



Things To Consider As A Business Officer in 2012

Michigan Community Colleges Business Officers Association
Lansing – March 1, 2012

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If I Was A Business Officer For A Day...

...These Would Be My Top 10 Things To Think About:

1. Fees Outweigh My Earnings...UGH!!!
2. Negotiate and Manage Your Earnings Credit
3. Only Pay For What You Use
4. Simplify / Consolidate Accounts
5. Power Of The P-Card
6. Credit Crisis Still Looming – Know Your Bank's Credit Rating
7. I Don't Take A Position On Interest Rates, So I Always Stay Short
8. Interest Rates Are Low – Good Time To Issue New Debt
9. Review Refunding Possibilities
10. Credit Ratings – Is it all a Numbers Game?



1: Fees Outweigh My Earnings...UGH!!!



Collected Balance

Negative Collected

10% Reserve Requirement

Balance Available to Offset Fees

FDIC Charges

Deposit Charges

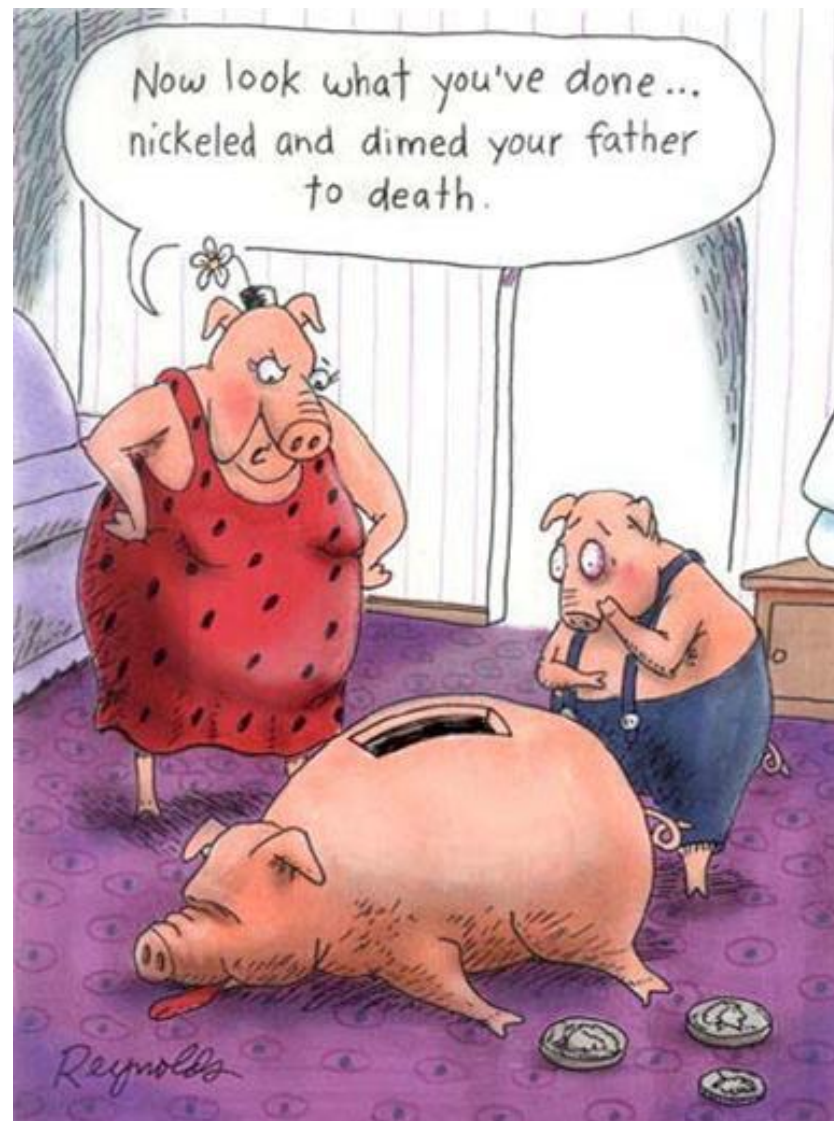
Wire Charges

Account Maintenance

ACH

Positive Pay

NET BALANCE *OWED* TO BANK



Review Your Bank Analysis Statement Thoroughly



XXX **BALANCE SUMMARY** XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX

AVERAGE BUSINESS CHECKING LEDGER BALANCE	\$734,650.93
TOTAL AVERAGE LEDGER BALANCE	\$734,650.93
AVERAGE ADJUSTED LEDGER BALANCE	\$734,650.93
AVERAGE COLLECTED BALANCE	\$734,650.93
LESS RESERVE REQUIREMENT	73,465.09
BALANCE AVAILABLE TO SUPPORT ACTIVITY	\$661,185.84

XXX **ACCOUNT POSITION** XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX

EARNINGS CREDIT RATE OF 0.0600%	\$33.69
NET EARNINGS ALLOWANCE - THIS MONTH	33.69
LESS CHARGES FOR BALANCE COMPENSATED SERVICES	1,073.16
NET EARNINGS DEFICIT - PRIOR MONTH(S)	2,076.22
NET EARNINGS DEFICIT - SETTLEMENT PERIOD TO DATE	\$3,115.69

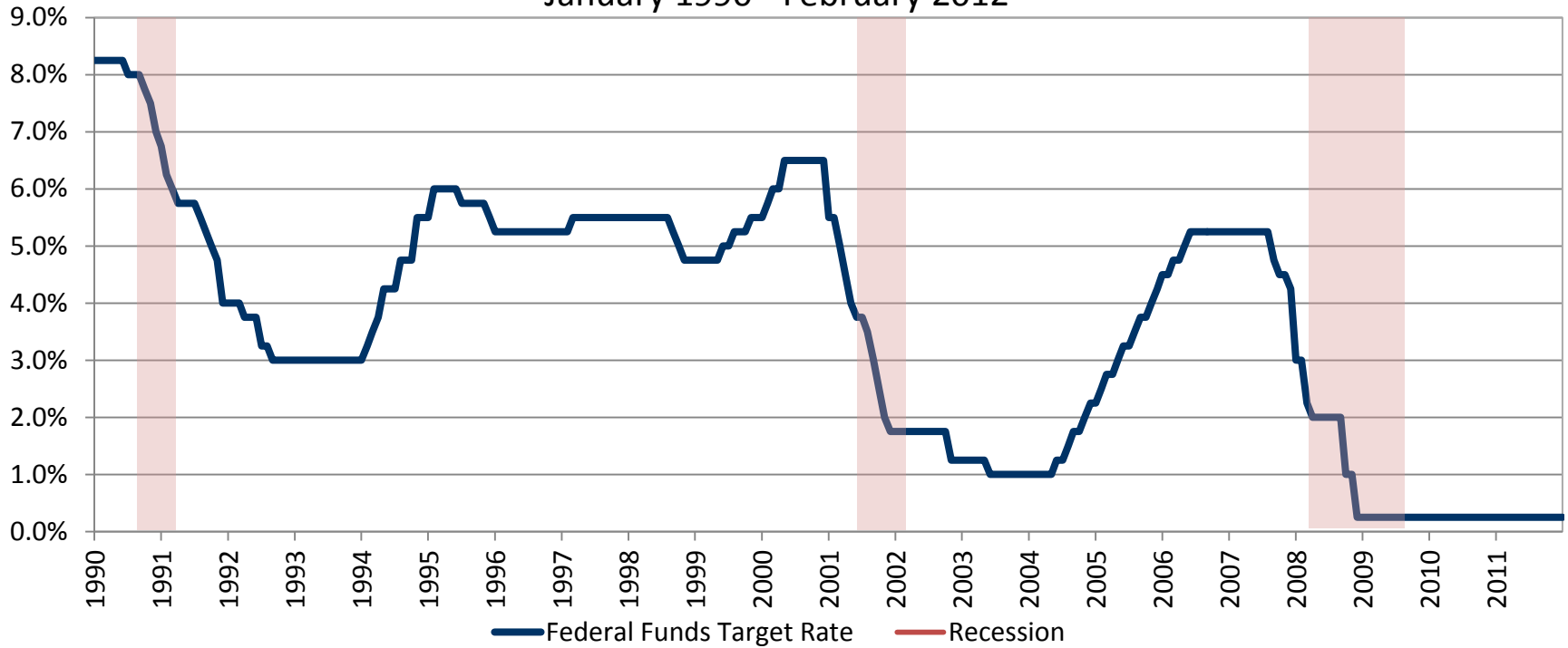
BUSINESS CHECKING				
ELECTRONIC CREDIT	11.00	\$.05 EACH	0.55	11,992.23
PAID CHECK CHARGE	2.00	\$.17/EACH	0.34	7,413.38
ELECTRONIC DEBIT	3.00	\$.05 EACH	0.15	3,270.61
ACH BLOCK	1.00	\$10.00/EACH	10.00	218,040.62
BANK STATEMENT WEB	1.00	\$1.00/EACH	1.00	21,804.06
BANK STATEMENT MAIL & WEB	1.00	\$40.00/EACH	40.00	872,162.49
ENHANCED FDIC INSURANCE	250.95	\$.00/1000	0.00	0.00
ENHANCED FDIC INSURANCE	483.69	\$.083/1000	40.15	875,433.09
FDIC INSURANCE	734.64	\$0.1013/1000	74.42	1,622,658.30
FICO INSURANCE	107.61	\$0.015/\$1000	1.61	35,104.54
CLEARPAY				
DIRECT SEND MONTHLY BASE FEE	1.00	\$50/SET UP	50.00	1,090,203.11
DIRECT SEND CREDIT TRANSACTION	2,808.00	\$.03/ITEM	84.24	1,836,774.19
DIRECT SEND RETURNS FAX	4.00	\$5.00/ITEM	20.00	436,081.24

