

Operating Cash-Flow Borrowing Options for Michigan School Districts

May 13, 2020

As Michigan school districts navigate their 2020-2021 budgets, with looming cuts to school aid and other consequences of the COVID-19 pandemic, we want to remind you of the available operating cash-flow borrowing options. Although the cash-flow borrowing option is a short-term tool it can be used in conjunction with other measures to help school districts weather the coming financial storm.

Michigan law provides several short-term borrowing options for school districts 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**.

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

Michigan Finance Authority SAN Program

While school districts 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 school districts. The MFA SAN program is a pooled borrowing program with competitive interest rates. The MFA has recently released the details of its 2020 SAN program. Under this year's SAN program schedule the closing will occur on August 20, with the initial application due on July 2. The financing schedule, borrowing options, program parameters and the application for the 2020 MFA SAN program can be found on the **MFA website**.

Cash-Flow Projection

Cash-flow borrowings require a monthly/weekly cash-flow projection for the 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, but given the uncertainty surrounding COVID-19, school districts should take into account anticipated revenue declines, as well as an increase in costs related to the pandemic. The MFA has an Excel cash-flow projection workbook, which is available at the MFA link above.

Revolving Line of Credit Option

School districts that are uncertain whether a SAN borrowing is necessary or sufficient may want to consider a revolving line of credit ("LOC") as a safety net. Once the LOC is established it would be available throughout the year to cover any cash-flow shortfalls on a revolving basis. The LOC is typically established with the school district's depository bank.