

## **Borrowing Due to Delay of June 8 and 22 State Aid Payments Questions and Answers**

**Q1 What state aids will be part of the delayed June 8 and 22 state school aid payments?**

A - All SFRA aids listed on the district's state aid payment schedule will be part of the delay. This includes Preschool Education Aid.

The district's actual cash payment will be the revenues identified above offset by any adjustments (e.g. Katzenbach). Details on the end of year reporting for the delayed payment and recording of adjustments are provided in the annual audit program.

**Q2 Where can a district confirm the exact amount of the delayed payments?**

A - Your county office will have a preliminary listing by May 19, 2009 and a final listing by June 2, 2009. This amount is calculated as the June 8 plus June 22 last state aid payments offset by any adjustments.

**Q3 What specific borrowing authority does the legislation provide?**

A - Per N.J.S.A. 18A:22-44.2, a board of education may execute and deliver promissory notes on or before June 30 of the current budget year with a loan effective date no earlier than June 22. Pending legislation (bills A3981 and S2828) will change this to a loan effective date no earlier than June 8. (See Q24 for more information on effective dates for borrowing.)

The notes must mature on or before the date of the payment of the delayed June state school aid payments and may be redeemable prior to maturity. The amount borrowed will constitute a general obligation of the board but will not constitute gross debt for purposes of N.J.S.A. 40A:2-43.

**Q4 Does the department need to approve all borrowing due to the delay in the June 8 and 22 state aid payments?**

A - Yes, the department must approve all borrowing. Approvals will be granted upon written application and demonstration of need by the board. All approved loans will be repaid by the department to the lending bank from the district's state aid payment.

**Q5 Will the state pay for interest costs associated with the borrowing?**

A - Yes. The department will reimburse for all approved interest on approved loans. The department will deduct any unapproved interest and other bank fees from the district's state aid payment and pay the total loan due (interest, bank fees and

principal) directly to the lending bank. (See Q17, Q18 and Q19 for more information on interest rate approval.)

**Q6 Will the State reimburse districts for other costs related to the loan (e.g. bond counsel)?**

A - No. As the application outlines, the State will reimburse districts only for the interest cost related to any necessary and approved borrowing. The State has developed a standard promissory note to be used by districts as needed to reduce costs, however, it is anticipated that these other costs should be minimal or non-existent given the short term nature of the borrowing and the state's authority under the legislation to pay the lending bank directly for the approved principal and interest.

**Q7 Will the State approve the district's application with any interest rate stated in the written bank proposal?**

A - The Executive County Superintendents (ECS) will review all applications submitted. Districts will be notified by the ECS if the interest rate obtained by their bank does not appear reasonable in comparison to other banks in the area.

**Q8 When will the delayed state aid payment be made and what maturity date should be used on the short term loan?**

A - The payment date will be in early July. The department will notify districts of the exact payment date of the delayed June state aid payments shortly. The interest cost on the application should be left blank until you have been notified of the exact payment date.

**Q9 Can a district select any bank eligible to provide short term loans to New Jersey school districts under existing statute and guidelines?**

A - Yes.

**Q10 On what tax basis can the approved short term loans be issued?**

A - The short term loans authorized under N.J.S.A. 18A:22-44.2 can be issued either on a taxable or tax-exempt basis.

**Application to Borrow and Cash Flow Worksheet**

**Q11 Has the application to request department approval to borrow been distributed?**

A - Yes, the original application was distributed to the county offices for distribution to all districts on April 9, 2009. The original application has been superseded with the necessary revisions to reflect the delay of the June 8, 2009 state aid payment.

**Q12 Is the revised application posted on the department's website?**

A - Yes. The revised application is now posted. All applications submitted must be on the revised form which was posted on our website as of May 15, 2009.

**Q13 Is every district required to complete an application and the cash flow worksheet?**

A – No. Only those districts that need to borrow for cash purposes due to the delayed payments must complete the application, cash flow worksheet, and supporting documentation (required supporting documentation is identified with an “\*” on the cash flow worksheet).

It is strongly encouraged that every district complete the cash flow worksheet to determine whether the district will have sufficient cash through the end of the year to address payroll and other critical obligations.

**Q14 Should the cash flow worksheet be completed only for the general fund and preschool program?**

A - Yes. The starting cash balance on line 1 should represent sub funds 11, 12, 13, and 15, and the preschool program from fund 20.