Total Charges:
\$116.18

Historical Federal Funds Target Rate



Federal Funds Target Rate
January 1990 - February 2012



A 3D-style target icon with a red and white bullseye and three blue darts with white fletching hitting the center. It is positioned to the left of the 'During The RFP Process' text box.

During The RFP Process

- ✓ Request fixed pricing for next three years with options on two additional years
- ✓ Do line by line review of services

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Within An Existing Banking Relationship

- ✓ Negotiate better pricing and don't be afraid to point out negative position (fees > earnings)
- ✓ Threaten RFP



2: Obtain A Great Earnings Credit Rate



- Earnings Credit Rates (ERCs) are credits offered by a bank to offset service charges
- The rate paid is often pegged to the U.S. Treasury bill rate
- Banks have great discretion for determining the earnings allowance
- Obtaining a good rate can stack up and make a big difference



Historically ECRs Are Typically A Poor Choice

Typical Interest Rate Environment – \$10mm

	Traditional Sweep	Earnings Credit Rate
Interest Rate	5.00%	5.00%
Reserve Requirement	0%	10%
Effective Interest Rate	5.00%	4.50%
Interest Paid	\$ 500,000	
Earning Credit		450,000
FDIC Assessment		(\$ 17,000)
Less: Sweep Fee	(\$ 2,400)	
	\$ 497,600	\$ 433,000
Net Benefit (Cost)		\$ (64,600)

Today's Interest Rate Environment – \$10mm

	Traditional Sweep	Earnings Credit Rate
Interest Rate	0.01%	0.35%
Reserve Requirement	0%	0%
Effective Interest Rate	0.01%	0.35%
Interest Paid	\$ 1,000	
Earning Credit		\$ 35,000
FDIC Assessment		(\$ 17,000)
Less: Sweep Fee	(\$ 2,400)	
	(\$ 1,400)	\$ 18,000
Net Benefit (Cost)		\$ 16,600

A 3D target icon with three blue arrows hitting the bullseye.

During The RFP Process

- ✓ Have the bank agree to set the ECR rate to an index (desire variable index that will ride up)
- ✓ In the current market have them agree to establish a floor

A 3D target icon with three blue arrows hitting the bullseye.

Within An Existing Banking Relationship

- ✓ Ask the bank if they are offering any specials
- ✓ Negotiate better terms



BEWARE: Manage Your Earned Credits



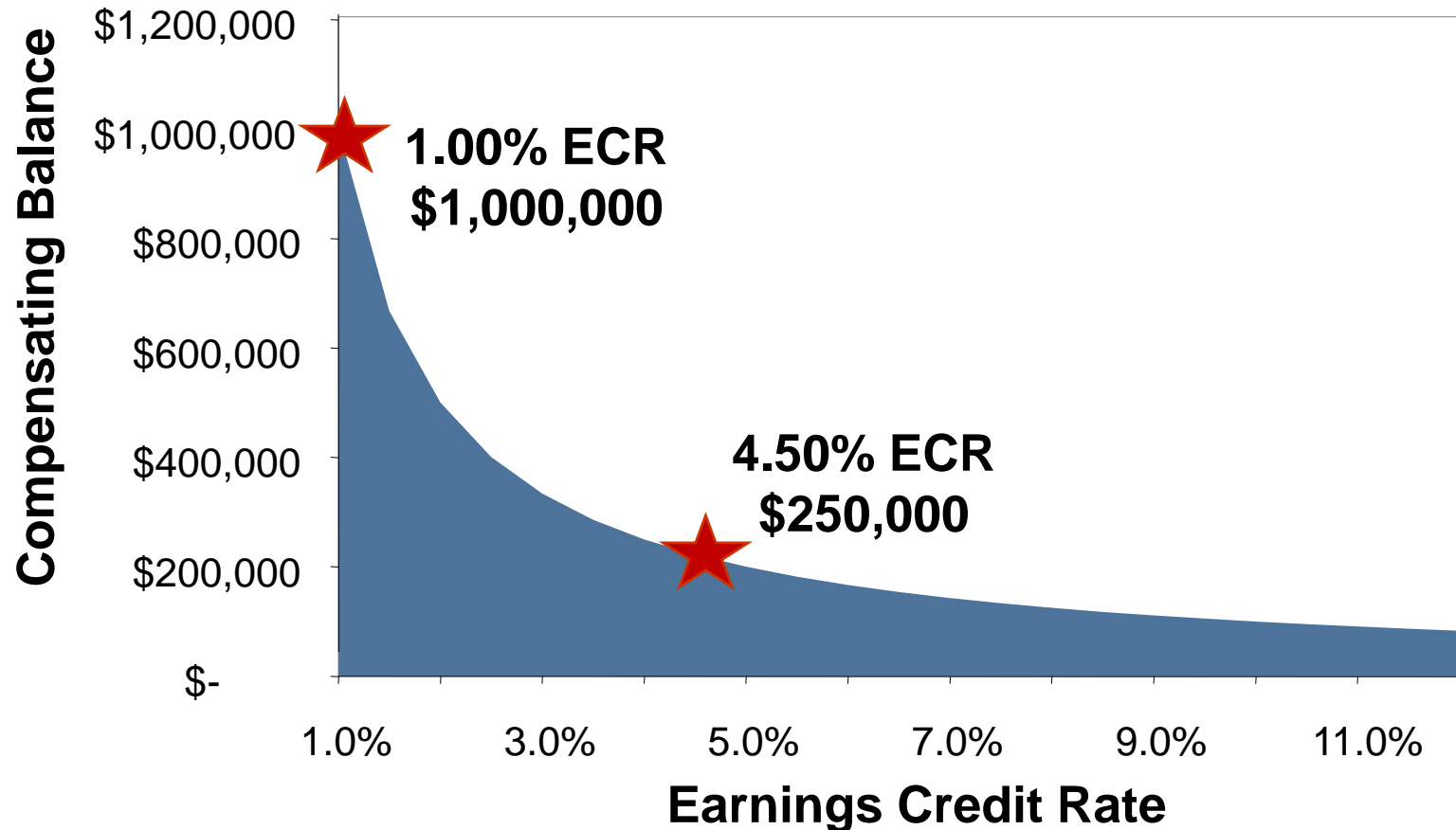
- Earnings credits can only be used to offset fees
- As rates rise, it is preferable to be indexed to a short-term rate so your ECR will adjust more quickly
- If fees are less than credits, the credits are typically lost – don't leave money on the table



Impact Of Fluctuating Rates



Balance Needed to Cover \$10,000 of Banking Fees



A 3D-style target icon with a red and white bullseye and three blue arrows hitting the center.

