

# Basics of School Finance

Traverse City, Michigan | June 21, 2019



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# Introductions

## Roles & Responsibilities

- Key Responsibilities of Board Members
  - Superintendent / Chief Officer
  - Policies
  - Contracts / Budgets
- Key Responsibilities of Superintendent / Administration
  - Forecasting Revenue and Expenditures
  - Cost Benefit Analysis
- Contracted Professionals
  - Legal Counsel | Labor, Bond, Note, etc.
  - Municipal Advisor
  - Auditor

# Cash Flow

## Purposes/Advantages

- Monitoring cash position on a monthly or weekly basis
  - Reconciliation with monthly cash flow, budget, and bank account balances
  - Investment strategy for idle cash
- Greater transparency for proactive budget management and improvement of financial agility
  - Ability to see when thin margins will occur, or avoid and reduce unnecessary interest costs related to a issuance of a state aid notes (“SANs”), tax anticipation notes (“TANs”) or Lines of Credit (“LOCs”).
- Allows for historical tracking of revenue and expenditures to provide refined forecasts and improved transparency for :
  - Sale of SANs, TANs or LOCs
  - Credit Rating/Analysis
  - Tax Analysis (Tax-exempt or taxable)
  - Interest cost



# Weekly Cash Flow Sample Cash Shortfall

| Month with Greatest Weekly Deficit          | November 2018  |                |                |                |                |
|---|----------------|----------------|----------------|----------------|----------------|
| Week Ending                                 | Nov 04         | Nov 11         | Nov 18         | Nov 25         | Dec 02         |
| Beginning Balances<br>(Include Investments) | 221,788        | 171,788        | 1,479          | 78,319         | 198,341        |
| <b>Estimated Receipts</b>                   |                |                |                |                |                |
| Operating Taxes                             |                |                |                |                |                |
| State Aid                                   |                |                |                | 441,778        |                |
| Other Grants                                |                |                |                |                |                |
| Other Revenue                               |                |                | 96,839         |                |                |
| <b>Total Available Funds</b>                | 221,788        | 171,788        | 98,319         | 520,096        | 198,341        |
| <b>Less Estimated Expenditures</b>          |                |                |                |                |                |
| Note Payments (if applicable)               |                |                |                | 51,447         |                |
| Payrolls                                    |                | 170,308        |                | 170,308        |                |
| Other Expenditures                          | 50,000         |                |                | 100,000        |                |
| Lease Payments                              |                |                | 20,000         |                |                |
| Bond Payments                               |                |                |                |                |                |
| Other Debt                                  |                |                |                |                |                |
| <b>Total Estimated Expenditures</b>         | 50,000         | 170,308        | 20,000         | 321,755        | -              |
| <b>Ending Balance with Note Proceeds</b>    | 171,788        | 1,479          | 78,319         | 198,341        | 198,341        |
| <b>Ending Balance without Note Proceeds</b> | (316,765)      | (487,073)      | (410,234)      | (238,764)      | (238,764)      |
| <b>Maximum Allowable Borrowing Amount:</b>  | <b>351,000</b> | <b>541,000</b> | <b>455,000</b> | <b>265,000</b> | <b>265,000</b> |

