



**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 recognizes 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 an entity maintains a sound debt position and that credit quality is protected and enhanced.

**II. Purpose**

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

**III. Definitions**

- A. Lease Obligation – The liability resulting from a capital lease of an asset; the obligation to pay future rentals on a finance lease.
- B. Self-liquidating Debt – Debt to fund projects that are deemed to create savings in excess of operating costs in sufficient amounts to service the underlying debt. The Board Energy Lease is an example of such liquidating debt that would be excluded from the calculation.

**IV. Standards**

- A. The responsibility for entering into lease obligations and management is entrusted to the Board and the Superintendent/designee.
- B. The Superintendent/designee will develop cost projections associated with the Capital Improvement Plan (CIP) or other costs that are equipment or vehicle related and determine any shortfall that may result. Every effort will be made to fund the CIP or other capital plans from grant, State of Maryland, or Howard County government sources prior to making a recommendation to finance by borrowing. If financing is deemed necessary, the Superintendent/designee will then recommend a plan in the form of a resolution, which will be presented to the Board for consideration.

- C. The Board will consider the recommendation of the Superintendent/designee. Any action by the Board will take the form of a resolution to enter into lease obligations. The resolution will define, at a minimum, the amount of borrowing, the loan period, and interest rates. Additionally, the resolution will authorize appropriate staff to execute all related documents associated with the transaction.
- D. The source of repayment for lease finance transactions will be an appropriation of the budget of the Board and will be secured by the underlying goods purchased. Whenever possible, all lease finance transactions will be issued on a tax-exempt basis and sourced via a Request for Proposal (RFP). The Board will comply with United States Internal Revenue Service regulations governing tax exempt debt.
- E. Debt limitation for bond and 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. Additionally, in consideration of any proposed debt it is the policy of the Board to limit total debt outstanding, at the time of issuance, to six percent (6%) of the total of the current operating budget and to limit debt service to three percent (3%) of the total of the current operating budget. An exception to this limitation is debt that is considered self-liquidating.

## **V. Compliance**

The Superintendent/designee is responsible for ensuring 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
- B. Other Board Policies  
Policy 4050, Procurement of Materials, Supplies, Equipment and Services

ADOPTED: April 10, 2008

AMENDED:

EFFECTIVE: July 1, 2008

**I. Financial and Economic Procedures for Planning Issuance of Lease Obligations**

- A. Justification for each proposed lease transaction will be determined and documented. 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 Director of Finance 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 Planning Issuance of Lease Obligations**

- A. Calculations must ensure that new lease transactions are within the total debt and debt service limits established in Policy 4090.
- B. Amortization of principal resulting in level debt service will be requested in order to match 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 Director of Finance will review all lease agreements to determine if the lease is a capital lease and will be responsible for the appropriate accounting for the lease obligation in accordance with generally accepted accounting principals.
- B. Financial advisors should be selected as necessary according to state statutes and Board procurement policies.
- C. All lease agreements will be reviewed by the Purchasing Officer, the Chief Operating Officer, and legal counsel for consistency with school system policy and Maryland law.

ADOPTED: April 10, 2008

AMENDED:

EFFECTIVE: July 1, 2008