During The RFP Process

- ✓ Ask the bank to carry-forward credits and settle the account on a quarterly, semi-annual, and/or annual basis

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Within An Existing Banking Relationship

- ✓ Review the Account Analysis Statement regularly to make sure that the compensating balance is “just right”



3: Only Pay For What You Use



- Frequently unused / under utilized services include:
 - Controlled disbursement
 - Online or paper reporting
 - Investment sweeps
 - Lockbox



A 3D-style target icon with a red and white bullseye and three blue darts with white fletching, all set against a dark blue background.

During The RFP Process

- ✓ Use an RFP process to evaluate your current and future needs

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Within An Existing Banking Relationship

- ✓ Perform a cost-benefit analysis to see if services are beneficial
- ✓ Review services with your relationship manager

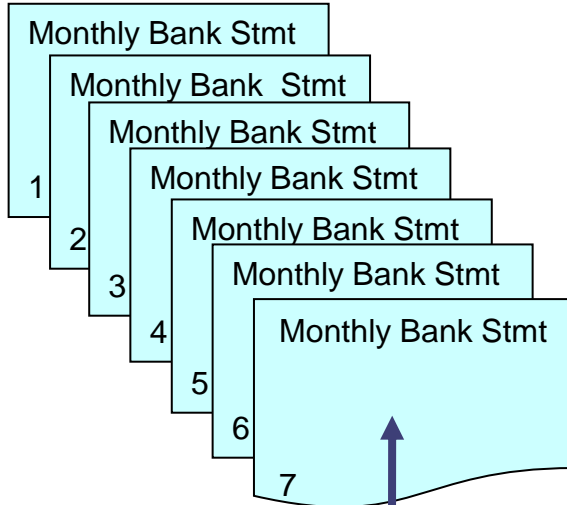


4: Simplify / Consolidate Account Structure



Sample Community College Trade Flow

Purchasing Securities



Wire / ACH
Notification

Bank and/or Broker-Dealer



Transfer

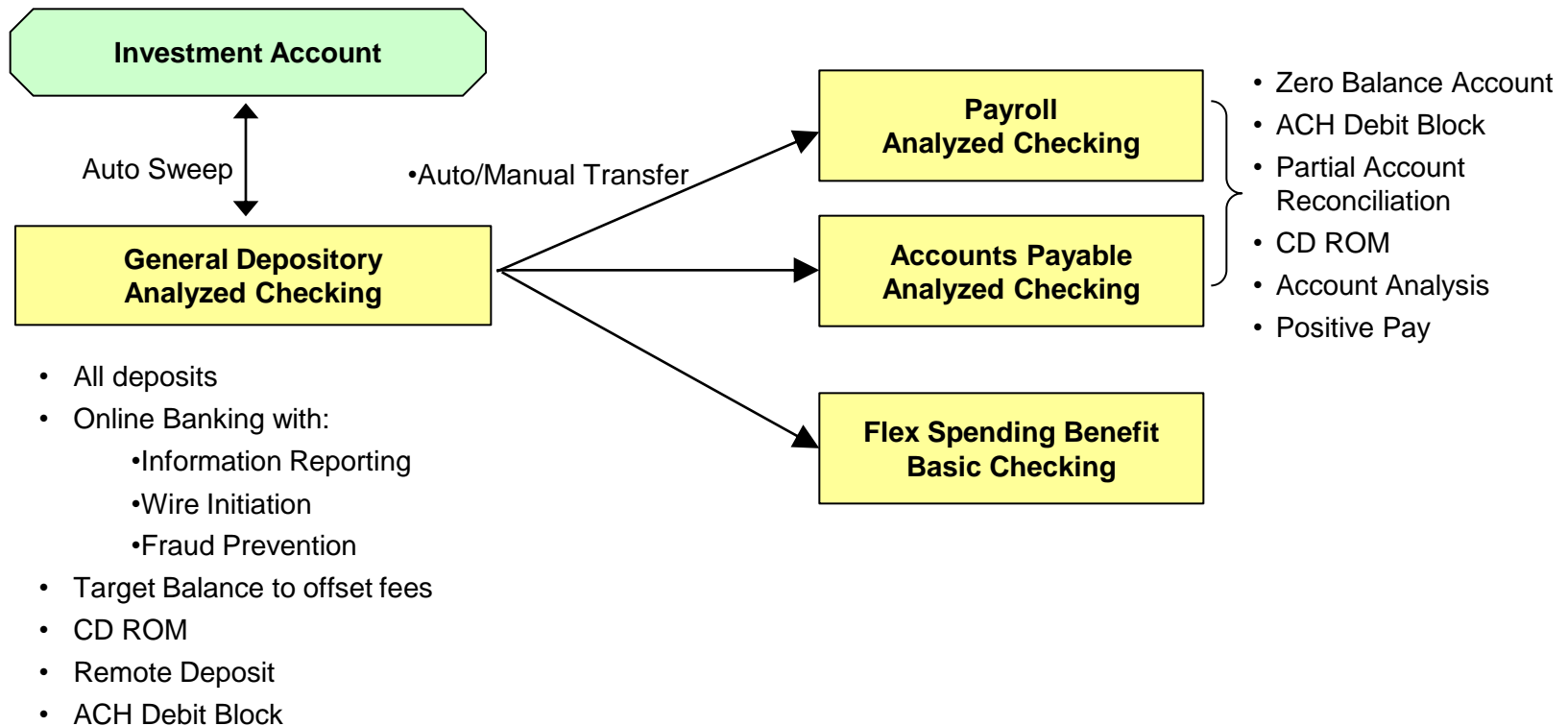
Custody Bank



The Benefits Of Consolidating Accounts



- Reducing the number of custodial bank accounts utilized can lower the amount of monthly custodian reports received as well as decrease the time spent on reconciling said reports
- GASB is on record stating that utilizing a third party safekeeping arrangement is highly recommended to safeguard the assets of public entities



Have A Healthy Degree Of Skepticism



- Pay lower rates on invested balances
- Hidden fees
- Fees that can be avoided
- Additional features or other capabilities that are not offered initially



A 3D-style target icon with a red bullseye and white rings, with three blue darts hitting the center. It is positioned to the left of the 'During The RFP Process' text.

During The RFP Process

- ✓ Ask the technical questions to know what the bank can provide
- ✓ Carefully review the proposed bank contracts

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Within An Existing Banking Relationship

- ✓ Ask peers if services are delivered “as advertised”

Know What The Bank Can Offer



- Determine what you really need and if the bank is able to offer it
- Banking services can include:
 - General Banking
 - Merchant Card Services
 - Lockbox Services (Retail Or Wholesale)
 - Bill Printing & Mailing
 - Electronic Bill Paying
 - Purchasing Cards
 - Payroll Card
 - Onsite ATMs
 - Line Of Credit



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During The RFP Process

- ✓ Divide the RFP into services groups to permit more banks to submit proposals

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Within An Existing Banking Relationship

- ✓ Recognize that a one size fits all approach may not lead to the best service or pricing
- ✓ Be willing to issue an RFP for new banking services



5: Power Of The P-Card



A “P-Card” or a purchasing card can be used whenever a purchase order, check request, or petty cash would have been processed and with any vendor that accepts credit cards

- It is not a “credit card”
- Limits can be set:
 - How much can be spent
 - How often card can be used
 - Where card can be used
- Payment due in 3 – 30 days
- Detailed, real-time reporting
- Rebates



Where The Money Is Spent...



Accepted By Leading Municipal Vendors



Why Is The P-Card So Beneficial?



- **Increase Revenue**

- Rebate schedule usually includes a rebate on all ticket items

- **Savings**

- Negotiate savings from suppliers
- Paper, postage, envelopes, toner, equipment, checks, invoices, etc.
- FTE time saved on data entry, bank reconciliation, lost checks, etc.

- **Control / Security**

- Prevent check fraud
- Immediate charge back

- **Technology**

- Online capabilities usually include customized reporting and consolidation of accounts

- **Misuse Insurance**

- Up to \$100,000 per employee

A 3D-style target icon with a red and white bullseye and three blue arrows hitting the center, positioned to the left of the text.

