

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.

**Projected Statement of Direct and Enterprise Fund Bonded
Debt Issued and Outstanding
As of June 30, 2008 (1)**

Direct Bonded Debt	Principal Date of Issue	Issued	Outstanding
County Refunding Bonds of 1990	03/15/97	8,925,000	0
Consolidated Public Improvement	12/01/97	15,310,000	0
Volunteer Fire Dept. Project Bond	12/01/97	5,525,000	2,750,000
Consolidated Public Improvements & Refunding	10/15/98	34,370,665	12,215,751
Consolidated Public Improvement	11/15/99	21,578,939	2,157,894
Consolidated Public Improvement & Refunding	11/13/00	20,100,000	5,025,000
Consolidated Public Improvements	11/13/01	11,511,499	6,898,912
Consolidated Public Improvements	11/14/02	16,200,000	10,700,000
Consolidated Public Improvement Refunding Bonds	08/05/03	29,232,224	14,305,697
Consolidated Public Improvements	11/01/03	7,600,000	5,854,908
Volunteer Fire Dept. Project Bonds	11/01/03	2,100,000	1,615,500
Consolidated Public Improvement Refunding Bonds	03/11/04	32,090,354	30,541,818
Consolidated Public Improvements	07/27/04	21,995,000	17,588,154
Taxable Pension Funding Bonds	07/27/04	12,800,000	10,235,000
Volunteer Fire Dept Project Bonds	09/22/04	2,065,000	1,741,724
Consolidated Public Improvement	12/01/05	31,799,320	27,517,457
Volunteer Fire Dept Project Bonds	12/01/05	2,900,000	2,510,000
Consolidated Public Improvement	10/10/06	20,260,000	18,906,718
Consolidated Public Improvement Refunding Bonds	01/09/07	23,165,983	22,537,655
Consolidated Public Improvement & Refunding	11/13/07	27,100,000	27,100,000
Installment Purchase Agreements:			
Gorsuch Property	02/21/02	246,000	246,000
Spangler Property	06/28/02	150,000	150,000
Rodkey Property	09/13/02	230,930	230,930
Dell Property	11/27/02	300,000	300,000
Vaughn Property	12/09/03	100,000	100,000
Hoff Property	11/22/04	600,000	600,000
Nevius Property	11/15/04	647,946	647,946
Seiler etal Property	11/15/04	684,350	684,350
Seiler Property	11/15/04	147,638	147,638
Leister Property	11/15/04	100,000	100,000
Stonesifer Property	11/17/05	450,000	450,000
Reddick Property	11/17/05	200,000	200,000
Haines Property	02/07/06	696,000	696,000
Sherwood Property	02/13/07	1,584,000	1,584,000
Barnes Property	03/09/07	1,000,000	1,000,000
Farmers Home Administration:			
Watershed Bond — 1972	06/01/72	769,700	366,252
Watershed Bond — 1974	07/01/74	253,000	149,304
Watershed Bond — 1979	09/02/80	678,800	457,186
		<u>\$355,467,348</u>	<u>\$228,311,294</u> (2)
Enterprise Fund Bonded Debt			
Consolidated Public Improvements	11/15/99	2,521,061	252,106
Consolidated Public Improvements	11/13/01	18,501	11,088
Consolidated Public Improvements	11/01/03	990,000	762,679
Consolidated Public Improvement Refunding Bonds	03/11/04	2,166,411	2,061,871
Consolidated Public Improvements	07/27/04	378,474	302,644
Consolidated Public Improvements	12/01/05	302,525	262,150
Consolidated Public Improvements	10/10/06	200,000	186,641
Consolidated Public Improvement Refunding Bonds	01/09/07	212,504	206,740
Consolidated Public Improvement & Refunding	11/13/07	9,401,000	9,401,000
Water Quality Loan — MD Dept. of the Environment	03/01/90	6,194,231	1,793,887
Water Quality Loan — MD Dept. of the Environment	11/01/90	5,347,120	1,575,120
Water Quality Loan — MD Dept. of the Environment	03/22/00	532,680	373,944

