STATE OF MICHIGAN

School Loan Revolving Fund Process
School Bond Qualification and Loan Program

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www.michigan.gov/sblf

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Overview

Section 16, Article IX of the Constitution of 1963 provides a basic mandate for school districts to be able to receive loans from the state for assistance with debt service on their outstanding qualified bonds. As a way of complying with that constitutional requirement, the legislature created the Michigan School Loan Revolving Fund (SLRF), which was initially and is occasionally funded when necessary through the sale of state bonds. SLRF funds are then used to provide qualified loans to school districts for annual debt retirement needs. Public Act 92 of 2005, as amended (The School Bond, Qualification, Approval, and Loan Act), defines the requirements for school districts to qualify for the School Bond Qualification and Loan Program (SBQL Program) as well as the requirements to receive qualified loans from the SLRF. Public Act 34 of 2001 (Revised Municipal Finance Act) establishes general requirements for all municipal debt including qualified school bonds and loans. The Federal Internal Revenue Code (IRC) establishes requirements for the use of tax exempt bonds.

Only bond issues that have received state qualification and maintain compliance with all other applicable state and federal regulations are eligible for borrowing from the SLRF. Under the SBQL Program, as long as a district is levying a minimum of 7 mills, that district may request a loan from the state for the additional portion of the funds required to make full debt service payments rather than increase its current debt millage levy. Districts' Millage levy rates are updated during annual recalculations, when updated bond qualification orders are issued, and when districts enter into new loan agreements.

This borrowing process continues until the computed millage levy yields more revenue than the amount needed to pay debt service. At this point the district will begin to use the surplus to repay the loan principal and accrued interest.

When a school district intends to borrow from the SLRF, it is important to understand the ongoing annual administrative effort that will be required for obtaining disbursements and accounting for borrowing and repayments until the debt is repaid.

School Bond Loan Fund vs. School Loan Revolving Fund

Prior to July 2005, loans were issued from the School Bond Loan Fund (SBLF). Subsequent to the passage of Public Act 92 of 2005 loans have been made from the SLRF. School districts that have participated in the program since before 2005 may have loan balances in both funds. Balances are displayed separately on the loan account statement.

Loan Agreement

Prior to receiving monies from the SLRF, a school district must enter into a loan agreement with Treasury. The loan agreement will set forth the terms and conditions of any qualified loans, including the final mandatory repayment date and the then-current computed millage rate. That computed millage rate may change over time.

Borrowing Restrictions

The district agrees to use any funds borrowed from the SLRF only for the payment of principal and interest on qualified bonds that is immediately payable to bondholders and not to fund escrow or sinking funds. The district also covenants to deposit all federal interest credits, if any, with respect to its qualified bonds into the debt retirement fund pledged for the payment of the bonds.

Computed Millage Levy Requirements
When applying for qualification, the district's financial advisor provides a pro forma debt service projection using estimated taxable value growth rates. This schedule projects the "computed millage" that will generate sufficient tax revenues to pay principal and interest on all of the school district's qualified bonds plus principal and interest on all loans related to those qualified bonds no later than the final mandatory repayment date. Currently, the computed millage cannot be less than 7 mills or more than 13 mills. The final mandatory repayment date shall be not later than 72 months after the final maturity date of the qualified bonds. This date cannot be extended except by the payment of all outstanding qualified bonds and loans first.

For purposes of calculating the computed millage, the school district may assume for the first five years following the date of the bond issue that taxable value will grow at a rate no higher than the average growth in taxable value for the five years preceding the application and the lesser of 3% or the average growth rate for the twenty years preceding the application for the remaining term of the bonds, with a floor of 0%. If taxable value growth exceeds projections, the district will be able to repay its loan balance sooner, and thereby reduce the amount of interest expense that the bond issue will cost the district's taxpayers.

School districts that have SLRF loans outstanding must annually recalculate and, if necessary, adjust their computed millage when a review of the pro forma debt service projection indicates that a lower or higher computed millage is adequate or necessary to pay the principal and interest on outstanding qualified loans by the school district's final mandatory repayment date.

