

Regulation

ANNE ARUNDEL COUNTY PUBLIC SCHOOLS

Related Entries: Policy DBD
Responsible Office: FINANCE OFFICE

ALTERNATIVE FINANCING AND DEBT

A. PURPOSE

To provide administrative guidance to implement the Board of Education’s policy to manage alternative financing and debt instruments.

B. BACKGROUND

The State has granted authority to local boards of education to enter into alternative financing arrangements. Management can consider such arrangements in the daily operations of the Anne Arundel County Public Schools (AACPS), particularly the long term use of equipment, software, building space, or facilities. Such arrangements can be more efficient and cost effective when compared to the outright purchase of property.

C. DEFINITIONS

1. 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.
2. Bonded Debt – 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.
3. Derivative Debt Instrument – a financial instrument for which the value is derived from the value of some other financial instrument.
4. Capitalized Interest – proceeds from a debt issuance that are placed into a separate account in order to pay future debt service.
5. Non-appropriation Clauses – a provision in government contracts which provides that if funds are not appropriated for the contractual payment due in the following appropriation period, the agreement terminates at the end of the current period.

D. PROCEDURES

1. Neither the Board of Education nor AACPS shall issue any bonded debt, enter into debt pools, or enter into derivative debt instruments.

2. AACPS shall consider alternative financing arrangements that adhere to the following limitations:
 - a. The maximum term for an alternative financing arrangement entered into by AACPS shall not exceed the lesser of the useful life of the asset being purchased or constructed or 30 years for any type of financing arrangement.
 - b. Prior to approval by the Board, an analysis of payment terms for equal annual payments or variable payments shall be completed. Such an analysis provides planning for the feasibility of making future payments within operation budget constraints.
 - c. 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.
 - d. Capitalized interest or delay of principal and interest payments should be considered in the alternative financing instrument during the construction period if applicable.
 - e. Non-appropriation clauses shall be required in all alternative financing documents. Such clauses allow for termination of the arrangement if appropriations are not available.

3. Alternative Financing Issuance

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. 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. 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.

4. Alternative Financing Management

- a. In cases where debt proceeds have been invested, monthly statements of activity in the investment account(s) shall be received, reviewed, and reconciled by the Division of Budget and Finance. Statements and work papers shall be made available to the auditors when requested.
- b. Any compliance practice of the alternative financing instrument shall be followed by AACPS and all disclosures to the alternative financing holder(s) shall ensure that financial market and investor relations are maintained during the life of the alternative financing instrument.
- c. The Supervisor of Finance shall review all lease agreements to determine if the lease is a capital lease and shall be responsible for the appropriate accounting for the lease obligation in accordance with generally accepted accounting principles (GAAP).

Regulation history: *Developed by Superintendent 12/14/11*
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 Issued 03/07/12

Note previous regulation history: None