During The RFP Process

- ✓ Review the fine print
 - Average transaction size
 - Large ticket items
- ✓ Additional technology at little and/or no cost

A 3D-style target icon with a red and white bullseye and three blue arrows hitting the center, positioned to the left of the text.

Within An Existing Banking Relationship

- ✓ Make sure you maximize the check you receive with favorable terms

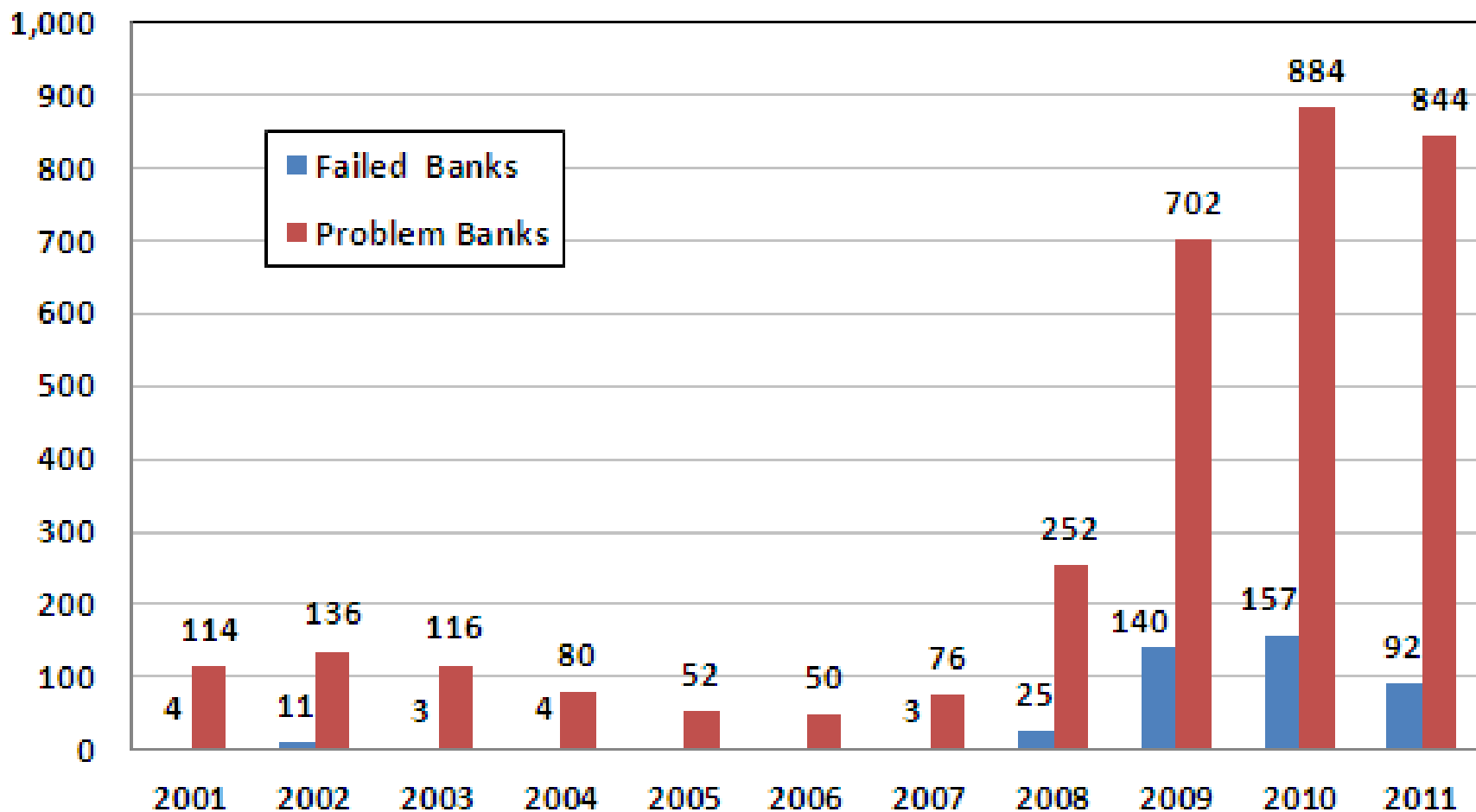


6: Know Your Bank's Credit Rating



- The credit crisis is still looming as over 400 banks have failed since 2008

Historical Failed & Problem Banks





7: Evaluate All Investment Options



- A recommended strategy realizes higher returns while meeting cash flow and liquidity needs
- Allocation to longer-term strategies should be based on a College's investment objectives, its risk tolerance, and its liquidity needs

Risk/Return of Various Benchmarks

10 Years Ended 12/31/2011

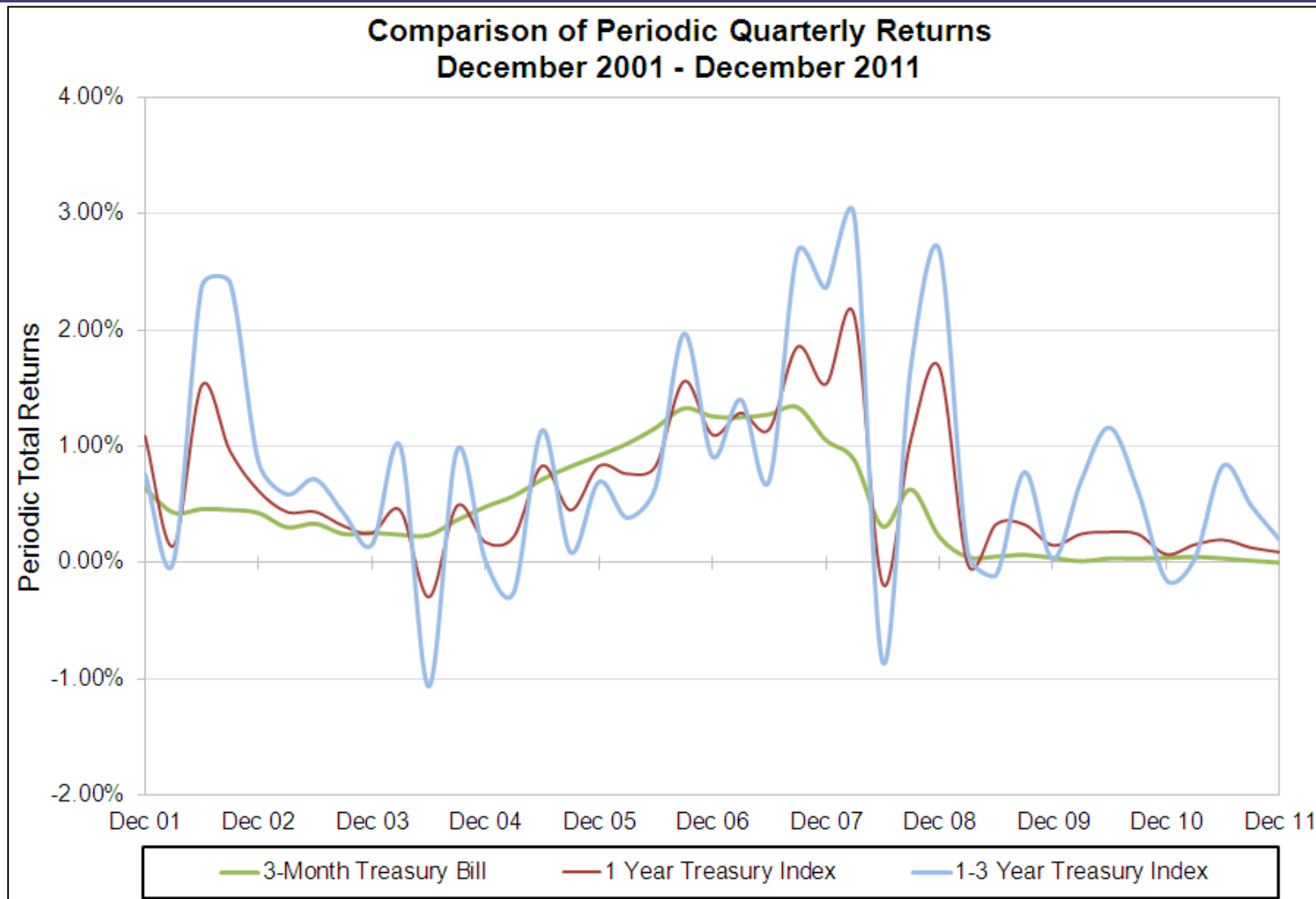
Merrill Lynch Index	Duration	Overall Return	Cumulative Value of \$20,000,000	Std. Dev. of Annualized Quarterly Returns	Quarters With Negative Returns
3-Month Treasury Bill	0.22 Years	1.95%	\$24,266,551	0.51%	1 out of 40
6-Month Treasury Bill	0.47 Years	2.29%	\$25,074,138	0.57%	0 out of 40
1 Year Treasury Index	1.00 Years	2.49%	\$25,585,542	0.80%	3 out of 40
1-3 Year Treasury Index	1.89 Years	3.25%	<u>\$27,549,178</u>	1.51%	5 out of 40
1-5 Year Treasury Index	2.71 Years	3.97%	\$29,526,347	2.28%	11 out of 40
1-10 Year Treasury Index	4.10 Years	4.83%	\$32,074,807	3.47%	12 out of 40

