

**Michigan Municipal Bond Authority**  
**State Aid Note Loan Program - August 2009**  
**Borrowing Options For School Districts**

**Option 1: Set-Aside Payments**

- 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 2010 through May 2010

7 set-aside payments:     January 2010 through July 2010

- 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: No Set-Aside Payments**

- 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 2010 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 (obtained by the Authority) is required. **The cost of the LOC has SIGNIFICANTLY risen and therefore, the school district is encouraged to use the set-aside program, or a portion of their borrowing in the set-aside program.** For the first time ever, 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 letter of credit** (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 and do not realize investment earnings on set-aside payments.*