



3290

## Debt: Purposes and Limitations

*Policy 3290*

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### **I. PURPOSE**

In order to provide a fiscally responsible capital cost management system and promote financial stability the district may be required to incur debt. It is incumbent upon the Board of Directors to govern the issue of debt to provide for the needs of the district, to act as reliable stewards of public funds and trust, and to appropriately respond to emergency circumstances that affect the district's finances. The purpose of this policy is to establish under what circumstances debt may be incurred, the type of debt that is appropriate for specific purposes, the appropriate debt load of the district, the repayment schedule for debt and how the Board will respond to emergency financial circumstances.

### **II. GENERAL STATEMENT OF POLICY**

- A. Upon approval from the Board of Directors and subject to the limitations below the District may incur debt to accomplish district purposes. Such purposes include financing capital projects, real property acquisitions, operating capital and other debt permitted by law.
- B. The District shall incur debt only in compliance with applicable law.
- C. Total district annual debt payment shall not exceed fifteen percent (15%) of the district total operating revenue. Each fiscal year the Board of Directors shall review the financial needs of the district to set an operating target at or less than the fifteen percent limit. Refinancing shall not be included in the 15% calculation.
- D. Each fiscal year the Board of Directors shall approve a debt repayment schedule that provides that seventy percent (70 %) of current debt shall be repaid within ten (10 years).
- E. In response to emergency circumstances the Board of Directors may by resolution temporarily suspend the approved debt to revenue ratio and the debt repayment schedule. Such a resolution shall specify the terms of such suspension, the temporarily approved debt to revenue ratio if applicable, and the temporarily approved debt repayment schedule if applicable.
- F. The District shall avoid using variable rate debt instruments. The Board of Directors may set a limit on the percentage of variable rate debt instruments permissible.
- G. The District shall avoid debt instruments that require a balloon repayment or that are back-loaded.



- H. The District shall avoid action that could reasonably be expected to negatively affect the District's credit rating.
- I. All debt shall be issued through a competitive bidding process.
- J. The Superintendent is authorized to seek independent debt counsel. Any contracted debt counsel shall comply with all required disclosure and reporting rules.
- K. Instruments of debt may be reissued if doing so will benefit the district.

### **III. LONG TERM DEBT**

- A. Long term debt may only be issued for capital projects, acquisitions or other long-term debt permitted by law.
- B. Long term debt shall not be used to capitalize expenses.
- C. Long term debt used for capital projects may not extend past the expected useful life of the project.
- D. Proposals to incur long-term debt must include, at minimum, the following information:
  - 1. Intended purpose,
  - 2. Proposed term,
  - 3. Principal cost,
  - 4. Estimated interest cost and rate range,
  - 5. Estimated issuance cost,
  - 6. Statutory or other authorization,
  - 7. Status of outstanding debt and impact of new issuance.

### **IV. SHORT TERM DEBT**

- A. Short term debt may be issued to provide operating capital in anticipation of receipt of taxes, Federal or State aid, or the sale of bonds.
- B. Proposals to incur short-term debt must include, at minimum, the following information:
  - 1. Intended purpose,
  - 2. Proposed term,
  - 3. Principal cost,
  - 4. Estimated interest cost and rate range,
  - 5. Estimated issuance cost,
  - 6. Statutory or other authorization,
  - 7. Status of outstanding debt and impact of new issuance.



**V. RESPONSIBILITIES**

- A. The Board of Directors shall annually review the debt portfolio of the district to assess the impact of district debt on taxpayers, and to determine:
1. that the risk level to the district is appropriate,
  2. that the correct type of debt is used for the stated purposes,
  3. that the correct debt to expense ratio is established and
  4. that the debt repayment schedule is appropriate.
- B. The Superintendent shall provide the Board of Directors with such financial reports as are necessary and prudent to inform the Board of district needs, the current status of district debt and supporting information regarding any proposed change in district debt.
- C. No less than annually the Superintendent shall provide a report on the debt repayment schedule. The Superintendent shall include a report on debt in the annual budget report.

***Legal References:***

Minn. Stat. §128D.11, Subd. 4 (School District Bonds: 30-year term)  
Minn. Stat. §128D. 16 (Short-Term Borrowing)

***Cross References:***

MPS Policy 3005 (Budget)  
MPS Policy 7420 (Bond Indebtedness)