“Extending maturity, even by a small amount, has historically generated much higher returns.”

+\$2.4 million

Source: Bloomberg Bank of America / Merrill Lynch Global Indices; based on historical results which may not recur.

Duration Extensions May Improve Returns

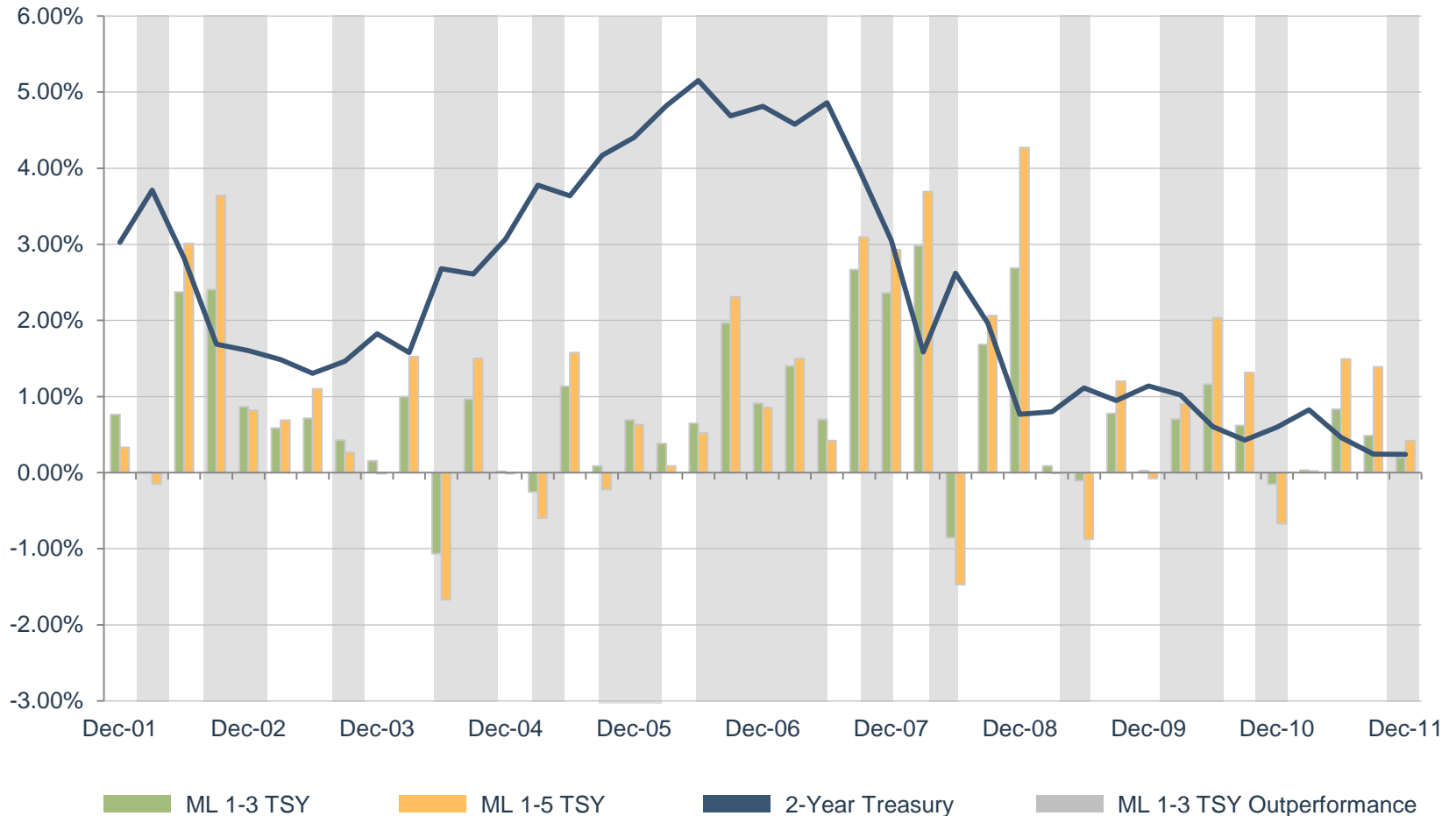


Source: Bloomberg Bank of America / Merrill Lynch Global Indices; based on historical results which may not recur.

Longer Durations Produce Higher, More Volatile Returns



Merrill Lynch 1-3 Year TSY Index versus Merrill Lynch 1-5 Year TSY Index
Quarterly Returns Graphed Against 2-Year U.S. Treasury Yields, December 2001 to December 2011



Source: 2-Year TSY yields and BoA / ML benchmark data taken from Bloomberg

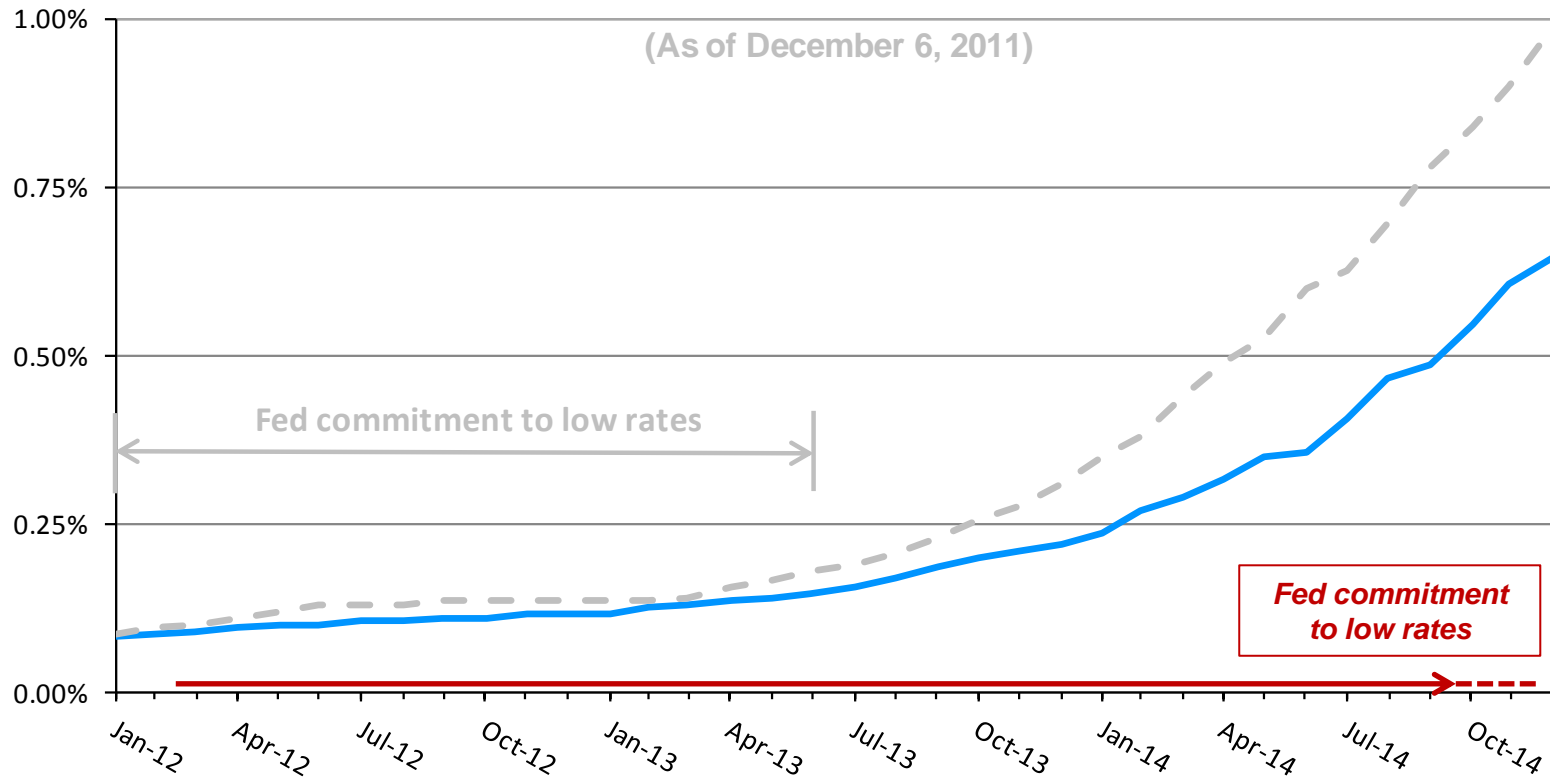
Fed Funds Expected To Stay Lower For Longer



