

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, 2006**

<u>Direct Debt</u>	<u>Date Issued</u>	<u>Maturity Date</u>	<u>Bonds Issued</u>	<u>Bonds Outstanding</u>
Watershed Bond - 1972	June 1, 1972	1973-2023	\$ 769,700	\$ 404,248
Watershed Bond - 1974	July 1, 1974	1975-2025	253,000	161,959
Watershed Bond - 1979	September 2, 1980	1981-2031	678,800	481,909
Public Improvement Bonds	November 1, 1995	1996-2025	23,009,040	8,382,020
Public Improvement Bonds	December 1, 1996	1997-2016	19,700,000	938,095
County Refunding Bonds	March 15, 1997	1998-2020	8,925,000	7,320,000
Public Improvement Bonds	December 1, 1997	1998-2017	15,310,000	1,530,000
Volunteer Fire Department Project	December 1, 1997	1998-2017	5,525,000	3,300,000
Public Improvement & Refunding Bonds	October 15, 1998	1999-2018	34,370,665	24,051,734
Public Improvement Bonds	November 15, 1999	2000-2019	21,578,939	4,315,788
Public Improvement Bonds	November 13, 2000	2001-2021	20,100,000	15,075,000
Public Improvement Bonds	November 13, 2001	2002-2016	11,511,499	8,436,441
Public Improvement Bonds	November 14, 2002	2003-2017	16,200,000	12,900,000
County Refunding Bonds	August 8, 2003	2004-2014	29,232,224	22,855,413
Public Improvement Bonds	November 18, 2003	2004-2019	7,600,000	6,731,669
Volunteer Fire Department Project	November 18, 2003	2004-2019	2,100,000	1,860,000
County Refunding Bonds	February 26, 2004	2005-2020	32,090,354	32,085,839
Public Improvement Bonds	July 27, 2004	2006-2020	21,995,000	20,526,051
Taxable Pension Funding Bonds	July 27, 2004	2006-2020	12,800,000	11,945,000
Volunteer Fire Department Project	September 22, 2004	2006-2020	2,065,000	1,958,323
Public Improvement Bonds	December 6, 2006	2007-2021	31,799,320	31,799,320
Volunteer Fire Department Project	December 6, 2006	2007-2021	2,900,000	2,900,000
Installment Purchase Agreements:				
Gorsuch Property	February 21, 2002	2002-2022	246,000	246,000
Spangler Property	June 28, 2002	2002-2023	150,000	150,000
Rodkey Property	September 13, 2002	2003-2023	230,930	230,930
Dell Property	November 27, 2002	2003-2023	300,000	300,000
Vaughn Property	December 9, 2003	2004-2024	100,000	100,000
Hoff Property	November 22, 2004	2005-2025	600,000	600,000
Nevius Property	November 15, 2004	2005-2025	647,946	647,946
Seiler etal Property	November 15, 2004	2005-2025	684,350	684,350
Seiler Property	November 15, 2004	2005-2025	147,638	147,638
Leister Property	November 15, 2004	2005-2025	100,000	100,000
Stonesifer Property	November 17, 2005	2006-2026	450,000	450,000
Reddick Property	November 17, 2005	2006-2026	200,000	200,000
Haines Property	February 7, 2006	2006-2026	696,000	696,000
Total Direct Debt:			<u>\$ 325,066,405</u>	<u>\$ 224,511,673</u>
<u>Indirect Debt</u>				
Sanitary Commission Bonds	June 1, 1978	1981-2008	\$ 4,975,000	\$ 675,000
MD Dept of the Environment-Series A	March 1, 1990	1991-2011	6,761,498	2,570,166
MD Dept of the Environment-Series B	November 1, 1990	1993-2012	5,347,120	2,253,509
MD Dept of the Environ.-Hampstead Filtration	March 21, 2002	2003-2021	508,694	421,185
Public Improvement Bonds	November 1, 1995	1996-2025	470,560	235,278
Public Improvement Bonds	December 1, 1996	1997-2016	1,300,000	61,905
Public Improvement Bonds	November 15, 1999	2000-2019	2,521,061	504,212
Public Improvement Bonds	November 13, 2001	2002-2017	18,501	13,559
Public Improvement Bonds	November 18, 2003	2004-2019	990,000	876,889
Public Improvement & Refunding Bonds	February 26, 2004	2005-2020	2,166,412	2,166,107
Public Improvement Bonds	July 27, 2004	2006-2020	378,474	353,198
Public Improvement Bonds	December 6, 2005	2006-2021	302,525	302,525
Subtotal - Bureau of Utilities			<u>25,739,845</u>	<u>10,433,533</u>
Public Improvement Bonds	November 1, 1995	1996-2025	765,400	382,702
Public Improvement Bonds	December 1, 1997	1998-2017	1,800,000	180,000
Public Improvement & Refunding Bonds	October 15, 1998	1999-2018	454,335	378,266
Public Improvement & Refunding Bonds	August 5, 2003	2004-2014	3,727,776	2,914,587
Public Improvement & Refunding Bonds	February 26, 2004	2005-2020	1,004,270	1,004,129
Public Improvement Bonds	July 27, 2004	2006-2020	2,449,026	2,285,466
Subtotal - Solid Waste Management			<u>10,200,807</u>	<u>7,145,150</u>
Public Improvement Bonds	November 15, 1999	2000-2019	500,000	100,000
Public Improvement Bonds	November 13, 2000	2001-2021	600,000	450,000
Public Improvement Bonds	November 13, 2001	2002-2017	2,200,000	1,760,000
Public Improvement Bonds	November 18, 2003	2004-2019	425,000	376,442
Public Improvement & Refunding Bonds	February 26, 2004	2005-2020	278,964	278,945
Public Improvement Bonds	July 27, 2004	2006-2020	407,500	380,285
Public Improvement Bonds	December 6, 2005	2006-2021	58,155	58,155
Subtotal - Airport Bonds			<u>4,469,619</u>	<u>3,403,827</u>
Total Indirect Debt:			<u>\$ 40,410,271</u>	<u>\$ 20,982,510</u>
GRAND TOTAL:			<u>\$ 365,476,676</u>	<u>\$ 245,494,183</u>