**Q15 How does a district show on the worksheet their need to borrow due to the delayed restricted aid payment recorded in the special revenue fund (Preschool Education Aid)?**

A - The Preschool program must be included in the amounts recorded on the cash flow worksheet. The cash balance in any preschool cash account should be recorded on line 1b. Preschool Education Aid should be recorded on line 7 with the general fund state aids. Any other revenues received for the preschool program should be recorded on line 12a. Expenses for preschool should be recorded on line 18b.

The Executive County Superintendent may request any additional support (e.g. specific fund 20 program cash balances, receipts/payables) as needed. The restricted PEA payment must be recorded on line 7.

**Q16 What specific revenue payments should be listed on lines 7, 8 and 9 of the cash flow worksheet?**

A - Line 7 should include all of the district's general fund SFRA state aid payments, plus the SFRA state aid payment for Preschool Education Aid.

Line 8 should include all other state payments.

Line 9 should be used for unrestricted federal revenues included in the general fund, such as Impact Aid. This would also include the transfer of the federal funds authorized under schoolwide program status to be blended in Fund 15.

**Q17 What is required to receive department approval to have interest on an approved loan reimbursed?**

A - Districts requesting department approval for reimbursement of interest on the approved loan must include with their application a letter from the district's bank of choice stating the interest charges. Applications without a bank proposal letter may still be approved for a loan and State payment of the principal amount, but cannot be approved for State reimbursement of interest. (See Q5 for repayment of loan when interest is not approved.)

**Q18 Is a district required to seek quotes from several banks before it submits the interest costs as stated in a bank proposal letter?**

A – No. Formal bidding and quotations are not required under the Public School Contracts Law for this borrowing; however, the department recommends districts seek quotes from more than one institution for interest and other borrowing costs. (See Q5 for repayment of loan when interest is not approved.)

**Q19 Can a district still request approval for a loan without a proposal from the bank of choice stating the total interest costs?**

A – Yes, however, the state will not approve for reimbursement of interest without a bank proposal letter at time of application. (See Q5 for repayment of loan when interest is not approved.)

**Q20 When are the applications due to the department?**

A – Applications for borrowing on June 8, with the requested supporting documentation, must be submitted to the district's executive county superintendent by May 28, 2009. Complete applications received by the close of business (COB) on the 28th will have decisions rendered by the Executive County Superintendent by June 3, 2009. Due to the tight timelines, the department cannot guarantee review and approval of any application and/or supporting documentation for borrowing on June 8 received after COB on the 28th.

Applications for borrowing on June 22, with the requested supporting documentation, must be submitted to the district's Executive County Superintendent by June 12, 2009. Complete applications received by COB on the 12th will have decisions rendered by the Executive County Superintendent by June 17, 2009. Due to the tight timelines, the department cannot guarantee review and approval of any application and/or supporting documentation for borrowing on June 22 received after COB on the 12th

**Q21 Does a district need to provide any additional information to the department following approval to borrow?**

A - Yes. For districts borrowing on June 8, the district must send the department the district's signed promissory note, bank W-9 form and ACH authorization form, final

application, and copy of the county office approval letter no later than June 11 to ensure timely payment and reimbursement to the district's chosen bank.

For districts borrowing on June 22, the district must send the department the bank W-9 form and ACH authorization form and the final application by June 12, and must send the department a copy of the district's signed promissory note and copy of the county office approval letter no later than June 24 to ensure timely payment and reimbursement to the district's chosen bank.

**Q22 Where does a district send a copy of the signed promissory note, W-9, and ACH Authorization form?**

A – The signed note, W-9, ACH authorization, final application, and county office approval letter should be sent to Guy Nanavati at NJ Department of Education, Division of Finance; PO Box 500; Trenton, New Jersey; 08625-0500 or faxed to 609-292-6794. The Division of Finance must have the forms received by the due date (mail or fax), in order to ensure timely payment to the banks.

**Q23 What does the amount on Line 20 of the Cash Flow Worksheet represent?**

A – The amount on Line 20 represents the district's estimated general fund and preschool cash balance at June 30, 2009. The amount of the approved short-term loan will be the lesser of this amount on Line 20 or the amount of the delayed state aid payment.

**Q24 What is the earliest effective date allowed for the borrowing?**

A - If the loan amount is less than the amount of the delayed June 22 state aid payment, then the effective date of the loan must be June 22 or later. If the loan amount is greater than the amount of the delayed June 22 state aid payment, then the effective date of the loan is June 8 or later. (See Q3 for more information on authority to borrow.)

**Q25 Which district operating types may borrow under these rules?**

A - All districts that receive SFRA state aids including Preschool Education Aid may borrow against the delayed state aid payments. Regular operating districts, regional districts, and vocational districts may all borrow under these rules.