- The futures market is now expecting the Fed Funds target rate to reach 0.50% in September of 2014; prior to the new year, the expectation was Fed Funds at 0.50% in March of 2014

Fed Funds Implied Rate

(As of January 25, 2012)



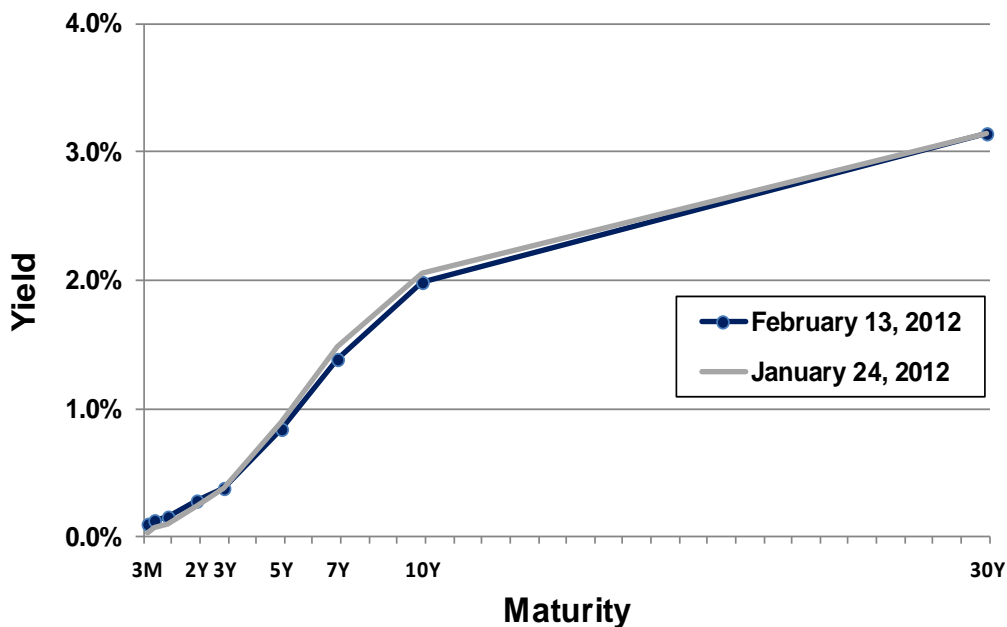
Source: Bloomberg

Low Volatility in Yields As Fed Policy Holds Rates Down



- Following the January 25th FOMC meeting, the Fed released their first ever forecast of interest rate moves with a majority of members expecting short-term interest rates to remain at or below 1.00% until 2014

U.S. Treasury Yield Curve



	<u>1/24/12</u>	<u>2/13/12</u>	<u>Change</u>
3 month	0.04%	0.10%	0.06%
6 month	0.07%	0.13%	0.07%
1 year	0.10%	0.16%	0.06%
2 year	0.23%	0.28%	0.04%
3 year	0.37%	0.38%	0.00%
5 year	0.90%	0.83%	-0.06%
10 year	2.06%	1.99%	-0.07%
30 year	3.15%	3.14%	-0.01%

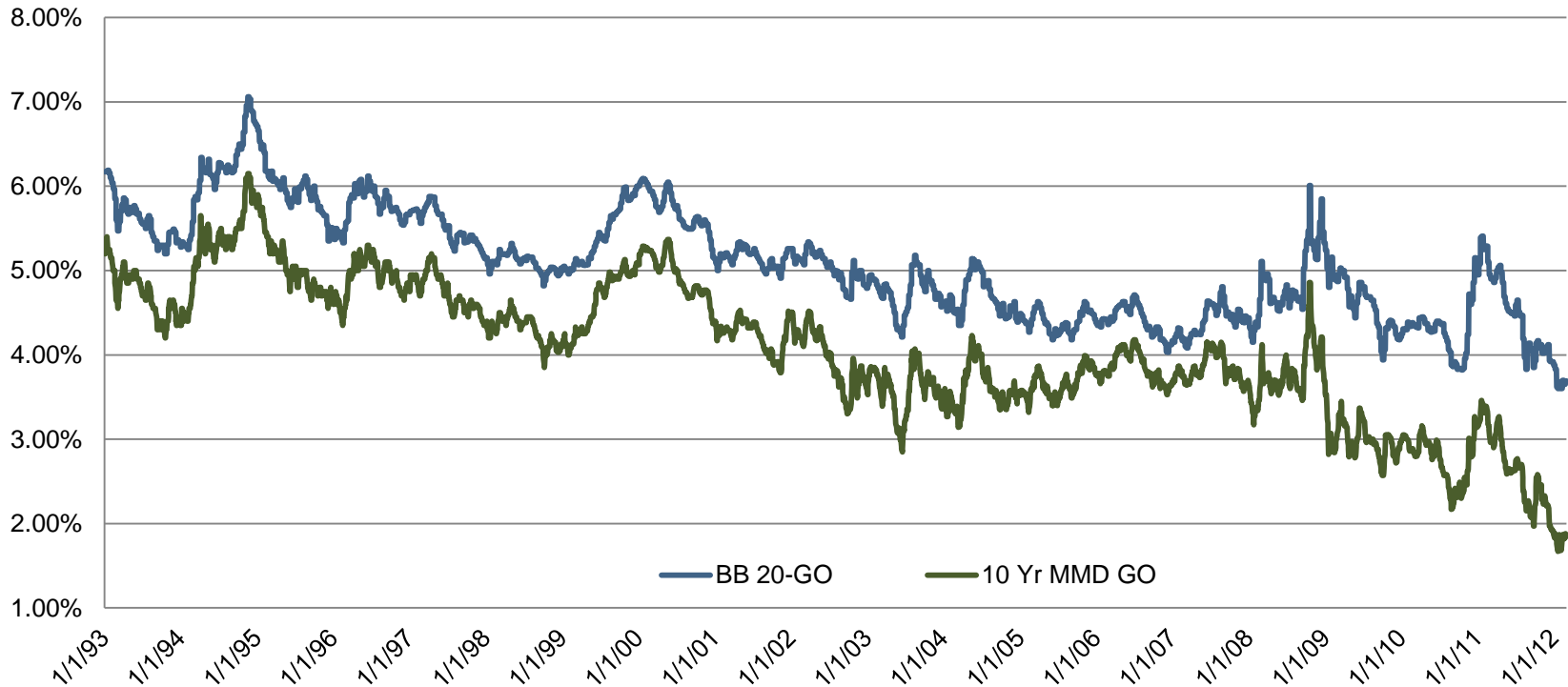
Source: Bloomberg



8: Interest Rates Are Low – Good Time To Issue Debt



Tax Exempt Interest Rates January 1993 - February 2012



BB 20-GO = Bond Buyer 20 General Obligation Index

10 Yr. MMD GO = 10 Year Municipal Market Data General Obligation AAA Yield

9: Review Refunding Opportunities



- **What is a refunding?**

- Issuing a new debt at lower interest rates to replace outstanding high interest rate debt
- Can also be issued to restructure the payments on existing debt.
 - Budget relief
 - Creates debt service capacity for new money

