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# PROPOSAL FOR ADOPTION OF A REVENUE ANTICIPATION NOTE (RAN)

FOR CONSIDERATION BY THE BOARD OF EDUCATION

# WHAT IS A REVENUE ANTICIPATION NOTE AND WHY THE DISTRICT MIGHT HAVE A NEED FOR ONE

- **Revenue Anticipation Notes** (RANs) are a form of **note**, or short-term loan that a government usually repays from a named **revenue** source within a period of one year.
  - For a school district, the repayment would occur when our state aid and tax revenues are paid to the district, which typically occurs around late September or early October.
- **Why we may need a short term loan**
  - With the COVID-19 pandemic, the state has seen significant reductions to their overall revenues.
  - Those revenues must be recovered from other sources to balance the state budget.
  - School Districts have been advised to anticipate a possible reduction of 20% of their Foundation Aid – For Wheatland-Chili CSD that equivocates to around \$885k.
  - We are unsure if that reduction will effect both 2019/20 State Aid Payments and 2020/21 State Aid Payments, but we know the District will see the reduction at some point.
  - We also need to anticipate reduction of revenue from other sources.

# TIMING FOR RECEIPT OF THE AID/OTHER REVENUE SOURCES GREATLY AFFECTS CASH FLOW

- State Aid payments are received at numerous times during a fiscal year, with the largest sums arriving in May/June, September/October, and March.
  - As described in the prior slide, we have not received notice from the State as to whether or not our May/June payment will be reduced (we have yet to receive anything for May).
    - We are supposed to receive \$1.5M. A 20% reduction would reduce our cash by \$300k.
  - We are fairly certain that our September/October Payment will be reduced by 20%.
    - In September/October of 2019 we received \$850k. A 20% reduction would reduce our cash by \$170k.
- Sales Tax Revenue is anticipated to come in at least 15% lower than normal, but many districts are preparing for 50% in the 2<sup>nd</sup> quarter (April – June 2020).
  - If we take in consideration the worst case scenario, we could be seeing a cash reduction of around \$85k.
- Property Tax Revenue – Should we be prepared for a possible extension to due dates for our tax payers?
  - No word has been come out regarding this; however we rely heavily on that first installment coming in to replenish cash flow. If an extension were to occur we would have no cash left in our general fund accounts.
  - Even without an extension, we can anticipate homeowners are still facing hardships as we move into the end of the calendar year.
    - There is potential for the district to see more installment payments, reducing cash flow in September when it is needed most.

# PROPOSAL FOR POSSIBLE RAN BORROWING

- Projections for anticipated revenue reductions with continued expenditures could result in a cash balance as low as \$100k in our General Fund Account through September. If there are any adjustments to tax collection we would could potentially be facing a \$0 cash balance through September. Typically we carry a \$1.4m balance through September.
- I am proposing that the Board adopt a resolution for a RAN up to \$1,000,000. We will work with our bond council at Harris Beach to develop language stating that the RAN will only be taken out if needed.
  - My proposal is to borrow in August (only if needed), for repayment in December.
  - A temporary borrowing could be obtained at an interest rate of 1.5%, or a total cost of \$15k.
- Thank you for your consideration

## Questions?