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A borrowing district must continue to levy the computed millage until all amounts borrowed plus accrued interest have been repaid. If a district has both qualified and non-qualified bonds outstanding, the non-qualified bonds cannot be considered when determining the computed millage or included in the amounts borrowed from the SLRF.

Multiple Debt Retirement Funds - Millage Allocation
It is recommended that districts establish a common debt retirement fund to reduce the administrative burden of borrowing and allocating to separate funds. However, if a district has more than one outstanding qualified bond issue and has not established a common pooled debt retirement fund in accordance with the Municipal Finance Act, it must take appropriate action to allocate the total debt millage levy between the various debt retirement funds so as to minimize the amount of funds to be borrowed from the SLRF. The *Annual Activity Application* identifies the debt service amount needed for each issue and recommends an efficient allocation of the total debt millage to aid in reducing over borrowing.

Corrections between debt retirement funds or transfer of final debt retirement balances of completed bond issues must be made under the provisions of the Municipal Finance Act. Districts that have an excessive balance in one fund, while borrowing from the SLRF to provide debt service in another fund, may be required to reallocate their millage before borrowing from the SLRF.

Any questions regarding the requirements for pooling, correcting, and closing debt retirement funds can be referred to the Local Audit and Finance Division, Michigan Department of Treasury, at 517-373-0660.

Annual Activity Application Process

It is a statutory requirement that the district submit a completed *Annual Activity Application* 60 days prior to certifying its annual tax levy on September 30. Once a district begins borrowing from the fund, it must continue to follow the Annual Activity Application process each year until its debt levy yield allows it to begin repaying its outstanding loans and until the debt is paid off. This application process provides the mechanism for the district to determine the proper millage rate or re-calculated annual millage rate for its qualified debt levy, the allocation of the debt millage between debt retirement funds (if the district has more than one), and an estimate of the amount to be borrowed from or repaid to the state. These planning actions are required to provide assurance that all legal requirements are being met at the local level and to allow the Michigan Department of Treasury to take the necessary action to assure funds are on hand when needed.

The board of education must approve a resolution authorizing borrowing or repayment activity for the fiscal year and designating a district official to execute and submit required forms.

Draw Request

The SLRF staff processes disbursements semi-annually, in April and October to assist the districts in making their debt service payments. Districts requiring SLRF disbursements must submit a Draw Request 30 days prior to the date the proceeds are needed.

This request should be prepared using the most current debt retirement fund balance information and should identify the specific amount of funds to be borrowed in order to meet the next debt service payment. All bank wiring instructions must be included with the request.

The SLRF staff reviews the request, contacts the designated district official one to two weeks prior to the date the loan is needed to verify wiring instructions and to confirm the disbursement amount. At this time, the district may reduce the requested amount if additional taxes or interest have been received since the application was submitted. The confirmed amount is processed by a wire transfer to the school district’s account.

Loan Confirmation

A loan confirmation shall be issued to the district within 10 days after any loan is made. Unless the duly authorized officer of the district notifies the SLRF staff in writing within

10 days of receipt of the loan confirmation that the amount shown is incorrect, the loan confirmation shall be conclusive evidence of the amount loaned to the district.

Statement of Account

A detailed statement of a district's SLRF activity and balance is available at any time on the School Bond Loan Program website at www.michigan.gov/sblf. A statement of account will be issued to the school district after each loan repayment.

Repayment Procedure

The predetermined final mandatory repayment date is stated in the Order Qualifying Bonds and on the Loan Agreement. Districts are required to begin repaying its outstanding loan balance as soon as annual tax collections exceed annual debt service payment requirements. Districts are required to pay off the loan no later than the final mandatory repayment date. The Annual Activity Application process should confirm the district's ability to begin repaying. Once repayment has begun, there should be no further need to borrow from the SLRF fund. However, districts must continue to levy debt millage in accordance with the Computed Millage Levy Requirements outlined earlier until all loans are paid.

Districts reaching the repayment stage will submit on or before August 1 a certified board resolution and complete a Repayment Schedule Worksheet each year before certifying the annual tax levy on September 30. This worksheet provides the mechanism for the district to properly allocate the computed debt millage between multiple debt retirement funds.

