

Operating Cash-Flow Borrowing Options for Michigan Public Schools

May 24, 2023

As Michigan public schools navigate the preparation of their 2023-2024 budgets, we wanted to again provide you with a reminder of the short-term borrowing options available to cover projected operating cash-flow shortfalls. The good news is that the financial picture for many schools continues to improve. Although the 2023-24 School Aid budget has not been finalized, it appears there may be another above-average increase in funding for the 2023-24 school year. Federal stimulus funding also continues to provide much-needed support covering additional operating costs incurred by schools due to the pandemic and its aftermath.

Despite this good news, many schools may still experience cash-flow shortfalls that will need to be addressed. In light of improving financial conditions, some schools that have typically borrowed through a state aid note may have a lower borrowing need or be in a position to consider a revolving line of credit to cover shorter-term needs or as a safety net.

Michigan law provides several short-term borrowing options for schools to cover operating cash-flow shortfalls during a school year which include the issuance of a state aid note ("SAN"), line of credit note ("LOC") or tax anticipation note ("TAN").

We have prepared a comprehensive summary of each of these borrowing options which also includes a discussion of the sizing requirements, cash-flow projections, tax law considerations and other information on our website at the following link: ***Operating Cash-Flow Financing Options for Michigan Public Schools***.

In addition to our summary of the borrowing options, we have the following additional comments and information:

Michigan Finance Authority SAN Program for School Districts and PSAs

While schools may place a SAN with a bank or sell it through a public offering, the Michigan Finance Authority ("MFA") also offers an annual SAN program for both school districts and public school academies ("PSAs"). The MFA SAN program is a pooled borrowing program with competitive interest rates.

The MFA has recently released the details of its 2023 SAN programs for school districts and PSAs. Under this year's SAN program schedule for school districts, the closing will occur on **August 21** with the initial application due on-or-before **July 5**. For PSAs, the closing will occur on **August 31** with the initial application due on-or-before **July 10**.

The financing schedule, borrowing options, program parameters and the application for the 2023 MFA SAN program for school districts and PSAs can be found on the **MFA website**.

Cash-Flow Projection

Cash-flow borrowings require a monthly/weekly cash-flow projection for the school year to support the amount borrowed. Our summary of the borrowing options contains helpful tips regarding the preparation of this cash-flow projection. As we note, the assumptions which make up the projection should be reasonable. The MFA has an Excel cash-flow projection workbook which is available at the MFA link above.

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Revolving Line of Credit Option

Schools that are uncertain whether a SAN borrowing is necessary or that have a shortfall for a shorter period may want to consider a revolving line of credit. Once the LOC is established, it would be available throughout the school year to cover any cash-flow shortfalls on a revolving basis. The LOC is typically established with the school's depository bank.

Please contact a member of the Miller Canfield School Law Group to further discuss any of these options.