School Board Meeting:	July 14, 2009
Subject:	Cash Flow
Presenter:	Tina Burkholder

SUGGESTED SCHOOL BOARD ACTION:
Board report – no action required

DESCRIPTION:
At the April 13th school board workshop, I provided a preliminary schedule on our cash flow situation for next school year. The cash flow projection predicts how the cash will flow in and out of the District for the next year and a half for the General Fund, Food Service Fund, and Community Ed Fund. The cash flow projection does not include the Debt Service Fund or the Building Construction Fund. The schedule indicated that our cash flow levels would be negative towards the end of the 2009-2010 school year.

On the cash projection, a couple assumptions were made: state and federal revenues remain flat, property tax revenue increases 2.5%, other revenues increase 1%, total accounts payable expenditures increase 3%, and total payroll expenditures increase 3% based on the FY2008-2009 totals. The payroll expenditures include employee benefits. Final legislation confirms the flat state funding, and the Governor also revised the state aid payment schedule to school districts to balance the State's budget. The new state aid payment schedule switched from a 90/10 payment plan to a 73/27 payment plan. The District will receive 73% of the entitlements during the year and only 27% after the school year is over. By changing the state aid payment schedule, the District will receive $7.8 million less during the 2009-2010 school year.

The budget reductions were also included in the cash flow projection. $1,002,640 was reduced from the 2009-2010 payroll balances somewhat evenly over the year. $524,760 was trimmed from the 2009-2010 accounts payable balances evenly throughout the school year. The increase in fee revenue was accounted for in the "Other" category on the revenue side. As of now, no assumptions have been made for the 2010-2011 school year regarding operating referendums or budget reductions.

Short-term cash flow borrowing is unavoidable next year, but how should we address it? The school district has a couple of options. We could borrow $4-5 million in aid anticipation certificates until next September, but what kind of interest rate would we see? So far only one school district has borrowed short-term with an interest rate of approximately 1.6%. CD's with an interest rate of at least 1% are hard to find.

Option #2 is to wait and have a line of credit with a local bank. Our cash flow doesn't go negative until next June. The school district could have a line of credit with a local bank during that time, and then look at borrowing with aid anticipation certificates for the 2010-2011 school year. There are limitations with lines of credit. The amount is limited to 95% of our average monthly expenditures and must be repaid within 45 days.

Another option is to wait and borrow short-term with a 6 month aid anticipation certificate. The State will have our monthly state aid payment schedule calculated, so the cash flow projection would be a little more accurate. It would also give us time to see what interest rates are doing.

I recommend waiting and look to option #2 or #3 for short-term borrowing. We have time before we need to borrow for cash flow purposes. Ehlers recommends waiting as well to minimize the interest expense associated with short-term borrowing.

Attachments:

Attachment 1 – Cash Flow Projection 08-09 73-27