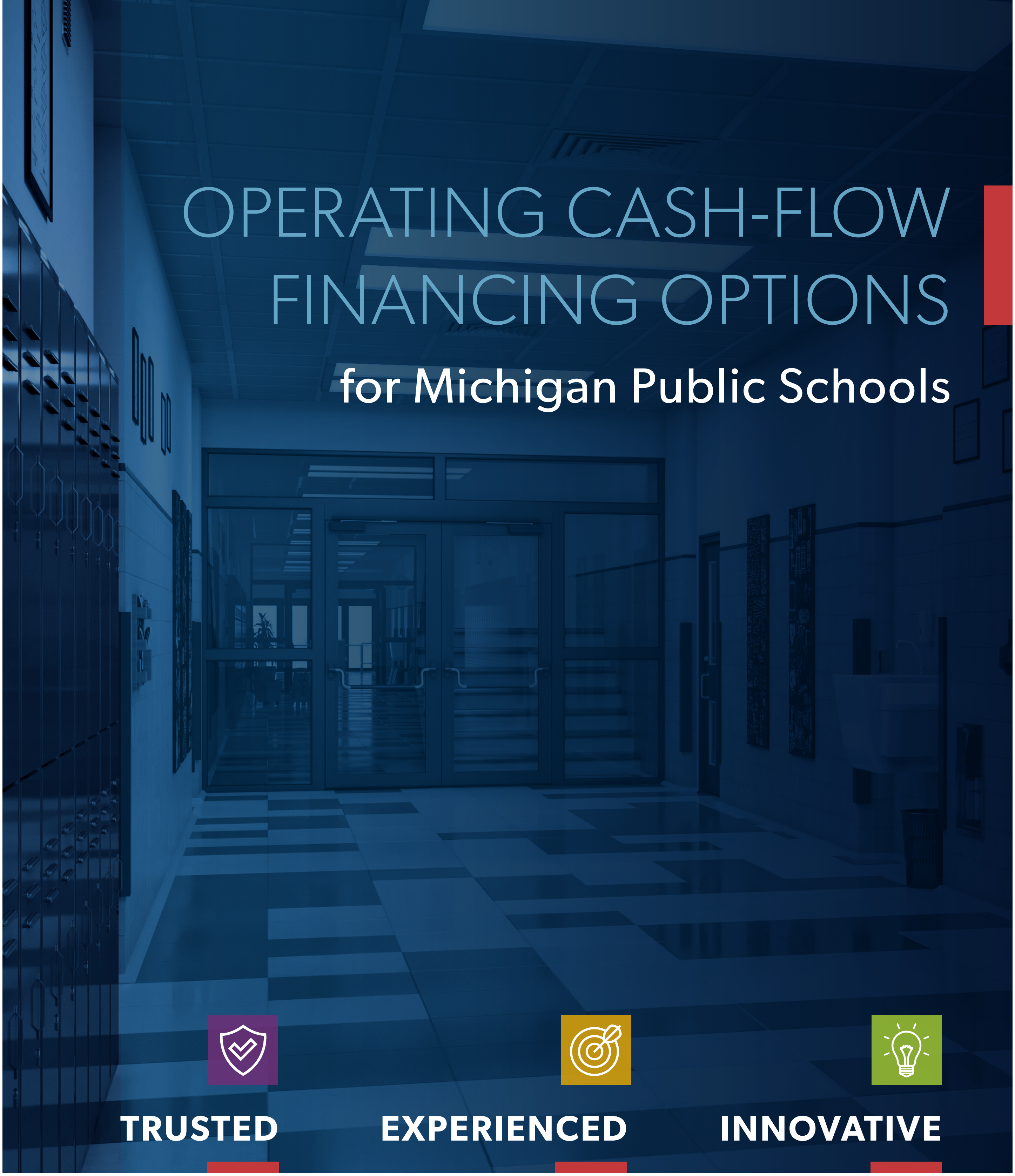
OPERATING CASH-FLOW FINANCING OPTIONS

for Michigan Public Schools



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Many Michigan public schools, which include school districts and public school academies, experience periodic operating cash-flow shortfalls during a school year, which often make it necessary for these schools to borrow on a short-term basis to cover the shortfalls. These shortfalls typically are caused by the timing of State Aid payments, which do not align with the school year, the cyclical nature of property tax receipts and federal grants, and the consistency of expenditures throughout a given school year. Michigan law provides several borrowing options for public schools to cover operational cash-flow shortfalls during a school year. The following is a summary of these borrowing options:

