

DEBT MANAGEMENT

Capital vs. Current Expenditures

Local government expenditures can be broadly categorized as either current or capital. Generally, current expenditures are related to on-going operations or purchases that are relatively inexpensive or short-lived. Capital expenditures tend to be one-time, relatively high-cost or long-lived assets. There is not a perfectly clear line separating current and capital expenditures but current expenditures should be funded with current sources of revenue and it may be appropriate to fund capital expenditures with current revenue and/or debt financing. When debt financing is used, it is important that the useful life of the asset exceed the time necessary to pay for the asset. Carroll County's operating expenditures are entirely funded by current revenue and a mix of sources is used to fund capital expenditures.

Paying for Capital Assets

There are two general approaches to paying for capital assets; paygo, or using current resources to pay as the expenditure occurs and debt financing, or paying over time as the asset is used. Paygo funding creates no long-term obligation but may require years of saving that delay addressing a need. Constraints on accumulating funds over time may make it difficult or impossible for a local government to save for a future project. Paygo funding places the entire burden on the existing taxpayer, even though a long-lived asset may benefit new taxpayers in future years. Debt financing commits the County to a long-term obligation and increases the cost of the funding but allows timely filling of needs and spreads the cost of an asset over a larger number of taxpayers who will benefit from its use. To benefit from the advantages of each of these approaches, Carroll County uses a mix of paygo and debt funding in the Capital Budget. Approximately 56.9% of the local funding in the FY 04 Proposed Capital Budget is paygo funding.

Bonds

For local governments, financing with long-term debt usually means issuing bonds. What is a bond? A bond is like a mortgage; it is written evidence of the issuer's obligation to repay a specified principal amount on a certain date (maturity date), together with interest at a stated rate, or according to a formula for determining that rate.

General Obligation bonds are used when the benefits of a capital project are to be enjoyed by all members of the community. Examples would be expenditures for law enforcement, fire protection, education, public health facilities, or roads and bridges. The payments are financed by all the taxpayers of the issuing government because general obligation bonds are secured unconditionally by the full faith, credit, and taxing powers of the issuing government. These bonds typically carry high credit ratings with correspondingly low risk.

Serial bonds are a package of individual bonds with more than one term to maturity. Typically, a municipal serial bond issue has maturities ranging from one year to more than twenty years. General obligation bond issues are usually entirely in serial form.

Rating Agencies

There are currently three credit rating agencies used by Carroll County: Moody’s, Fitch and Standard & Poor’s. These agencies tackle the difficult and costly task of evaluating municipal bond issues in light of demographic, economic, financial and debt factors. The result of the evaluation process is a “rating” that is assigned to the bond issue. Ratings generally measure the probability of the timely repayment of principal and interest on municipal bonds. The higher the credit rating assigned to the issue, the lower the interest rate the County must pay to issue bonds.

The following table displays the various rating categories used by the rating agencies:

Moody’s ¹	Standard & Poor ²	Fitch	Description
Aaa	AAA	AAA	Highest quality, extremely strong capacity to pay
Aa	AA	AA	High quality, very strong capacity to pay
A	A	A	Upper medium quality, strong capacity to pay
Baa	BBB	BBB	Medium quality, adequate capacity to pay
Ba	BB	BB	Questionable quality, low capacity to pay

Because credit evaluation is to some extent subjective and because different analysts may look at different data or assign different weight to the same data, the rating agencies do not necessarily give the same credit ratings to the same bond issues.

In addition, it is important to realize that bonds carrying the same rating are not of absolutely equal quality. In a broad sense they are alike in position, but since there are only a small number of rating classes used in grading thousands of bonds, the symbols cannot reflect fine shadings of risk. It should be apparent, therefore, that two bonds carrying the same rating are unlikely to be precisely the same in investment quality.

Ratings are initially made before issuance and are continuously reviewed and amended as necessary to reflect change in the issuer’s credit position. According to the rating agencies, Carroll County demonstrates a very strong credit worthiness. Moody’s

¹ Relative ranking within a range may be designated by 1,2, or 3.

² Relative ranking within a rating may be designated by a + or -.

has assigned Carroll County an **Aa2** rating, Standard and Poor's an **AA** Rating and Fitch an **AA+**. These high ratings allow Carroll County to pay lower interest rates on capital projects that are financed with long-term debt issues.

