

Howard County, Maryland Debt Management Policy



Department of Finance

**Howard County, Maryland
Debt Management Policy**

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Department of Finance



Debt Management Policy

I. A. Purpose: The County recognizes the foundation of any well-managed debt program is a comprehensive debt policy. A debt policy sets forth the parameters for issuing debt and managing outstanding debt and provides guidance to decision makers regarding the timing and purposes for which debt may be issued, types and amounts of permissible debt, method of sale that may be used and structural features that may be incorporated. The debt policy should recognize a binding commitment to full and timely repayment of all debt as an intrinsic requirement for entry into the capital markets. Adherence to a debt policy helps to ensure that a government maintains a sound debt position and that credit quality is protected. From time to time, certain circumstances arise which could cause the Department of Finance to deviate from the policies herein. Advantages of a debt policy are as follows:

- enhances the quality of decisions by imposing order and discipline, and promoting consistency and continuity in decision making,
- rationalizes the decision-making process,
- identifies objectives for staff to implement,
- demonstrates a commitment to long-term financial planning objectives, and
- is regarded positively by the rating agencies in reviewing credit quality.

B. Responsibility: The Department of Finance is responsible for drafting this policy and incorporating comments from the County's Financial Advisor and Bond Counsel.

C. Policy Updates: The policy will be reviewed and updated (as needed) at least semi-annually.

D. Definitions: See Appendix A.

II. Spending Affordability Advisory Committee

A. Purpose. The Spending Affordability Advisory Committee was established by Executive Order in 1987 to provide recommendations and projections for the upcoming budget year. Specifically, the Committee is charged to review in detail the status and projections of revenues and expenditures for the County for the next

budget year and the subsequent 5 years; to evaluate future county revenue levels and consider the impact of economic indicators such as changes in personal income, assessable base growth, and other data which the Committee considers applicable; and to evaluate expenditure levels with consideration of the long-term obligations facing the County, and the best way to pay for them. The Committee recommends revenue projections and the amount of new County debt authorization for the upcoming fiscal year. The Committee report includes the effect its recommendations will have on future budgets and other findings and/or recommendations the Committee considers appropriate.

It is the task of this Committee to assess the County's ability to repay bond debt and the Committee issues an annual report defining debt capacity of the County. This review is an important element of the budget process and includes recommendations made by the Committee regarding how much new debt can be authorized by the County without over burdening itself with debt service payments.

- B. Members.** The Committee is composed of County citizens and government officials appointed by the County Executive.
- C. Debt Affordability Measures.** The Committee examines four statistical measures to determine debt capacity and compares these ratios to other counties, rating agency standards and Howard County's historical ratios to determine debt affordability. Only one of the measures is prescribed by Section 616 of the Howard County Charter, which provides that the County's debt cannot exceed 4.8% of the full cash value assessable base of the County. In order to determine the County's relative debt position, the Committee uses three additional measures:
 - 1. Debt measured against the population on a per-capita basis.** The County aims to maintain a level below the warning level of \$1,200.00.
 - 2. Per-capita debt measured as a percent of the jurisdiction's per-capita personal income.** The Committee uses this measure in conjunction with measure number one, as this measure factors in the wealth not just the number of residents. The County aims to maintain a level below the warning level of 10.0%.
 - 3. Debt service as a percent of current revenues.** Ten percent or below is considered an appropriate level, with 15% and above as a danger point.

III. Comprehensive Capital Planning

A. Planning

- 1. General Plan.** The Department of Planning and Zoning is responsible for the comprehensive planning of growth, development and conservation in the County. The department coordinates the preparation and revision of a general plan that includes policies for land use and land conservation and multi-year development plans for transportation, public facilities, water, sewerage, parkland, housing, human services and environmental protection.

