

Cash Flow Borrowing

WASDA New Administrators Workshop V

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10:00 AM – 11:00 AM



Robert W. Baird & Co

Presenters

Michel D. Clark
Director



414 765-7326 (office)



414-940-3753 (cell)



mdclark@rwbaird.com

Debby A. Schufletowski
School Business Specialist



715-552-3567 (office)



715-214-5149 (cell)



dschufletowski@rwbaird.com

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What is Cash Flow Borrowing?

What is cash flow borrowing?

- Provides funds for periods of cash shortfalls

Why is it important?

- If needed, the borrowing provides sufficient funds to operate the district

How does it impact you?

- You do not want to run out of cash

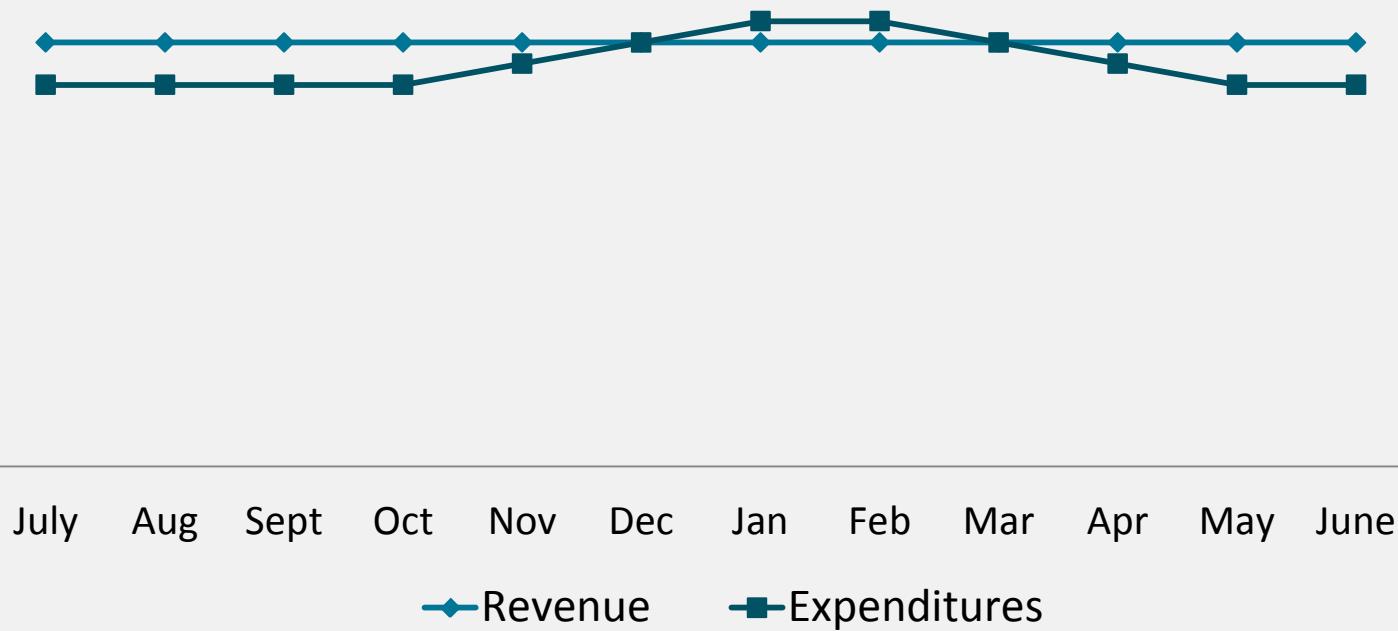
Purpose/ Need for Borrowing

- Expenditures fairly constant throughout year
 - Salaries / Fringe typically 75%-85% of budget
 - Typically spread over 24 or 26 pay periods
 - May need to adjust for contract payout
- Revenues received sporadically throughout the year
 - Tax Levy and Equalization Aid can be 85%-95% of general fund revenue budget
 - Received in scheduled months

