated amount of principal and interest that will be paid on borrowings
- Estimated computed millage and estimated duration of millage levy

The Revised School Code – MCL 380.1361: Ballot must provide the dollar amount and purpose of the bond issue.

Michigan Election Law – MCL 168.643a: The question must be clearly written to reduce prejudice for or against the proposal. MCL 168.641: School bond elections must be held on one of three regular election dates. Certain “floater” dates may be used under special circumstances.

The General Property Tax Act – MCL 211.24f: Ballot must state outstanding years, first-year millage, and average annual millage.

Bond counsel advice should be acquired regarding all legal requirements.

Fixed bond interest Fixed bond interest rates must be used for completing the preliminary qualification application. Variable rate structure will only be considered at the time of final qualification. Refer to www.michigan.gov/sblf to review the *Guidelines for Variable Rate Bonds*.

Multiple ballot proposals Even though electors pass all proposals, it is not allowable to transfer funding between projects identified in separate proposals. Separate bond issue schedules, construction fund schedules, and election/issuance cost schedules must be provided for each ballot proposal and for the combined total of all proposals.

A separate Cost Summary must be prepared for each individual ballot proposal and one for the combined total of all proposals.

Multiple bond series Financial advisors must provide the following additional supporting financial information for multiple bond series:

- Bond maturity structure for each bond series
- Construction fund draw schedule for each bond series
- Bond issuance cost estimates for each bond series

Note: If an allocation of projects by bond series cannot be made during preliminary qualification, each *Application for Final Qualification* must be preceded by submission of project sheets and cost detail for the building projects included within that series. An Order Qualifying Bonds will not be issued until the proposed projects have been reviewed and approved.

Quick Reference	(continued)
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Reimbursement of general fund from bond proceeds

The State Treasurer allows the use of bond proceeds for reimbursable expenses if these expenses pertain to the following:

- Purchase of land prior to the election held to consider a bond issue. The school district must adopt a resolution declaring the board's official intent to use proceeds of tax-exempt bonds to reimburse the district for capital expenses paid from other district funds (the PQ application should include a declaration of the school district's intent to reimburse its general fund and a copy of its board resolution).
- Capital expenditures made after a successful election but before issuance of the qualified bonds. The school district must take all actions as required by the IRS regulations.

School Loan Revolving Fund borrowing

Loans from the School Loan Revolving Fund may be available to provide a level debt millage levy over the life of the loan and/or bond issue (and to avoid possible payment default). Other considerations when borrowing include:

- Qualified school loans cannot be used for any purpose other than immediate debt service payments to bondholders.
- School districts must certify a full debt levy before borrowing.
- To avoid debt fund shortfalls prior to implementation of a full debt levy, it may be necessary to capitalize interest or establish an initial long coupon period and forgo any principal payment in the first year.

Teaching stations

A teaching station is any room or area which has a teacher assigned to it for the majority of the school day.

Elementary schools: General classrooms and kindergarten rooms are considered teaching stations (kindergarten rooms with half-day or all-day/alternate-day sessions should be counted as two teaching stations).

Middle/high schools: General classrooms and other curriculum rooms are counted as teaching stations (i.e. math, music, art, industrial arts, technology labs, and gymnasiums).

The teaching station count should not include self-contained special education classrooms or general use rooms such as auditoriums, study halls, and open computer labs.

Technology

Technology includes: hardware and communication devices that transmit, receive, or compute information for pupil instructional purposes.

Examples of "Technology" items (for instructional purposes) include, but not limited to: computer hardware, servers, initial operating system software, printers, switches, routers, technology design and implementation, etc.

Note: Classify non-instructional technology items under other categories such as: Equipment/Loose Furnishings, New Construction, or Remodeling.

Examples of "Equipment/Loose Furnishings" include, but not limited to: telephone equipment, PA system, computer work stations, desks, office furniture, copiers, fax machines, lab equipment, audio visual, etc.

Examples of "New Construction" or "Remodeling" items include, but not limited to: infrastructure cabling (walls and ceilings), electrical wiring, etc.

Technology designers Before including costs estimates developed by a technology designer into a qualified bond application, the technology designer must provide a breakdown of allowable costs relating to each individual project. The breakdown must be supported by information that documents the items included and how the cost estimates were calculated. If lump sum allowances are used, sufficient documentation must be provided to describe the method used to determine the amount and components included in the allocation.

Architects, bond counsels, and school district administrators must take appropriate action to assure that the technology designer is aware of the legal and procedural requirements for including technology costs in a qualified bond issue. The Revised School Code (Section 380.1351a) defines allowable technology expenditures.

Other allowable capital expenditures are included in the design and implementation of a technology plan that do not meet the Revised School Code's definition of technology such as permanent infrastructure (i.e. cabling) and non-instructional devices (i.e. telephone equipment). These items may be included in the new construction, remodeling, or equipment budget.

Utilization percentage Divide the projected five-year enrollment by the total pupil capacity.

Appendix A – Useful Life Calculation Policy and Worksheet

This worksheet may be downloaded in Excel format from the SBLP website at www.michigan.gov/sblf.

A school district must demonstrate that the weighted average maturity of the qualified bond issue does not exceed 120% of the average reasonably expected useful life of the facilities, excluding land and site improvements, being financed with the proceeds of the qualified bonds.