Solid Waste	12/01/97	1,800,000	0
Solid Waste	10/15/98	454,335	289,249
Consolidated Public Improvement Refunding Bonds (Solid Waste).....	08/05/03	3,727,776	1,824,303
Consolidated Public Improvement Refunding Bonds (Solid Waste)	03/11/04	1,004,270	955,808
Solid Waste	07/27/04	2,449,026	1,958,347
Solid Waste.....	01/09/07	345,658	336,283
Solid Waste.....	11/13/07	604,000	604,000
Septage.....	10/09/06	200,000	186,641
Airport.....	11/15/99	500,000	50,000
Airport.....	11/13/00	600,000	150,000
Airport.....	11/13/01	2,200,000	1,540,000
Airport.....	11/01/03	425,000	327,413
Consolidated Public Improvement Refunding Bonds (Airport)	03/11/04	278,964	265,502
Airport.....	07/27/04	407,500	325,855
Airport.....	12/01/05	58,155	50,394
Airport.....	01/09/07	<u>240,854</u>	<u>234,322</u>
		<u>\$ 43,560,045</u>	<u>\$ 26,287,987</u>
		<u>\$399,027,393</u>	<u>\$254,599,281</u>

(1) This table reflects indebtedness of the County exclusive of the following obligations:

(a) Capital Lease Agreements	\$3,473,926
(b) Capital Lease Agreements.....	\$2,583,004
(2) This subtotal reflects the direct bonded indebtedness of the County exclusive of those items in Note (1) of this table and Enterprise Fund Bonded Debt and is exclusive of any related bond premiums/discounts or other unamortized charges.	

Source: Carroll County Department of the Comptroller.

The following tables set forth the County's long-term debt per capita and ratios of debt to assessed value for the six most recent fiscal years ended June 30 and a projection for the fiscal year ended June 30, 2008.

**Projected County Debt
Exclusive of Enterprise Fund Debt (1)**

	<u>Bonded Debt (2)</u>	<u>Estimated Population</u>	<u>Assessed Value</u>	<u>Bonded Debt Per Capita</u>	<u>Bonded Debt to Assessed Value</u>
2008.....	\$228,311,296	173,978	\$17,780,344,000	\$1,312.30	1.28%
2007.....	228,076,689	172,792	15,299,926,000	1,319.95	1.49
2006.....	224,511,674	171,742	13,470,143,079	1,307.26	1.67
2005.....	205,365,415	168,521	12,034,458,190	1,218.63	1.71
2004.....	179,720,882	165,786	10,948,754,959	1,084.05	1.64
2003.....	181,374,749	163,400	10,340,867,012	1,440.00	1.75
2002.....	176,944,481	159,442	9,726,556,899	1,109.77	1.82

**Projected County Debt
Inclusive of Enterprise Fund Debt (1)**

	<u>Bonded Debt (3)(2)</u>	<u>Estimated Population</u>	<u>Assessed Value</u>	<u>Bonded Debt Per Capita</u>	<u>Bonded Debt to Assessed Value</u>
2008.....	\$254,599,281	173,978	\$17,780,344,000	\$1,463.40	1.43%
2007.....	246,582,049	172,792	15,299,926,000	1,427.05	1.61
2006.....	244,819,164	171,742	13,470,143,079	1,425.51	1.82
2005.....	228,414,313	168,521	12,034,458,190	1,355.41	1.90
2004.....	201,322,949	165,786	10,948,754,959	1,214.35	1.84
2003.....	203,974,684	163,400	10,340,867,012	1,248.32	1.97
2002.....	201,917,675	159,442	9,726,556,899	1,266.40	2.08

* For comparison purposes, fiscal year 2001 and prior assessments have been restated to 100% of market value.

- (1) These tables reflect indebtedness of the County exclusive of MD Industrial Land Act and MD Industrial Commercial Redevelopment Fund Loans, Promissory Notes, Capital Lease Agreements, and any related bond premiums/discounts or other unamortized charges..
- (2) Does not include the Refunding Bonds offered herein.
- (3) This chart includes, among other things, the bonded indebtedness originally incurred by the Carroll County Sanitary Commission, which indebtedness is to be paid first from various charges which the County is authorized to levy together with State and federal monies received, but which indebtedness is ultimately secured by the full faith and credit of the County.