Sale of Bonds

Bonds are sold to investors through the services of an underwriter. Underwriters buy the entire bond issue from the issuer and then resell the individual bonds to investors. Since they assume the responsibility of distributing the bonds, they risk having to sell the bonds at a price below the purchase price and thus realize a loss.

The underwriter can also help the issuer design the issue in terms of maturity dates, maturity amounts, and call provision; prepare the official statement; select an appropriate time to mark the issue; and comply with legal requirements.

Carroll County uses a competitive bid process to sell its bonds. This means that at a specified date and time, bids are accepted from various underwriters. The underwriter submitting the lowest bid (interest rate) is selected to purchase the bonds. The underwriter then, within a few days of purchasing the bonds, sells the bonds to various investors.

Debt Affordability

Carroll County uses a debt affordability model to evaluate the County's ability to support debt. The model establishes guidelines for the amount of debt the County can initiate each year, and projects the effects of that financing through six years of the CIP.

Debt affordability measures a number of criteria such as total debt to assessable base and debt service to General Fund revenue and compares the projected ratios to guideline ratios. The model takes into account potential changes in revenue and interest. The model distinguishes between direct debt, debt to be paid with general fund revenue, and indirect debt, debt backed by the government, but with an associated revenue stream separate from the general fund.

**CARROLL COUNTY
LONG-TERM DEBT (BONDS)
AS OF JUNE 30, 2003**

<u>Direct Debt</u>	<u>Date Issued</u>	<u>Maturity Date</u>	<u>Bonds Issued</u>	<u>Bonds Outstanding</u>
Public Improvement Bonds	November 1, 1991	1992-2011	\$21,065,440	\$1,053,268
Public Improvement & Refunding Bonds	October 15, 1992	1993-2012	17,028,572	2,689,192
Public Improvement & Refunding Bonds	November 1, 1993	1994-2013	46,976,318	32,804,295
Public Improvement Bonds	October 1, 1994	1995-2024	23,650,000	1,650,000
Public Improvement Bonds	November 1, 1995	1996-2025	23,009,040	10,896,626
Public Improvement Bonds	December 1, 1996	1997-2016	19,700,000	14,071,430
County Refunding Bonds	March 15, 1997	1998-2020	8,925,000	8,215,000
Public Improvement Bonds	December 1, 1997	1998-2017	15,310,000	11,475,000
Volunteer Fire Department Project	December 1, 1997	1998-2017	5,525,000	4,125,000
Public Improvement & Refunding Bonds	October 15, 1998	1999-2018	34,370,665	28,941,474
Public Improvement Bonds	November 15, 1999	2000-2019	21,578,939	18,342,098
Public Improvement Bonds	November 13, 2000	2001-2021	20,100,000	18,090,000
Public Improvement Bonds	November 13, 2001	2002-2016	11,511,499	10,742,735
Public Improvement Bonds	November 14, 2002	2003-2017	16,200,000	16,200,000
Total Direct Debt:			\$284,950,473	\$179,296,118
 <u>Indirect Debt</u>				
Sanitary Commission Bonds	December 1, 1973	1974-2004	\$3,500,000	\$230,000
Sanitary Commission Bonds	June 1, 1978	1981-2008	4,975,000	1,525,000
MD Dept of the Environment-Series A	March 1, 1990	1991-2011	6,761,498	3,603,972
MD Dept of the Environment-Series B	November 1, 1990	1993-2012	5,347,120	3,153,011
MD Dept of the Environ.-Hampstead Filtration	March 21, 2002	2003-2021	508,694	487,652
Public Improvement Bonds	November 1, 1995	1996-2025	470,560	305,863
Public Improvement Bonds	December 1, 1996	1997-2016	1,300,000	928,570
Public Improvement Bonds	November 15, 1999	2000-2019	2,521,061	2,142,902
Public Improvement Bonds	November 13, 2001	2002-2017	18,501	17,265
Subtotal - Bureau of Utilities			\$25,402,434	\$12,394,235
Public Improvement Bonds	November 1, 1991	1992-2011	\$5,934,560	\$296,732
Public Improvement & Refunding Bonds	October 15, 1992	1993-2012	2,031,428	320,808
Public Improvement & Refunding Bonds	November 1, 1993	1994-2002	5,995,872	4,185,707
Public Improvement Bonds	October 1, 1994	1995-2014	800,000	80,000
Public Improvement Bonds	November 1, 1995	1996-2025	765,400	497,511
Public Improvement Bonds	December 1, 1997	1998-2017	1,800,000	1,350,000
Public Improvement & Refunding Bonds	October 15, 1998	1999-2018	454,335	433,526
Subtotal - Solid Waste Management			\$17,781,595	\$7,164,284
Public Improvement Bonds	November 15, 1999	2000-2019	\$500,000	\$425,000
Public Improvement Bonds	November 13, 2000	2001-2021	600,000	540,000
Public Improvement Bonds	November 13, 2001	2002-2017	2,200,000	2,090,000
Subtotal - Airport Bonds			\$3,300,000	\$3,055,000
Total Indirect Debt:			\$46,484,029	\$22,613,519
GRAND TOTAL:			\$331,434,502	\$201,909,637

