

Michigan Finance Authority
State Aid Note Loan Program - August 2011
Borrowing Options For School Districts

Option 1:

1. School district repays the principal and interest on its note by making either 5 or 7 monthly set-aside payments.

5 set-aside payments: January 2012 through May 2012
7 set-aside payments: January 2012 through July 2012
2. Set-aside payments are pooled and invested on behalf of school districts. Investment earnings are credited toward repayment of each school district's note, lowering the overall cost of borrowing.
3. The program is structured so that the Authority's notes receive the highest short-term rating of SP-1+, ensuring a competitive interest rate for the borrowing.
4. Security Requirements:
 - A limited tax full faith and credit pledge
 - Agreement to authorize the intercept of state aid in the event of default
 - Pledge of certain state aid payments

Option 2:

1. Monthly set-aside payments are not required under this option; therefore, no investment earnings are realized.
2. School district repays the entire principal and interest due on its note on the loan maturity date. **The State Treasurer automatically transfers the August 2012 state aid to the Authority to pay all or a portion of the note.**
3. With the no set-aside option, the additional security of a bank letter of credit (LOC) or Note Insurance, if any, is required (obtained by the Authority). **The cost of the LOC has increased SIGNIFICANTLY and therefore, school districts are encouraged to use the set-aside program for a portion or all of its borrowing.** School districts may issue a separate note in each pool in order to take advantage of the cost-effective set-aside pool, at least in part. The program is structured so that the Authority's notes receive the highest short term rating of SP-1+, ensuring a competitive interest rate for the borrowing.
4. **Security Requirements**
 - **A limited tax full faith and credit pledge**
 - **Agreement to authorize the intercept of state aid in the event of default**
 - **Pledge of certain state aid payments**
 - **Investment grade LOC or Note Insurance, if any** (obtained by the Authority)

* *Please note that costs of issuance are shared on the same pro rata basis among set-aside and no set-aside borrowers. However, borrowers with no set-aside payments incur the additional costs associated with the letter of credit or note insurance, if any, and do not realize investment earnings on set-aside payments.*