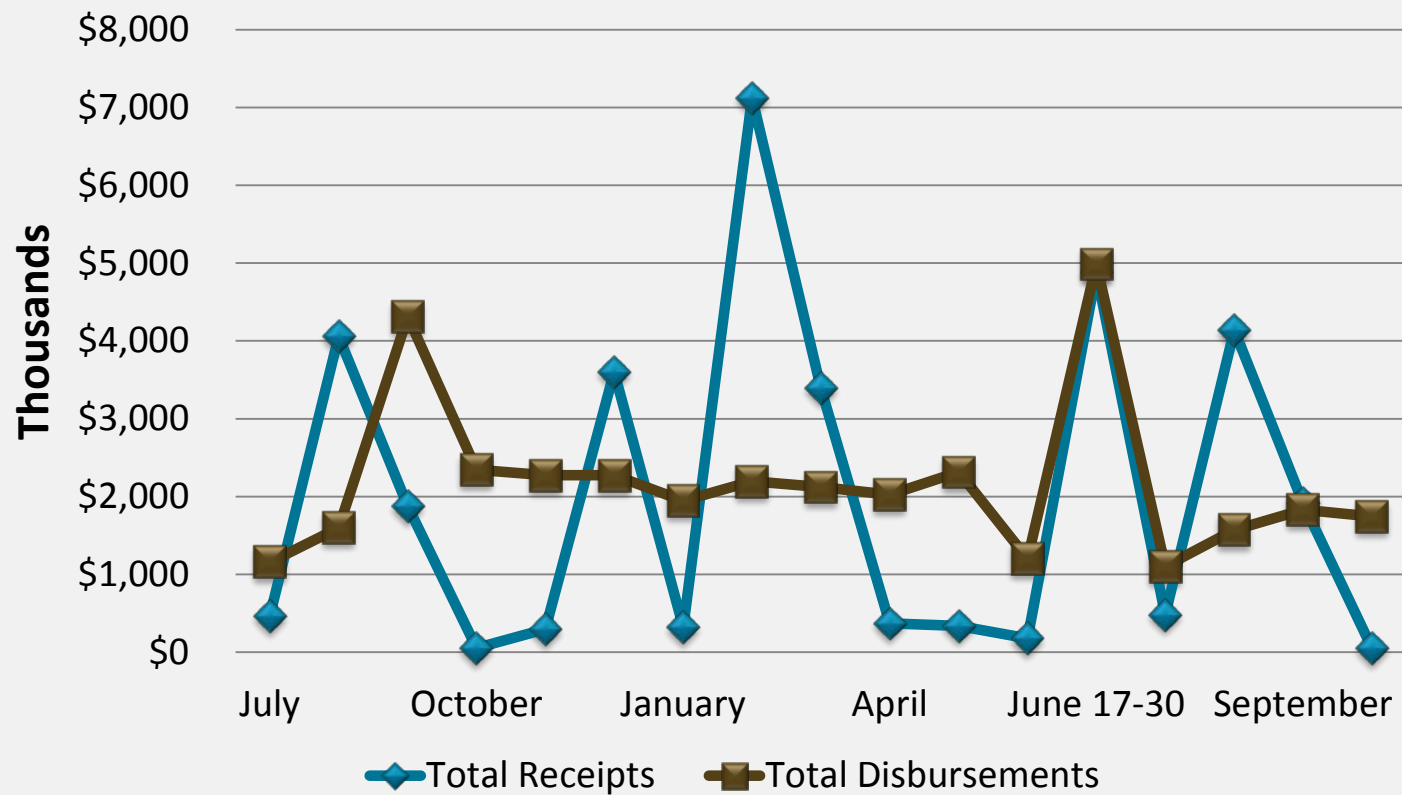
	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June
Tax Levy		X					X	X		X		
Equalization Aid	X		15%			25%			25%			35%