| Operating Funds                             | Jul 2018 | Aug 2018 | Sep 2018  | Oct 2018  | Nov 2018  | Dec 2018 | Jan 2019 | Feb 2019  | Mar 2019  | Apr 2019  | May 2019  | Jun 2019  | Jul 2019  | Aug 2019  |
|---|----------|----------|-----------|-----------|-----------|----------|----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Beginning Balances<br>(Include Investments) | 220,000  | 279,628  | 229,850   | 309,234   | 221,788   | 198,341  | 339,937  | 399,012   | 458,087   | 517,162   | 576,237   | 635,311   | 694,386   | 753,461   |
| <b>Estimated Receipts</b>                   |          |          |           |           |           |          |          |           |           |           |           |           |           |           |
| Note Proceeds (September SAN)               |          |          | 540,000   |           |           |          |          |           |           |           |           |           |           |           |
| Operating Taxes                             |          |          |           |           |           |          |          |           |           |           |           |           |           |           |
| State Aid                                   | 406,809  | 406,809  |           | 441,778   | 441,778   | 441,778  | 441,778  | 441,778   | 441,778   | 441,778   | 441,778   | 441,778   | 441,778   | 441,778   |
| Other Grants                                | 68,946   |          |           |           |           | 165,043  | 82,521   | 82,521    | 82,521    | 82,521    | 82,521    | 82,521    | 82,521    | 82,521    |
| Other Revenue                               | 98,225   | 57,764   |           | 96,839    | 96,839    | 96,839   | 96,839   | 96,839    | 96,839    | 96,839    | 96,839    | 96,839    | 96,839    | 96,839    |
| <b>Total Available Funds</b>                | 793,979  | 744,201  | 769,850   | 847,851   | 760,404   | 902,001  | 961,075  | 1,020,150 | 1,079,225 | 1,138,300 | 1,197,375 | 1,256,450 | 1,315,524 | 1,292,078 |
| <b>Less Estimated Expenditures</b>          |          |          |           |           |           |          |          |           |           |           |           |           |           |           |
| 2017-18 Note Payments (if applicable)       | 98,735   | 98,735   |           |           |           |          |          |           |           |           |           |           |           |           |
| September 2018 SAN Payments                 |          |          |           | 51,447    | 51,447    | 51,447   | 51,447   | 51,447    | 51,447    | 51,447    | 51,447    | 51,447    | 51,447    | 51,447    |
| Payrolls                                    | 245,616  | 245,616  | 290,616   | 404,616   | 340,616   | 340,616  | 340,616  | 340,616   | 340,616   | 340,616   | 340,616   | 340,616   | 340,616   | 340,616   |
| Other Expenditures                          | 150,000  | 150,000  | 150,000   | 150,000   | 150,000   | 150,000  | 150,000  | 150,000   | 150,000   | 150,000   | 150,000   | 150,000   | 150,000   | 150,000   |
| Lease Payments <sup>2</sup>                 | 20,000   | 20,000   | 20,000    | 20,000    | 20,000    | 20,000   | 20,000   | 20,000    | 20,000    | 20,000    | 20,000    | 20,000    | 20,000    | 20,000    |
| Bond Payments <sup>3</sup>                  |          |          |           |           |           |          |          |           |           |           |           |           |           |           |
| Other Debt <sup>4</sup>                     |          |          |           |           |           |          |          |           |           |           |           |           |           |           |
| <b>Total Estimated Expenditures</b>         | 514,351  | 514,351  | 460,616   | 626,063   | 562,063   | 562,063  | 562,063  | 562,063   | 562,063   | 562,063   | 562,063   | 562,063   | 562,063   | 562,063   |
| <b>Estimated Ending Balance</b>             | 279,628  | 229,850  | 309,234   | 221,788   | 198,341   | 339,937  | 399,012  | 458,087   | 517,162   | 576,237   | 635,311   | 694,386   | 753,461   | 730,015   |
| <b>Balance Without 2018 Note Proceeds</b>   | 279,628  | 229,850  | (230,766) | (266,765) | (238,764) | (45,721) | 64,801   | 175,323   | 285,845   | 396,367   | 506,890   | 617,412   | 727,934   | 755,935   |

<sup>1</sup> Use May 23, 2018 State Aid Status Report "Current Year Allowance" Amount