CARROLL COUNTY, MARYLAND
RATIO OF OUTSTANDING DEBT
TO
ASSESSED VALUE AND OUTSTANDING DEBT PER CAPITA

Fiscal Year	Population	Assessed Value (1)	Outstanding Debt		Ratio of Outstanding Debt To Assessed Value		Outstanding Debt Per Capita	
			Direct	Direct and Overlapping	Direct	Direct and Overlapping	Direct	Direct and Overlapping
Starting in 2002 Assessed Values shown at 100% of full cash value:								
2003	162,860	\$ 10,167,899,606	\$ 186,209,228	\$ 208,822,746	1.83%	2.05%	1,143.37	1,282.22
2002	159,152	9,581,803,464	195,657,213	220,121,714	2.04%	2.30%	1,229.37	1,383.09
2001*	155,221	9,180,260,290	197,478,808	221,997,414	2.15%	2.42%	1,272.24	1,430.20

* For comparison purposes, 2001 information was converted to 100% full cash value.

Assessed Values shown at 40% of full cash value:

2001	155,221	\$3,968,204,470	197,478,808	221,997,414	4.98%	5.59%	1,272.24	1,430.20
2000	155,336	3,784,635,220	189,685,554	215,729,863	5.01%	5.70%	1,221.13	1,388.80
1999	152,020	3,594,358,170	182,890,270	208,027,145	5.09%	5.79%	1,203.07	1,368.42
1998	149,139	3,446,926,740	167,092,741	194,125,205	4.85%	5.63%	1,120.38	1,301.64
1997	146,589	3,347,844,015	153,574,575	180,629,145	4.59%	5.40%	1,047.65	1,232.21
1996	143,797	3,205,763,771	140,868,137	169,488,855	4.39%	5.29%	979.63	1,178.67
1995	140,396	3,079,400,531	115,731,513	144,883,569	3.76%	4.70%	824.32	1,031.96
1994	136,068	2,874,555,126	96,725,642	126,988,056	3.36%	4.42%	710.86	933.27
1993	132,160	2,632,900,921	84,721,755	115,576,443	3.22%	4.39%	641.05	874.52
1992	129,033	2,357,589,793	76,105,881	121,376,099	3.23%	5.15%	589.82	940.66
1991	126,357	2,126,487,477	58,253,110	86,477,731	2.74%	4.07%	461.02	684.39
1990	123,372	1,931,534,350	43,826,821	56,992,521	2.27%	2.95%	355.24	461.96
1989	122,726	1,751,816,910	34,989,003	43,674,990	2.00%	2.49%	285.10	355.87
1988	120,096	1,561,510,530	31,516,494	40,381,494	2.02%	2.59%	262.43	336.24
1987	116,257	1,421,021,330	28,678,674	37,928,674	2.02%	2.67%	246.68	326.25
1986	113,037	1,285,282,086	18,084,980	27,639,980	1.41%	2.15%	159.99	244.52
1985	108,600	1,185,184,315	19,374,622	29,309,622	1.63%	2.47%	178.40	269.89

- (1) The Maryland Truth in Taxation Act, Chapter 80 of the Laws of Maryland of 2000, mandated that real property be assessed at 100% of its market value for the purposes of determining State and County real property taxes. This change is effective for fiscal years beginning July 1, 2001.
Prior to fiscal year 2002, assessments are shown at 40% of full cash value.
For fiscal year 2002, the County tax rate is \$1.048 per \$100 of market value.