Purpose/ Need for Borrowing

Sample Home Budget



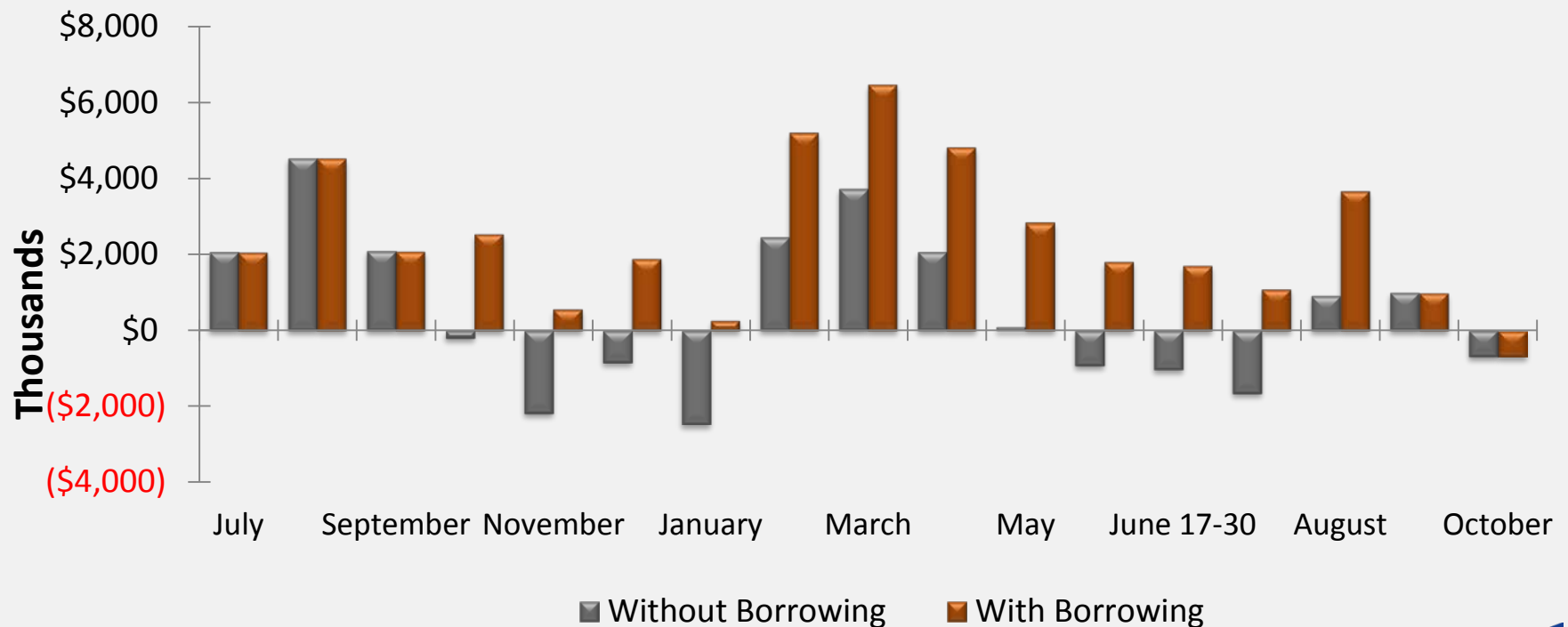
Revenues vs. Expenditures



The hypothetical example is for illustrative purposes only.

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Monthly Cash Balances



The hypothetical example is for illustrative purposes only.



Legal Considerations

- Cash flow borrowing by Wisconsin school districts is governed by Wisconsin law
 - Conventional Tax and Revenue Anticipation Promissory Notes
 - Bank “Lines of Credit”
- Federal Tax Law Applies for Interest to be Tax-Exempt
- Federal Securities Law regarding disclosure also applies unless an exemption applies

Wisconsin Statutory Requirements (Section 67.12(8)(a)1)

- **Purpose**: For immediate operating expenses. Borrowed amounts must be used for expenses of the current fiscal year (i.e. expenses prior to June 30).
- **Amount**: Limited to one-half of estimated current year operation and maintenance receipts.
- **Timing**: **After** tax voted for current year. *(For common school districts, after the annual meeting or after the school board levies a tax if the annual meeting fails to do so.) (For unified school districts, after school board votes a tax – even if later tax levy/budget adjustments are made prior to November 1.)*
- **Term**: All loaned amounts must be repaid no later than November 1 of the following school year.
- **Authorization**: By School Board resolution including all pertinent details of borrowing and name of lender.

Practical Considerations Due to Wisconsin Statutory Requirements

- **Maturity Date:**

Selected maturity date of cash flow borrowing needs to consider:

- Timing of State Aids
- Timing of Final Tax Settlement
- Timing of Next Fiscal Year's Borrowing
- Date of Annual Meeting (for Common School Districts)

- **Draw Date:** No draws on lines of credit can be made after June 30, the last day of the fiscal year. Any amounts drawn can remain on hand until the maturity date.



Fund Balance vs. Cash Balance

Fund Balance

- Fund Balance does not equal available cash
- Decreasing fund balances
- Inability to increase proportionately to expenditure growth

Fund 10 General Fund - Balance Sheet Accounts

Account	Description	Beginning of Year	End of Year
700000 Assets			
10B-711000	Cash	1,687,971.40	518,985.84
10B-713100	Taxes Receivable	886,044.41	871,968.73
10B-713200	Accounts Receivable	1,754.38	502,229.54
10B-714000	Due From Other Funds	66,536.25	15,037.37
10B-715000	Due From Other Governments	184,960.66	154,994.34
	Total Assets (700000)	2,827,267.10	2,063,215.82
800000 Liabilities			
10B-811100	Temporary Notes Payable	1,600,000.00	0.00
10B-811200	Accounts Payable	150,000.00	553,923.28
10B-811600	Payroll Withholdings and Benefits Payable	0.00	407,066.21
10B-811700	Accrued Temporary Note Interest Payable	11,709.76	0.00
10B-813000	Due to Other Governments	0.00	6,867.00
	Total Liabilities (800000)	1,761,709.76	967,856.49
900000 Fund Equity			
10B-939900	Unassigned Fund Balance	1,065,557.34	1,095,359.33
	Total Fund Equity (900000)	1,065,557.34	1,095,359.33

