STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

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STATE TREASURER

Date: April 27, 2015

To: School District Administrators
Local Note Counsel for potential SAN borrowers

From: John Barton, Director, Authority Finance Division

RE: Michigan Finance Authority's August 2015 SAN Program

The Michigan Finance Authority's (MFA) State Aid Note (SAN) Program is open to all School Districts (Districts) and provides economic benefits through reduced borrowing costs to those Districts participating in the loan pools. To date, the annual SAN Program has successfully provided more than $14.4 billion in short-term cash flow to Michigan schools. We are pleased to once again offer the SAN Program for 2015.

New for 2015

Each year, the MFA receives several hundred applications from Districts indicating their intent to participate in the Program. Based on the applications, the MFA sizes the Program and reserves borrowing capacity. A large number of Districts then withdraw from the Program. As a result of these withdrawals, all Districts end up paying a higher cost of funds to reserve this unutilized capacity. To address this issue and maintain the Program's low cost, a new procedure is being implemented in 2015. A new question will be included on the Program application to identify those Districts that are interested in the MFA 2015 SAN Program but are also seeking competitive bids for their August SAN borrowing from a financial institution (a "Dual Bidder District"). Dual Bidder Districts will be required to **affirmatively opt into** the 2015 SAN Program after the interest rate announcement is made at the **end of July**. A Dual Bidder District's participation in the 2015 SAN Program will be subject to available capacity, on a first-come, first-served basis.

Summary of 2015 SAN Program Parameters

1) The overall borrowing limit will be equal to 55% of state aid.

   a. Districts borrowing less than 50% of state aid in 2014 will not be permitted to borrow more than 50% of their state aid for the 2015 loan cycle.

   b. Those Districts borrowing between 50% and 55% of their state aid in 2014 will be held to the same percentage for 2015.

2) The maximum amount which may be borrowed, as a percentage of state school aid, through the **no set-aside** program, without amortization, will be **42%.**

   a. Districts borrowing less than 35% of state aid in the 2014 **no set-aside** program will not be permitted to exceed 35% in the 2015 **no set-aside** program.

   b. Those Districts borrowing between 35% and 42% of state aid in the 2014 **no set-aside** program will be held to the same percentage for 2015.

   c. Any amounts borrowed in excess of the limits described in 2a and 2b, up to the applicable limits described in #1, may either amortize or be segregated into the set-aside program, determined at the discretion of the MFA.

   d. In general, it is expected a District will not exceed their 2014 **no set-aside** borrowing percentage for 2015.

   e. Set asides must have a minimum debt service coverage ratio of 2.0.

3) New borrowers, meaning a District that did not borrow through the MFA's 2014 SAN Program, will be required to amortize at least 50% of their proposed borrowing.

4) Minor exceptions to the above may be considered on a case-by-case basis.

5) All Districts, whether participating in the set-aside and no set-aside program, will be required to pledge 100% of their state school aid, October through August, or until the note is repaid, whichever is longer. The MFA will continue to review and approve, if appropriate, subordinate state aid notes issued by Program participants.

Application materials for the 2015 SAN Program are expected to be available late May. For questions related to the changes to the MFA's 2015 SAN Program, please contact the SAN team at (517) 335-0994.

cc: Tom Saxton, Chief Deputy State Treasurer
Mary Martin, Director of Bureau of State and Authority Finance