

Operating Cash-Flow Borrowing Options for Michigan Public Schools

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As Michigan public schools navigate the preparation of their 2021-2022 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 has improved from the financial doomsday predicted last spring at the beginning of the COVID-19 pandemic. Although the 2021-2022 School Aid budget has not been finalized, it appears there will be a modest increase in funding over the level of funding for the current and prior school years. The federal stimulus funding has also provided much-needed support to schools to cover additional operating costs incurred due to the pandemic.

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 may 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, including a discussion of sizing requirements, cash-flow projections, tax law considerations, and other information, which is available on our website: [for school districts here](#) and [for public school academies here](#).

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 2021 SAN programs for school districts and PSAs. Under this year's SAN program schedule, for school districts the closing will occur on **August 20th** with the initial application due on or before **July 1st**. For PSAs, the closing will occur on **September 2nd** with the initial application due on or before **July 12th**.

The financing schedule, borrowing options, program parameters, and application for the 2021 MFA SAN program for school districts and PSAs can be found on the MFA website: [for school districts here](#) and [for public school academies here](#).

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.

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 ("LOC"). 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.

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