

I. Policy Statement

The Board of Education recognizes that the foundation of any well-managed debt program is a comprehensive debt policy. The debt policy formalizes a binding commitment to full and timely repayment of all debt as a necessary element to entry into the capital markets. Adherence to a debt policy assists in assuring that the Howard County Public School System maintains a sound debt position and its credit quality is protected and enhanced.

II. Purpose

This policy sets forth the parameters and processes for issuing debt as well as managing outstanding debt. The scope of this policy is limited to lease obligations of the Board and does not include or envision debt incurred on the Board's behalf by the State of Maryland or the Howard County Government.

III. Definitions

Within the context of this policy, the following definitions apply:

- A. Capital Lease – An agreement that transfers all the benefits and risks inherent in the ownership of a property to the Board. A capital lease must meet one or more of the following criteria:
 - 1. By the end of the lease term, ownership of the leased property is transferred to the Board.
 - 2. The lease contains a bargain purchase option.
 - 3. The lease term is equal to 75 percent of the estimated useful life of the leased property.
 - 4. The present value of the lease payments is greater than 90 percent of the fair value of the asset at the beginning of the lease term.
- B. Lease Financing – Payment of acquired assets over time which do not require the full faith and credit of the public entity; these include but are not limited to leases and lease purchase transactions in which the asset being financed provides security for the financing.
- C. Lease Obligation – The liability resulting from a capital lease of an asset; the obligation to pay future lease payments including financing fees.

- D. Self-liquidating Debt – Debt to fund projects that create savings in excess of operating costs in sufficient amounts to service the underlying debt. (The Energy Performance Contract is an example of self-liquidating debt.)

IV. Standards

- A. Lease obligations and management are entrusted to the Board and the Superintendent/Designee.
- B. The use of lease financing may be used when economical and efficient, and permitted by law.
- C. The Superintendent/Designee will evaluate all funding sources, including grants, operating funds, capital funds, and any other possible sources prior to considering lease financing. If lease financing is deemed appropriate, the Superintendent/Designee will recommend a contract for Board approval. A report will be presented to the Board by the Superintendent/Designee if the debt is greater than or equal to five million dollars, or the debt is greater than or equal to five years in maturity.
- D. The source of repayment for debt will be an appropriation of the budget of the Board and will be secured by the underlying goods and/or services purchased. All debt will be issued on a tax-exempt basis and sourced via a Request for Proposal (RFP) or other acceptable lease vehicles. All tax-exempt debt will comply with the United States Internal Revenue Service regulations.
- E. Debt limitation for lease obligations will be as follows:
 - 1. For all proposed debt offerings, an identifiable source of repayment will be paramount to the decision to finance. The source of repayment will be of sufficient duration and annual amount as to fully liquidate the debt within the life of the secured asset.
 - 2. Total debt outstanding at the time of issuance, is limited to six percent (6%) of the total of the current operating budget; debt service is limited to three percent (3%) of the total of the current operating budget. The only exception to this limitation is debt that is considered self-liquidating.

V. Responsibilities

The Superintendent/Designee will ensure compliance with the standards of this policy.

VI. Delegation of Authority

The Superintendent is authorized to develop procedures to implement this policy.

VII. References

- A. Legal
 - The Annotated Code of Maryland, Education Article, Section 4-126, Alternative financing methods
 - The Annotated Code of Maryland, Education Article, Section 5-101, Annual school budget
 - The Annotated Code of Maryland, Education Article, Section 5-112, Bids
- B. Other Board Policies
 - Policy 4050 Procurement of Goods and/or Services
- C. Relevant Data Sources
- D. Other

VIII. History

ADOPTED: April 10, 2008
REVIEWED:
MODIFIED:
REVISED: February 11, 2016
EFFECTIVE: July 1, 2016

DEBT MANAGEMENT

Effective: July 1, 2016

I. Issuance of Lease Obligations

- A. Justification for each proposed lease transaction will be determined and documented by the Superintendent/Designee. The justification should include an explanation for not recommending county financing through general obligation debt financing, current revenue, or transfer tax funding. An analysis of various financing strategies should be performed to allow for the lowest possible costs to the Board.
- B. For each lease transaction, the Superintendent/Designee will provide a projected lease payment and a cash flow statement for the life of the transaction.
- C. The scheduled maturity may not exceed the anticipated useful life of the capital item.

II. Debt Procedures for Lease Obligations

- A. Calculations will ensure that new lease transactions are within the total debt and debt service limits established within this policy.
- B. Amortization of principal resulting in level debt service will be requested in order to match the useful life of the asset with financing.
- C. Debt service payments will be budgeted using the actual debt service for each lease obligation. The fund to be used for repayment must be identified at the inception of the lease obligation.

III. Management of Lease Obligations

- A. The Superintendent/Designee will review all lease agreements and will report and/or record lease obligations in accordance with generally accepted accounting principles.
- B. Financial advisors will be selected as necessary according to state statutes and Howard County Public School System procurement policies.
- C. All lease agreements will be reviewed by the Purchasing Officer, the Superintendent/Designee, and legal counsel for consistency with school system policy and Maryland law before being presented to the Board for approval.

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