

Interfund Borrowing

Recommended Action: BE IT RESOLVED, that the Board of Education authorizes the Superintendent or his designee to borrow available unencumbered cash balances in the General, Capital Reserve, Designated Purpose Grants, Transportation, Risk Related Activities, Food Service and Building funds, in accordance with CRS 22-44-113, to be used to fund short term cash needs of the district during fiscal year 2003-2004.

BE IT FURTHER RESOLVED, This resolution, in accordance with CRS 22-44-113, excludes interfund borrowing from the Bond Redemption Fund.

Background: Cash flow into the district, during the first several months of a fiscal year, is not sufficient to fully pay for the monthly cash outflows. This situation occurs because property tax revenues are not levied until January each fiscal year. State law permits tax payments to be made on varying schedules with final due dates in June each year. Consequently, the district may need to borrow funds for several months during each fiscal year. The district has several options to choose from in order to meet short-term cash flow needs. Those options include issuance of tax anticipation notes, borrowing from the interest free state loan program, or borrowing from a financial institution, to name a few. The district may also borrow unencumbered funds from itself. The most favorable option for the district this fiscal year is to borrow from itself. However, any interfund borrowing must be repaid not later than three months after the beginning of the following budget year. During fiscal year 2002-2003, the district did not borrow from external sources. The most likely time that borrowing might be necessary would be in the months of January or February 2004. Cash outflows are closely monitored. During the January/February timeframe we will manage vendor payments to coincide with cash inflows that may be used for those payments.

Recent legislation has significantly changed the interest free loan program from the state. The new program requires the district to pledge property tax revenue for the loan repayment by participating in a statewide tax anticipation note (TAN) program. To be eligible for the program, school districts must provide, by June 16th, very detailed cash flow analysis worksheets for the coming year. There will be no other opportunity to sign on to the state loan program after that date. After reviewing the new requirements of the state loan program, and given the other viable options available to the district, we recommend that the district wait for a year before participating in the state program.

Rationale/Objective: In order to ensure cash balances are available to timely pay district liabilities, we are requesting the Board authorize short-term interfund cash borrowing. The term of this borrowing is for the current fiscal year, July 1, 2003 – June 30, 2004. The interfund borrowing will be repaid upon receipt of sufficient

property taxes and other revenues. Balances will only be transferred as needed and only at amounts needed. Repayments will be made before June 30, 2004.

Cost/Benefit Analysis: Interfund borrowing, on a short-term basis, provides the ability to quickly respond to cash flow needs to pay district liabilities in a timely manner.

Advantages/Disadvantages:

- + The major advantage is to provide added capability to carry on the day-to-day operation of the district.
- The major disadvantage to interfund borrowing is the lost interest earnings on the cash that would otherwise be invested.

Alternatives: Establish a short term borrowing option through a financial institution. This option would require an actual interest expense on the borrowing. We could also hold vendor payments until such time as sufficient revenues are received.

Submitted by _____, District Financial Officer and _____,
Superintendent

Date: _____