- **Types of Refunding**

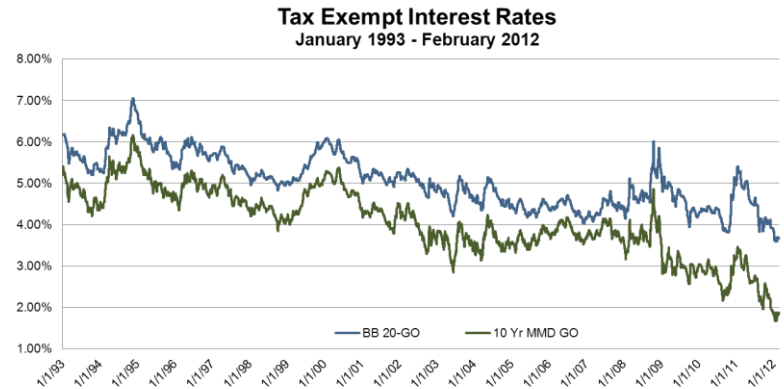
- Current Refunding
 - Completed within 90 days of the call date
- Advanced Refunding
 - Completed more than 90 days of the call date
- Federal government limits advanced refunding to once per maturity



What Factors Make a Refunding Work?



- Lower interest rates
 - 5.00% → 2.50%
- Passage of time



Initial Bond Issue

CURRENT INTEREST RATES (Assuming a 20 Year Bond Issue)

YEAR	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
YIELD	0.80%	1.10%	1.20%	1.35%	1.45%	1.60%	1.80%	2.00%	2.20%	2.40%	2.50%	2.63%	2.75%	2.85%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%	3.65%

Refinancing Bond Issue

10 YEARS LATER -- (If interest rates stayed the same)

YEAR	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
YIELD	0.80%	1.10%	1.20%	1.35%	1.45%	1.60%	1.80%	2.00%	2.20%	2.40%	2.50%

- **Advanced Refunding**

- Bonds are not callable in the near future
- Proceeds used to fund an escrow to pay the bonds refunded on call date
- Escrow invested in U.S. Government securities
- Allowed to earn up to the new bond yield in escrow
 - When earnings in the escrow is less than the bond yield, it is referred to as “negative arbitrage”
 - “Negative arbitrage makes the escrow cost more, and reduces savings
- Employ strategies to maximize investment rate in escrow

Perfect Scenario

New bond rate =	3.00%
1 year investment rate =	3.00%
Negative Arbitrage =	0
Refinancing Savings =	\$400,000

Current Market

New bond rate =	3.00%
1 year investment rate =	0.16%
Negative Arbitrage =	\$150,000
Refinancing Savings =	\$250,000

10: Credit Ratings—Is it All a Numbers Game?



- **What is a rating?** – A rating is an alphabetic and/or numeric symbol used to give relative indications of credit quality.
- **Who are the ratings providers?** – The three major ratings agencies are Moody’s Investors Service, Inc. (“Moody’s”), Standard and Poor’s (“S&P”), and Fitch Ratings (“Fitch”).

Long-Term Municipal Ratings

	<u>Moody’s</u>	<u>S&P</u>	<u>Fitch</u>
Investment Grade	Aaa	AAA	AAA
	Aa	AA	AA
	A	A	A
	Baa	BBB	BBB
Non-Investment Grade	Ba	BB	BB
	B	B	B
	Caa	CCC	CCC
	Ca	CC	CC
	C	C	C

Note: Moody’s ratings within certain categories are modified by number (1, 2, and 3) while S&P and Fitch are modified by “+” and “-” symbols.

Short-Term Municipal Ratings

	<u>Moody’s</u>	<u>S&P</u>	<u>Fitch</u>
	MIG1	SP-1+	F1
	MIG2	SP-1	F2
	MIG3	SP-2	F3
	MIG4	SP-3	

Rating Criteria



- Financial position
- Fund balance
 - As % of expenses
 - As % of revenues
- Revenue flexibility
- Reliance on State funding
- Balanced Operations
- Expense Containment
- Enrollment Trends
- Demand
- Debt Burden
- Age of Facilities
- Local Economy
- Tax Base Diversity
- Automotive Reliance
- Management
- Plans and Policies
- Wealth Levels

Moody's MFRA Credit Ratios	Bay De Noc Community College District	Charles Stewart Mott Community College	Gogebic Community College District	Grand Rapids Community College	Henry Ford Community College, MI
Key Financial Statistics					
Current Senior Most Rating*	A1	Aa3	A2	Aa1	Aa3
Most Recent Available Year	6/30/2011	6/30/2011	6/30/2011	6/30/2011	6/30/2005
General Information					
Total Full Value (\$000)	2,734,959	22,809,782	1,517,198	47,391,451	N/A
Full Value Per Capita (\$)	71,661	51,497	N/A	1,241,752	N/A
Average Annual Increase in Full Value (%)	1	-4	5	4	N/A
Top Ten TaxPayers as % of Value	17	6	13	4	N/A
Net Tuition and Fees, as reported (\$000)	4,107	19,928	1,791	41,179	20,396
Total Local Property Taxes, as reported (\$000)	3,873	27,258	1,334	37,241	16,457
State Operating Appropriations (\$000)	5,178	15,122	4,275	17,220	22,372
Financial Data : Financial Statistics & Ratios					
Total General Fund Revenues (\$000)	17,218	75,802	10,253	105,371	64,789
Total Current Operating Expenses (\$000)	22,146	109,062	12,015	145,168	82,313
Current Operating Surplus (Deficit) (\$000)	988	2,748	792	10,622	11,752
Available General Fund Balance (\$000)	2,294	7,466	1,514	10,999	5,331
Unreserved, Undesignated Operating Funds Balance as % of Revenues	11	10	15	N/A	8
Net Operating Cash and Investments (\$000)	3,305	19,676	794	28,363	21,254
Unrestricted Net Assets, as reported (\$000)	3,319	22,513	1,705	31,754	21,188
Foundation Total Net Assets, as reported (\$000)	6,993	5,601	2,095	30,887	0
Expendable Financial Resources (\$000)	5,426	26,550	2,358	76,992	12,268
Current Ratio	2	2	2	2	4
Principal and Interest as a % of Current Operating Expenses (%)	8	9	7	5	1
Debt Information					
Direct Net Debt Outstanding (\$000)	8,685	56,945	3,757	50,886	27,838
Direct Net Debt Per Capita (\$)	228.00	129.00	N/A	1,333.00	N/A
Payout, 10 Years, General Obligation Debt (%), Current Value	68.90	97.60	N/A	86.80	N/A

