

Frederick County Public School

Debt Management Policy

The purpose of this policy is to acknowledge that the Board can not legally incur debt but is allowed to enter into alternative financing arrangements that meet compliance practices, financial markets and investor relations efforts and establishes limits for alternative financing arrangements and establishes processes for incurrence of alternative financing arrangements and establishes criteria for the issuance and administration of alternative financing arrangements.

Definitions:

Alternative financing arrangement – payment arrangement for acquired assets over time but which do not require the full faith and credit of the public entity, including but not limited to leases and lease purchase transactions in which the asset being financed provides security for the financing. Non-appropriation clauses shall be required in all alternative financing documents.

Bonds – general obligations or similar obligations wherein a public entity pledges its full faith and credit (taxing or revenue raising authority) to guarantee repayment of the debt.

Derivative Debt Instrument – a financial instrument whose value is derived from the value of some other financial instrument.

Debt Service – the amount set aside annually to pay the interest and the part of the principal due on a debt.

Statement of Policy:

Debt Limits

1. By law, the Board does not have authority to issue bonds or to enter into debts or debt pools.
2. The Board shall not enter into derivative debt instruments.
3. Alternative Financing Structuring:
 - a. The maximum term for an alternative financing arrangement entered into by the Board shall not exceed the useful life of the asset being purchased or constructed.
 - b. The maximum term is 30 years for any type of financing arrangement.
 - c. Analysis of payment terms for equal payments annually or variable payments shall be completed to include planning for the ability to make future payments within operating budget constraints.
 - d. An analysis of the financial benefit or avoidance of future costs shall be undertaken and presented prior to the approval of the alternative financing arrangement.
 - e. Capitalized interest or delay of principal and interest payments should be considered in the alternative financing instrument during the construction period if applicable.

4. Alternative Financing Issuance

Determination of the method of sale of the alternative financing instrument should be by competitive bid when possible. The rationale for the method of sale chosen shall be disclosed in the approval process. The selection and use of professional services (other than legal counsel or financial advisors) may be based on the services used by the County Government or through a competitive or negotiated method. The investment of the financing proceeds during construction should be determined by competitive bids or negotiated prior to the issuance and or approval of the alternative financing.

5. Alternative Financing Management

- a. Monthly statements of activity in the investment account(s) shall be received, reviewed, and reconciled monthly. Statements and work papers shall be made available to the auditors when requested.
- b. Any compliance practice of the alternative financing instrument will be followed by the school system and all disclosures to the alternative financing holder(s) will ensure financial market and investor relations are maintained during the life of the alternative financing instrument.

Approved by Board of Education: August 26, 2009