# Cash Flow Management

## Short-Term Cash Flow Borrowing



|                               | K-12 School District   | Public School Academy   |
|-------------------------------|--|---|
| <b>Authority</b>              | <ul style="list-style-type: none"> <li>○ Public Act 451 (Revised School Code)</li> <li>○ Public Act 34 (Revised Municipal Finance Act) <ul style="list-style-type: none"> <li>❖ Requires Qualified Status (or an order of Prior Approval) from the State</li> <li>❖ Line of credit requires order of Prior Approval regardless of Qualified Status</li> </ul> </li> </ul>  | <ul style="list-style-type: none"> <li>○ Public Act 451 (Revised School Code)</li> <li>○ Public Act 34 (Revised Municipal Finance Act) <ul style="list-style-type: none"> <li>❖ Requires Qualified Status (or an order of Prior Approval) from the State</li> <li>❖ Line of credit requires order of Prior Approval regardless of Qualified Status</li> </ul> </li> </ul>   |
| <b>Security</b>               | <ul style="list-style-type: none"> <li>○ State School Aid/State Aid Intercept Mechanism</li> <li>○ Limited Tax General Obligation (Operating Taxes)</li> </ul>   | <ul style="list-style-type: none"> <li>○ State School Aid/State Aid Intercept Mechanism</li> <li>○ Asset Pledge</li> </ul>  |
| <b>Types</b>                  | <ul style="list-style-type: none"> <li>○ State Aid Note (“SAN”)</li> <li>○ Line of Credit (“LOC”)</li> <li>○ Tax Anticipation Note (“TAN”)</li> </ul>  | <ul style="list-style-type: none"> <li>○ State Aid Note (“SAN”)</li> <li>○ Line of Credit (“LOC”)</li> </ul>  |
| <b>Maximum Pledge</b>         | <p><b>State Aid Note (“SAN”)</b></p> <ul style="list-style-type: none"> <li>○ Up to 70% of remaining appropriated state aid to be received in current fiscal year</li> <li>○ Up to 50% of appropriated state aid for next fiscal year (after 3/1 of current fiscal year)</li> </ul> <p><b>Line of Credit (“LOC”)</b></p> <ul style="list-style-type: none"> <li>○ Up to 30% of appropriated but not received state aid</li> </ul> <p><b>Tax Anticipation Note (“TAN”)</b></p> <ul style="list-style-type: none"> <li>○ Up to 50% of current FY or next FY operating tax levy</li> </ul> <p><b>Interest Rate could be reflective of coverage of revenue pledged</b></p> | <p><b>State Aid Note (“SAN”)</b></p> <ul style="list-style-type: none"> <li>○ Up to 70% of remaining State Aid to be received in current fiscal year</li> <li>○ Up to 50% of State Aid to be received in next fiscal year</li> </ul> <p><b>Line of Credit (“LOC”)</b></p> <ul style="list-style-type: none"> <li>○ Up to 30% of appropriated but not received state aid</li> </ul> <p><b>Interest Rate could be reflective of coverage of revenue</b></p> |
| <b>Method of Sale</b>         | <ul style="list-style-type: none"> <li>○ Private Placement/Purchase (i.e. bank)</li> <li>○ Competitive public offering</li> <li>○ Michigan Finance Authority (MFA) pooled program (limits borrowing to ≤ 50%)</li> </ul>   | <ul style="list-style-type: none"> <li>○ Private Placement/Purchase (i.e. bank)</li> <li>○ Competitive public offering</li> <li>○ Michigan Finance Authority (MFA) pooled program (limits borrowing to ≤40%)</li> </ul>   |
| <b>Maturity and Structure</b> | <ul style="list-style-type: none"> <li>○ SANs: ≤ 372 days, but number of payments/maturity varies</li> <li>○ LOC: Must be repaid within fiscal year</li> <li>○ TANs: Number of payments/maturity varies, but requires set aside for the repayment of principal and interest equal to ~\$0.63/\$1 of pledged taxes until repaid</li> <li>○ MFA SAN Program: <ul style="list-style-type: none"> <li>❖ Set-aside option equal monthly set-aside payments - three (May - July), five (March - July) or seven (January - July) or no set-aside option (August)</li> </ul> </li> </ul>   | <ul style="list-style-type: none"> <li>○ SANs: ≤ 372 days, but number of payments/maturity varies</li> <li>○ LOC: Must be repaid within fiscal year</li> <li>○ MFA SAN Program: <ul style="list-style-type: none"> <li>❖ 11 equal monthly installments (October – August)</li> </ul> </li> </ul>  |
| <b>Features</b>               | <ul style="list-style-type: none"> <li>○ Issuance through MFA for intercept mechanism (lower interest rate) either through pooled or standalone basis</li> <li>○ Trust Indenture/lockbox</li> <li>○ Draw structure</li> <li>○ Optional redemption</li> </ul>   | <ul style="list-style-type: none"> <li>○ Issuance through MFA for intercept mechanism (lower interest rate) either through pool or standalone</li> <li>○ Trust Indenture/lockbox</li> <li>○ Draw Structure</li> <li>○ Optional redemption</li> </ul>  |
| <b>Tax Status</b>             | <ul style="list-style-type: none"> <li>○ Tax-exempt if anticipate 90% of proceeds expended within six months of issuance (IRS Code of 1986 as amended)</li> </ul>  | <ul style="list-style-type: none"> <li>○ Tax-exempt if anticipate 90% of proceeds expended within six months of issuance (IRS Code of 1986 as amended)</li> <li>○ Certain management agreements may prevent issuance on a tax-exempt basis</li> </ul>   |

