

Borrowing Due to Delay in June State School Aid Payment

N.J.S.A. 18A:22-44.2 provides district boards of education the ability to enter into short term loans with the bank of their choice, if needed, due to the delay in the June State school aid payments. Districts have the ability borrow money from their bank no earlier than June 8 after receiving commissioner approval. All borrowing under this legislation requires department approval and will be granted upon written application and demonstration of need by the board of education as outlined below. Principal on approved loans will be paid to the district's regular state aid account by the State from the district's state aid payment. In addition, interest on the loan approved by the department will be reimbursed by the State and paid to the district's regular state aid account. Any interest costs not eligible for payment by the state will be paid to the district's regular state aid account by the State from the district's state aid payment. **The district will be responsible for repaying the bank under the terms of the promissory note.**

A board of education may execute and deliver promissory notes on or before **June 30** of the current school budget year with a loan effective date no earlier than **June 8**. The notes must mature on or before the date of 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.

Application Procedures

All districts who estimate a need for cash should first complete the cash flow worksheet for the general fund and preschool to determine if there will be a need to borrow due to the delayed June payments. See the detailed instructions regarding completion of the cash flow worksheet and supporting documentation. A section for federal grant information is included on the cash flow worksheet. Districts must assess the amount of the unreimbursed federal grants on the cash flow worksheet.

If the cash flow worksheet indicates the need for a short term loan on June 8, then the district should complete the "Application for Approval of Loan" and submit it to the Executive County Superintendent **by May 25, 2012**. If the cash flow worksheet indicates the need for a short term loan on June 22, then the district should complete the "Application for Approval of Loan" and submit it to the Executive County Superintendent **by June 11, 2012**. This application includes the details of the loan to be requested from the bank and must be supported by a bank proposal letter from the lending bank. Formal bidding or 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 the predetermined costs.

All districts have the option to select any bank. Only applications with a bank proposal letter will be approved by the Executive County Superintendent for State payment of interest costs. Applications without a bank proposal letter may still be approved for a loan, but cannot be approved for State reimbursement of interest.

Submission of the cash flow worksheet and required supporting documentation (identified with an “*”) must be submitted with the Application. As indicated in the detailed instructions, any federal grant reimbursement amounts receivable require a written explanation. Federal funds should be drawn on a timely basis. Districts may also submit supplemental information with the application, including their own cash flow report/analysis and the Executive County Superintendent may request additional support as necessary to complete the review. The Executive County Superintendent may only approve a loan up to the amount that the cash flow worksheet and other documentation support but not to exceed the actual June state aid payments.

Districts may submit applications to the Executive County Superintendent prior to board approval, but the application will not be acted upon until submission of the board resolution authorizing the loan. The resolution must include the amount of the loan requested and the proposed interest cost for which the board requests State reimbursement.

In summary:

- The principal amount of the loan requested cannot exceed the amount of the June State school aid payments. The loan amount must be clearly supported by the cash flow worksheet.
- The loan must have an effective date no earlier than **June 8.**
- For borrowing on **June 8, 2012**, the loan application, bank proposal letter by the lending bank, and cash flow worksheet with required supporting documentation must be submitted to the Executive County Superintendent for review by **May 25, 2012.**
- For borrowing on **June 22, 2012**, the loan application, bank proposal letter by the lending bank, and cash flow worksheet with required supporting documentation must be submitted to the Executive County Superintendent for review by **June 11, 2012.**
- If approved, the State will pay the interest costs of the loan for applications which include a bank proposal letter.
- The term of the loan cannot extend beyond the date of payment of the delayed June State school aid payments.
- The delayed state aid, and the interest on the loan to be reimbursed by the State, will be paid from the State to the district regular state aid bank account. **The district will be responsible for repaying the promissory note and related interest to the bank.**

The Executive County Superintendent will issue decisions on all applications received by **May 25, 2012** no later than **June 5, 2012**, and will issue decisions on applications received by **June 11, 2012** no later than **June 18, 2012**. To document the approval, the Executive County Superintendent will complete the "County Approval of Loan Application" form for each loan. This form will be emailed to the county offices.

When the loan is approved, districts may work with their chosen bank to borrow up to the approved amount. For borrowing on June 8, a copy of the signed Promissory Note must be received by Guy Nanavati in the Division of Administration and Finance, Office of School Finance, no later than **June 11, 2012** to ensure timely payment and reimbursement. For borrowing on June 22, a copy of the signed Promissory Note must be received by Guy Nanavati in the Division of Administration and Finance, Office of School Finance, no later than **June 25, 2012** to ensure timely payment and reimbursement.