

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 are 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, and 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.

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 has assigned Carroll County an **Aa2** rating, Standard and Poor’s an **AA** Rating and Fitch

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 -.

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, 2005**

<u>Direct Debt</u>	<u>Date Issued</u>	<u>Maturity Date</u>	<u>Bonds Issued</u>	<u>Bonds Outstanding</u>
Public Improvement & Refunding Bonds	October 15, 1992	1993-2012	\$ 17,028,572	\$ 893,419
Public Improvement Bonds	November 1, 1995	1996-2025	23,009,040	9,220,222
Public Improvement Bonds	December 1, 1996	1997-2016	19,700,000	1,876,190
County Refunding Bonds	March 15, 1997	1998-2020	8,925,000	7,635,000
Public Improvement Bonds	December 1, 1997	1998-2017	15,310,000	2,295,000
Volunteer Fire Department Project	December 1, 1997	1998-2017	5,525,000	3,575,000
Public Improvement & Refunding Bonds	October 15, 1998	1999-2018	34,370,665	26,236,416
Public Improvement Bonds	November 15, 1999	2000-2019	21,578,939	5,394,735
Public Improvement Bonds	November 13, 2000	2001-2021	20,100,000	16,080,000
Public Improvement Bonds	November 13, 2001	2002-2016	11,511,499	9,205,206
Public Improvement Bonds	November 14, 2002	2003-2017	16,200,000	14,000,000
County Refunding Bonds	August 8, 2003	2004-2014	29,232,224	26,571,524
Public Improvement Bonds	November 18, 2003	2004-2019	7,600,000	7,161,620
Volunteer Fire Department Project	November 18, 2003	2004-2019	2,100,000	1,980,000
County Refunding Bonds	February 26, 2004	2005-2020	32,090,354	32,090,353
Public Improvement Bonds	July 27, 2004	2006-2020	21,995,000	21,995,000
Taxable Pension Funding Bonds	July 27, 2004	2006-2020	12,800,000	12,800,000
Volunteer Fire Department Project	September 22, 2004	2006-2020	2,065,000	2,065,000
Total Direct Debt:			\$ 301,141,293	\$ 201,074,685
 <u>Indirect Debt</u>				
Sanitary Commission Bonds	June 1, 1978	1981-2008	\$ 4,975,000	\$ 975,000
MD Dept of the Environment-Series A	March 1, 1990	1991-2011	6,761,498	2,931,358
MD Dept of the Environment-Series B	November 1, 1990	1993-2012	5,347,120	2,568,314
MD Dept of the Environ.-Hampstead Filtration	March 21, 2002	2003-2021	508,694	443,912
Public Improvement Bonds	November 1, 1995	1996-2025	470,560	258,807
Public Improvement Bonds	December 1, 1996	1997-2016	1,300,000	123,810
Public Improvement Bonds	November 15, 1999	2000-2019	2,521,061	630,265
Public Improvement Bonds	November 13, 2001	2002-2017	18,501	14,794
Public Improvement Bonds	November 18, 2003	2004-2019	990,000	932,895
Public Improvement & Refunding Bonds	February 26, 2004	2005-2020	2,166,412	2,166,412
Public Improvement Bonds	July 27, 2004	2006-2020	378,474	378,474
Subtotal - Bureau of Utilities			25,437,320	11,424,041
Public Improvement & Refunding Bonds	October 15, 1992	1993-2012	2,031,428	106,581
Public Improvement Bonds	November 1, 1995	1996-2025	765,400	420,972
Public Improvement Bonds	December 1, 1997	1998-2017	1,800,000	270,000
Public Improvement & Refunding Bonds	October 15, 1998	1999-2018	454,335	423,584
Public Improvement & Refunding Bonds	August 5, 2003	2004-2014	3,727,776	3,388,476
Public Improvement & Refunding Bonds	February 26, 2004	2005-2020	1,004,270	1,004,270
Public Improvement Bonds	July 27, 2004	2006-2020	2,449,026	2,449,026
Subtotal - Solid Waste Management			12,232,235	8,062,909
Public Improvement Bonds	November 15, 1999	2000-2019	500,000	125,000
Public Improvement Bonds	November 13, 2000	2001-2021	600,000	480,000
Public Improvement Bonds	November 13, 2001	2002-2017	2,200,000	1,870,000
Public Improvement Bonds	November 18, 2003	2004-2019	425,000	400,485
Public Improvement & Refunding Bonds	February 26, 2004	2005-2020	278,964	278,964
Public Improvement Bonds	July 27, 2004	2006-2020	407,500	407,500
Subtotal - Airport Bonds			4,411,464	3,561,949
Total Indirect Debt:			\$ 42,081,019	\$ 23,048,899
GRAND TOTAL:			\$ 343,222,312	\$ 224,123,584

**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:								
2005	168,162	\$ 11,820,229,000	\$ 206,709,068	\$ 229,757,967	1.75%	1.94%	\$ 1,229.23	\$ 1,366.29
2004	165,400	10,891,390,678	183,290,565	205,124,654	1.68%	1.88%	1,108.17	1,240.17
2003	162,860	10,345,165,918	186,209,228	208,822,746	1.80%	2.02%	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 2005, the County tax rate is \$1.048 per \$100 of market value.