Determining a Shortfall/Surplus

Cash Flow Analysis 2013-2014

2013-2014	July	August	September	October	November	December	January	February	March	April	May	June 1-16	June 17-30	Total
BEGINNING CASH BALANCE	\$600,000	\$205,832	\$230,314	\$186,853	-\$198,335	-\$534,023	\$4,992,218	\$5,279,523	\$3,602,328	\$4,000,363	\$4,295,190	\$3,910,002	\$3,747,181	

Receipts:	Budget:														
Receivables		\$41,021	\$459,670												
Fund 10															
Property Taxes	\$2,633,972							\$658,493	\$658,493		\$658,493				\$1,975,479
Mobile Home Taxes	\$5,000	\$417	\$417	\$417	\$417	\$417	\$417	\$417	\$417	\$417	\$417	\$417	\$417	\$417	\$5,000
Interest on Investments	\$900	\$75	\$75	\$75	\$75	\$75	\$75	\$75	\$75	\$75	\$75	\$75	\$75	\$75	\$900
Other Local Sources	\$21,970	\$1,831	\$1,831	\$1,831	\$1,831	\$1,831	\$1,831	\$1,831	\$1,831	\$1,831	\$1,831	\$1,831	\$1,831	\$1,831	\$21,970
Open Enrollment	\$30,000												\$30,000		\$30,000
Other Interdistrict Payments	\$28,000	\$2,333	\$2,333	\$2,333	\$2,333	\$2,333	\$2,333	\$2,333	\$2,333	\$2,333	\$2,333	\$2,333	\$2,333	\$2,333	\$28,000
Total Intermediate Sources	\$53,864	\$4,489	\$4,489	\$4,489	\$4,489	\$4,489	\$4,489	\$4,489	\$4,489	\$4,489	\$4,489	\$4,489	\$4,489	\$4,489	\$53,864
Equalization Aid	\$3,187,074			\$341,728			\$911,430			\$783,223				\$1,096,513	\$3,132,894
Transportation Aid	\$14,000							\$14,000							\$14,000
Library Aid	\$21,522									\$21,522					\$21,522
SAGE Aid	\$150,000					\$49,500			\$49,500				\$51,000		\$150,000
Computer Exemption Aid	\$9,829													\$9,829	\$9,829
Other State Sources	\$122,882	\$10,240	\$10,240	\$10,240	\$10,240	\$10,240	\$10,240	\$10,240	\$10,240	\$10,240	\$10,240	\$10,240	\$10,240	\$10,240	\$122,882
Federal Aid	\$230,981	\$19,248	\$19,248	\$19,248	\$19,248	\$19,248	\$19,248	\$19,248	\$19,248	\$19,248	\$19,248	\$19,248	\$19,248	\$19,248	\$230,981
Other Receipts	\$3,400	\$283	\$283	\$283	\$283	\$283	\$283	\$283	\$283	\$283	\$283	\$283	\$283	\$283	\$3,400
Fund 27															\$0
Categorical Aid	\$0					\$0	\$0	\$0	\$0	\$0			\$0		\$0
Other Receipts	\$547,145	\$45,595	\$45,595	\$45,595	\$45,595	\$45,595	\$45,595	\$45,595	\$45,595	\$45,595	\$45,595	\$45,595	\$45,595	\$45,595	\$547,145
Fund 50															\$0
Other Receipts	\$215,290	\$17,941	\$17,941	\$17,941	\$17,941	\$17,941	\$17,941	\$17,941	\$17,941	\$17,941	\$17,941	\$17,941	\$17,941	\$17,941	\$215,290
Total Receipts	\$7,275,829	\$143,474	\$562,123	\$444,180	\$102,453	\$151,953	\$6,013,883	\$774,946	\$810,446	\$885,676	\$782,468	\$102,453	\$81,000	\$1,208,795	\$6,563,156

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Determining a Shortfall/Surplus

Disbursements:	Budget:														
Payables	-	50,000	50,000												
Salaries & Benefits	\$3,487,396	\$290,616	\$290,616	\$290,616	\$290,616	\$290,616	\$290,616	\$290,616	\$290,616	\$290,616	\$290,616	\$290,616	\$145,308	\$145,308	3,487,396
Accounts Payable	\$2,364,297	\$197,025	\$197,025	\$197,025	\$197,025	\$197,025	\$197,025	\$197,025	\$197,025	\$197,025	\$197,025	\$197,025	\$98,512	\$98,512	2,364,297
Prior FY ST Note Payment															
Total Disbursements	\$5,851,693	\$537,641	\$537,641	\$487,641	\$487,641	\$487,641	\$487,641	\$487,641	\$2,487,641	\$487,641	\$487,641	\$487,641	\$243,821	\$243,821	\$5,851,693
ENDING BALANCE		\$205,832	\$230,314	\$186,853	(\$198,335)	(\$534,023)	\$4,992,218	\$5,279,523	\$3,602,328	\$4,000,363	\$4,295,190	\$3,910,002	\$3,747,181	\$4,712,155	

