



STATE OF NEW JERSEY DEPARTMENT OF EDUCATION

Borrowing Due to Delay of June 8 and 22 State Aid Payments

Questions and Answers, June 2020

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

All School Funding Reform Act (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 SFRA revenues offset by any adjustments (for example, Katzenbach). Details on the end of year reporting for the delayed payment and recording of adjustments are provided in the [annual audit program](#).

2. Where can a district confirm the exact amount of the delayed payments?

The county office will have a preliminary listing by May 18, 2020 and a final listing by June 3, 2020. This amount is calculated as the June 8 plus June 22 last state aid payments offset by any adjustments.

3. What specific borrowing authority does the legislation provide?

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 8. (See question 24 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*.

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

Yes, the department must approve all borrowing. Approvals will be granted by the executive county superintendent upon written application and demonstration of need by the board of education. All

approved loans will be paid by the department to the district regular state aid account. The district will be responsible for repayment to the bank.

5. Will the state pay for interest costs associated with the borrowing?

Yes. The department will reimburse for all approved interest on approved loans. The department will pay any approved interest to the district's regular state aid account for the district to pay the lending bank. Any unapproved interest will be funded by the district. (See questions 20, 21 and 22 for more information on interest rate approval.)

6. Will the State reimburse districts for other costs related to the loan (for example, bond counsel)?

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 nonexistent given the short-term nature of the borrowing.

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

No. The executive county superintendents will review all applications submitted and determine a reasonable and acceptable current interest rate. Districts that exceed that rate will be notified and requested to shop around further if the district wishes to be reimbursed for interest costs.

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

The delayed payment will be made on either July 10, 2020 or July 13, 2020. The interest cost on the application should be completed separately for these two maturity dates.

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

Yes.

10. On what tax basis can the approved short-term loans be issued?

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.

11. Which district operating types may borrow under these rules?

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.

12. Has the application to request department approval to borrow been distributed?

Yes, the application was distributed by the department to all districts in a May 2020 broadcast.

13. Is the application posted on the department's website?

Yes. The application is posted on the [finance website](#).

14. Is every district required to complete an application and the cash flow worksheet?

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 on the cash flow worksheet).

It is strongly encouraged that every district completes 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.

15. Should the cash flow worksheet be completed only for the general fund and preschool program?

Yes. The starting cash balance on line 1 should represent sub-funds 11, 12, 13, and 15, and the preschool program from fund 20. (See question 19 for the memo section related to fund 20 federal grants receivable.)

16. How does a district show on the cash flow worksheet the need to borrow due to the delayed restricted aid payment recorded in the special revenue fund (Preschool Education Aid)?

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 (PEA) 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 (for example, specific fund 20 program cash balances, receipts/payables) as needed. The restricted PEA payment must be recorded on line 7.

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

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.

18. What does the amount on Line 20 of the Cash Flow Worksheet represent?

The amount on Line 20 represents the district's estimated general fund and preschool cash balance at June 30, 2020. The amount of the approved short-term loan will be the lesser of the amount on Line 20 (if negative) or the amount of the delayed state aid payment.

19. What does the amount on Line 24 of the Cash Flow Worksheet represent?

The amount on line 24 represents the amount of expenditures the district has made (at the time of this application) toward fund 20 federal grant programs, which have not yet been reimbursed by the federal program.

20. What is required to receive department approval to have interest on an approved loan reimbursed?

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 question 5 for repayment of loan when interest is not approved.)

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

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 question 5 for repayment of loan when interest is not approved.)

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

Yes, however, the state will not approve for reimbursement of interest without a bank proposal letter at the time of application. (See question 5 for repayment of loan when interest is not approved.)

23. When are the applications due to the department?

Applications for borrowing on June 8, 2020, with the requested supporting documentation, must be submitted to the district's executive county superintendent by May 27, 2020. Complete applications received by the close of business (COB) on May 27, 2020 will have decisions rendered by the executive county superintendent by June 4, 2020. Due to the tight timelines, the department cannot guarantee review and approval of any application and/or supporting documentation for borrowing on June 8, 2019 received after COB on May 27, 2020.

Applications for borrowing on June 22, 2020, with the requested supporting documentation, must be submitted to the district's executive county superintendent by June 11, 2020. Complete applications received by COB on June 11, 2020 will have decisions rendered by the executive county superintendent by June 18, 2020. Due to the tight timelines, the department cannot guarantee review and approval of any application and/or supporting documentation for borrowing on June 22, 2020 received after COB on June 11, 2020.

24. What is the earliest effective date allowed for the borrowing?

Districts may borrow on or before June 30 but no earlier than June 8. The amount of interest and costs required to be paid by the State is subject to appropriation. Districts are expected to minimize these payments, such as borrowing as late as feasible and by borrowing no more than is absolutely necessary. Where the amount of cash needed is less than one state aid payment, it is advisable to borrow as close as possible to the date of the last deferred payment. (See question 3 for more information on authority to borrow.)

25. Does a district need to provide any additional information to the department following approval to borrow?

Yes. For districts borrowing on June 8, 2020 the district must send the department the district's signed promissory note, final application, and copy of the county office approval letter no later than June 12, 2020 to ensure timely payment and reimbursement to the district's chosen bank. For districts borrowing on June 22, 2020 the district must send the department the final application by June 11, 2020 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 26, 2020 to ensure timely payment and reimbursement to the district's chosen bank.

26. Where does a district send a copy of the signed promissory note?

The signed note, final application, and county office approval letter should be emailed to Guy Nanavati at Gautam.Nanavati@doe.nj.gov. (See question 27 for where to send the signed county approval form, the district application for borrowing, the district cash flow worksheet and the bank letter stating the interest rate.)

27. What information must be submitted by the county office to the Office of School Finance?

Copies of the signed county approval form, the district application for borrowing, the district cash flow worksheet and the bank letter stating the interest rate, should be emailed to Peter Noehrenberg at Peter.Noehrenberg@doe.nj.gov. (See question 26 for where to send the signed promissory note.)