Options Under State Law	State Aid Note ("SAN") MCL §380.1225	Line of Credit Note ("LOC") MCL §380.1225(8)	Tax Anticipation Note ("TAN") MCL §141.2403 AND §141.2405
Limits on Amount Borrowed Under State Law[1]	Not-to-exceed 70% of **current year** State Aid not yet received or previously pledged. During **last 4 months** of fiscal year, may borrow up to 50% of estimated State Aid for next fiscal year.	Periodic draws may not exceed the **lesser** of: (a) 30% of the school district's apportioned State Aid for the fiscal year; **or** (b) the difference between total State Aid apportioned and the portion already received for the year.	Not-to-exceed 50% of operating taxes for next succeeding fiscal year; **or** Not to exceed 75% of uncollected current year operating taxes.
Security for Repayment	Pledge of State Aid	Pledge of State Aid	Pledge of Operating Taxes
Terms of Repayment	Not-to-exceed 372 days	Not-to-exceed 372 days	Statutory set-asides required[2]
Treasury Approval	Qualified status **or** Prior Approval	Prior Approval **Only**	Qualified status **or** Prior Approval
Potential Purchasers	MFA SAN Program[3] or Bank	Bank	MFA[4] or Bank
Federal Tax Law Considerations for Tax-Exempt Operating Note Borrowings	See next page for a discussion of the limits on the amount which can be borrowed and the arbitrage rebate requirements under federal tax law applicable to tax-exempt operating note borrowings.		

[1] *If note is issued on a tax-exempt basis, additional limitations may apply under federal tax law. See "Federal Tax Law Considerations" herein.*

[2] *State law provides that repayment occurs pursuant to a required set aside which equals a portion of each tax dollar collected that is not less than 125% of the percentage that the principal amount of the TAN bears to the amount of the total operating taxes levied until the amount of set aside is sufficient to repay the TAN.*

[3] *The Michigan Finance Authority ("MFA") offers an annual pooled SAN borrowing program for school districts and public school academies. See "Michigan Finance Authority ("MFA") SAN Loan Program" on the next page.*

[4] *The MFA does not offer a pooled program for TANs but will facilitate a TAN borrowing through the MFA.*

OPERATING CASH-FLOW PROJECTION

To determine the amount a public school may borrow for cash-flow purposes under an operating cash-flow note, under State and federal tax law, if applicable, the public school must first prepare an operating cash-flow projection which demonstrates a cash shortfall. The cash-flow projection will need to include the following:

- Projected revenues, expenditures and balances at least monthly for the school year and a weekly cash flow for the weakest month (i.e. largest cash-flow deficit which can be the end of the month, week or a specific day)
- Include cash balances with and without the note proceeds.
- Assumptions must be reasonable!
- Don't forget to include any required set asides and note repayment with interest.
- The Michigan Finance Authority has an Excel cash-flow projection workbook available on its website: www.michigan.gov/mfa.

POTENTIAL PURCHASERS OF OPERATING CASH-FLOW NOTE

Michigan Finance Authority ("MFA") SAN Loan Program: The MFA offers an annual pooled SAN borrowing program for school districts and public school academies with competitive interest rates. The SAN borrowing under the MFA program is a one-year note which typically closes in late August each year. The application process typically begins in the May/June timeframe. More information on the MFA program can be found at **www.michigan.gov/mfa**.

Bank or Other Purchasers: Public schools also have the option to sell a SAN or TAN competitively or through a direct placement with a bank or their securities arm or negotiate an LOC with a bank. It may be possible to obtain more flexible terms through a bank to meet the public school's specific needs. Many banks are willing to buy these notes or extend lines of credit, but the terms they offer can vary widely. Before assuming your bank will extend credit, it is advisable to contact your account representative to determine their willingness to do so, and what the terms might be.

FEDERAL TAX LAW CONSIDERATIONS

Borrowing Limits: The federal tax limits on the amount of the borrowing are the same for all tax-exempt operating cash-flow borrowings. The maximum borrowing cannot exceed: 1) public school's maximum projected cash-flow deficit in a 12-month period; **plus** 2) 5% of the prior year's General Fund expenditures ("reasonable working capital reserve"); **plus** 3) costs of issuing the note.

Arbitrage Rebate: Rebate of the earnings on the operating note proceeds in excess of the yield on the borrowing is required unless an exception is satisfied. The exceptions under federal tax law provide that no rebate is required if: 1) public school issues less than $5 million in tax exempt obligations during calendar year; or 2) within six months after issuance, public school; (a) achieves actual cash flow deficit equal to at least 90% of the amount borrowed; or (b) actual cash flow deficit plus reasonable working capital reserve equal to 100% of amount borrowed while the obligation is outstanding. The exception under 1) above is not available to public school academies.

Bank Qualified: If a school district will issue less than a total of $10 million in tax-exempt obligations during a calendar year, it may be able to designate and issue the cash-flow operating note as a "qualified tax exempt obligation" ("QTE") under federal tax law. The QTE designation is favorable to banks and often results in a lower note borrowing cost for the school district. This designation is not available to public school academies.

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