Sample Cash Flow Analysis

Cash Flow Summary 2013-2014

<u>Month</u>	<u>Dates</u>	<u>Revenue</u>	<u>Expenditure</u>	<u>Cash Balance</u>
July	1-30	\$241,550	\$197,154	\$1,275,781
August	1-30	\$784,498	\$83,876	\$1,976,403
September	1-15	\$23,353	\$398,173	\$1,601,582
	16-30	\$867,207	\$1,186,656	\$1,282,133
October	1-15	\$43,419	\$443,173	\$882,379
	16-30	\$42,529	\$398,973	\$525,935
November	1-15	\$43,419	\$398,173	\$171,181
	16-30	\$24,845	\$398,673	(\$202,647)
December	1-15	\$1,452,566	\$398,173	\$851,746
	16-30	\$24,845	\$398,973	\$477,618
January	1-15	\$43,419	\$398,173	\$122,864
	16-30	\$727,971	\$474,992	\$375,844
February	1-15	\$53,219	\$418,173	\$10,890
	16-30	\$1,080,203	\$398,473	\$692,620
March	1-15	\$43,419	\$398,173	\$337,866
	16-30	\$1,432,971	\$399,173	\$1,371,664
April	1-15	\$43,419	\$408,173	\$1,006,910
	16-30	\$171,859	\$399,373	\$779,396
May	1-15	\$43,419	\$398,173	\$424,642
	16-30	\$23,353	\$429,573	\$18,422
June	1-15	\$66,907	\$419,173	(\$333,845)
	16-30	\$2,228,458	\$1,563,989	\$330,625
Total		\$9,506,848	\$10,407,608	Total
2013-2014 Budget		\$9,508,208	\$9,657,608	2013-2014 Budget
Var in PY and CY Pbls		(\$1,360)	\$750,000	2012-2013 Cash Flow Borrowing \$
		\$0	(\$1)	Reconciliation
			Largest Cash Deficit	\$333,845
			5% of PY Expenditures	\$469,851
			Maximum Borrowing Authority	\$803,696

The hypothetical example is for illustrative purposes only.



Considerations

Employee Handbook

- Salary and benefits offered
- Timing of payments
 - i.e. salary vs. merit pay
 - i.e. ongoing benefits vs. one-time contribution

Revenue and Expenditures

- Previous year spending that could impact current year borrowing
 - i.e. spend down of fund balance
 - i.e. large purchase in summer depleting cash flow (could be FY 2013-14 or FY 2014-15 purchases)
- Increases/decreases in revenues and/or expenditures
 - i.e. Revenue Limit Referendum

Spending Fund Balance

Situation: Board is asking to spend down \$1M in fund balance to finance a facility project. You haven't had to cash flow borrow in the past and are concerned this may cause you to dip too low.

- Determine what a comfortable/appropriate minimum balance is for your district
 - One month worth of expenditures?
 - Two payrolls?
- Identify your low monthly/weekly balances from prior years
- Run a cash flow analysis for the upcoming year(s)
- Determine how this one-time expenditure will impact future cash flow needs

Conclusion: Before spending fund balance on a one-time expenditure, use prior year actual cash flows and projected cash flows to help determine how future cash flow may be affected.

Also note: Possible Impact on Credit Rating

- Moody's Scorecard
 - Cash Balance
 - Operational Budget Results
- Fund Balance Trend



Considerations

Decrease in Equalization Aid

	July	Aug	Sept	Oct	Nov	Dec	Jan
Tax Levy		X					X
Equalization Aid	X		15%			25%	

- More revenue limit dollars received through tax levy
- Timeline for receiving revenue shifted

Cash Flow Borrowing and Impact of Other Borrowings

- Use of Bank Qualified Capacity
- Structure of TRAN Borrowing
- Especially When Considering Fund 38 Borrowing

