

PRESENTED TO:



May 2010 Gold Mine Session: Aid Anticipation Borrowing

This session will discuss the steps in the process of issuing aid anticipation certificates.

Presented by:

Michael Hoheisel

Alan Hopeman

Tim Joyce

Northland Securities, Inc.
Public Education Finance
(612) 851-5900

Education Team Members

Michael Hoheisel

Lee Brundell

Ellaura Ukofia

Bill Fahey

Alan Hopeman

Tim Joyce

AID ANTICIPATION BORROWING – THE PROCESS

PRESENTATION HIGHLIGHTS

- State and federal law regarding borrowing
- Required information
 - Application Packet
 - Cash flow request
 - MN State Credit Enhancement Program application
 - MDE estimate of aid payments received letter request
- Developing a cash flow projection
- Typical timeline
- Factors to remember in determining appropriate size of borrowing
- School Board action
- Pricing
- Receiving funds
- Final comments and questions

AID ANTICIPATION BORROWING – THE PROCESS

STATE AND FEDERAL LAW REGARDING BORROWING

- Cash Flow Borrowing (MS 126C.50 - 126C.55)
 - May borrow in anticipation of receiving state and federal aids distributed by MDE
 - Limited to 75% of aid receivable in fiscal year of borrowing
 - Mature no later than 3 months after the close of the school year
 - May borrow in anticipation of receiving general taxes
 - Limited to 75% of calendar year taxes
 - Mature no later than 3 months after the close of the calendar year

AID ANTICIPATION BORROWING – THE PROCESS

STATE AND FEDERAL LAW REGARDING BORROWING

- Warrant Borrowing (MS 123B.12)
 - May access line of credit based on insufficient funds to pay current obligations
 - The amount of credit available must not exceed 95 percent of average expenditure per month of operating expenditures in the previous fiscal year.
 - Any amount advanced must be repaid no later than 45 days after the day of advancement.

AID ANTICIPATION BORROWING – THE PROCESS

STATE AND FEDERAL LAW REGARDING BORROWING

- Borrowing is limited to the lesser of Federal or State restrictions
- Borrowing is for operational funds only
- Federal tax code limits tax-exempt borrowing to:
 - 5% of cash expenditures from the previous year,
plus,
 - the greatest monthly cash flow deficit

AID ANTICIPATION BORROWING – THE PROCESS

TYPICAL REQUEST FOR INFORMATION – APPLICATION PACKET

- Identification number, name and address
- Federal tax ID Number
- Contact information, name, phone, fax, email
- Superintendent's name
- School Board Member's names, positions and expiration of terms
- School Board Meeting Dates and when Packets are mailed
- Estimated District total resident population
- Enrollment as of October 1st for each school year (*5 years past, 2 years projected*)
- Any further debt anticipated for the upcoming calendar year
- Cash and investment balances as of a specific date (most recent month available and un-audited)
- Additional questions regarding employees, litigation, and bargaining units / teacher contracts

AID ANTICIPATION BORROWING – THE PROCESS

TYPICAL REQUEST FOR INFORMATION – CASH FLOW

	June-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Nov-10	Jan-11
Beginning Balance		-	-	-	-	-	-	-
Total Receipts		-	-	-	-	-	-	-
Disbursements: (Enter as negative numbers)								
Certificate Repayments		-	-	-	-	-	-	-
Other Disbursements		-	-	-	-	-	-	-
Total Disbursements	-	-	-	-	-	-	-	-
Ending Balance	-	-	-	-	-	-	-	-

	Feb-11	Mar-11	Apr-11	May-11	Jun-11	Jul-11	Aug-11	Sep-11
Beginning Balance	-	-	-	-	-	-	-	-
Total Receipts	-	-	-	-	-	-	-	-
Disbursements: (Enter as negative numbers)								
Certificate Repayments	-	-	-	-	-	-	-	-
Other Disbursements	-	-	-	-	-	-	-	-
Total Disbursements	-	-	-	-	-	-	-	-
Ending Balance	-	-	-	-	-	-	-	-

Funds Included in above **cashflow projections**: _____ (Funds #1, 2 and 4 may be included)

Actual 2009/10 fiscal year expenditures:

Fund # 1 _____
 Fund # 2 _____
 Fund # 4 _____

Note: These figures will be used to determine your maximum borrowing ability as described on the instructions page.

AID ANTICIPATION BORROWING – THE PROCESS

TYPICAL REQUEST FOR INFORMATION – MN State Credit Enhancement Program Request

- Minnesota Statutes, Section 126C.55 (2003) provides a procedure for the State to preclude default by school districts of either a tax or aid anticipation certificate of indebtedness or a general obligation bond.
- Your financial consultant and bond counsel will assist the District in preparing this document

AID ANTICIPATION BORROWING – THE PROCESS

TYPICAL REQUEST FOR INFORMATION – MDE ESTIMATE OF AID PAYMENTS RECEIVED LETTER REQUEST

DISTRICT LETTERHEAD

Date

Ms. Judy Kuck
Minnesota Department of Education
Finance and Analysis Division
1500 Highway 36 West
Roseville, MN 55113-4266

Dear Ms. Kuck,

This letter is to inform you that District No. **XXXX** is considering the issuance of Aid Anticipation Certificates. In order to determine our maximum borrowing amount please send us an estimate of our aid payments for fiscal year 2010/11. Our anticipated borrowing amount is \$**YYY,YYY**. We intend on closing on the certificates on or around **August ZZ**, 2010 and the Certificates will be due on or around **August ZZ**, 2011.