STATEMENT OF DEBT MARGIN
As of June 30, 2005

Assessed Value (1)	\$11,820,229,000
Debt Limit - Percent of Assessed Value (2)	6%
Limitation for the borrowing of funds and the issuance of bonds	709,213,740
Amount of debt applicable to debt limit	<u>214,771,977</u>
DEBT MARGIN	<u><u>\$494,441,763</u></u>

- (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. For fiscal year 2005, the County tax rate is \$1.048 per \$100 of market value.
- (2) Recommended Limit - Carroll County does not have a legal debt limit.

CARROLL COUNTY, MARYLAND
DEBT AFFORDABILITY DEBT SERVICE SCHEDULE
FISCAL YEAR 2006 - 2031

Fiscal Year	Direct Debt		Indirect Debt						Total Direct and Indirect Debt		Total Debt Service Charges
	Principal	Interest	Bureau of Utilities Bonds		Solid Waste Management Bonds		Airport Bonds		Principal	Interest	
			Principal	Interest	Principal	Interest	Principal	Interest			
2006	17,708,887	8,336,322	1,293,033	527,079	917,758	325,216	216,298	134,790	20,135,976	9,323,407	29,459,383
2007	17,166,222	7,594,716	1,364,725	463,164	923,105	284,691	218,064	127,082	19,672,116	8,469,654	28,141,771
2008	16,801,882	6,879,379	1,444,721	396,591	888,176	244,852	228,818	119,129	19,363,597	7,639,952	27,003,549
2009	16,898,627	6,190,555	1,192,368	326,783	820,226	208,015	236,864	110,937	19,148,085	6,836,290	25,984,375
2010	16,600,608	5,518,644	1,230,863	274,239	781,504	173,429	237,218	102,501	18,850,193	6,068,813	24,919,006
2011	15,901,128	4,849,326	1,220,544	221,121	721,129	141,213	222,266	94,266	18,065,067	5,305,927	23,370,994
2012	15,587,529	4,207,536	1,261,365	167,223	680,507	111,294	222,460	86,204	17,751,862	4,572,257	22,324,120
2013	13,387,419	3,611,009	357,014	64,475	410,778	88,619	222,972	77,824	14,378,183	3,841,927	18,220,110
2014	13,366,987	3,056,587	357,106	52,447	408,299	65,797	223,718	69,099	14,356,111	3,243,930	17,600,041
2015	12,825,976	2,502,189	357,285	39,808	336,777	44,449	224,308	60,153	13,744,347	2,646,600	16,390,947
2016	11,938,305	1,978,881	358,029	27,122	296,434	32,199	225,133	51,049	12,817,902	2,089,251	14,907,153
2017	11,119,157	1,490,234	334,965	17,951	256,748	21,664	225,920	41,688	11,936,790	1,571,537	13,508,326
2018	9,386,234	1,049,726	267,411	10,457	224,110	16,259	218,268	32,214	10,096,023	1,108,656	11,204,679
2019	7,376,700	677,922	217,257	6,717	198,961	11,742	212,696	23,748	8,005,615	720,129	8,725,743
2020	5,346,286	388,821	133,951	5,343	198,396	3,915	176,946	15,969	5,855,580	414,049	6,269,628
2021	1,760,546	219,860	33,400	2,583			140,000	8,579	1,933,945	231,022	2,164,967
2022	308,710	172,395					110,000	2,613	418,710	175,007	593,718
2023	726,128	138,707							726,128	138,707	864,836
2024	133,755	116,762							133,755	116,762	250,518
2025	2,210,709	60,121							2,210,709	60,121	2,270,831
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>\$206,709,068</u>	<u>\$59,060,339</u>	<u>\$11,424,041</u>	<u>\$2,603,107</u>	<u>\$8,062,908</u>	<u>\$1,773,355</u>	<u>\$3,561,949</u>	<u>\$1,157,845</u>	<u>\$229,757,967</u>	<u>\$64,594,646</u>	<u>\$294,352,613</u>