Considerations

Monitoring Cash Flow during Business Office Transitions

Choosing a Funding Mechanism

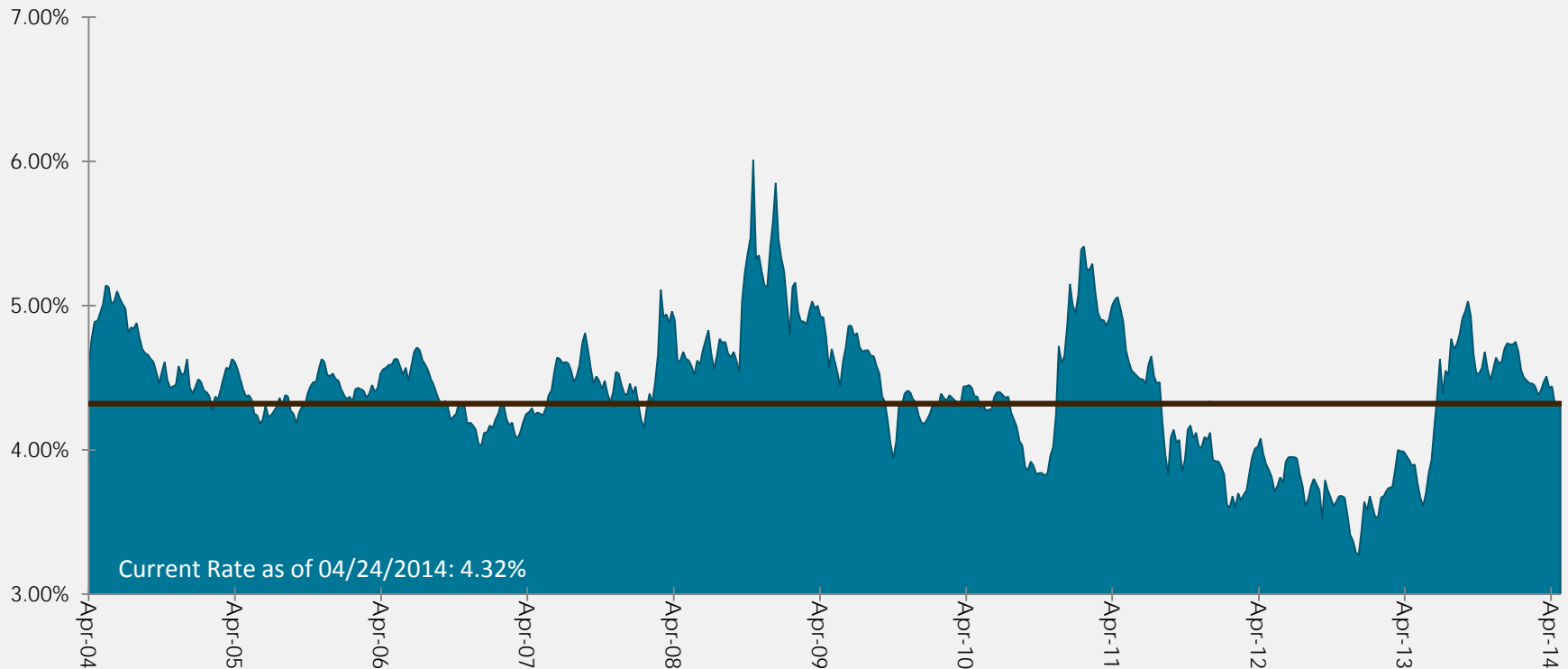
- Tax and Revenue Anticipation Note (TRAN)
- Line of Credit (LOC)
- Other lenders

Increased Attention to Cash Flow Borrowing

- > 6 years ago:
 - Positive arbitrage
 - Districts could borrow funds and reinvest at higher rate
 - Resulted in larger and longer borrowings
- Within last ten years:
 - Situation has changed
 - Investment rates have drastically decreased
 - Districts are looking to limit amount and length of borrowings
 - Exploration of other non-traditional borrowing alternatives

Issuing Environment

G.O. Municipal Interest Rates - Bond Buyer-20 Index



Source: The Bond Buyer

Past performance is not a guarantee of future results. Indices are unmanaged and are unavailable for direct investment.

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Funding Options

General Characteristics

Tax and Revenue Anticipation Notes (“TRANS”)

- Traditional financing method
- One or two maturity(ies)
- Typically tax-exempt rate, but may be taxable
- Fixed amount and term
- Less than 13 months
- Legal requirements apply

Line of Credit (“LOC”)

- Draws and Repayments
- Goal to minimize days outstanding
- Taxable rate (usually variable—maximum rate required and banks often request a minimum)
- No draws after June 30
- Legal requirements apply

Other Lenders

- Other public entity
- Local Municipality
- Legal requirements apply

Alternative Lender-Example

- Borrowed From Municipal Entity
 - Borrowing Done on Taxable Basis (Lender Non-Taxpayer)
 - Full Bank-Qualified Capacity Used For Debt Refinancing
 - Net Results
 - Lender (Municipality) Increased Investment Earnings
 - Borrower (District) Lowered Cost of TRAN Borrowing and Increased Savings of Bond Refunding