2. **Master Plans.** Supporting the general plan are 10-year capital improvement master plans for transportation (roads, bridges and public transportation), water and sewer, solid waste, and schools which are updated annually. In addition to the requirements of the County Code, master plans are prepared by the Howard County Library and the Department of Recreation and Parks.
 3. **Adequate public facilities.** The general plan guides where growth occurs, while the adequate public facilities process and standards manage growth so that facilities can be constructed in a timely manner. Adequate public facilities legislation requires the testing of proposed developments for adequacy of schools and roads as a condition of subdivision or site development plan approval. Milestones established in that legislation require properties to move in an orderly and predictable manner through the development process.
 4. **Capital Improvement plan.** Sections 603 and 606 of the County's Charter require that the County prepare a multi-year capital program for consideration and adoption by the County Council as part of the County's budget process. Annually, the capital budget identifies revenue sources and expenditures for the coming current year and the next succeeding five fiscal years, as required by the Charter. The plan is updated annually.
 5. **Effect on Future Operating Budgets.** Each capital project includes projections of the effect it will have on future operating budgets.
- B. Funding of the Capital Improvement Program.** Capital projects generally have a long useful life and will serve future taxpayers as well as current taxpayers. It is an inequitable and unreasonable fiscal burden to make current taxpayers fully pay for those projects out of the current tax revenues. This concept of taxpayer equity (those benefiting from a project should share in funding the cost of the project) is a consideration in how capital projects are funded. The County first attempts to fund capital projects with grants or developer contributions, then turns to several dedicated revenues that fund the capital program either as pay-as-you-go or to fund debt service. Dedicated revenues include transfer taxes, road excise taxes and school surcharge fees, water/sewer ad valorem fees and water/sewer front foot fees. If these are not available, the County will use excess surplus, general revenues, and bond financing. Water and sewer projects are solely funded by water and sewer charges and fees of the Enterprise Fund.
- C. Maintenance, Replacement and Renewal.** The County intends to set aside sufficient current revenues to finance ongoing maintenance needs and to provide periodic replacement and renewal. It is the County's philosophy to maintain safe and cost-effective buildings, maintain a sound working environment, preserve longevity of buildings and equipment, and protect public property and investment.
- D. Debt Authorization.** No County debt issued for the purpose of funding capital projects may be authorized by the County Council unless an appropriation has been included in the capital budget.

IV. Planning and Structure of County Indebtedness

- A. Overview.** The County plans long- and short-term debt issuance to finance its capital program based on its cash flow needs, sources of revenue, capital construction periods, available financing instruments and market conditions. The Director of Finance oversees and coordinates the timing, issuance process and marketing of the County's borrowing and capital funding activities required in support of the capital improvement plan.

The County finances its capital needs on a regular basis dictated by its capital spending pattern. The County monitors market conditions and takes advantage of refinancing opportunities to reduce its interest cost as far as practicable.

- B. Financing Team.** The County employs outside financial consultants to assist in developing a bond issuance strategy, preparing bond documents and marketing bonds to investors. The key players in the County's financing transactions include its financial advisor and bond counsel, the underwriter (on a negotiated sale) and County representatives (the Director of Finance and the Budget Administrator, among others). Other outside firms, such as those providing paying agent/registrars, trustee, credit enhancement, auditing, or printing services, are retained as required.

The financing team meets annually to review the overall financing strategy of the County for the upcoming year.

- C. Overlapping Debt.** There are no incorporated towns, villages, municipalities or other subdivisions within the County boundaries having separate taxing authority. Thus, there is no overlapping municipal debt in the County.

- D. Term of Debt Repayment.** The County follows guidelines set by Section 11 of Article 31 of the Annotated Code of Maryland, as amended and Section 617 of the Howard County Charter. Borrowings by the County mature over a term that does not exceed the economic life of the improvements that they finance. The County consolidates its long-lived municipal improvements into Consolidated Public Improvement Bonds (with a maximum term of 20 years) and its long-lived sewer and water system improvements into Metropolitan District Bonds (with a maximum term of 30 years).

The County does not finance improvements with a probable useful life less than four years, using pay-go funding for such needs. Consolidated Public Improvement (CPI) Bonds sold for the purchase of equipment with a probable useful life exceeding three years are repaid over a term that does not exceed such useful life. The County generally finances such short-lived improvements as part of its CPI bonds rather than with leases, in order to finance such improvements at the lowest possible cost.

E. Legal Borrowing Limitations.

- 1. Bonds and other indebtedness.** As stated in Section 616 of the Howard County Charter, the total amount of bonds and other indebtedness outstanding shall not exceed 4.8% of the full cash value assessable base of the County, excluding: