

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. 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, 2004**

<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	\$1,791,306
Public Improvement Bonds	October 1, 1994	1995-2024	23,650,000	825,000
Public Improvement Bonds	November 1, 1995	1996-2025	23,009,040	10,058,424
Public Improvement Bonds	December 1, 1996	1997-2016	19,700,000	2,814,285
County Refunding Bonds	March 15, 1997	1998-2020	8,925,000	7,930,000
Public Improvement Bonds	December 1, 1997	1998-2017	15,310,000	3,060,000
Volunteer Fire Department Project	December 1, 1997	1998-2017	5,525,000	3,850,000
Public Improvement & Refunding Bonds	October 15, 1998	1999-2018	34,370,665	27,591,329
Public Improvement Bonds	November 15, 1999	2000-2019	21,578,939	6,473,682
Public Improvement Bonds	November 13, 2000	2001-2021	20,100,000	17,085,000
Public Improvement Bonds	November 13, 2001	2002-2016	11,511,499	9,973,970
Public Improvement Bonds	November 14, 2002	2003-2017	16,200,000	15,100,000
County Refunding Bonds	August 8, 2003	2004-2014	29,232,224	29,232,224
Public Improvement Bonds	November 18, 2003	2004-2019	7,600,000	7,600,000
Volunteer Fire Department Project	November 18, 2003	2004-2019	2,100,000	2,100,000
County Refunding Bonds	February 26, 2004	2005-2020	32,090,354	32,090,354
Total Direct Debt:			\$287,931,293	\$177,575,574
<u>Indirect Debt</u>				
Sanitary Commission Bonds	June 1, 1978	1981-2008	\$4,975,000	\$1,250,000
MD Dept of the Environment-Series A	March 1, 1990	1991-2011	6,761,498	3,275,698
MD Dept of the Environment-Series B	November 1, 1990	1993-2012	5,347,120	2,867,903
MD Dept of the Environ.-Hampstead Filtration	March 21, 2002	2003-2021	508,694	466,062
Public Improvement Bonds	November 1, 1995	1996-2025	470,560	282,335
Public Improvement Bonds	December 1, 1996	1997-2016	1,300,000	185,715
Public Improvement Bonds	November 15, 1999	2000-2019	2,521,061	756,318
Public Improvement Bonds	November 13, 2001	2002-2017	18,501	16,030
Public Improvement Bonds	November 18, 2003	2004-2019	990,000	990,000
Public Improvement & Refunding Bonds	February 26, 2004	2005-2020	2,166,412	2,166,412
Subtotal - Bureau of Utilities			\$25,058,846	\$12,256,473
Public Improvement & Refunding Bonds	October 15, 1992	1993-2012	\$2,031,428	\$213,694
Public Improvement Bonds	October 1, 1994	1995-2014	800,000	40,000
Public Improvement Bonds	November 1, 1995	1996-2025	765,400	459,242
Public Improvement Bonds	December 1, 1997	1998-2017	1,800,000	360,000
Public Improvement & Refunding Bonds	October 15, 1998	1999-2018	454,335	428,671
Public Improvement & Refunding Bonds	August 5, 2003	2004-2014	3,727,776	3,727,776
Public Improvement & Refunding Bonds	February 26, 2004	2005-2020	1,004,270	1,004,270
Subtotal - Solid Waste Management			\$10,583,209	\$6,233,653
Public Improvement Bonds	November 15, 1999	2000-2019	\$500,000	\$150,000
Public Improvement Bonds	November 13, 2000	2001-2021	600,000	510,000
Public Improvement Bonds	November 13, 2001	2002-2017	2,200,000	1,980,000
Public Improvement Bonds	November 18, 2003	2004-2019	425,000	425,000
Public Improvement & Refunding Bonds	February 26, 2004	2005-2020	278,964	278,964
Subtotal - Airport Bonds			\$4,003,964	\$3,343,964
Total Indirect Debt:			\$39,646,019	\$21,834,090
GRAND TOTAL:			\$327,577,312	\$199,409,664

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:								
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 2002, the County tax rate is \$1.048 per \$100 of market value.

STATEMENT OF DEBT MARGIN
As of June 30, 2004

Assessed Value (1)	\$10,891,390,678
Debt Limit - Percent of Assessed Value (2)	6%
Limitation for the borrowing of funds and the issuance of bonds	653,483,441
Amount of debt applicable to debt limit	<u>183,290,565</u>
DEBT MARGIN	<u><u>\$470,192,875</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 2005 - 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	
2005	\$14,717,065	\$7,468,474	\$1,210,906	\$574,116	\$619,770	\$269,405	\$189,515	\$127,753	\$16,737,256	\$8,439,747	\$25,177,003
2006	15,328,043	6,811,870	1,267,757	514,315	754,199	242,621	189,083	121,047	17,539,080	7,689,853	25,228,933
2007	14,788,850	6,153,531	1,339,449	451,127	759,545	206,799	190,849	114,122	17,078,693	6,925,579	24,004,271
2008	14,423,081	5,524,997	1,419,445	385,249	724,616	171,457	201,603	106,917	16,768,744	6,188,621	22,957,365
2009	14,518,626	4,926,724	1,167,092	316,167	656,667	139,323	209,649	99,507	16,552,033	5,481,721	22,033,754
2010	14,219,296	4,337,014	1,205,586	264,413	617,944	109,848	210,003	91,921	16,252,829	4,803,197	21,056,027
2011	13,518,510	3,768,679	1,195,268	212,101	557,569	82,846	195,051	84,554	15,466,397	4,148,180	19,614,576
2012	13,207,892	3,219,705	1,236,164	159,039	517,433	58,336	195,326	77,392	15,156,815	3,514,472	18,671,287
2013	11,006,569	2,718,511	331,813	57,173	247,704	41,368	195,837	69,962	11,781,923	2,887,014	14,668,938
2014	10,984,867	2,263,576	331,905	46,090	245,225	24,661	196,584	62,254	11,758,581	2,396,581	14,155,162
2015	10,442,606	1,810,448	332,084	34,409	173,703	9,511	197,174	54,340	11,145,567	1,908,708	13,054,274
2016	9,558,682	1,387,098	332,827	22,649	133,360	3,253	197,999	46,233	10,222,869	1,459,233	11,682,102
2017	8,738,370	1,000,208	309,764	14,439	93,673	(1,065)	198,785	37,906	9,340,593	1,051,488	10,392,080
2018	6,979,133	663,991	242,209	7,937	61,036	(48)	191,134	29,500	7,473,512	701,380	8,174,892
2019	4,889,661	402,744	192,056	5,205	35,887	1,957	185,562	22,120	5,303,166	432,026	5,735,192
2020	2,852,126	226,246	108,750	4,839	35,322	653	149,812	15,427	3,146,009	247,166	3,393,174
2021	1,760,546	113,660	33,400	2,583			140,000	8,579	1,933,945	124,822	2,058,767
2022	308,710	66,195					110,000	2,613	418,710	68,807	487,518
2023	726,128	32,507							726,128	32,507	758,636
2024	133,755	10,562							133,755	10,562	144,318
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>\$183,290,565</u>	<u>\$52,934,410</u>	<u>\$12,256,473</u>	<u>\$3,071,851</u>	<u>\$6,233,652</u>	<u>\$1,360,926</u>	<u>\$3,343,964</u>	<u>\$1,172,146</u>	<u>\$205,124,654</u>	<u>\$58,539,332</u>	<u>\$263,663,986</u>