Positioning for Market Volatility



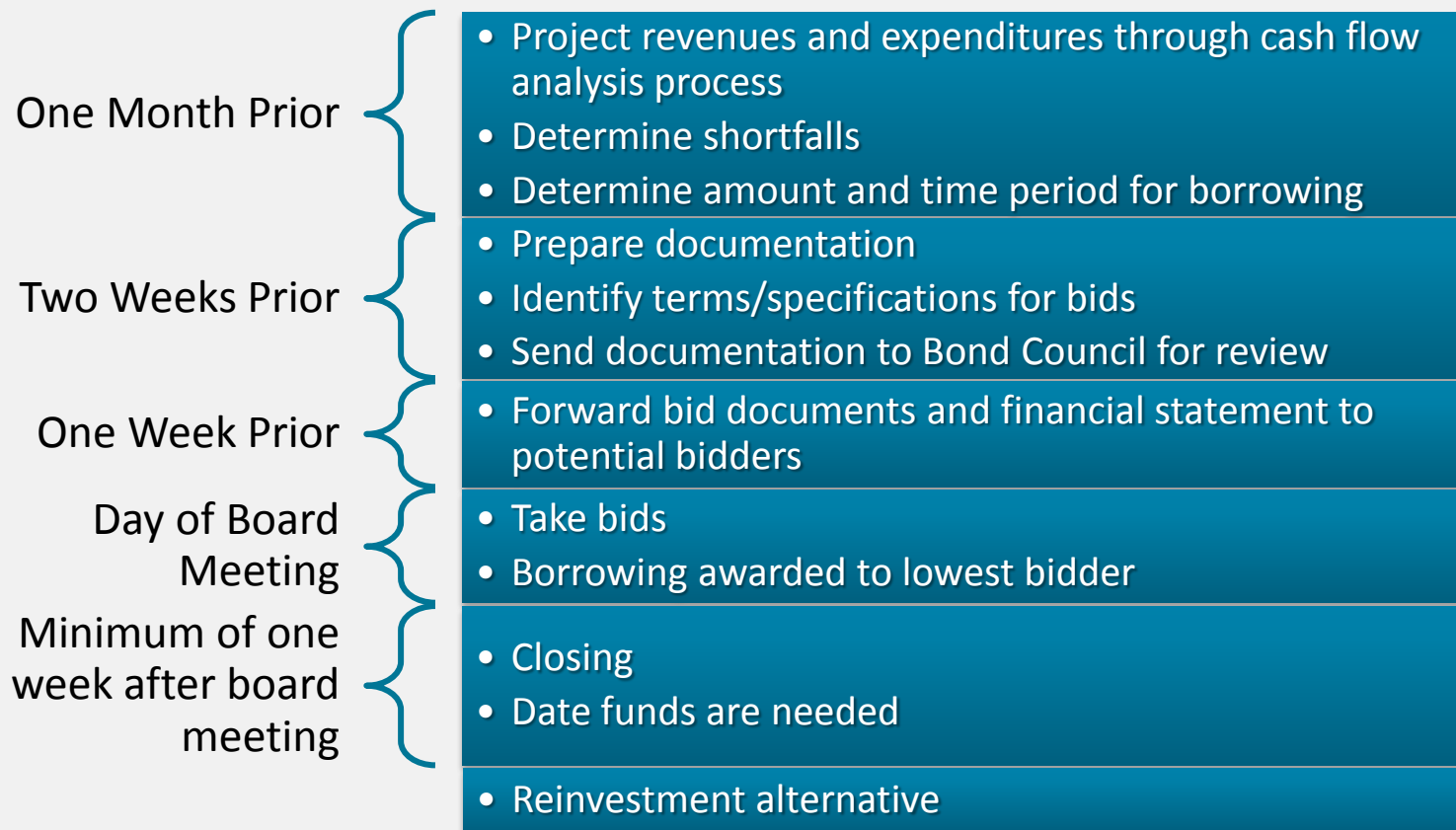
Poor Market Environment

- Limited Investors
- No Positive Arbitrage
- Limited/No Bidders

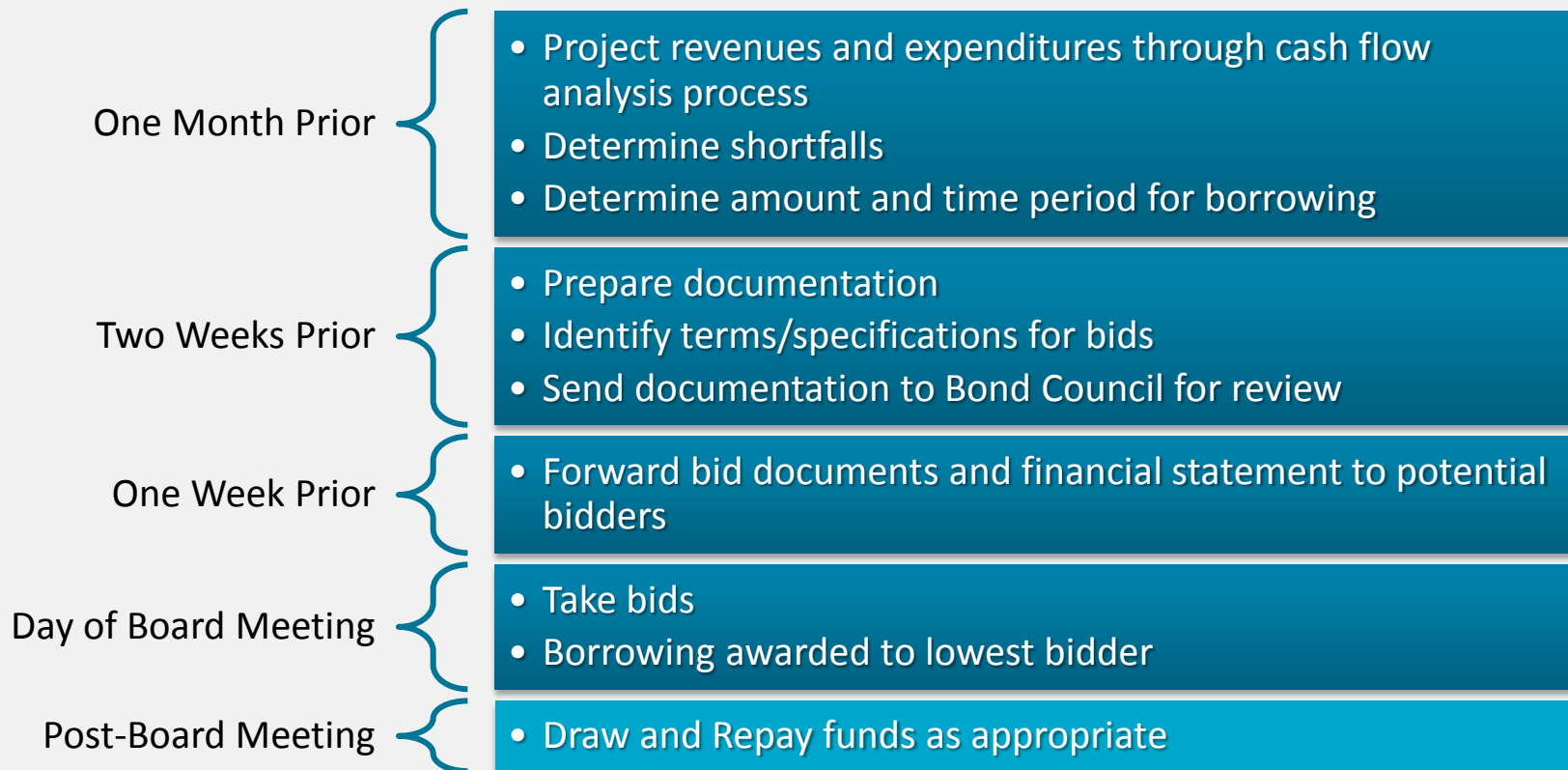
Positioning Alternatives

- Line of Credit
- Alternative Funding Sources
- Credit Rating

Process for Issuing a TRAN



Process for Issuing a LOC



Bank Qualified vs. Non-Bank Qualified Borrowing

- Banks receive added tax benefit with the purchase of Bank Qualified (BQ) Bonds
- Issuer limit of \$10 million of tax-exempt borrowing **per calendar year**
- TRAN borrowings count against the \$10 million limit
- Very small benefit of a BQ TRAN borrowing
- Consider taxable TRAN, if BQ status can be used on other issue

Sample Scenario-Use of BQ Status

Situation: District needs \$5.3M for cash flow purposes. They are, at the same time, exploring F39 refinancing options.

- **Refinancing Option 1**
 - \$5.3 Million Cash Flow Borrowing Tax-Exempt (BQ)
 - Estimated Borrowing Cost \$39,750
 - \$4.7 Million Advance Refunding (BQ) of Fund 39 Debt
 - Estimated Gross Savings \$470,000
- **Refinancing Option 2**
 - \$5.3 Million Cash Flow Borrowing Tax-Exempt (NBQ)
 - Estimated Borrowing Cost \$40,000
 - \$12.3 Million Advance Refunding (NBQ) of Fund 39 Debt
 - Estimated Gross Savings \$267,000
- **Refinancing Option 3**
 - \$5.3 Million Cash Flow Borrowing Taxable With Two Maturities (NBQ)
 - Estimated Borrowing Cost \$34,250
 - \$10 Million Advance Refunding (BQ) of Fund 39 Debt
 - Estimated Gross Savings \$785,000

Conclusion: If you anticipate other borrowing opportunities throughout the year, ask someone to help analyze your options.

Outlook for 2014-2015

Districts will explore alternative options

Some districts will borrow for the first time

Borrowing needs may change

Limiting borrowing amount and duration will continue

Constant monitoring of market to determine best borrowing alternative

Questions?