The following table lists the recommended average useful life of the categories of assets that should be considered in this calculation. If a specific item is not listed, it should be assigned to the most closely related category.

Asset Category	Useful Life Years
New School Building	40
Building Improvements - interior and exterior remodeling such as plumbing, electrical, HVAC, fire suppression, security systems, elevators, etc.	30
Roofing	20
Flooring	10
Furnishings and Equipment - furniture and fixtures that are not a structural component of a building such as desks, chairs, tables, storage units, office equipment, copiers, fax machines, communications equipment, kitchen equipment and appliances, athletic equipment, etc.	10
Technology Infrastructure - cables, networks, etc.	10
Buses	6
Technology (instructional and non-instructional) - computers, printers, scanners, etc.	5

Use the worksheet below to calculate the weighted average useful life of assets included in projects funded by bond proceeds.

Follow Column Instructions	→	Enter Value	Col. 1 + Col. 2	Enter Value	Enter Value	Col. 4 + Col. 5	Col. 6 ÷ Col. 6 Total	Col. 3 x Col. 7
Asset Type	Col. 1	Col. 2	Col. 3	Col. 4	Col. 5	Col. 6	Col. 7	Col. 8
Asset Type	Average Useful Life of Asset (in Years)	Time between Bonds Issue Date and Purchase	Useful Life of Asset from Bond Issue Date	Expenditure Amount	Allocation of Related Professional Fees	Total Costs (Incl. Related Fees)	% of Total Cost	Average Useful Life of Assets (in years)
School Buildings	40	0	40	4,500,000	50,000	4,550,000	47.89%	19.16
Building Improvements	30	1	31	3,000,000	64,000	3,064,000	32.25%	10.00
Roofing	20	0	20	750,000		750,000	7.89%	1.58
Flooring	10	0	10			0	0.00%	0.00
Furnishing/ Equipment	10	0	10	300,000	15,000	315,000	3.32%	0.33
Technology Infrastructure	10	0	10	300,000	20,000	320,000	3.37%	0.34
Technology (instr/non-instr)	5	0	5	500,000	2,000	502,000	5.28%	0.26
Buses	6	0	6			0	0.00%	0.00
Total for purposes of determining weighted avg useful life				9,350,000	151,000	9,501,000	100.00%	31.66

120% of average useful life of assets → 38.00

Appendix B – Treasury Approved Enrollment Projection Service Providers

Middle Cities
2199 Jolly Rd., Suite 100
Okemos, MI 48864-3968
Phone: 517-347-0292
www.middlecities.org

STANFRED Consultants
4518 Tacoma Blvd.
Okemos, MI 48864
Phone: 517-347-4928

Plante & Moran CRESA
27400 Northwestern Highway
Southfield, MI 48034
Phone: 248-352-2500
www.plantemoran.com/pmcrea

Skanska USA
P.O. Box 9061
Farmington Hills, MI 48333-9061
Phone: 248-737-5800
www.skanska.com

DeJong-Healy
5685 Tynecastle Loop
Dublin, OH 43016
Phone: 614-264-2638
www.dejonghealy.com

Western Demographics
1750 30th Street, #424
Boulder, CO 80301
Phone: 303-823-0165
www.westerndemographics.com

Decision Insite
101 Pacifica, Suite 380
Irvine, CA 92618
Phone: 877-204-1392
www.decisioninsite.com

Appendix C – Cost Detail Guidelines

Each Project Sheet must be supported by a cost analysis that documents the project activities and scope, and provides support regarding how the cost estimates were calculated.

A predetermined layout does not exist for this information. Architects are encouraged to develop and use their own proprietary methods to provide a breakdown of cost totals. However, costs must support the estimated project costs identified on page 4 of the preliminary application.

When preparing descriptions, emphasis should be placed on reporting activities and outcomes rather than construction materials. The cost analysis must provide summary totals that can be matched to budget estimates reported on the project sheet. The following are some suggested guidelines for documenting costs:

New Construction

Report the number of rooms, types of rooms, the square footage, and cost per square foot. Include additional lines or columns to address additional items or cost escalators.

Remodeling and Site Work

Report the various activities/objectives that are anticipated: type of work performed (e.g. install, resurface, upgrade, replace, etc.), quantity and total cost. Square footage is pertinent only if being used to determine the cost.

Site Acquisition

Typically reported as cost per acre, but can be reported as a lump sum depending on how much information is known at the time of application.

Contingency, Architect Fees, Construction Management

Typically calculated as a percentage of the direct construction amounts. Allowances for reimbursable items may be listed as a separate item(s) or included in total.

Technology, Furnishings & Equipment, Busses

Allocations for these items must be sufficiently documented. Separate components should be listed and budget allocations created for instructional technology and loose furnishings/equipment.

- If lump sum allowances are used, sufficient documentation must be provided to describe the method used to determine the amount and the general objectives of the allocation.
- If a Technology Designer is being used, refer to Technology Designers in the Quick Reference section (page 10).

Miscellaneous Costs

There is NO miscellaneous project cost category. All costs must be allocated within one of the 10 approved uses for bond proceeds. Items such as general conditions, technology infrastructure, printing costs, insurance costs, soil boring, fire marshal fees, etc., are considered part of the project costs and must be allocated to new construction, remodeling, site budgets as appropriate, or else included as reimbursables under architect/CM cost categories. If an expenditure item does not fit within one of the approved categories, it should not be included in the bond proposal.