# Cash Flow Management

## Borrowing Process, Timing and Milestones



|            | K-12 School District  | Public School Academy  |
|------------|---|--|
| <b>SAN</b> | <ul style="list-style-type: none"> <li>○ Audit completed and qualified statement applied for (12/31)</li> <li>○ Engagement of Local Counsel and Municipal Advisor</li> <li>○ Budget is adopted (6/30)</li> <li>○ Borrowing need/size of borrowing determined</li> <li>○ Authorizing Resolution adopted by Board</li> <li>○ Prior Approval Submitted to Treasury, if required</li> <li>○ [Application due to MFA for SAN Program]</li> <li>○ Offering Document Distributed or Discussions with Banks/Lenders/MFA</li> <li>○ Pricing/Term Sheet provided by Bank or purchaser (1-4 weeks prior to closing)</li> <li>○ Purchase contract executed</li> <li>○ Documentation is finalized</li> <li>○ Pre-close (a week or two prior to closing)</li> <li>○ Closing [August for MFA Program]</li> </ul> | <ul style="list-style-type: none"> <li>○ Audit completed and qualified statement applied for (12/31)</li> <li>○ Engagement of Local Counsel and Municipal Advisor</li> <li>○ Budget is adopted (6/30)</li> <li>○ Borrowing need/size of borrowing determined</li> <li>○ Authorizing Resolution adopted by Board</li> <li>○ Prior Approval Submitted to Treasury, if required</li> <li>○ [Application due to MFA for SAN Program]</li> <li>○ Offering Document Distributed or Discussions with Banks/Lenders/MFA</li> <li>○ Pricing/Term Sheet provided by Bank or purchaser (1-4 weeks prior to closing)</li> <li>○ Purchase contract executed</li> <li>○ Documentation is finalized</li> <li>○ Pre-close (a week or two prior to closing)</li> <li>○ Closing [September for MFA Program]</li> </ul> |
| <b>LOC</b> | <ul style="list-style-type: none"> <li>○ Audit completed and qualified statement applied for (12/31)</li> <li>○ Engagement of Local Counsel and Municipal Advisor</li> <li>○ Budget is adopted (6/30)</li> <li>○ Borrowing need/size of borrowing determined</li> <li>○ Authorizing Resolution adopted by Board</li> <li>○ Prior Approval Submitted to Treasury</li> <li>○ Request for proposal distributed or Discussions with Banks/Lenders</li> <li>○ Pricing/Term Sheet provided by Bank or purchaser (1-4 weeks prior to closing)</li> <li>○ Line of credit agreement is executed</li> <li>○ Documentation is finalized</li> <li>○ Pre-close (a week or two prior to closing)</li> <li>○ Closing</li> </ul>  | <ul style="list-style-type: none"> <li>○ Audit completed and qualified statement applied for (12/31)</li> <li>○ Engagement of Local Counsel and Municipal Advisor</li> <li>○ Budget is adopted (6/30)</li> <li>○ Borrowing need/size of borrowing determined</li> <li>○ Authorizing Resolution adopted by Board</li> <li>○ Prior Approval Submitted to Treasury</li> <li>○ Request for proposal distributed or Discussions with Banks/Lenders</li> <li>○ Pricing/Term Sheet provided by Bank or purchaser (1-4 weeks prior to closing)</li> <li>○ Line of credit agreement is executed</li> <li>○ Documentation is finalized</li> <li>○ Pre-close (a week or two prior to closing)</li> <li>○ Closing</li> </ul>   |
| <b>TAN</b> | <ul style="list-style-type: none"> <li>○ Audit completed and qualified statement applied for (12/31)</li> <li>○ Engagement of Local Counsel and Municipal Advisor</li> <li>○ Budget is adopted (6/30)</li> <li>○ Borrowing need/size of borrowing determined</li> <li>○ Authorizing Resolution adopted by Board</li> <li>○ Prior Approval Submitted to Treasury, if required</li> <li>○ Offering Document Distributed or Discussions with Banks/Lenders</li> <li>○ Pricing/Term Sheet provided by Bank or purchaser (1-4 weeks prior to closing)</li> <li>○ Documentation is finalized</li> <li>○ Pre-close (a week or two prior to closing)</li> <li>○ Closing</li> </ul>  | <ul style="list-style-type: none"> <li>○ Not applicable</li> </ul>   |