Schedule of Debt Service Requirements on Direct County Debt

The following table sets forth the schedule of debt service requirements for the County's direct general obligation bonded debt, State of Maryland Loans, Promissory Notes, Capital Leases, and Enterprise Fund bonded debt, projected as of the year ended June 30, 2008.

Schedule of Debt Service Requirements (1)

Fiscal Years Ending June 30	G.O. Bonds(2)		Watershed Bonds		Notes, Capital Leases, General Obligation and Other Debt				Total General Fund		Total Debt Service
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
2009.....	21,593,448	8,485,115	39,720	34,957	1,654,705	283,282	0	359,421	23,287,873	9,162,775	32,450,648
2010.....	21,652,998	7,650,620	41,140	33,537	1,195,689	200,014	0	359,421	22,889,827	8,243,592	31,133,419
2011.....	20,995,473	6,807,955	42,611	32,066	908,701	140,402	0	359,421	21,946,785	7,339,844	29,286,629
2012.....	20,663,333	5,989,639	44,134	30,543	378,016	95,485	0	359,421	21,085,483	6,475,088	27,560,571
2013.....	18,549,406	5,217,435	45,712	28,965	185,607	77,694	0	359,421	18,780,725	5,683,515	24,464,240
2014.....	18,326,657	4,473,574	47,346	27,331	193,522	69,779	0	359,421	18,567,525	4,930,105	23,497,630
2015.....	17,987,215	3,720,666	49,039	25,638	201,774	61,527	0	359,421	18,238,028	4,167,251	22,405,280
2016.....	17,092,683	2,995,160	50,792	23,885	210,379	52,922	0	359,421	17,353,854	3,431,389	20,785,242
2017.....	16,141,319	2,284,272	52,608	22,069	219,350	43,951	0	359,421	16,413,277	2,709,713	19,122,990
2018.....	14,397,015	1,629,292	54,489	20,188	228,704	34,597	0	359,421	14,680,208	2,043,498	16,723,706
2019.....	12,191,200	1,085,910	56,437	18,240	238,456	24,845	0	359,421	12,486,093	1,488,415	13,974,508
2020.....	10,171,111	631,610	58,455	16,222	248,625	14,676	0	359,421	10,478,192	1,021,928	11,500,120
2021.....	6,563,613	290,572	60,546	14,132	193,402	4,074	0	359,421	6,817,561	668,198	7,485,759
2022.....	2,612,299	105,488	62,710	11,967	0	0	246,000	359,421	2,921,009	476,876	3,397,885
2023.....	1,263,921	26,227	45,198	9,724	0	0	680,930	327,975	1,990,049	363,926	2,353,975
2024.....	0	0	33,755	8,094	0	0	100,000	307,661	133,755	315,755	449,510
2025.....	0	0	30,776	7,021	0	0	2,179,934	252,093	2,210,710	259,114	2,469,823
2026.....	0	0	23,986	5,739	0	0	1,346,000	183,867	1,369,986	189,606	1,559,592
2027.....	0	0	24,861	4,864	0	0	2,584,000	136,980	2,608,861	141,844	2,750,705
2028.....	0	0	25,769	3,956	0	0	0	0	25,769	3,956	29,725
2029.....	0	0	26,709	3,016	0	0	0	0	26,709	3,016	29,725
2030.....	0	0	27,683	2,042	0	0	0	0	27,683	2,042	29,725
2031.....	0	0	28,264	1,031	0	0	0	0	28,264	1,031	29,295
	<u>\$220,201,691</u>	<u>\$51,393,535</u>	<u>\$972,740</u>	<u>\$385,227</u>	<u>\$6,056,930</u>	<u>\$1,103,248</u>	<u>\$7,136,864</u>	<u>\$6,240,467</u>	<u>\$234,368,226</u>	<u>\$59,122,477</u>	<u>\$293,490,703</u>

(1) Totals may not add due to rounding.
(2) Loans paid from revenues or by repayments by others:

(a) Promissory Notes.....	\$3,473,926
(b) Capital Lease Agreements.....	\$2,583,004

Source: Carroll County Department of the Comptroller.

