

Borrowing and Investing

Borrowing and investing are prudent business practices. School district revenues are collected from taxes and agencies according to a schedule that has nothing in common with the schedule of incurred expenses. Borrowing allows periodic payments for large debts, while investing allows for earned interest on moneys before they need to be spent. A number of federal and state regulations control bond purchasing and investments. Boards need to be informed of these rules whenever they consider borrowing or investing.

Long-Term Borrowing

School districts may issue only two types of long-term obligations:

Serial Bonds	Issued primarily to finance capital projects; general obligations of the school district because payment is guaranteed by all of the assets and revenues of the district;
Statutory Installment Bond	Issued, at a private sale, for indebtedness that does not exceed \$50,000; paid through installments to the bond holder, rather than through a series of bonds with differing maturities held by a number of parties.

Bonds may be issued only for lawful purposes for which there are legal periods of probable usefulness. The last installment on any bond must occur by the end of its established period of usefulness.

School districts should sell bonds when the money is needed or will be needed within a reasonable time; and the bond market is not disorganized or congested.

Short-Term Borrowing

School districts may select from five types of obligations for short-term borrowing:

Bond Anticipation Notes	Issued when bonds have been authorized but not yet sold; may use proceeds from BANs only for the same purpose as the bonds may be used; are issued for a maximum of one year, and may be renewed for one more year.
Budget Notes	Issued during the last nine months of the fiscal year to finance required expenses for which no (or insufficient) provision was made in the budget; may not exceed 5% of the annual budget.
Capital Notes	Used to finance all or part of the cost of any purpose for which serial bonds are issued; may not mature later than the last day of the second fiscal year following the fiscal year in which they were issued.
Revenue Anticipation Notes	Used for general purposes in anticipation of collection of revenues other than real property taxes; may be issued within or up to two weeks prior to the fiscal year in which the revenue is due; must mature within one year; may be renewed but paid within two years.
Tax Anticipation Notes	Used for general purposes in anticipation of taxes or assessments levied or to be levied; must mature within one year from the date of issue; renewable for up to one year.

Investment Guidelines

- Develop investment policies and administrative practices to support them.
- Prepare a cash flow forecast; determine an investment outlook and strategy.
- Analyze investment opportunities (certificates of deposit, savings accounts, short-term guaranteed bonds).
- Select the optimal investment; monitor its behavior and results.
- Adjust the investment portfolio as needed to achieve the best yield.

SOURCE: *Borrowing by New York State School Districts*. Albany: SUNY/SED, June 1985.