Prompt repayment is required by the School Bond Qualification, Approval, and Loan Act and will reduce the district's interest costs. After taking into account expected tax revenue collections, current debt retirement fund balances, and expected debt service payments, any excess funds on hand should be remitted to the State of Michigan immediately upon determination. Districts that have both a summer and winter tax levy, or have material amounts of delinquent tax payments may make multiple payments to the Michigan Department of Treasury as funds become available during the tax year.

At least once a year, districts in repayment mode will receive an invoice requesting repayment based on the completed Annual Activity Application. The school district shall remit the amount specified in the invoice to the place and in the manner specified on the invoice no later than the next succeeding May 15 after the date of the invoice.

Repayments may be made by wire transfer or check. See Remittance Instructions at the end of this bulletin. Before sending a payment, please notify the SLRF staff of the date, amount, and method of repayment. Final payments to close out a district's loan account must be pre-arranged. The SLRF staff will calculate the amount of interest due and determine the final payoff amount.

Paying Agent Payment Procedures

Effective October 1998, all qualified bonds were issued with the stipulation that the district agrees to submit debt service payments for its qualified bonds to their paying agents no less than five business days prior to the debt service due date. School districts must take appropriate action to deposit funds with their paying agents in accordance with the requirements that were agreed to at the time of final qualification.

Variable Rate Bond Structures

School districts may use variable rate debt instruments in the financing structures of bonds qualified by the School Bond Qualification and Loan Program. However, should the state issue non-taxable debt through the sale of bonds to provide loans to school districts, the disbursements to a school district from the SLRF may only be applied to scheduled principal and interest payments (November and May) of qualified bonds.

School districts with variable rate debt must submit an updated debt service table with current estimates of variable interest rates with each draw request.

Interest Rate Calculation

The loan interest rate on all SLRF and SBLF loans is the greater of 3% or the average annual cost of funds based on the average rate paid by the state and the Michigan Finance Authority on debt obligations issued to finance the loan program plus 0.125%. In addition to this, PA 437 of 2012, Section 9(8)(c) provides for a higher interest rate, if necessary, to prevent the impairment of a contract.

School districts are notified of the interest rates at the end of their fiscal year. The district may inquire at any time as to the current interest rate.

Responsibilities

The SLRF staff will provide application documents four to five weeks prior to the due date. It is the school district's responsibility to take all necessary actions to collect appropriate taxes, complete and return application and draw request documents, and remit debt service payments properly. Refer to the following calendar for borrowing from the SLRF.

Non-Compliance

The State Treasurer may withhold a school district's state aid funds if a school district:

a. fails to levy at least the computed millage while loans are outstanding;
b. defaults on its agreement to repay loans; or
c. fails to process any report, application, confirmation, or repayment by the required due dates.

In addition, the Department of Treasury may notify the district's school board if a district does not comply with requirements of the Act and require a written response of remedy.

School Loan Revolving Fund Calendar

January

February

March

- **May Debt Service Payment:** Complete May draw request and submit to the School Bond Qualification and Loan Program by **April 1**.

April

- Adjust disbursement amount for tax revenue revisions that occurred after request was filed and return final fax confirmation by the 15th.
- Verify receipt of SLRF funds and distribute among debt service accounts as appropriate.
- Process debt service payment to the paying agent five days prior to debt service due date.

May

- Receive loan confirmation from Treasury.
- Make appropriate internal accounting entries to account for disbursement.

June

- Take appropriate local board action to recalculate computed millage and set the summer debt millage levy.
- Receive a Statement of Account from SLRF staff regarding principal, interest and total amount due.
- Receive letter stating interest rates charged throughout the year.
- Reconcile reported principal against district accounting records.
- Distribute interest among debt retirement accounts as appropriate.
- Provide loan records and balances to independent auditors for inclusion in the annual report.

July

- Obtain local board authorization to apply for loans or make payments and designate the district official authorized to execute loan documents.
- Submit completed Annual Activity Application to the Michigan Department of Treasury, School Bond Qualification and Loan Program by **August 1**.