**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:

2006	170,580	\$13,323,163,000	\$224,511,673	\$245,494,183	1.69%	1.84%	\$1,316.17	\$1,439.17
2005	168,521	12,034,458,190	206,709,068	224,123,584	1.72%	1.86%	1,226.61	1,329.94
2004	166,234	10,948,754,959	183,290,565	205,124,654	1.67%	1.87%	1,102.61	1,233.95
2003	163,400	10,340,867,012	186,209,228	208,822,746	1.80%	2.02%	1,139.59	1,277.98
2002	159,442	9,726,556,899	195,657,213	220,121,714	2.01%	2.26%	1,227.14	1,380.58
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 2006, the County tax rate is \$1.048 per \$100 of market value.

STATEMENT OF DEBT MARGIN
As of June 30, 2006

Assessed Value (1)	\$13,323,163,000
Debt Limit - Percent of Assessed Value (2)	6%
Limitation for the borrowing of funds and the issuance of bonds	799,389,780
Amount of debt applicable to debt limit	<u>231,656,824</u>
DEBT MARGIN	<u><u>\$567,732,956</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 2006, 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 2007 - 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	Principal	Interest	
2007	19,361,151	8,934,123	1,384,913	424,055	923,105	284,692	221,945	129,302	21,891,114	9,772,172	31,663,286
2008	19,071,985	8,141,520	1,464,909	363,900	888,176	244,852	232,699	121,203	21,657,769	8,871,475	30,529,244
2009	19,167,901	7,376,680	1,212,556	300,913	820,226	208,015	240,745	112,875	21,441,428	7,998,483	29,439,911
2010	18,863,537	6,629,181	1,251,051	255,557	781,503	173,429	241,099	104,303	21,137,190	7,162,470	28,299,660
2011	18,162,150	5,881,819	1,240,732	209,989	721,129	141,214	226,146	95,928	20,350,157	6,328,950	26,679,107
2012	17,841,033	5,159,576	1,281,554	164,021	680,507	111,294	226,341	87,720	20,029,435	5,522,611	25,552,046
2013	15,738,350	4,480,227	377,202	71,578	410,778	88,619	226,852	79,190	16,753,182	4,719,614	21,472,796
2014	15,722,919	3,831,668	377,294	58,743	408,299	65,797	227,599	70,309	16,736,111	4,026,517	20,762,628
2015	15,186,908	3,182,933	377,473	45,298	336,777	44,449	228,189	61,208	16,129,347	3,333,888	19,463,235
2016	14,294,295	2,565,286	378,168	31,805	296,434	32,198	229,005	51,950	15,197,902	2,681,239	17,879,141
2017	13,365,146	1,973,369	355,104	21,727	256,748	21,664	229,791	42,414	14,206,789	2,059,174	16,265,963
2018	11,632,223	1,431,792	287,550	13,327	224,110	16,259	222,139	32,765	12,366,022	1,494,143	13,860,165
2019	9,622,689	970,149	237,396	8,782	198,962	11,742	216,568	24,145	10,275,615	1,014,818	11,290,433
2020	7,592,276	589,805	154,090	6,590	198,396	3,915	180,817	16,209	8,125,579	616,519	8,742,098
2021	4,006,535	328,196	53,539	2,998			143,871	8,658	4,203,945	339,852	4,543,797
2022	308,710	234,408					110,000	2,612	418,710	237,020	655,730
2023	726,128	200,719							726,128	200,719	926,847
2024	133,755	178,775							133,755	178,775	312,530
2025	2,210,710	122,134							2,210,710	122,134	2,332,844
2026	1,369,986	52,626							1,369,986	52,626	1,422,612
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	27,684	2,041							27,684	2,041	29,725
2031	28,264	1,031							28,264	1,031	29,295
	<u>\$224,511,674</u>	<u>\$62,279,894</u>	<u>\$10,433,531</u>	<u>\$1,979,283</u>	<u>\$7,145,150</u>	<u>\$1,448,139</u>	<u>\$3,403,806</u>	<u>\$1,040,791</u>	<u>\$245,494,161</u>	<u>\$66,748,107</u>	<u>\$312,242,268</u>