



## There are Solutions to Your Cash Flow Concerns



With the State suffering an estimated \$14 billion shortfall during 2008-09 and an estimated revenue gap of \$28 billion in 2009-10, school entities are scrambling to determine how to meet anticipated cash flow for the remainder of this fiscal year and throughout 2009-10.

Tax and Revenue Anticipation Notes (TRANS) are typically issued by local agencies to fund cash flow imbalances caused by the infrequent receipt of property taxes and other revenue. Specifically, agencies that are highly dependent on property taxes annually issue TRANS to provide liquidity for property tax revenue credited to them in December and April.

This year, with an expected deferral of the State apportionments for schools, many school entities that normally would not face a cash shortfall are facing unfamiliar territory. We think there are potential solutions to get you through this cash crisis:

### **Borrow from Yourself**

To select the best option, it is important to first thoroughly analyze your cash flow needs and all other available funds. It is possible that an internal borrowing will solve your cash flow problems without costing additional money. However, since by law, these borrowings may not cross over fiscal years, it may be necessary to discuss this strategy with a financial advisor.

### **Borrow Through the County Treasury**

The next most cost-effective option may be to borrow through the County Treasury. The law gives county treasurers the power to make temporary transfers to school districts to fund cash flow shortfalls as long as these transfers do not exceed 85% of the anticipated revenue. However, under this law, the borrowing must be repaid with revenues attributable to the current fis-

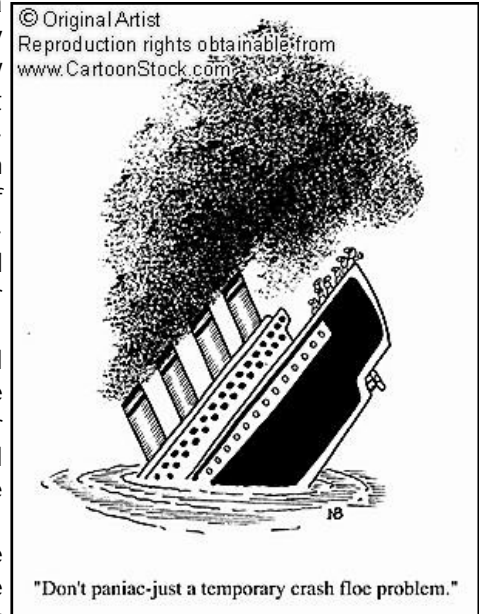
cal year. With the contemplated State deferrals, it is very possible that revenue attributable to 2008-09 won't be distributed to schools until 2009-10. This could cause some concern for County Treasurers which, as a result, may impose additional restrictions on this dry period financing option. Again, a financial advisor can help you work through this process to determine if this is a viable option.

### **Issue a TRAN**

Finally, a school entity may borrow money to meet current expenses through the issuance of TRANS (or perhaps a second TRANS), either independently, if authorized through the County or through a pool of one or more school entities. If the issuance of TRANS is the best option, or

perhaps the only option, it will be extremely important to obtain the lowest possible borrowing costs through competitive and expert negotiation strategies as well as low costs of issuance. Additionally, in this year of uncertainty, it will be necessary to have flexibility over key borrowing terms, such as the timing of the issuance, and the repayment dates.

Capitol PFG can provide guidance with regards to the best option available as well as expert advice on whichever process is selected. We are available to provide an initial review of your anticipated cash flow, free of charge, and provide direction for moving forward.



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"Don't panic-just a temporary crash floe problem."



## Facilities Cash Flow Burdening Many Agencies

As you know, in December the Pooled Money Investment Board (PMIB) decided to shut down \$3.8 billion in financing for infrastructure projects including school construction. The PMIB manages the State's Pooled Money Investment Account (PMIA), which provides loans both to bond-funded infrastructure projects and to the State's General Fund to help meet cash flow needs. This shut down of infrastructure funding was necessary in order to provide the State with general fund cash to provide essential public services.

We expect that the State will resume payments on infrastructure projects when a balanced State Budget is passed and the State is able to access the capital markets for both operations and capital projects. In the meantime, we believe that the State will be squeezed for cash and will continue to hold on the release of infrastructure funding. Of course, the State will also be deferring State Apportionments and requiring school districts to make mid year cuts which will further strain operating and capital improvement budgets.

### **Grant Anticipation Notes May be an Option**

For those school entities who have construction projects underway, and are relying on State funding, there are options for obtaining interim financing. One such option is a Grant Anticipation Note (GANs). A GAN is a short-term note borrowing that may be used to obtain monies in advance of receiving funds from the State.

Generally speaking, and subject to credit approval, Capitol PFG can arrange for the sale of GANs. GANs can be issued only for projects for which funds have been appropriated and committed. In other words, if your school district has already been approved for funding and has had their fund release approved by the State, your district is eligible for a GAN. If your project has not been approved by the State or requires a local match, other financing mechanisms are available to assist you.

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