Community College Credit Information

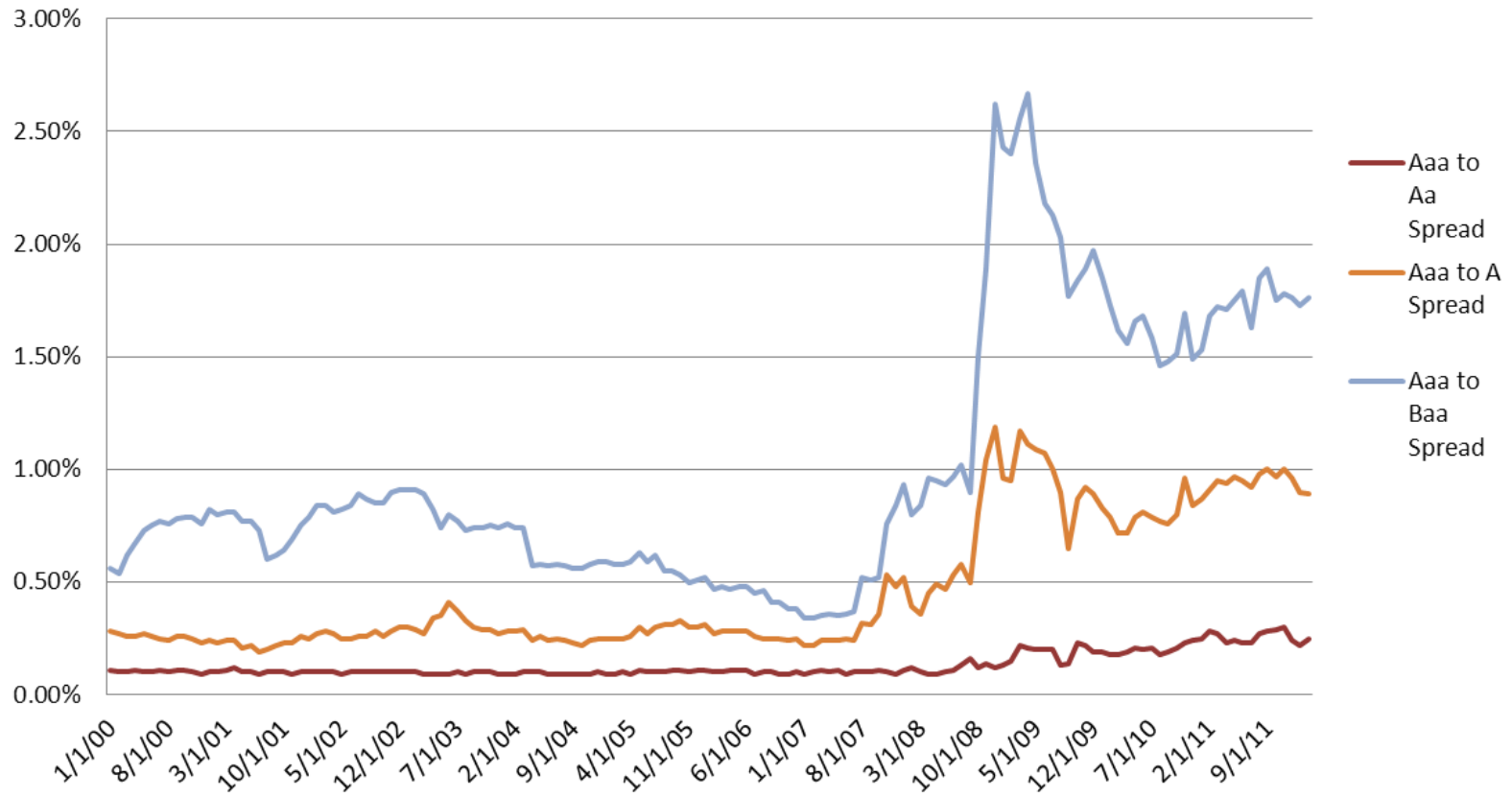


Moody's MFRA Credit Ratios	Jackson Community College	Lake Michigan Community College	Lansing Community College	Macomb Community College, MI	Mid Michigan Community College	Muskegon Community College District	North Central Michigan College District	Northwestern Michigan Community College	Oakland Community College, MI	Southwestern Michigan College	St. Clair County Community College	Washtenaw Community College	Wayne County Community College
Key Financial Statistics													
Current Senior Most Rating*	Aa3	Aa3	Aa2	Aa2	A1	Aa3	Aa3	Aa2	N/A	Aa3	Aa3	Aa1	N/A
Most Recent Available Year	6/30/2011	6/30/2011	6/30/2011	6/30/2010	6/30/2011	6/30/2011	6/30/2011	6/30/2011	6/30/2008	6/30/2011	6/30/2011	6/30/2011	6/30/2009
General Information													
Total Full Value (\$000)	10,451,021	21,854,141	26,176,079	58,528,324	4,832,435	10,442,399	7,034,753	11,181,034	134,170,884	5,872,471	5,704,196	15,480,176	63,855,158
Full Value Per Capita (\$)	63,204	131,974	67,351	N/A	N/A	N/A	209,057	N/A	N/A	105,806	36,380	N/A	N/A
Average Annual Increase in Full Value (%)	-1	4	3	N/A	-2	1	0	2	9	6	-8	-5	N/A
Top Ten TaxPayers as % of Value	8	2	3	7	5	7	5	4	3	3	15	5	13
Net Tuition and Fees, as reported (\$000)	12,711	7,158	29,649	N/A	12,758	9,620	3,449	15,871	30,393	7,947	11,490	25,805	16,978
Total Local Property Taxes, as reported (\$000)	4,966	14,850	40,360	N/A	2,330	9,809	6,491	12,386	98,853	4,791	10,572	50,269	73,469
State Operating Appropriations (\$000)	11,542	5,012	29,763	N/A	4,289	8,519	2,894	8,682	21,470	6,277	6,730	12,149	16,615
Financial Data : Financial Statistics & Ratios													
Total General Fund Revenues (\$000)	48,346	33,700	129,247	131,034	25,996	33,135	15,341	40,223	N/A	23,215	32,467	124,143	128,959
Total Current Operating Expenses (\$000)	53,048	44,726	139,533	N/A	33,446	39,158	23,571	53,468	155,819	29,976	35,577	120,966	151,649
Current Operating Surplus (Deficit) (\$000)	5,245	6,942	11,719	N/A	4,967	1,855	603	3,325	38,879	1,620	5,207	1,801	13,671
Available General Fund Balance (\$000)	9,090	30,062	28,632	22,560	3,869	5,464	1,607	4,807	N/A	2,793	5,530	15,995	52,088
Unreserved, Undesignated Operating Funds Balance as % of Revenues	1	89	22	N/A	15	17	11	12	N/A	12	17	13	40
Net Operating Cash and Investments (\$000)	28,691	10,782	20,855	N/A	17,114	10,417	6,446	1,126	42,319	11,437	16,311	4,649	61,696
Unrestricted Net Assets, as reported (\$000)	17,338	10,385	35,161	N/A	18,458	11,356	10,947	14,393	170,321	14,298	14,925	25,285	52,135
Foundation Total Net Assets, as reported (\$000)	13,384	9,816	9,996	N/A	2,103	265	8,636	29,279	0	0	5,043	11,627	0
Expendable Financial Resources (\$000)	22,987	19,854	N/A	N/A	20,888	13,703	27,080	36,416	171,074	16,391	23,458	30,939	84,680
Current Ratio	5	3	2	N/A	7	4	4	1	3	5	6	1	4
Principal and Interest as a % of Current Operating Expenses (%)	7	1	6	N/A	3	4	14	6	0	6	1	7	8
Debt Information													
Direct Net Debt Outstanding (\$000)	38,958	6,550	55,651	14,320	2,680	14,090	8,020	24,904	8,340	22,070	3,520	31,018	20,130
Direct Net Debt Per Capita (\$)	236.00	40.00	143.00	N/A	N/A	N/A	238.00	N/A	N/A	398.00	22.00	N/A	N/A
Payout, 10 Years, General Obligation Debt (%), Current Value	57.70	39.80	90.00	N/A	100.00	78.70	59.90	N/A	N/A	N/A	89.10	73.80	100.00

Credit Spreads – Your Rating Makes a Difference



Long-Term (20 Year) Municipal Credit Spreads 1/1/2000 to 2/28/2012



- **Headlee Rollbacks**

- When values start rebounding, and properties change hands, it is highly likely that millage rates will be rolled back.

- **Discussion on elimination of Personal Property Tax**

- Personal property taxes generate approx. \$1.2 billion annually
- Some communities are more reliant on personal property
- Indications that they may first focus on industrial personal property tax
- Discussions indicate some type of replacement



- # 1: Negotiate A Better Bank Fee Structure
- # 2: Optimize Your Earnings Credit
- # 3: Only Pay For What You Use
- # 4: Simplify / Consolidate Accounts
- # 5: Know The Power Of A P-Card
- # 6: Evaluate The Strength of Your Bank
- # 7: Use A Strategic Approach to Investing
- # 8: Consider The Advantages of Issuing Debt
- # 9: Review All Refunding Possibilities
- # 10: Understand Your Credit Rating

Questions – Contact Us



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