

**School Board Meeting/Workshop:**

**June 13, 2011**

**Subject:**

Cashflow Borrowing Update

**Presenter:**

Gary Kawlewski

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**SUGGESTED SCHOOL BOARD ACTION:**

Information only

**DESCRIPTION:**

As you know, we have spent a lot of time talking about cashflow this year. We wanted to update you on our cash position now that we have updated cashflow numbers from the Minnesota Department of Education. I also wanted to talk through the potential cashflow issue as it might relate to the pending state government shutdown.

Based on the latest information we have from MDE, our cash position will allow us to avoid cashflow borrowing for 11-12 and it appears for 12-13 as well as shown in Attachment 1 and Attachment 2.

However, the pending state government shutdown could certainly impact this significantly. We are scheduled to receive approximately \$2,800,000 in state aid in July and are scheduled to receive approximately \$8,500,000 in state aid in August. Delays in the July payment would still allow us to meet our obligations as shown on Attachment 3. We would likely have to do an early withdrawal on some of our investments but would not have to borrow funds at that point. The month of August would not be the same as shown on Attachment 4. We would be approximately \$2,100,000 short on our obligations by the end of August. The problem would be even more significant if payments were delayed through September. I did not include a graph for that month but we would be short by about \$5,200,000 by the end of September. The last time the state had a shutdown, a number of employees at MDE were declared essential employees and they were able to process state aid payments without delay. If that were the case, we would have no issue with cash flow. There is some speculation that the same may not be true this time around which would mean there would be no one at MDE to process the payments.

Another potential hang-up comes in the use of the potential borrowing instrument most typically used. Often times, districts borrow for cash flow through aid or tax anticipation certificates, through a line of credit program, or through a private placement borrowing program. Aid anticipation certificates are the most common method and are typically the least expensive form of cash flow borrowing. The state shutdown could affect the use of this tool because MDE has to certify the amount of aid a district is scheduled to receive for the year. Additionally, the certificates are issued using the state's credit enhancement program which allows districts to receive a better rate on their debt

issuance. Both of these programs require someone to be at MDE to sign the forms. Those individuals may or not be at MDE to perform those tasks during the pending shutdown.

We are in conversation with our financial advisor to explore all of the aforementioned cash flow borrowing options. We are also talking to at least one local bank about the possibility of opening a line of credit. The line of credit method of borrowing is typically more expensive and is limited to 45 days in duration per occurrence. However, the process to get funds is shorter and may allow a little more flexibility in the length of time that we would need to use the funds. The private placement option and the aid certificates typically require you to borrow funds in at least 6-month terms which is probably longer than we would need. We will analyze all options and will likely be bringing a resolution to open a line of credit and/or a resolution calling for the issuance of debt for cash flow at the meeting on June 28. Our hope is to not have to exercise any of the cash flow borrowing options.

**ATTACHMENT(S):**

Attachment 1-11-12 Cash flow graph 1

Attachment 2-12-13 Cash flow graph 1

Attachment 3- Cash Flow 11-12 graph 2 no July 2011 Aid

Attachment 4- Cash Flow 11-12 graph 2 no July or August 2011 Aid