August

September

- Take appropriate local board action to set the winter debt millage levy based on annual computed millage recalculation.
- **November Debt Service Payment:** Complete November draw request and submit to the School Bond Qualification and Loan Program by **October 1**.

October

- Adjust disbursement for tax revenue revisions that occurred after request was filed and return final fax confirmation by the 15th.
- Verify receipt of SLRF funds and distribute among debt service accounts as appropriate.
- Process debt service payment to the paying agent five days prior to debt service due date.

November

- Receive loan confirmation from Treasury.
- Make internal accounting entries to account for disbursement.

December

Completion of Annual Activity Application

Authority: Public Act 92 of 2005, as amended

Due Date: August 1

Purpose:
To provide the mechanism for the district to determine the proper computed millage rate for its qualified debt levy and the allocation of the debt millage between multiple debt retirement funds. In addition, to provide Michigan Department of Treasury with information in order to finance disbursements to the school districts to provide assistance in making their debt service payments.

Information Required:

- Current Taxable Value
- Amount of Debt Service Payment
- Millage Levied for each Qualified Bond
- Debt Fund Balances

Documents Required:

- Annual Activity Cover Transmittal
- Loan Application Worksheet
- Annual Activity Application
- Computed Millage Recalculation
- Documentation to verify debt fund balances (bank statements with reconciled balances or copy of audited balances)

Certification: Board approval (borrowing or repaying)

Instructions for proper preparation:

1. On or about July 1st, an email with the application attached is sent to the school district to notify that all required Annual Activity Application materials are ready to be completed. Verify that the worksheet is based on your past tax year history (summer/split or winter tax collections). The loan application worksheet has built in formulas designed to assist with the calculations.
2. Allocate the recalculated computed millage based on the debt service needs for the current tax year. The allocation of millage levied for each outstanding debt issue may change from year to year. Debt fund accounts should have minimal funds remaining after the completion of the tax year. Districts should take note of excessive balances and take action to reallocate the next year.
3. Bank statements that support the reported debt fund balances must be submitted along with the completed worksheet. If the balances differ, provide reconciliation between the bank statements and the amounts listed on the worksheet.
4. Verify each outstanding qualified issue and the related debt service payment on the application.
5. Contact SLRF staff for assistance.

Completion of Draw Request

Authority: Public Act 92 of 2005, as amended

Due Date: April 1: May debt service payment
October 1: November debt service payment

Purpose:
To make a request to the Department of Treasury for assistance in making debt service payment on a qualified bond issue.

Information Required:
- Amount of Debt Service Payment
- Millage Levied for each Qualified Bond
- Debt Fund Balances
- Updated Wiring Instructions
- Estimated Revenue received prior to disbursement.

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Documents Required:
- Cover Transmittal
- Worksheet/Draw Request
- Documentation to verify debt fund balances (bank statements with reconciled balances or copy of audited balances)

Instructions for proper preparation:

1. On or about March 1st and September 1st, an email with the application attached is sent to the school district to notify that all required Semi-Annual Loan Application materials are ready to be completed. Formulas are built into the design to assist with the calculations.
2. Verify each outstanding qualified issue and the related debt service payment on the application.
3. Bank statements that support the debt fund balances must be submitted along with the completed worksheet. If the balances differ, provide reconciliation between the bank statements and the amounts listed on the worksheet.
4. Contact SLRF staff for assistance.

Remittance Instructions for School Loan Revolving Fund Repayments

Prior to payment please notify SLRF staff of payment amount, date, and method.

Option 1; Payment By Wire Transfer Call the School Bond Qualification and Loan Program for wiring instructions: 517-335-0994

Option 2: Payment By Check Mail Check to: Michigan Department of Treasury School Bond Qualification and Loan Program 430 W. Allegan Lansing, MI 48922 Submit check with this page or the following information: Receipts Processing Division (Your School District name) School Bond Loan Repayment Index #08322 COBJ #1990 TC #190 Agency #271

For any questions regarding this information contact:

School Bond Qualification and Loan Program
Phone (517) 335-0994
www.michigan.gov/sblf