Enterprise Funds			Grand
Principal	Interest	Total	Total Debt Service (1)
\$ 2,938,260	\$ 1,035,838	\$ 3,974,098	\$ 36,424,746
2,938,052	922,313	3,860,365	34,993,784
2,852,073	810,398	3,662,471	32,949,100
2,851,968	698,915	3,550,882	31,111,453
1,678,065	538,851	2,216,916	26,681,156
1,717,108	473,695	2,190,803	25,688,433
1,653,093	407,781	2,060,874	24,466,154
1,614,427	344,372	1,958,799	22,744,041
1,582,863	281,013	1,863,876	20,986,865
1,474,519	220,486	1,695,005	18,418,710
1,392,978	170,388	1,563,366	15,537,874
1,231,013	124,115	1,355,128	12,855,248
894,787	81,538	976,325	8,462,084
802,701	44,525	847,226	4,245,111
666,080	13,821	679,901	3,033,876
0	0	0	449,510
0	0	0	2,469,823
0	0	0	1,559,592
0	0	0	2,750,702
0	0	0	29,725
0	0	0	29,725
0	0	0	29,725
0	0	0	29,295
<u>\$26,287,987</u>	<u>\$6,168,049</u>	<u>\$32,456,036</u>	<u>\$325,946,736</u>

THE COUNTY COMMISSIONERS OF CARROLL COUNTY
Westminster, Maryland

Computation of the Projected Legal Debt Margin
As of June 30, 2008

Net assessed value- Real Property	\$ 17,225,804,000	
Debt limit - 6% of net total assessed value (1)		\$ 1,033,548,240
Assessed Value-Personal Property	554,540,000	
Debt limit- 15% of Net Assessed Value		83,181,000
Total Debt Limit		1,116,729,240
Amount of debt applicable to debt limit:		
Total Bonded Debt	\$ 254,599,281	
Less- Agricultural Preservation Program Self Supporting Debt	7,136,864	
Less- Fire Company Loans- Self Supporting Debt	10,061,724	
Less - Bureau of Utilities bonds and loans payable	17,189,870	
Less - Airport bonds payable	2,943,486	
Less - Septage bonds payable	186,641	
Total amount of debt applicable to debt limit		217,080,696
Legal debt margin		\$ 899,648,544

Note: (1) Recommended limit - Carroll County does not have a legal debt limit.
Source: Carroll County Department of the Comptroller.

Schedule of Legal Debt Margin
1999-2008

Fiscal Year	Assessed Value	Legal Debt Limitation	Legal Borrowing Limitation	Debt Subject to Limitation	Legal Debt Margin	Ratio of Debt Subject to Limitation To Legal Borrowing Limitation
1999	3,594,358,170	15.0%	539,153,726	168,193,011	370,960,715	31.20%
2000	3,784,635,220	15.0%	567,695,283	179,921,140	387,774,143	31.69%
2001	3,968,204,470	15.0%	595,230,671	188,977,240	406,253,431	31.75%
2002	9,725,556,889	6.0%	583,593,413	175,760,607	407,832,806	30.12%
2003	10,340,867,012	6.0%	620,452,021	179,403,473	441,048,548	28.91%
2004	10,948,754,959	6.0%	656,925,298	186,294,353	470,630,945	28.36%
2005	12,034,458,190	6.0%	722,067,491	213,655,613	508,411,878	29.59%
2006	13,470,143,079	6.0%	852,874,621	226,319,103	626,555,518	26.54%
2007	15,441,306,101	6.0%	974,208,067	211,725,319	762,482,748	21.73%
2008	17,780,344,000	6.0%	1,116,729,240	217,080,696	899,648,544	19.44%

In fiscal year ending June 30, 2002, assessments were changed from 40% of market value to full market value.