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John E. Freund, III, Chair of Education Law Practice Group
Kevin C. Reid, Chair of Public Finance Law Practice Group

To: Public Education Clients and Friends

By: Rebecca A. Young, Michael A. Gaul and Kevin C. Reid, Esquires

Budget Impasse May Put Squeeze on TRAN Availability *A School Law Bullet News Release*

The legislature presented a pared down state budget of \$27.3 billion last week. After Governor Rendell exercised his line-item veto powers, however, Senate Bill 850 was reduced to funding for state employee paychecks and nothing else.

TRANS Allow School Districts to Borrow Operating Costs Tax-Free

With no state funds flowing, school districts and municipalities may need to exercise their authority to borrow funds in anticipation of current taxes and other revenue. These loans, known as tax and revenue anticipation notes (TRANS) are authorized by the Local Government Unit Debt Act (LGUDA). TRANS are an interim measure to address funding issues such as the current state budget impasse.

While debt limitations such as those imposed on school districts under Act 1 do not apply to TRANS, the LGUDA does impose certain notice requirements, as well as repayment deadlines. The most important requirement is that a TRAN must be paid back in the fiscal year it is issued. Hence, if a school district issues a TRAN on September 15, 2009, it must be paid back by the end of the fiscal year, or July 30, 2010. The school board or township governing board must certify the amount of expected revenue not more than 30 days before authorization of the note. Further, the amount of the note cannot exceed 85% of the total expected revenue.

TRANS can be issued on a tax-exempt basis provided that certain IRS regulations are followed. Bond Counsel should be consulted on those regulations.

Financial professionals across the state, pessimistic about a swift budget fix, have expressed concerns over a rush to the market for TRAN money. This would bring obvious consequences to availability and rate.

LGUDA empowers the governmental unit to make a single authorization to incur debt, and then to issue and sell portions of that amount as needed during the fiscal year. Thus, a school district could authorize TRAN funds based on total anticipated funding. Only a small portion of that amount may ever actually be financed if tax revenues are sufficient to meet obligations pending receipt of state funding.

Multiple TRANS can be issued in a fiscal year provided that the amount doesn't exceed the statutory limitations and provided that all state and federal requirements are met.

Your solicitor and bond counsel cannot guarantee the level of state funding that you may receive. However, we recommend contacting them to discuss options such as a TRAN to obtain revenue pending income from property taxes and, eventually, the state budgeted funds.

KING, SPRY, HERMAN, FREUND & FAUL, LLC

One West Broad Street, Suite 700
Bethlehem, PA 18018

Phone: 610-332-0390 • Fax: 610-332-0314
www.kingspry.com

*Affiliated with The Law Offices of
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