AID ANTICIPATION BORROWING – THE PROCESS

DEVELOPING A CASH FLOW PROJECTION

- Lack of funding and shift changes will likely cause borrowing needs for many districts
- A good cash flow projection is the most important part of the process
- You can spend the time developing the cash flow, updating the data and scheduling the appropriate investments
or
- You can have a company external to the District do this for you
 - Free up time at the District level
 - Tap into expertise on the cash flow analysis
 - Tap into expertise on the investments

AID ANTICIPATION BORROWING – THE PROCESS

DEVELOPING A CASH FLOW PROJECTION

- The General Fund (Fund 01) may be projected separately or combined with any combination of the other Operating Funds (Funds 02 and 04). Indicate which funds you included on the form.
- Start the projection with the estimated June 1, 2010 cash and investment balances, do not use “Fund Balance”. Include investment earnings received to date. Do not include interest expense on certificates to be included in disbursements or investment earnings to be included in later receipts. (Estimated investment earnings on balances and interest expense on internal borrowing or certificates during the borrowing period should be calculated in the analysis.)
- Material used to estimate monthly cash flows may include IDEAS reports, levy certification information, MDE projections of state payments (review for reasonableness), the school district’s monthly reports from prior years, and projected changes from past revenues and expenses
 - Keep in mind Federal Stabilization and ARRA collections; capital and health & safety expenditures, retro and severance outlays, negotiations assumptions, growth rates on revenues and expenditures
 - Keep in mind State Aid Shift (not receiving aid in Spring of 2010 will change Fall of 2010. Property Tax Shift with the advance recognition of levy receipts will result in delay of Spring 2011 aid payments

AID ANTICIPATION BORROWING – THE PROCESS

DEVELOPING A CASH FLOW PROJECTION

- If internal borrowing between funds has occurred, those funds are assumed to have been replaced in the beginning balance.
- The projection begins with the June 1, 2010 balance and runs monthly through at least September 2011. Any day may be chosen as your monthly ending day, however all months must use the same day.
- Do not include investment purchases or sales or other investment transactions in the cash flow projection.
- Record receipts in the month cash is received and disbursements in the month made. Do not make any “Accrual” entries.
- Cash included in fund receipts for payment of outstanding tax anticipation certificates and/or aid anticipation certificates should be reflected as a disbursement and noted in the projections.

AID ANTICIPATION BORROWING – THE PROCESS

TYPICAL TIMELINE

- Receive packet of cash flow borrowing information from financial consultant
– Spring 2010
- Begin process of completing information packet requests
- Monitor legislative activity for changes in aid receipts, tax recognition and especially MS 127A.46 which allows State to delay aid payments to school districts
- Complete paperwork by first week in June
- Adopt authorizing resolution at June or July School Board meeting
- August and September activities
 - Develop investment plan for certificate proceeds
 - Sell (price) the aid anticipation certificates
 - Receive the funds
 - Pay back prior year's certificates (if necessary)
 - Set-up investment plan

AID ANTICIPATION BORROWING – THE PROCESS

FACTORS TO REMEMBER IN DETERMINING APPROPRIATE SIZE OF BORROWING

- The Federal limits usually govern the maximum amount a district borrows on a tax-exempt basis (5% of previous years expenditures plus lowest monthly deficit)
- Does the borrowing cover the districts anticipated cash flow needs
- By borrowing less than the maximum is there a lost opportunity to maximize investment earnings to offset borrowing costs (has not been the case the last few years)
- “Cry wolf” accusations from stakeholders

AID ANTICIPATION BORROWING – THE PROCESS

FACTORS TO REMEMBER IN DETERMINING APPROPRIATE SIZE OF BORROWING

- By borrowing the tax-exempt maximum, is the district subjecting themselves unnecessarily to the rebate requirements
 - Example District \$6,000,000
 - Lowest monthly deficit – (\$3,500,000)
 - 5% of previous years expenditures (\$2,500,000)
 - Borrow \$6,000,000 tax exempt aid anticipation certificates
 - Subject to rebate (very complicated calculation)
 - If expenditure requirements not met, district pays IRS its profits above the yield on the aid anticipation certificates
 - Borrow \$5,000,000 tax exempt aid anticipation certificates and no other tax-exempt borrowings in calendar year
 - Meets small issuer rebate exception – not subject to rebate
 - Borrow \$4,000,000 tax exempt aid anticipation certificates and \$11,000,000 of school building tax-exempt bonds
 - Meets small issuer rebate exception – not subject to rebate (total tax-exempt borrowing less than \$15,000,000 of which non-school building portion cannot exceed \$5,000,000)

AID ANTICIPATION BORROWING – THE PROCESS

PRICING

- Pricing is influenced
 - Size of the borrowing
 - Term of the borrowing
 - Credit quality of the school district
- An example of last year's pricing is shown below:

GO Aid Anticipation Certificates of Indebtedness, Series 2009B
FINAL

Pricing Summary

Maturity	Type of Bond	Coupon	Yield	Maturity Value	Price	Dollar Price
09/16/2010	Serial Coupon	1.250%	0.650%	1,350,000.00	100.492%	1,356,642.00
Total	-	-	-	\$1,350,000.00	-	\$1,356,642.00

AID ANTICIPATION BORROWING – THE PROCESS

RECEIVING FUNDS

- Closing letter
- Wiring Instructions
- Wiring of Funds

AID ANTICIPATION BORROWING – THE PROCESS

FINAL COMMENTS AND QUESTIONS

- FLEXIBILITY
 - Timing
 - Maturity
 - Borrowing amount
- COSTS
- PROCESS
- ETC...

AID ANTICIPATION BORROWING – THE PROCESS

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