# Capital Improvements

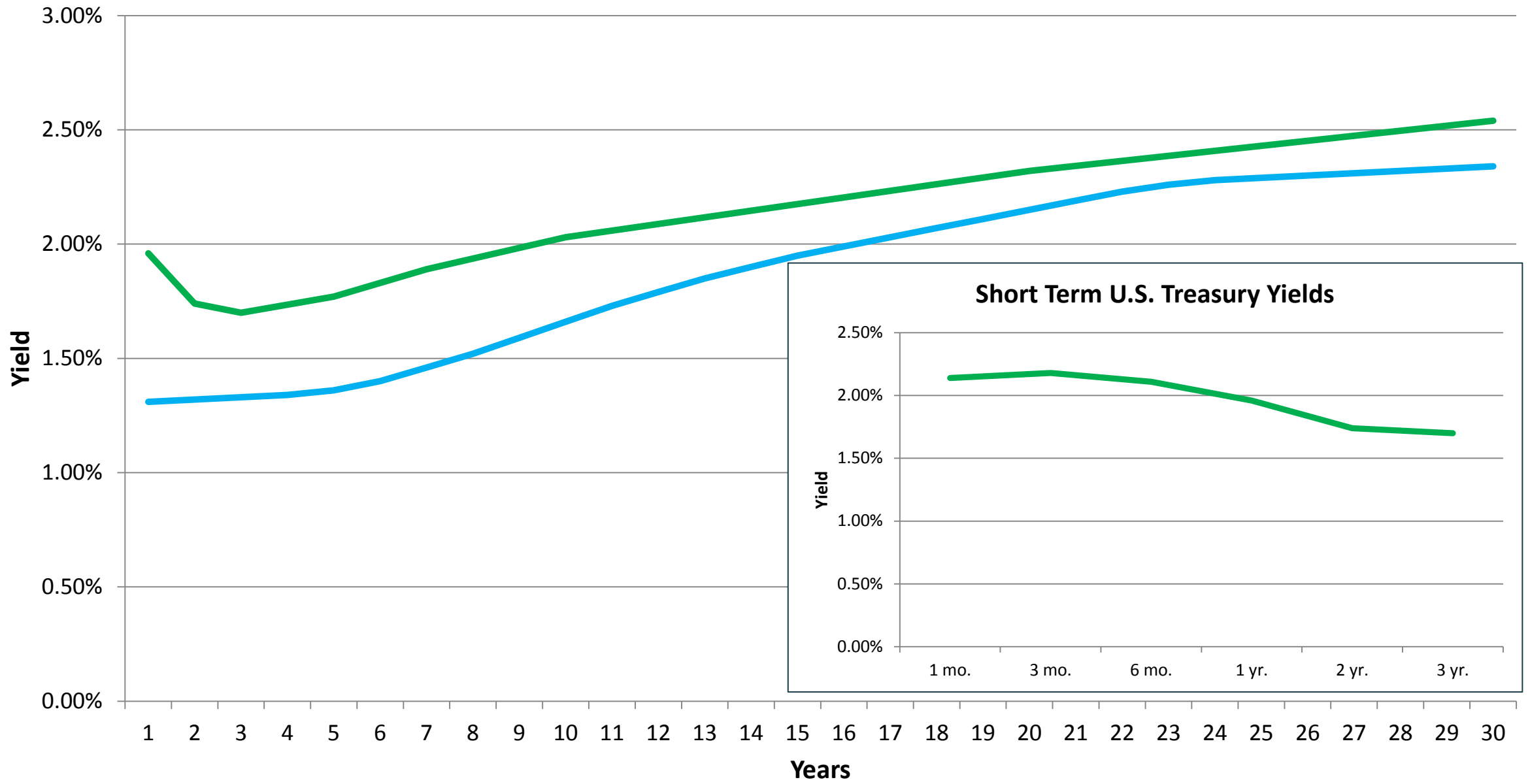
## Sources of Funding

- General Fund
  - Pay-Go Basis
  - Revenue Bonds
- Sinking Fund [Traditional Schools ONLY]
  - Voted
  - Maximum of 3 mills up to 10 years
  - Eligible Uses Defined by Statute
- Bond Issues | Voted or Revenue Bonds
  - Traditional Schools
    - Voted :: Unlimited Tax General Obligation
    - School Bond Qualification and Loan Program
  - Public School Academies
    - Pledge State School Aid
    - Maximum Pledge [20%]



# Yield Curves

## Investments or Cost of Borrowing



— Tax Exempt Yield (MMD)    — Taxable Yield (US Treasury)  
 Interest Rates as of June 19, 2019

# Resources or Questions

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