

School District of the City of Royal Oak
MEMORANDUM

TO: Thomas L. Moline
FROM: John R. Schwartz
DATE: January 6, 2010
SUBJECT: Cash Flow Borrowing Resolution

On the January 14th Board of Education meeting agenda, a cash flow borrowing resolution will be placed before the Board of Education to seek authorization to participate in the Michigan Municipal Bond Authority (MMBA) State Aid Note Loan Program – January 2010. This loan program through MMBA gives school districts the opportunity to pool together for reduced issuance costs; opens access to capital markets at a time when credit is tight; offers competitive interest rates; and makes available an efficient borrowing process. This January 2010 State Aid Note Loan Program is a supplemental borrowing opportunity for districts and was put together specifically to meet the mid-year borrowing needs of many districts, including Royal Oak.

Our cash shortfall and the need to borrow should come as no surprise. A dwindling fund equity, lack of property sale revenue, and construction program cost overruns are primary contributors for the cash shortfall.

It should be noted that without borrowing in fiscal 2009-10, we would be unable to meet payroll and other necessary expenditures. If we do not take advantage of this supplemental borrowing opportunity, we would be accepting the risk of obtaining financing in the spring through a line of credit.

The known specifics of the MMBA program and our borrowing needs are as follows:

- We are permitted to borrow up to the maximum projected cash flow deficit plus 5% of 2008-09 actual expenditures. The recommended borrowing amount is \$6 million. As a point of reference, we borrowed \$5 million last year.
- This will be a seven (7) month issue with principal and interest due on August 20, 2010.
- There is a set aside requirement for this issue. This obligates the District to place funds into escrow throughout the life of the loan. The funds placed in escrow will be used to pay the principal and interest of the borrowing. Set aside payments and

- the final repayment of principal and interest are automatically deducted from the District's monthly State Aid payment.
- The interest rate of the issue is unknown at this time. It will be determined when the issue is priced in late January. In calculating the interest cost of the borrowing, the MMBA recommends using an interest rate of 5%. In my opinion, the actual rate will be significantly lower.
 - The borrowing calendar is as follows:
 - Application Due: January 13, 2010
 - Pricing: January 20, 2010
 - Interest Rate Determination: January 20, 2010
 - District Acceptance of Interest Rate: January 20, 2010
 - Purchase Contracts Signed: January 21, 2010
 - Closing: January 29, 2010

The completed borrowing Application with a detailed monthly and weekly cash flow will be submitted to the MMBA by the January 13, 2010 deadline. I strongly recommend that the Board of Education adopt the borrowing resolution which gives us the authorization to participate in the MMBA January 2010 State Aid Note Loan Program.

/bls