STATEMENT OF DEBT MARGIN
As of June 30, 2003

Assessed Value (1)	\$10,167,899,606
Debt Limit - Percent of Assessed Value (2)	6%
Limitation for the borrowing of funds and the issuance of bonds	610,073,976
Amount of debt applicable to debt limit	<u>186,209,228</u>
DEBT MARGIN	<u><u>\$423,864,749</u></u>

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- (2) Recommended Limit - Carroll County does not have a legal debt limit.

CARROLL COUNTY, MARYLAND
DEBT AFFORDABILITY DEBT SERVICE SCHEDULE
FISCAL YEAR 2004 - 2031

Fiscal Year	Direct Debt		Sanitary Commission Bonds		Solid Waste Management Bonds		Airport Bonds		Total		Total Debt Service Charges
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
2004	15,046,002	8,385,908	1,352,693	657,072	904,395	320,249	165,000	127,850	17,468,091	9,491,079	26,959,169
2005	15,236,268	7,704,173	1,153,801	595,566	757,187	283,274	165,000	121,698	17,312,256	8,704,710	26,016,966
2006	14,760,274	7,022,042	1,211,445	537,040	752,361	251,641	165,000	115,537	16,889,080	7,926,260	24,815,341
2007	14,049,663	6,378,550	1,270,702	475,384	753,328	215,774	165,000	109,232	16,238,693	7,178,940	23,417,633
2008	13,510,653	5,760,079	1,337,841	410,376	680,251	181,535	165,000	102,775	15,693,744	6,454,765	22,148,509
2009	13,491,434	5,146,529	1,025,566	341,943	675,033	148,587	165,000	96,303	15,357,033	5,733,363	21,090,396
2010	13,215,091	4,530,919	1,065,156	291,515	637,582	116,198	165,000	89,760	15,082,829	5,028,391	20,111,221
2011	12,510,546	3,931,079	1,106,705	239,029	544,146	86,730	165,000	83,092	14,326,397	4,339,930	18,666,327
2012	12,236,379	3,345,539	1,149,306	184,248	506,130	60,288	165,000	76,269	14,056,815	3,666,344	17,723,158
2013	10,067,292	2,810,660	246,112	80,770	238,520	41,590	165,000	69,223	10,716,923	3,002,242	13,719,166
2014	10,067,038	2,331,411	246,811	68,670	239,733	29,755	165,000	62,029	10,718,582	2,491,864	13,210,445
2015	9,545,685	1,860,752	247,536	56,447	167,345	19,672	165,000	54,729	10,125,567	1,991,598	12,117,165
2016	8,676,318	1,417,748	248,278	43,969	128,274	12,264	165,000	47,260	9,217,869	1,521,241	10,739,110
2017	7,875,076	1,009,822	225,516	31,955	90,000	6,750	165,000	39,626	8,355,592	1,088,153	9,443,745
2018	6,091,534	663,183	156,978	22,391	90,000	2,250	165,000	31,836	6,503,512	719,660	7,223,172
2019	4,010,384	408,653	157,782	14,654			165,000	23,919	4,333,166	447,226	4,780,392
2020	2,802,402	230,099	158,607	6,896			165,000	15,933	3,126,009	252,928	3,378,937
2021	1,760,546	108,722	33,400	2,583			140,000	8,579	1,933,945	119,884	2,053,830
2022	308,710	61,257					110,000	2,613	418,710	63,870	482,580
2023	726,128	27,570							726,128	27,570	753,698
2024	33,755	8,094							33,755	8,094	41,849
2025	30,776	7,021							30,776	7,021	37,797
2026	23,986	5,739							23,986	5,739	29,725
2027	24,861	4,864							24,861	4,864	29,725
2028	25,769	3,956							25,769	3,956	29,725
2029	26,709	3,016							26,709	3,016	29,725
2030	27,683	2,042							27,683	2,042	29,725
2031	28,264	1,031							28,264	1,031	29,295
	<u>\$186,209,228</u>	<u>\$63,170,457</u>	<u>\$12,394,234</u>	<u>\$4,060,507</u>	<u>\$7,164,284</u>	<u>\$1,776,557</u>	<u>\$3,055,000</u>	<u>\$1,278,261</u>	<u>\$208,822,746</u>	<u>\$70,285,781</u>	<u>\$279,108,527</u>